

Franklin County First Fund (FCFF)

Direct Loan

Program Guidelines

Franklin County Area Development Corporation
1900 Wayne Road
Chambersburg, PA 17202
(717) 263-8282
www.fcadc.com

Current as of October 1, 2024

DIRECT LOAN PROGRAM

I. **Statement of Purpose...**The Franklin County First Fund (FCFF) is a revolving loan fund that originated through a grant from the U.S. Department of Commerce, Economic Development Administration (EDA), and a local "match" from the Franklin County Area Development Corporation (FCADC). The FCFF is intended to foster the start-up, expansion, and retention of small businesses for the purpose of stimulating job creating economic growth throughout Franklin County, Pennsylvania. The FCFF provides low-interest loans to small businesses in conjunction with equity, bank financing, and/or other private and public sources. The FCFF is administered by the FCADC, who is responsible for marketing, packaging, and servicing of all loans.

- **The FCFF is funded solely through the repayment of outstanding loans.**

II. **Area Eligibility...** FCFF borrowers must be located or agree to locate within Franklin County, Pennsylvania prior to the disbursement of the loan.

III. **Eligible Borrowers...** To qualify for financing through the FCFF, a business must be a for-profit corporation and have one hundred (100) or fewer employees worldwide (including any related or affiliated businesses), and reflect a tangible net worth of less than \$2,000,000 at the time of application.

IV. **Eligible Activities/Costs:**

Real Estate... Those costs which include building or land acquisition, site preparation, building construction, leasehold improvements/renovations, environmental testing, infrastructure, engineering, architectural, legal, and other related costs.

Machinery and Equipment... Those costs which include the purchase, delivery, and installation of machinery and equipment directly related to the operation of the business.

V. **Ineligible Activities/Costs:**

Refinancing... FCFF loans cannot be used to refinance business debt, however, there could be situations in which refinancing could be considered if the amount is less than 15% of the total eligible project cost subject to the recommendation of the FCADC Loan Review Committee and approval of the FCADC Board of Directors. **The refinancing of personal debt is strictly prohibited.**

Investor-Developer... FCFF loans cannot be used for real estate speculation and/or residential properties. Generally, the beneficial owner of the real estate of a project site must have ownership interest in the occupant of not less than fifty-one percent (51%).

Supplanting Private Sector Capital... FCFF loans shall not supplant private sector capital where such financing is readily available at reasonably available terms and conditions. FCFF loans are made to encourage private investment by reducing financing risk to private lenders.

VI. Loan Parameters

Loan Size... The minimum and maximum loan amounts are established by the FCADC Board of Directors and can be modified at its discretion. The FCFF shall not exceed 50% of the total eligible project cost. The minimum loan amount shall not be less than \$25,000 and the maximum loan amount shall not exceed \$100,000 without the recommendation of the FCADC Loan Review Committee and approval of the FCADC Board of Directors.

Interest Rates... The interest rate shall not be less than 75% of the Wall Street Journal (WSJ) Prime Rate, but in no event, shall it be less than 4%. To confirm the current interest rate, please contact the FCADC office at 717-263-8282 or visit the website at www.fcadc.com.

Terms... The loan term is dependent on the asset to be financed. Depending on the loan amount, real estate may have a repayment period of up to fifteen (15) years. Those loans used for leasehold improvements to real estate will have a repayment term co-terminus with that of the property lease, not to exceed ten (10) years. Loans for machinery and equipment may have a repayment period of up to seven (7) years. More specific term information is as follows:

- **Real Estate Loans of \$50,000 or less** will be considered for up to a ten (10) year term.
- **Real Estate Loans of \$50,001 - \$100,000** will be considered for up to a fifteen (15) year term.
- **Leasehold Improvement Loans** will be co-terminus with that of the property lease not to exceed ten (10) years.
- **Machinery & Equipment Loans of up to \$50,000** cannot have a term exceeding five (5) years.
- **Machinery & Equipment Loans of \$50,001 - \$100,000** cannot have a term exceeding seven (7) years.

NOTE: All loans with a 5+ year term will have an interest rate adjustment on the 61st month and the 121st months in accordance with the formula as stated in the section “Interest Rates.”

Private Sector Investment... FCFF loans will be made in conjunction with a private sector lender, equity from the owners or investors, or other private sources. FCFF liens cannot be subordinated to private investors without the recommendation of the FCADC Loan Review Committee and approval of the FCADC Board of Directors.

Equity Participation... **The applicant is expected to make an equity contribution to the total project cost of at least 10%.**

Loan Security... All loans must be secured at the highest lien position available on one or more of the following assets: real estate including land and building(s); machinery and equipment; and/or other assets being financed. In addition, the FCFF will generally require a corporate guaranty or its equivalent and the personal guaranty of any principal who owns 20% or greater of the borrower and/or operating company. The FCFF must have a collateral position on the assets being financed unless otherwise specifically waived. **The collateral value must reflect a Loan-To-Value (LTV) ratio that generally does not exceed 80%.**

FCFF Collateral Position... FCFF loan collateral can be subordinated to conventional lenders including but not limited to banks, state, and federal agencies.

Loan Payments... Loan payments shall be automatically withdrawn on the first of each month utilizing the ACH payment method (i.e. automatic withdrawal).

Payment Deferrals... The FCADC Board of Directors may grant payment deferrals of loan principal for periods up to six (6) months. Such requests must be made in writing to the FCADC for consideration by the FCADC Loan Review Committee.

Subordination Requests... If during the term of the loan, the FCADC agrees to subordinate its loan whereby it is in a lesser collateral position than was originally approved, the interest rate will be increased by not less than 1%.

Fees... The FCADC will charge reasonable and customary fees as established by the FCADC Board of Directors for the processing and administration of FCFF loans. A fee structure is attached to the program guidelines.

VII. Conditions of the Loan

- Loan recipients must generate or retain one (1) new full-time equivalent job, within three (3) years of the loan closing anniversary, for every twenty-five thousand dollars (\$25,000) borrowed from the FCFF. Businesses engaged in production agriculture shall not be subject to employment thresholds.
- Private lending sources that have a subordinated position to the FCFF lien position must have equivalent or longer terms than the FCFF loan.
- An applicant may place orders, execute sales agreements, and make security deposits on machinery & equipment and/or real estate prior to FCADC approval without prejudicing the review of its application. **IN THESE INSTANCES, THE APPLICANT IS PROCEEDING AT ITS OWN RISK.**
- **A borrower (including any related or affiliated businesses) may not receive more than \$150,000 of FCFF financing during an eighteen (18) month period from the date of the last FCFF disbursement. Additionally, the outstanding indebtedness to one borrower cannot exceed \$200,000 at any given time without the recommendation of the FCADC Loan Review Committee and approval of the FCADC Board of Directors.**
- If an applicant with an existing FCFF loan is applying for a new FCFF loan, it shall have demonstrated an uninterrupted FCFF payment history for not less than twelve (12) months prior to a new funding request.
- The applicant and/or principal(s) shall **not** be delinquent or in default on any existing private or publicly financed loans at the time of application and loan closing.
- If the applicant and/or principal(s) have borrowed from the FCADC previously, the repayment history must be, or have been, in good standing.
- The applicant and/or principal(s) shall be current in the payment of all applicable federal, state, and local taxes at the time of application and loan closing.

- Applicants who apply for or receive assistance through the FCFF, upon reasonable request of the FCADC, shall permit duly authorized representatives of the FCADC to inspect the plant, books, and records of the business.
- Applicants will be required to sign a *Community Recognition Statement* (a sample of which is attached to the guidelines) and shall be a condition of closing.
- Waivers of policies may be considered on a case-by-case basis.

VIII. Penalties

- Failure to meet any of the terms and conditions of the loan may result in an increased interest rate as determined by the FCADC Board of Directors.
- The FCADC will charge the borrower a \$50.00 processing fee for each occurrence of insufficient funds via return check or returned ACH.
- Any material misrepresentation of information may be cause for rejection of an FCFF application and may result in the applicant being referred to the appropriate authorities for criminal investigation. Should it become known that a material misrepresentation was made that impacted the FCADC approval decision, it shall be a cause for default and the loan shall be called immediately.
- **Applicants are required to notify the FCADC staff of any material changes to the application that causes it to become inaccurate or misleading.** If a project is approved and it is subsequently determined that the application contained material misrepresentations, or that the loan proceeds were used for ineligible activities, the loan will be considered in default and subject to immediate recall. In addition, the borrower may be referred to the appropriate authorities for criminal investigation.

IX. Application Procedures

- The applicant shall submit the FCFF loan application to the FCADC at 1900 Wayne Road, Chambersburg, PA 17202. The required application materials are included on the Loan Application Checklist, which is attached to the guidelines. No loan application will be presented without the borrower having met with FCADC staff prior to the loan presentation. **All application materials must be received by the FCADC staff not less than ten (10) business days prior to the next regularly scheduled Loan Review Committee meeting.**
- The FCADC staff will review the application to ensure that it meets the basic eligibility criterion for the FCFF. Staff will perform an administrative review and credit analysis of each application to ensure completeness, eligibility, and conformance with statutes, guidelines, policies, and other matters related to the FCFF.
- The FCADC will generally act on loan applications within 30 days of receipt of the completed loan application.
- Prior to the FCADC scheduling a loan closing date, the borrower will certify to the FCADC that:

1. All sources of funding are in place and that the use of those funds remain unchanged from those identified in the commitment letter; and
 2. All required documents as outlined in the FCFF commitment letter have been provided to the FCADC.
- Any material changes to an approved application involving a change of collateral or terms must be reviewed and approved by the FCADC Loan Review Committee. Depending on the nature of the change, the FCADC reserves the right to assess the borrower a reasonable and customary fee.
 - The FCADC will close the loan using commercially accepted closing documents.

X. Disbursement Procedures

- Funds will be disbursed at the loan closing between the FCADC and Borrower, unless other mutually agreeable arrangements are made.
- Interest on the loan will begin to accrue commencing on the closing date until the first payment is due. Principal and interest payments are due the first day of the second month following closing. (For example, if a loan closing takes place on January 15th, the first payment would be due on March 1st.)

XI. Evaluation Criteria

- **Business Evaluation...** The historical performance of an existing business will be evaluated to assess its ability to repay the FCFF loan. Specifically, the evaluation shall include:
 - **Financial Performance of the Business...** This involves an evaluation of the prior three (3) years financial performance including an examination of income statements, balance sheets, cash flow statements, and notes to the financial statements.

Financial statements should be prepared by an independent certified public accountant. Internally prepared financial statements should include appropriate notes. If the most recent year-end financial statement is more than six (6) months old, an interim statement shall be submitted.

Payments on notes payable to officers and investors who are applying for funds shall be subordinated and amortized at a term equal to or greater than the FCFF loan term. If the FCFF loan is in a delinquent or default status, the FCADC reserves the right to require suspension of payments and cash distributions to all officers, principals, or shareholders.

- **Personal Financial Statement...** Principal(s) with at least 20% or greater ownership in the business must provide a personal financial statement that is current within six (6) months of the date of the application. Such personal financial statements must be signed and dated.
- **Market Performance...** This involves an evaluation of the applicant's current and projected market share.

- **Management Ability...** This involves an evaluation of the experience and skills of the proprietor, partners, directors, and managers. Included in the evaluation is an assessment of the general business experience as well as specialized experiences in the industry. Resumes of all principals with twenty percent (20%) ownership as well as company officers and managers should be provided.
- **Start-Up Businesses...** Newly formed enterprises are eligible to apply if they meet all FCFF eligibility requirements. Start-Up business applicants must provide a **professionally** prepared business plan demonstrating a detailed market analysis, and management/industry experience or expertise. The business plan shall include a **three (3) year pro-forma financial projection**.
- **Project Criterion...** The merits of the proposed uses of funds will be assessed to determine the ability to repay the loan. Specifically, the evaluation will include:
 - **Projected Sales and Revenues...** This involves an assessment of the validity and risk of the sales and revenue projections.
 - **Value of the Assets and Collateral...** Appraisals and other such reports (e.g. Environmental Assessment, Insurance, etc.), when appropriate, will be required to assist the FCADC in evaluating available collateral to secure the loan. All loans will be secured by the highest priority collateral lien position. For production agriculture loans, the FCADC **will not** collateralize its loan with livestock.
 - **Changes in Market Strategy and/or Management Strategy...** Any significant changes in the business plan, market strategy, or management team prior to the FCFF loan disbursement must be reviewed and approved by the FCADC Loan Review Committee.
 - **Public Benefit Criterion...** All applications will be evaluated to analyze the potential public benefit of the project, which shall include:
 1. The total number of full-time equivalent jobs to be created and/or retained;
 2. The number of full-time equivalent jobs to be created and/or retained per FCFF dollar invested; and
 3. The private investment to be leveraged because of the FCFF loan.

XII. Important Notices

- All application materials used to evaluate the loan shall remain confidential.
- FCFF loans can be repaid without prepayment penalties.

FEE STRUCTURE

FRANKLIN COUNTY FIRST FUND (FCFF)

DIRECT LOAN PROGRAM

Application Fee	\$500 Due on or before Loan Review Committee Meeting
Legal Closing Costs	Due at the time of loan closing
Annual Loan Servicing Fee	1% of original loan amount (Due at initial time of loan closing and annually on loan closing date until the loan is paid in full.)

All fees are non-refundable.

*****Should any changes take place to the proposed loan project (i.e.; change in borrower name, collateral, guarantors, etc.) after the approval of the application by the FCADC Loan Review Committee, the FCADC will assess a fee of not less than \$250.00.*****

I acknowledge that I have received a copy of the FCFF Guidelines and I have reviewed the fee structure. By my signature, I acknowledge that should my application be presented to the FCADC Loan Review Committee, I am responsible for payment. Also, by my signature, I am authorizing the FCADC to run the required Credit Report(s) for loan processing purposes.

Name

Company Name

Date

Effective October 1, 2024

APPLICATION INFORMATION CHECKLIST

Business Information

	CPA Prepared Financial Statements or Federal Tax Returns (for the last three years)
	Business Plan (if acquiring a new business or starting a new business)
	Three Year projection (if business is less than one year old and/or a start-up)
	One Year Projection (if acquiring an existing business)
	Interim financial statement dated within the last 45 days
	Business debt schedule (form attached)
	Articles of Incorporation, Amendments thereto, and By-Laws (if Incorporated)
	Articles of Organization and Operating Agreement (if LLC)
	Partnership Agreement (if partnership)
	Franchise Agreement
	Current number of employees
	Counsel (Include firm name, attorney name, address, phone, and fax number)
	Three Major Customers (Include company name and percentage of sales)
	Three Major Competitors (Include company name, city, and state)

Personal Information (for each individual with 20% or greater ownership)

	Personal Tax Returns (for the last three years)
	Personal Financial Statement (form attached...cannot be older than 3 months)
	Confirmation of Liquid Assets (if applicable)
	Photocopy of Driver's License/I.D. card

Real Estate Information

	Real Estate Purchase Agreement and Settlement Sheet
	Signed Construction Agreement, Invoices, etc.
	Copy of Appraisal (if FCADC is requiring a mortgage)
	Copy of Deed or Real Estate Tax Bill (if FCADC is requiring a mortgage)

Machinery and Equipment Information

	Listing of Machinery & Equipment to be purchased
	Invoices of all Machinery & Equipment already purchased (as part of the project)

Primary lender information

	Executed Commitment letter from Primary Lender (outlining amount, term, rate, and collateral)
--	---



BUSINESS DEBT SCHEDULE

Indebtedness: Furnish the following information on all installment debts, contracts, notes, and mortgages payable. Do not include accounts payable or accrued liabilities.

Company Name: _____ Date*: _____

Creditor Name/Address	Original Loan Amount	Origination Date	Current Loan Balance	Current Interest Rate	Loan Maturity Date	Monthly Loan Payment	Loan Collateral (Please list how your loan is secured. For example, 1 st or 2 nd mortgage, 1 st or 2 nd UCC lien, list name of all corporate and/or personal guarantors.)	Loan Date Paid Through MM / YY
Total Present Balance**				Total Monthly Payment				

*Should be the same date as current financial statement.

**Total must agree with balance shown on current financial statement.