



City of Racine, Wisconsin
AGENDA BRIEFING MEMORADUM

AGENDA DATE: May 9, 2022
SUBJECT: Communication by Mayor Mason regarding CDBG Micro-Enterprise Assistance provided to Legacy Redevelopment Corporation (LRC) to facilitate a shift in products from an amortizing loan to five-year forgivable loans with required technical assistance.
PREPARED BY: Matthew Rejc, Assistant Director of City Development
EXECUTIVE SUMMARY: Department of City Development – Division of Neighborhood Services requests that the CDBG Advisory Board amend the original CDBG Micro-Enterprise Assistance Contract with Legacy Redevelopment Corporation to permit LRC to provide a five-year forgivable loan product, with required technical assistance.
BACKGROUND & ANALYSIS: Legacy Redevelopment Corporation in partnership with the City of Racine are currently offering loans to small for profit businesses that are owned and operated in the City of Racine. Currently LRC’s Flexible Micro Credit lending product is designed for micro businesses with five or fewer employees requiring, on average, \$15,000 in capital. The Flexible Micro Credit lending program, has a streamlined processes to simplify intake and reduce paperwork requirements for applicants. flexible underwriting that can look past the 630 minimum credit score required for many SBA products. The loans have no credit score requirement, and instead look at borrowers’ recent history of paying obligations on time. Interest rates are indexed to risk and range from 5% to 7%. Loans have a 36-month maturity that can be renewed for an additional 36 months, if needed. To maximize borrower cash flow, debt service will be based on a seven-year amortization. Collateral must be be 90% loan-to-value and, where appropriate, personal guarantees may be waived. LRC has found that Micro-Enterprises are reluctant to accept loans with repayment due to the unstable economy and business recovery from the Covid 19 pandemic. Also, LRC has noted that many Micro-enterprises need further technical assistance to remain a viable business. LRC proposes to create loans that are eligible for forgiveness provided the borrower(s) participates in LRC’s Blueprint Technical Assistance program. This technical assistance program requires clients to work with LRC staff, which allows LRC staff to assess business and business owner’s needs. Clients are required to complete a minimum of twelve (12) TA sessions or the number of sessions established by LRC staff necessary to accomplish the goals of the initial assessment. The loan client will also be responsible for providing proof on how funds were used. Loan Program: <ul style="list-style-type: none">• Eligible loan amount – minimum loan of \$5,000; maximum loan of \$15,000<ul style="list-style-type: none">○ Borrower must state what funds will be used for prior to approval• Funds can only be used for company expenses: purchasing company PPE; inventory;

equipment; paying mortgage payments or rent; payroll; build-out's

- No collateral required to qualify
- Deferred interest and principal payments for the period of technical assistance sessions
 - Borrower(s) will be required to submit verifiable proof of how funds were used (funds must be used for the original purpose requested)
 - **IF** borrower(s) is unable to provide verifiable proof of fund usage and/or missing more than 3 sessions consecutively of the LRC Blueprint TA sessions (without approved excuse) the first payment for loan's repayment will beginning
 - The month following the 3rd missed session
 - *Maximum loan term of five years at 6% rate of interest

Eligibility:

- Business must be for profit (non-profits are not eligible)
- Business cannot be a start-up business (business must be 12+ mos. In operation from the current date)
- Business is a micro business with five or fewer employees, and owner earns less than 80% of the Racine County Area Median Household Income
- Personal guarantee will be required for all business owners of 20% or more ownership interest
- Credit reports will be used in the underwriting process to assist in establishing credit worthiness (no minimum credit score required)
- No derogatory trade lines
 - – Open judgements **must be paid in full** prior to loan *closing* (*funds from loan cannot be used to satisfy judgment(s).*)
 - Open collection items – a payment plan must be in place prior to closing
- Business **must be** in good standings with the Wisconsin Department of Financial Institution
- Borrower(s) / Owner(s) **must be** current on all City of Racine property taxes

Required Documents:

- *Borrower(s) / Owner(s) must submit 2020 and 2021 business and personal tax returns with all schedules (if 2021 taxes have not been completed please submit 2019) & W'2
- 2021 financial statements and/or YTD 2022
- *Borrower(s) must submit personal financial statement for all owners with a 20% or more ownership interest in the business
- *Proof of DUNS#
- *Proof of EIN#
- *Statement on how funds will assist in your business's success and what you'd like to learn in the Blueprint TA program (100 words or less)
- Certain business types may not be eligible to participate

*Loan request will not be processed if information is not received with application request. All required documents must be submitted, complete and legible. Faxed copies will not be accepted. Once Legacy Redevelopment Corp., loan staff receives a "completed loan package" your request will be reviewed, underwritten and submitted for a loan decision.

**Documents will be required after approval but prior to loan closing.

BUDGETARY IMPACT:

The total CDBG budget will remain unchanged.

RECOMMENDED ACTION:

The CDBG Advisory Board approve amending the existing contract to allow for loans created to be five-year forgivable loans with required technical assistance.