



**CITY OF MOBILE
COMMUNITY PLANNING & DEVELOPMENT DEPARTMENT**

Small Steps to Success

**A LOAN PROGRAM FOR MICRO-ENTERPRISES
AND
SMALL BUSINESSES**

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SMALL STEPS TO SUCCESS LOAN PROGRAM

SECTION 1 MISSION AND PURPOSE

A. Statement of Mission

The mission of the Community Planning and Development Department Loan program is to create and develop opportunities among low to moderate- income residents of the City of Mobile for employment, business ownership and affordable housing. Specifically The *Steps to Success* loan program is to revitalize economically depressed neighborhoods and communities within the City of Mobile through a combination of micro enterprise and small business lending.

B. Statement of Purpose

The City of Mobile loan program is an integral part of its community development strategy. The focus of Mobile's small business lending is job creation for and by low and moderate- income area residents and the overall development and improvement of economically distressed areas. The City works to strengthen the local community by enhancing the ability of existing businesses to expand their operation and entrepreneurs to start new ventures. New and expanding businesses improve the city's tax base. This in turn, enables local government to provide improved services and infrastructure to the area's residents and businesses. The *Steps to Success* loan program will provide financing which can fill a niche seldom served by banks. This financial support can serve as a vehicle to leverage additional financial resources, both public and private.

C. Program Summary

The *Small Steps to Success Loan Program* is an alternative loan program for:

- 1) **Micro-Enterprise Businesses** – A *micro-enterprise* is a Commercial Enterprise that has five or fewer employees, one or more of whom owns the enterprise. *Persons developing micro-enterprises* means persons who have expressed interest in and who are, or after an initial screening process are expected to be, actively working toward developing businesses, each of which is expected to be a micro-enterprise at the time it is formed. And
- 2) **Small Businesses** – The number of employees or overall sales level usually defines a *small business*. For the purposes of the CDBG program, small businesses have more than five employees and fewer than 500 employees. Although in some industry categories businesses can have up to 1,500 employees and still be considered a small business. They can promote economic development in distressed areas of the City or economic opportunities for individuals who are low to moderate-income (LMI). The Loan Program is meant to benefit new or existing micro-enterprises or small businesses that cannot qualify for traditional bank loans but have the capacity to repay loans at a modest interest rate.

SECTION 2 ELIGIBILITY, BUSINESS TYPE AND ACTIVITY

The following is a brief description of the program. Specific guidelines are available from the City's Community Planning and Development Department.

A. Source of Funds

Small Steps to Success is funded by Community Development Block Grant (CDBG) funds, granted to the City of Mobile by the U.S. Department of Housing and Urban Development (HUD).

B. Eligible Applicants (24-CFR 570.203)

1. To be eligible for financing, a **small business** borrower must meet the LMI National Objective under at least one of the following two criteria:
 - As an Area Benefit activity if the business provides a service that is available to all residents of a primarily residential service area; or
 - As an LMI Job Creation/Retention activity.
2. To be eligible, a **micro-enterprise** borrower must meet at least one of the following national CDBG objectives:
 - His or her business serves all residents in an area of Mobile that is at least 51% LMI; or
 - At least 51% of the business' owners and employees are LMI; or
 - The business will create or retain jobs for LMI individuals.
3. The Small Steps to Success Loan Program is a good fit for micro-enterprises and small businesses. Examples include, but are not limited to the following:
 - Photography
 - Seamstress or Tailor Shop
 - Daycare
 - Painter
 - Cosmetology
 - Construction Trade
 - Barber Shop
 - Auto Mechanic
 - And many other service industry or home-based micro-enterprises and small businesses

C. Eligible Activities for Micro-Enterprises and Small Businesses

1. Activities under the Micro loan program include but not limited to providing:

- Credit, including but not limited to loans, loan guarantees and other forms of financial support for the establishment, stabilization and expansion of micro-enterprises and small businesses;
- Technical assistance, advice, and business services to owners of micro enterprises and small businesses;
- Training, technical assistance, or other support services to increase the capacity of recipients or sub-recipients to carryout business activities.

D. Eligible Uses of Loan Proceeds

Loans may be used for; but not limited to, the following:

- Testing a product or business idea
- Starting a new micro-enterprise, small business or expanding an existing micro-enterprise or small business
- Marketing a micro-enterprise or small business
- Purchasing equipment, inventory and supplies
- Licensing fees
- Contracting projects (construction & others)
- Other cost associated with growing and sustaining the micro- Enterprise or small business

<p style="text-align: center;">SECTION 3 LOAN DETAILS <i>(TYPE, TERMS, RATES, COLLATERAL AND CONDITIONS)</i></p>
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A. Micro-Enterprise Loans

Micro-enterprises are the smallest, least visible portion of the business community; but one of the major job generators in our economy. They range in type and capacity and include both service providers and retail businesses. Loans fall into the following categories:

- **Loans** made to an individual business or business owner
- **Co-borrower Loans** - A loan to more than one borrower (all borrowers are individually responsible)
- **Guarantor Loans** - A third party guarantees the loan and is responsible for payment if the primary borrower(s) defaults

1. Loan Amounts and Terms

Loans are available in the amount of \$500 to \$20,000 annually for **Micro-enterprises** with terms up to five-years. **The term** of a loan is matched to the project and is negotiated with each borrower. The term is long enough to permit repayment in a reasonable time without unduly hampering the business cash flow. The term is usually structured to coincide with the type of asset being purchased and used as collateral as well as the use of funds.

The following table summarizes the payment schedule for Micro-enterprise loans.

MICRO-ENTERPRISE

AMOUNT	MAXIMUM TERM
\$ 500 - \$ 1,000	12 Months
Up to \$ 5,000	12 - 36 Months
Up to \$ 10,000	12 - 48 Months
\$15,000 - \$20,000	12 - 60 Months

B. Small Business Loans

Small businesses are an important component of a community’s overall economic development strategy. Community development partners have grown increasingly attuned to the importance of small businesses within their local economies. Small businesses often provide critical sources of new or improved job opportunities, new or expanded goods and services, increased personal income and new tax revenue to a local economy.

1. Loan Amounts and Terms

Loans are available in the amount of \$2,500 to \$50,000 for small businesses. **The term** of a loan is matched to the project and is negotiated with each borrower. The term is long enough to permit repayment in a reasonable time without unduly hampering the business cash flow. The term is usually structured to coincide with the type of asset being purchased and used as collateral as well as the use of funds. Please Note: The City may consider loan request over \$50,000 for **Small Businesses** if the applicant demonstrates a strong need and ability to repay.

The following table summaries the payment schedule for Small Business loans:

SMALL BUSINESS

AMOUNT	MAXIMUM TERM
\$ 2,500 - \$ 5,000	12 - 24 Months
Up to \$ 10,000	12 - 48 Months
Up to \$ 20,000	12 - 60 Months
\$ 25,000 - \$ 50,000	12 - 120 Months
Over \$ 50,000	Up to 180 Months

C. Interest Rates

All loans will have a fixed rate of interest. Specific interest rate spreads will be determined from time to time by the Director of Community Planning and Development. Interest rates are periodically adjusted to relate to the prime-lending rate and to remain competitive. The source and cost of funds are considered in interest rate determination. The specific interest rate for each borrower will depend on the borrower's financial status, credit rating, loan amount and terms. A typical interest rate spread for the City's loan program is 1% to 4%.

D. Loan Collateral

The City will secure adequate collateral for all loans, where applicable. The type and amount of collateral will be determined on a case-by-case basis. The City will accept a subordinated collateral position when necessary, however no less than a second position. The city will perfect its' security interest in all collateral by filing a recorded lien in the appropriate location. The City will consider the following types of collateral: Real Estate, Cash or Cash Equivalents, Corporate Assets, Equipment, Inventory, Receivables and Personal Guarantees. The business owner's personal assets may be required when the business assets are inadequate. The amount and type of collateral acceptable is at the discretion of the City and is generally sufficient as a secondary repayment source to assure reasonable repayment of the loan. In order to provide the maximum protection possible, the City will always require the personal guarantee of the business owners for each loan. The guarantee is required even if the loan collateral appears to be adequate.

1. Collateral Valuation

While collateral is provided to secure loans, the value of that collateral may be less than, equal to or more than the loan amount, depending on other circumstances. The City may accept various alternatives to real property or fixed assets. The City will verify ownership of, value of and insurance of collateral. The City will perfect its interest in the security and maintain legal documentation of the credit decision, commitments, terms, secured party's lien and notice of default for all loans. The loan applicant must specify the location of the collateral and agree in writing not to sell or relocate it nor take any action that would encumber or devalue the collateral at any time during the term of the loan, unless written approval has first been obtained from the City of Mobile. Property and /or liability insurance may be required with the City of Mobile named as the loss payee. When possible the city will take a first lien position on all assets financed with its proceeds. In the case of liquidation it is recognized that the value of collateral may decline over time due to depreciation or market changes. The loss in value, coupled with forced sale, may not provide sufficient funds to liquidate indebtedness.

SECTION 4
LOAN APPLICATION, EVALUATION AND REVIEW PROCESS

A. Loan Application Process

- To ensure that the City of Mobile loan program achieve maximum community development impact while protecting the city's assets, the CPD department has developed extensive evaluation and selection criteria. The CPD department loan team and the Loan Review Committee in their examination of applications and their approval of loans use these criteria.
- The complete cycle from submission of a complete loan application and supporting information to final decision by the Loan Review Committee (including staff review, analysis and recommendation) usually takes no more than 30 days.
- During the initial interviews when a loan request is received, the loan team verifies that the applicant meets all eligibility criteria through a review of the information provided during a pre-application conference/interview. The initial contact may be in writing, in person or by telephone. The loan team obtains information required for a preliminary eligibility determination. If it appears that an applicant may be eligible, a complete loan application packet is provided.
- The Economic Development Coordinator (EDC) will provide pre- loan technical assistance as needed, to assist in completing the application and assembling the necessary documentation. If more extensive counseling is needed, The EDC will refer the borrower to an appropriate source such as the Center for Entrepreneurial Excellence or Women's Business Center.

1. Application and Processing Fees

The City does not charge application fees for the Micro Enterprise and Small Business loan programs. The City may charge an Origination Fee up to 1% on all loans (where permitted by the funding sources). Additionally, packaging fees, legal fees, accounting fees and other professional services fees, which are necessary and customary to prepare the application package and to close said loans are assessed. Certain fees can be included in the loan amount and deducted from the loan proceeds prior to disbursement to the borrower.

B. Loan Review and Approval

- **Loan Application Evaluation** – Once the application is received the EDC reviews all of the information submitted by the applicant to verify weather the application is complete and all necessary documents are attached. The EDC reviews the application for compliance with all eligibility criteria, the mission and goals of the City, soundness of management, adequacy of development plan and cost projections. The EDC also visits the site and meets with the applicant.
- **The Economic Development Coordinator** uses the information provided by the applicant to prepare a written loan presentation sheet summarizing the details of the

- loan request and an analysis of the strengths and weakness of the loan request and the proposed project. The EDC may independently deny very poor loan applications, which do not meet the City's basic loan criteria. On questionable loans the EDC may recommend rejection of a loan application but may deny only with the approval of the Director of the Community Planning and Development Department. A list of all rejected loan applications, including the reason(s) for the denials, is submitted to the Loan Review Committee for review on a monthly basis.
- **Loan Committee Approval-** At least one week prior to a scheduled meeting, the EDC will prepare and submit a written loan package to the Loan Review Committee for each application to be reviewed for approval. The package includes a written Loan Presentation Sheet, and the appropriate underwriting documents.
 - A. To ensure objectivity and consistency in the underwriting process, the loan presentation sheet includes a review of relevant information about the borrower, a summary of the request and the project. Also, the applicants' credit report summary, financial position, analysis of the business cash flow, evaluation of the weakness and strengths and risk of the project will be included.
 - B. The EDC makes a recommendation to the committee on terms, rate, conditions and risk rating associated with the loan approval. Accompanying materials generally do not include the loan application, the applicant's credit report, tax returns or financial statements. These are available at the committee meetings but not provided individually prior to the meetings.
 - C. The EDC attends the loan committee meeting to present and support his/her evaluation and recommendation. To approve a loan request the loan committee must be sufficiently satisfied regarding risk and benefits associated with the loan.
 - D. The loan committee meets monthly, reviews the loan presentation sheet(s), clarifies and verifies information about the proposed loan(s) with the EDC and refines the loan recommendation(s). The loan committee determines which loans will be approved based upon compliance, underwriting criteria as well as other factors.
 - E. The Loan Review Committee has final approval. The review process will consider job creation and community benefits, while also focusing on ability to repay. The review process assures that individual loans are not only viable by the CPD department's definition; they also achieve the overall program goals and objectives established by the City of Mobile loan program.
 - F. Following the approval or denial of a loan request. The EDC prepares a commitment letter or rejection letter to inform the applicant of the Committee's decision.

SECTION 5 LOAN UNDERWRITING

The CPD staff applies objective criteria (capacity to perform, capacity to repay) during each loan evaluation. This means that the staff applies consistent standards (eligibility, creditworthiness, loan-to-value ratio, debt service ratio, ect.) and conducts analysis of both the borrower and the business. The staff reviews credit reports, conducts site visit and prepares loan presentation sheets. The results of the EDC, analysis of the borrower and the project is presented to the Loan Review Committee. The loan committee after extensive analysis determines which loan application to approve. The loan committee then forwards their decision to the Director of Community Planning and Development and the EDC.

A. Credit Factors

The following credit factors are to be considered when evaluating an application for loan approval.

1. **Repayment Ability** – The EDC looks at the following in evaluating business repayment ability.
 - a) The ability of the applicant’s business to generate sufficient cash flow and income from current operations without the added effects of the loan proceeds. The business should show a positive history of cash flow and income.
 - b) The ability of the applicant to repay the loan from the cash and income generated by the loan proceeds. Cash flow will be analyzed to determine if the projected income can repay the loan.
 - The loan applicant should understand and be able to show the city how the use of the loan proceeds will generate additional business volume and increase net cash flow and income.
 - Generally, repayment ability should be adequate to meet all obligations and provide a margin for contingencies. A debt service coverage ratio of 1.25 is the baseline. Deviations are acceptable, but may require added collateral or other factors to mitigate the risk.
2. **Equity-** Equity demonstrates the ability and willingness of the applicant and other investors to risk their capital and other assets to make the project work. When difficulties in business earnings occur, owner’s equity is required. For this reason, a small business loan application is stronger when additional capital is available to mitigate risk. From a historical standpoint, owner’s equity summarizes the results of past operations.
3. **Liquidity-** The EDC analyzes a business liquidity position to determine its ability to pay current obligations on time, to operate efficiently from a cash standpoint and to handle current contingencies.

- a) The EDC determines the quality and adequacy of liquidity by reviewing the following:
 - Net working capital as reflected by the quality of accounts receivable and inventories
 - Current practices relative to accounts receivable control, inventory control and payable management.
 - Ability to take advantage of vendor quantity discounts and discounts for prompt payment.
 - Net working capital levels as compared to industry standards.
 - b) Liquidity is measured by net working capital (cash equivalents and accounts receivable minus current liabilities). The following ratios are commonly used for small businesses.
 - Quick Ratio = cash equivalents and accounts receivable/ current liabilities
 - Current ratio = current assets/ current liabilities
- 4. Break-even Analysis** - The applicant's volume of business is subject to the following standards:
- a) If this is a start-up, break-even should be projected and achieved within the term of the loan. Careful analysis of the assumptions justifying this projection is required.
 - b) The absence of break-even in an on-going business calls for careful study of the firm's market and market strategy, as well as the management of the firm.
 - c) Finally, trends in the volume of business should be analyzed for any business with a historical record.
- 5. Efficiency of Operations** – The EDC, where possible, compares the performance of a business with an operating history to other local firms of similar size and industry about which it has financial and statistical information, including other firms in the City's loan portfolio. Another informal indication of the applicant's efficiency is the responsiveness, both in time and completeness, with which they respond to requests for information, data and clarifications.
- 6. Trends** - For purposes of credit analysis, The EDC looks at the trend in earnings as well as the usage of such earnings for such purposes as expansion, fixed asset acquisition, training, and benefits that ensure retention of key personnel.

7. **Credit History - A flawed credit history (with collections, judgments or delinquent taxes), may be reason for denial.** If a recommendation to approve the loan is made despite these factors, all of the extraordinary circumstances and efforts to cure must be documented. The City does consider loan applicants with bankruptcies more than two (2) years past and, in such instances, examines: the reasons for the bankruptcy and credit history since the bankruptcy date of discharge.

B. Market Factors

1. **Market Analysis** - A thorough analysis by the applicant of the demand for their goods or services is fundamental. The EDC reviews loan applications for information and analysis on the following market issues:
 - a) Who the (potential) customers of the business are, and how large the total demand is
 - b) The trends and outlook for the industry and the market to be served
 - c) The general economic environment in which the applicant operates and trends in the local economy
 - d) The legal, political, technological and regulatory climate in which the business operates or will operate, where relevant
2. **Competition** - Equally important is the amount and quality of the competition faced by the applicant. An adequate analysis of this presents information on the following:
 - a) Who the major competitors are, their marketing strategies, what share of market each holds and their strengths and weaknesses in the market
 - b) The likelihood of other new competitors entering the field
3. **Market Strategy** – The EDC analysis of each application looks for a well articulated, clearly justified and reasonable marketing strategy based on the applicant's analysis of the market and competition, including:
 - a) The applicant's plan to make itself different from the competition or more attractive to customers
 - b) The extent to which the market strategy proceeds logically from the market analysis and the strengths and weaknesses of competitors presented in the plan
 - c) Additional information on market strategies that is available to staff or loan committee members (e.g., Does applicant's analysis seem reasonable in light of what the review team knows about the industry or community?)

4. **Unique Market Conditions** - To some extent, every market is different. Yet some applicants for the City's loans are developing new markets or attempting to meet existing needs in new ways. The EDC assesses this and evaluates the applicant's ability to deliver. If there are unique conditions in the market that the applicant proposes to serve, do they recognize them? Does their market strategy deal with them? Does it appear adequate to the conditions they face?

C. Management and Organization Factors

1. Key Personnel of the Applicant's Business

Of central importance to the success of any organization is the management team. This includes the owner or owners, key managers and technical personnel whose skills, style and commitment make the difference when the unanticipated occurs, as it usually does.

Key evaluation points for loan analysis center on the background, relevant experience, integrity and past performance of the top individuals, their depth of understanding of their specific roles in the organization, their commitment to the business and their willingness and ability to work together in a supportive manner. Also important is information on the potential for any key individuals to leave the enterprise, what effect this would have, and the ease of their replacement.

At a minimum, the EDC gains first-hand knowledge of the person who is or will be the general manager or chief operating officer. This is accomplished through personal visits to observe and talk with the manager, as well as through talks with members of the community who have experience with the individual. The most relevant information pertains to the background and experience of this person in this and related industries, their training and management and, especially, his or her attitude toward financial management,

Information on key personnel focuses on their background, experience, and competence in their roles with the business. The loan analysis includes an evaluation of the range of skills among key staff, the completeness of these skills, and any skill 'gaps' in the enterprise. The loan committee may require that "key man life" insurance be obtained where appropriate for the protection of the City's interests in making the loan.

2. Management Structure and Decision Making

A complete loan analysis includes information on the effectiveness of the business structure and decision-making process. Analysis centers on the degree to which each part of the management team understands its particular responsibilities and how effectively each relates to others in furthering the operation of the organization.

The EDC analyzes and identifies where ownership and control actually lies, who makes important decisions about the direction of the organization, and whether key operating managers can make effective decisions in a crisis. Review focuses on the degree of overlap between decision makers and owners.

D. Technical Assistance Needs

As part of the loan underwriting, the EDC often recognizes the borrower's need for technical assistance (TA). These needs are detailed in the Loan Presentation Sheet where certain assistance may be identified as a condition of loan approval. Any such technical assistance is in response to weaknesses perceived in the loan application or in the course of obtaining and reviewing application information and is provided as advice only.

In the majority of cases, the CPD Department provides the needed technical assistance to the applicant at no charge. CPD may provide this service by relying on in-house expertise or through contacts CPD has with special consultants or in partnership with other community development organizations.

E. Loan Denials

The City retains complete discretion in approval and rejection of loan requests. The City may reject any loan application if the nature of the project contradicts City's mission and values or if the loan does not meet the City's credit requirements. These decisions are based on established underwriting criteria as well as special requirements of funding or capital sources and portfolio management. As a result of continuously changing circumstances, The City's ability to approve any particular loan request may vary from time to time.

When a loan request is denied, the applicant is informed in writing by the CPD department.

SECTION 6 LOAN CLOSING PROCEDURES

1. LOAN COMMITMENT

Immediately after loan approval, the EDC prepares a written loan commitment. The Director of Community Planning and Development or their specified designee signs commitment letters.

The loan commitment may specify any or all of the following:

- Interest rate of the loan
- Frequency of payments
- Amount of each payment
- Term to maturity
- Collateral to be secured
- Total loan amount
- Use of loan proceeds
- Disbursement schedule
- Origination fee and other charges due
- Insurance requirements (collateral)
- Terms of default
- Reporting, technical assistance, and/or training requirements

- Penalties for nonpayment or late payment
- Special conditions, if any
- Expiration of the commitment
- Applicability of ACH payment requirement
- Insurance requirements (Key Person)

The borrower must countersign the commitment letter to affirm agreement with the terms and conditions offered before the CPD Department farther prepares for loan dosing. The City's loan commitments expire within fifteen (15) days unless otherwise extended by the Loan Committee or Director of Community Planning and Development. Extensions may be at the request of the loan applicant identifying the reason for the extension.

Loan Closing

Once loans have been approved and commitment letters accepted, the City's Economic Development Coordinator will arrange for and coordinate the loan closing.

2. LOAN DISBURSEMENT

As a condition of disbursement, all borrowers must submit their most recent financial statements, verification of required insurance, identification of the City of Mobile as loss payee on all insured collateral, verification that all taxes and IRS withholdings are current, titles to all motor vehicles, and appraisals for any real property serving as collateral.

Once a loan request has been approved, the CPD staff prepares the necessary documents for closing, disbursing and securing the loan if real estate is not part of the collateral package. If real estate is part of the collateral package, an attorney or a title company manages the closing.

Loan Agreements and Documentation - Upon receipt of a countersigned commitment letter from the borrower, the CPD staff prepares or causes to have prepared, standardized loan documents for the borrower's signature which may include the following:

- A promissory note
- Loan agreement
- Mortgage or security agreement
- Insurance binder on property with City of Mobile named as loss-payee
- UCC filings
- Title policy
- Security agreement
- Statement that there are no outstanding judgments pending against loan applicant
- Agreement to provide monthly and/or annual financial statements (Income Statement, Balance Sheet, and Statement of Cash Flows) to the loan review team for review during the term of the loan
- Agreement to participate in the City's marketing and other promotional efforts. The City of Mobile name (and logo) can be included in signs, press releases, and other printed information listing institutions supporting the project's success

The City of Mobile legal counsel has approved all documents, but the CPD Department advises borrowers to conduct a legal review on their own behalf.

No funds are disbursed until the borrower has satisfied all conditions specified by the CPD staff as prerequisites for disbursement and also signed the promissory note and loan agreement, and as well as other documents necessary to perfect The City of Mobile lien on the collateral.

CPD Department ensures that all appropriate loan documentation is completed and that documents are filed with appropriate authorities for protection of security interest. Where necessary to perfect security interests, spousal signatures are obtained. Moreover, borrower's photo IDs are checked at closing. The City reserves the right to determine the acceptable types of identification. An example of standard identification is government issued photo ID.

3. DOCUMENT REVIEW

Thirty days after each loan has closed, the CPD staff will conduct a document review to ensure that appropriate documentation has been placed within the clients file. The initial review will begin with the economic development coordinator, who will then provide the closed loan file to the appropriate staff. Upon examination, if any additional documents are needed, or if any documents contain errors or omissions, the file will be return to the economic development coordinator, who will then provide correction and updates. If no errors or omissions are found, the EDC will forward the file to the loan-processing department.

Note: Applicants are encouraged to seek legal review of all loan documents.

SECTION 7 LEGAL CONSIDERATIONS

A. Disclaimer

All funding decisions made under these guidelines shall be made solely at the discretion of the City of Mobile. The City in no way represents or warrants to any applicant, investor, lender, or any other party that a business activity funded by the City is, in fact, feasible or viable.

The City reserves the right to place special conditions on approved loans.

The City reserves the right to modify or waive, on a case-by-case basis for good cause, any condition of these guidelines that is not mandated by the 24 CFR Part 570.208.

The City reserves the right to exchange information with other local, state and federal allocating agencies and with other parties as deemed appropriate. By submitting an application for a loan, the applicant is acknowledging and agreeing to this exchange of information.

B. Default

If funds are expended by a business that is terminated before complete repayment, all expended funds shall become immediately due and payable and shall include any accrued interest. If borrowers fail to timely make loan payments, the City shall exercise any and all of its contractual rights under the loan documents and Alabama law.

C. Equal Credit Opportunity Disclosure

The City shall comply with the Federal Equal Credit Opportunity Act which prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided that applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, D.C. 20580.

EXHIBIT I

SECTION 3

What is Section 3?

Section 3 is a provision of the Housing and Urban Development (HUD) Act of 1968 that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency. The Section 3 program requires that recipients of certain HUD financial assistance, to the greatest extent feasible, provide job training, employment, and contracting opportunities for low- or very-low income residents in connection with projects and activities in their neighborhoods.

How does Section 3 promote self- sufficiency?

Section 3 is a starting point to obtain job training, employment and contracting opportunities. From this integral foundation coupled with other resources comes the opportunity for economic advancement and self-sufficiency.

- Federal, state and local programs
- Advocacy groups
- Community and faith-based organizations

How does Section 3 promote homeownership?

Section 3 is a starting point to homeownership. Once a Section 3 resident has obtained employment or contracting opportunities they have begun the first step to self-sufficiency.

Remember, “It doesn’t have to be fields of dreams”. Homeownership is achievable. For more information visit HUD.gov.

Who are Section 3 residents?

Section 3 residents are:

- Public housing residents or
- Persons who live in the area where a HUD-assisted project is located and who have a household income that falls below [HUD’s income limits](#).

Determining Income Levels

- Low income is defined as 80% or below the median income of that area.
- Very low income is defined as 50% or below the median income of that area.

What is a Section 3 business concern?

A business that:

- Is 51 percent or more owned by Section 3 residents;
- Employs Section 3 residents for at least 30 percent of its full-time, permanent staff; or

- Provides evidence of a commitment to subcontract to section 3 business concerns, 25 percent or more of the dollar amount of the awarded contract.

What programs are covered?

Section 3 applies to HUD-funded Public and Indian Housing assistance for development, operating, and modernization expenditures.

Section 3 also applies to certain HUD-funded Housing and Community Development projects that complete housing rehabilitation, housing construction, and other public construction.

What types of economic opportunities are available under Section 3?

- Job training
- Employment
- Contracts

Examples of Opportunities include:

Accounting	Electrical	Marketing
Architecture	Elevator Construction	Painting
Appliance repair	Engineering	Payroll Photography
Bookkeeping	Fencing	Plastering
Bricklaying	Florists	Plumbing
Carpentry	Heating	Printing Purchasing
Carpet Installation	Iron Works	Research
Catering	Janitorial	Surveying
Cement/Masonry	Landscaping	Tile Setting
Computer/Information	Machine Operation	Transportation
Demolition	Manufacturing	Word processing
Drywall		

Who will award the economic opportunities?

Recipients of HUD financial assistance will award the economic opportunities. They and their contractors and subcontractors are required to provide, to the greatest extent feasible, economic opportunities consistent with existing Federal, State, and local laws and regulations.

Who receives priority under Section 3?

For training and employment:

- Persons in public and assisted housing
- Persons in the area where the HUD financial assistance is spent
- Participants in HUD Youth build programs
- Homeless persons

For contracting:

- Business that meet the definition of a Section 3 business concern.

How can businesses find Section 3 residents to work for them?

Businesses can recruit Section 3 residents in public housing developments and in the neighborhoods where the HUD assistance is being spent. Effective ways of informing residents about available training and job opportunities are:

- Contacting resident organizations, local community development and employment agencies
- Distributing flyers
- Posting signs
- Placing ads in local newspapers

Are recipients, contractors, and subcontractors required to provide long-term employment opportunities, not simply seasonal or temporary employment?

Recipients are required, to the greatest extent feasible, to provide all types of employment opportunities to low and very low-income persons, including permanent employment and long-term jobs.

Recipients and contractors are encouraged to have Section 3 residents make up at least 30 percent of their permanent, full-time staff.

A Section 3 resident who has been employed for 3 years may no longer be counted towards meeting the 30 percent requirement. This encourages recipients to continue hiring Section 3 residents when employment opportunities are available.

What if it appears an entity is not complying with Section 3?

There is a complaint process. Section 3 residents, businesses, or a representative for either may file a complaint if it seems a recipient is violating Section 3 requirements on a HUD-funded project.

Will HUD require compliance?

Yes, HUD monitors the performance of contractors, reviews annual reports from recipients, and investigates complaints. HUD also examines employment and contract records for evidence that recipients are training and employing Section 3 residents and awarding contracts to Section 3 businesses.

How can Section 3 residents or Section 3 business concerns allege Section 3 violations?

You can file a written complaint with your [local HUD Field Office](#).

A written complaint should contain:

- Name and address of the person filing the complaint
- Name and address of subject of complaint (HUD recipient, contractor or subcontractor)
- Description of acts or omissions in alleged violation of Section 3
- Statement of corrective action sought i.e. training, employment or contracts