



202 Parkway Avenue South | P.O. Box 333  
Lanesboro, MN 55949  
P:507-467-3722 | E: [city@lanesboro-mn.gov](mailto:city@lanesboro-mn.gov)  
[www.lanesboro-mn.gov](http://www.lanesboro-mn.gov)

## **Revolving Loan Fund Plan for the Use of USDA Grant Funds**

*“Together, America Prospers”*

*USDA is an equal opportunity provider, employer, and lender.*

The City of Lanesboro has played an active role in the development of rural America. Through its City Council, Economic Development Authority Board of Directors, and staff, the City of Lanesboro has provided not only leadership but financial participation in economic and community development. Now, through the creation of a Revolving Loan Fund (RLF), the City of Lanesboro is seeking to improve the quality of life in rural areas by contributing to the long-term improvement in the economy, including job creation and retention, diversification of the economy, improving the education and skills of the rural workforce, and upgrading the public infrastructure to improve the health, safety, and/or medical care of rural residents.

The City of Lanesboro (Grantee) Revolving Loan Fund (RLF) shall be operated under the guidance of the following Revolving Loan Fund Plan. This Revolving Loan Fund Plan will not be amended or changed without prior written concurrence from Rural Development (Grantor), an Agency of the USDA.

### **Policy Statements**

- Grant funds to be received by the grantee through the Rural Business Development Grant program will be used to establish a revolving loan fund (RLF). The RLF will be used to provide financial assistance to third parties within the guidelines of this revolving loan fund plan.
- The Grantee will contribute a cash match to establish the RLF. Verification of these funds is provided with the grant application. These funds will remain in the RLF until the RLF is terminated. Termination will not take place without prior concurrence of the Grantor.
- Applicants of the RLF will be required to meet their financial needs from their own resources and commercial financial institutions whenever possible. The RLF will be used to finance applicant needs that cannot be met from the above resources. The RLF may finance 100% of an applicant's needs if other resources are not available.
- The City Council of the City of Lanesboro is the sole authority for approval or denial of loans from the RLF and is responsible for all decisions and actions of the RLF. The RLF will be operated and maintained solely by the City of Lanesboro.
- To avoid potential conflicts of interest, or the appearance of a conflict of interest, a RLF loan will not be made to any board member, officer, general manager, or supervisory employee of City of Lanesboro or close relative thereof, or to any City of Lanesboro subsidiary or affiliated organization in which the City of Lanesboro has a financial interest.
- Amendments to this Rural Development Plan will require the approval of City of Lanesboro Economic Development Authority Board of Directors. However, no action will be taken to amend this plan without the prior written approval of the Rural Business Cooperative Service (RBS), its successors or assigns.
- The City of Lanesboro RLF is an equal opportunity lender and requires loan recipients to adhere to all equal opportunity laws.
- All information regarding RLF loan requests will always be kept confidential by the members of the City of Lanesboro Economic Development Authority Board of Directors, Lanesboro City Council, and City of Lanesboro staff. If necessary, the RLF may seek advice and counsel from outside consultants and sources to adequately perform due diligence regarding the project.

### **Revolving Loan Fund Management**

#### **1. Administration of the Revolving Loan Fund**

Management of the RLF will be a combination of the City of Lanesboro staff, the EDA board members, and the Lanesboro City Council. Financial management is the responsibility of the City of Lanesboro Administrator/Clerk.

## **2. Loan Review Committee**

The City of Lanesboro EDA Board of Directors will appoint a Loan Review Committee (LRC) to review all RLF loan applications and relevant materials to provide due diligence in order to make a written recommendation to the Lanesboro EDA Board of Directors. If approved by the EDA Board of Directors, the loan application will be presented for approval to the Lanesboro City Council, which has the final authority regarding all actions of the RLF.

The RLF Committee will consist of exactly three members representing the following sectors:

- One member appointed from the Lanesboro EDA Board
- A partner organization such as the Southern Minnesota Initiative Foundation, Small Business Development Center, Fillmore County EDA, or the Chamber of Commerce
- A local financial institution (e.g., bank, credit union, investment firm, accounting firm, or similar finance-related business)

The EDA Board will appoint its representative annually at the first meeting of the year. The remaining two members will be selected through an application process and serve without term limits. If a member resigns or is removed, the EDA Director will initiate a search for a replacement. All appointments must be approved by the EDA Board and documented in the meeting minutes, which will then be ratified by the Lanesboro City Council.

**Confidentiality:** All committee members must sign a confidentiality agreement acknowledging their understanding of the committee's role and agreeing not to share any applicant or loan-related information outside the RLF Committee.

**Conflict of Interest:** If a committee member is an applicant or has a direct or indirect interest in an application (e.g., as a buyer or seller of the benefiting business, a member of the financing package, or has a personal/familial relationship with the applicant), they will abstain from making a recommendation. However, they may participate in discussions only to provide factual or clarifying information. The same rules apply if the individual also serves on the EDA Board. All conflicts of interest must be disclosed in the recommendation to the EDA Board. Any such conflicts will be documented in the meeting notes.

**Review Procedure:** RLF Committee meetings will be held on an as-needed basis. The EDA Director will distribute application materials via secure email or via personal delivery, including:

- (1) Completed loan application
- (2) Business plan
- (3) Three-year financial projections
- (4) Two years of tax returns (for existing businesses)
- (5) Project summary, including relevant ratios (e.g., debt-to-income, loan-to-value)
- (6) List of collateral and Lanesboro EDA's collateral position
- (7) Any additional relevant materials

Committee members will have a minimum of five business days to review the materials, submit questions, and provide a preliminary recommendation via email. If there are questions that are not sufficiently answered via email, the committee will convene virtually (via Zoom or Teams) for further

discussion. A final recommendation will be made to either obtain more information from the applicant or advance a recommendation to the EDA Board.

Once consensus is reached, the application will follow the process outlined in Appendix A: RLF Committee Decision Tree.

**Reasons for Removal:** Committee members will have access to sensitive business and financial information. Any violation of the confidentiality agreement — intentional or unintentional — may result in removal from the committee. The EDA Board has the authority to recommend removal or accept resignations, with final ratification by the Lanesboro City Council through approval of EDA Board minutes.

**Open Meeting Law:** The RLF Committee is an advisory body and does not hold decision-making authority for the City of Lanesboro. It does not contain a quorum of either the EDA Board or the City Council. Therefore, it is not subject to Minnesota Open Meeting Laws, as clarified in *Minnesota Daily v. University of Minnesota*, 432 N.W.2d 189 (Minn. App. 1988). Due to the sensitive nature of the loan application and financial materials, RLF Committee meetings will not be open to the public.

### **Revolving Loan Fund Guidelines**

Loan funds will be used to finance and/or develop small and emerging private business enterprises in rural areas.

#### **- Qualifying Projects:**

A project/business to be assisted by the RLF program typically must be physically located within Lanesboro, Minnesota. On a case-by-case basis, the EDA Board of Directors and City Council may waive this requirement and provide loan funds to a business located outside the City of Lanesboro if the committee determines doing so will have a positive economic impact on the community. If the business relocates outside of the City of Lanesboro, the City of Lanesboro may require immediate pay off of the loan.

- Acquisition and development of land, easements, and rights-of-way.
- Construction, conversion, enlargement, repairs or modernization of buildings (including façade repairs), plants, machinery, equipment, access streets and roads, parking areas, utilities, and pollution control and abatement facilities.
- Loans for startup operating costs and working capital.
- Technical assistance for private business enterprises.
- The grantee has a goal of creating or retaining at least one full-time job for each \$10,000 loaned from the RLF.

#### **- Ineligible Projects:**

- RLF funds will not be used to produce agriculture products through growing, cultivation, and harvesting either directly or through horizontally integrated livestock operations except for commercial nurseries, timber operations, or limited agricultural production related to technical assistance projects.
- RLF funds will not be used to finance comprehensive area-wide type planning. This does not preclude the use of grant funds for planning for a given project.
- RLF funds will not be used to fund a part of a project which is dependent on other funding unless there is a firm commitment of the other funding to ensure completion of the project.
- RLF loan funds will not be used to pay off any previous debt. Refinancing construction financing is an exception to this rule.
- Loans will not be made unless there is a reasonable prospect that the applicant meets the definition of "small and emerging private business enterprises" defined as "any private business that will employ 50 or fewer new employees and has less than \$1 million in projected gross

revenues." If the grantor changes its definition of small and emerging business as defined by the Rural Business Development Grant regulations, the grantee reserves the right to utilize the amended definition without further approval from the grantor.

- Applications by members of EDA Board of Directors and City Council and their immediate family members shall be ineligible for funding.

- **Minimum/Maximum Loan Amounts**

Loans to be made from the RLF will not exceed the level of available funding in the RLF bank account. Loans made from the RLF typically will not be less than \$5,000. At the recommendation of the EDA Board of Directors, the City Council may authorize loans smaller than the above values on a case-by-case basis.

- **Interest Rate**

The interest rate will typically range from 1.25 – 5.25% and typically will not exceed prime rate by more or less than 2%. The City Council will determine the rate on the day of loan closing based on the evaluation of the applicant's ability to repay and the necessity of below market financing to advance the project. Interest earned on any RLF loan must stay in the fund for use in making additional RLF loans.

- **Fees/Closing Costs**

There will be an application fee to apply to be submitted with each application to include the costs associated with processing the application (e.g. credit report fees, UCC, mortgage registry (if applicable), lien search fees, filing security documents, filing legal documents fees, etc.) shall be the responsibility of the applicant.

On the recommendation of the EDA Board of Directors, the City Council may waive or amend this fee structure without further approval from the Grantor. The RLF may charge loan recipients for loan closing costs, attorney fees, filing fees, etc. as necessary to complete loan documentation. All loan fees will be addressed in the Loan Agreement between the RLF and the loan recipient. Fee is generally \$500 or less depending on the cost to process and record.

<u>Service</u>	<u>Projected Cost</u>
Application Fee	\$100.00
Recording of Loan Agreement w/ Lien	\$46.00 payable to Fillmore County Recorder
UCC Financing Statement Recording Fee	\$20.00 payable to MN Secretary of State
Mortgage Registration Tax (if applicable)	.0023 x (Loan amount) = Mortgage Reg. Tax Ex. Loan of \$50,000 x .0023 = \$115.00 Tax
Closing Fees <ul style="list-style-type: none"> <li>- Loan Agreement</li> <li>- Promissory Note</li> <li>- Mortgage (if Real Estate)</li> <li>- UCC1 Financing Statement (Collateral)</li> <li>- Personal Guarantee</li> <li>- Security Agreement</li> <li>- Amortization Schedule</li> <li>- Settlement Statement</li> <li>- Any additional documents as required</li> </ul>	\$500.00

- **Loan Terms**

Loans can be amortized over the lesser of seven years or the life of the security. The City Council, with input from the EDA Board of Directors, determines the term.

The EDA Board of Directors will make a recommendation concerning the term of the loan and payment frequency (monthly, quarterly, etc.) depending upon project need, the expected life of the security, and the applicant's ability to repay. The term of the loan will not exceed the expected life of the asset being used as collateral.

- **Security/Collateral**

Security shall consist of the best lien available on real estate, equipment, inventory, etc. The discounted value of the security (using typical lender discount rates) shall equal or exceed the value of the loan. The City Council may require personal guarantees and/or co-signors.

The City of Lanesboro EDA will work with the potential loan recipient to obtain security that is adequate for the term of the loan. The nature of the collateral pledged shall be determined by the loan committee on a project-by-project basis. If the same collateral is used in joint financing, the RLF will seek a parity position with other lenders. Types of security may include:

- Mortgage Lien on Real Property
- Machinery and equipment which have a developed market;
- Letter(s) of credit from acceptable financial institution(s);
- Securities issued by the Federal government or its agencies;
- Accounts receivable and inventory for short-term loans

The loan recipient will be required to maintain fire insurance, and flood insurance if necessary, on secured assets. In some cases, credit life or key man insurance will be required with the RLF as loss payee.

### **Application Procedures**

Applications for RLF funds will be accepted on a continual basis. All applicants for RLF funding will be required to complete an application form and provide a corresponding business plan with verifiable data which demonstrates that their proposed projects are economically feasible, sustainable, and will provide benefits to rural areas, either through job creation or infrastructure improvements. A copy of the application which includes a list on supporting information is attached to this plan.

1. Applications will be accepted at the City of Lanesboro office during normal business hours. The City of Lanesboro and its EDA are located at 202 Parkway Ave South, Lanesboro, MN 55949.
2. Complete applications will be reviewed by city staff and the EDA Board of Directors. An application is not considered complete until all required information has been submitted to the City of Lanesboro's staff as listed on the application.
3. There must be evidence presented by the applicant that indicates the RLF loan is necessary to make the proposed project feasible.
4. The EDA Board of Directors may require written feasibility studies, business plans, market studies, etc. as appropriate for the business type.
5. The EDA Board of Directors will analyze each project and make a written recommendation to the City of Lanesboro City Council.
6. The City of Lanesboro EDA Board of Directors will normally review RLF applications at their scheduled monthly board meeting. However, if needed and at the board's discretion, the board may call a special meeting to review a loan application.

7. The City of Lanesboro City Council shall have final authority to approve or deny RLF loan applications and to determine appropriate terms and conditions.
8. For approved loans, a loan agreement addressing all the terms and conditions, including monitoring procedures, repayments, delinquencies, defaults and remedies for that project will be prepared under the direction of the EDA Board of Directors and City of Lanesboro City Council. In addition, the EDA Board of Directors and City of Lanesboro City Council shall have prepared all notes, mortgages, security agreements, UCC filings and other legal documents necessary to close the loan. The EDA Board of Directors and City of Lanesboro City Council will use appropriate note, mortgage, and other forms which are approved by the State Bar Association.
9. Before RLF funds can be disbursed to the loan recipient, all requirements and terms of the loan agreement must be met and supplemental financing must already be contributed or verified ready to contribute to the project.

### **Review Criteria**

The basis for determining the eligibility/approvability, loan amount, interest rate, and terms and conditions of a revolving loan fund request, and general RLF operational procedures, are as follows:

1. The EDA Board of Directors and City Council will consider the financial need of the project, the probability of success, the security offered, and the overall benefits of the project to rural areas, including the number of jobs to be created or retained, diversification of the economy, the extent of the upgrading of the skills of the rural workforce, the quality of the jobs in terms of pay scale and benefit package, and, for community development projects, improvements to the community infrastructure, facilities, and/or acquisition of equipment that improves the education, health, safety, and/or medical care of rural residents.
2. Applicants who choose to apply in times when inadequate funds exist to extend a loan will be informed of the lack of funds. Applications will be reviewed and funded (if eligible) based on the following criteria:
  - a. Applications with the greatest anticipated economic impact for the community shall receive greatest priority. Criteria to be considered in determining economic impact include number of jobs created or saved, wage scale of employees, benefits paid to employees.
  - b. Applications of equal economic impact will be funded in date order of application.

In accordance with Federal law and U.S. Department of Agriculture policy, the City of Lanesboro will not discriminate on the basis of race, color, national origin, sex, religion, age, disability, or marital or family status.

### **Loan Monitoring**

The Economic Development Executive Director and City Administrator shall be responsible for the administrative requirements of the RLF. The Economic Development Executive Director and City Administrator may delegate these responsibilities to other persons.

All RLF loans will be monitored to ensure that loan proceeds are spent as identified in the RLF application, that all other sources of financing have been committed to the project, and that the benefits of the project, such as job creation, are accomplished as stated in the RLF application.

The Economic Development Executive Director and City Administrator shall ensure that RLF lien positions and loan collateral are secure.

This loan monitoring will require regular reporting from the loan recipient:

1. Annual income statements and balance sheets will be collected from the loan recipient. Depending on the nature of the project and security arrangements, the City of Lanesboro reserves the right to require the submission of annual financial reports as audited by a certified public accountant.

2. City of Lanesboro will also conduct annual site visits to meet with the loan recipient, verify collateral and collect any information as required.
3. At the discretion of the City of Lanesboro, periodic management information reports may be required of the loan recipient. Management reports may be required on a semi-annual basis beginning six months after the advance of RLF funds and continuing semi-annually thereafter for a period of three (3) years or until completion of the project, whichever is the later period. If requested, management reports will include:
  - a. information on the number of jobs created or retained during the reporting period;
  - b. a comparison of accomplishments during the reporting period to the objectives established for the project;
  - c. a description of any problems, delays, or adverse conditions which will materially affect the attainment of planned project objectives and a statement of action taken or contemplated to resolve the situation.
4. The City of Lanesboro reserves the right to require these reports on a more frequent basis if it is determined to be in the best interest of the RLF.
5. An annual review and report of the outstanding loans of the RLF, including job creation/retention totals and community benefits, will be compiled by the EDA staff for a presentation to the City of Lanesboro EDA Board of Directors.

### **Collection Procedures**

The City Administrator is charged with the responsibility for loan collections and related workouts, collection of charged-off loans, management and disposal of other real estate owned, and any other activities related to delinquent accounts.

As part of this responsibility, the City Administrator shall have authority to initiate foreclosures, and collection suits after consultation with the City of Lanesboro's legal counsel. The City Administrator will advise the board of such action at its next regular meeting.

Past due notices will be sent per the City of Lanesboro's collection procedures.

After payment due date	City Administrator will contact loan recipient(s) to initiate payment. City Administrator will send collection letter #1.
One week after due date	City Administrator will contact loan recipient(s) to follow up on collection letter #1.
Two weeks after due date	City administrator will send collection letter #2.
Three weeks after due date	City Administrator will contact loan recipient(s) to follow up on collection letter #2.
Four weeks after due date	City Administrator will send collection letter #3.
Five weeks after due date	City Administrator will contact loan recipient(s) to follow up on collection letter #3.
Six weeks after due date	City Administrator will send Final Notice collection letter.
45 days past due	City of Lanesboro initiates collection proceedings through legal action as needed.

## EXHIBIT A: RLF Committee Decision Tree

