

# St. Louis Park Economic Development Authority

## Two Percent Loan Program

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*St. Louis Park Economic Development Authority  
5005 Minnetonka Blvd  
St. Louis Park, MN 55416*

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## Two percent loan program

### I. The program

The Two Percent (2%) Loan Program provides low interest loans to businesses and property owners improving, renovating, or expanding their buildings and purchasing property within St. Louis Park. The program aims to make it more affordable for small businesses to invest in this area and to spur business investment so as to further enhance the city's economic success, vibrancy and historic character.

This program is designed to accomplish the following:

- Incentivizing businesses to make further investments and improvements to business properties.
- Encourage building/property repairs, improvements, and expansions by providing financing at reduced cost.
- Enable businesses to grow and become more successful.
- Foster a greater sense of place within the city.
- Attract additional businesses, patrons and visitors.
- Diversify the city's commercial business offerings and provide additional employment opportunities.
- Fulfill the strategic directions outlined in St. Louis Park's Vision 3.0.

### II. How the program works (terms and conditions)

- Metropolitan Consortium of Community Developers (MCCD), a private lender, or combination of the two, provides at least 50% of the loan at the lender's rate considering loan type, term and risk factors. If the loan is provided solely for a Grease Trap Project (as defined below), the EDA shall provide 100% of the principal loan funds; neither MCCD nor a private lender shall provide principal funds for the loan.
- St. Louis Park Economic Development Authority (EDA) provides up to half of the loan principal, or an amount not to exceed \$75,000, at two percent interest. The minimum loan amount is \$10,000. For loans **only** for Grease Trap Projects, the EDA provides 100% of the loan principal; the minimum loan amount for Grease Trap Projects is \$5,000 and the maximum loan amount for Grease Trap Projects is \$25,000.
- All work financed by the loan must comply with all state and local laws and regulations pertaining to licensing, permits, building codes, zoning and environmental requirements.
- Loan term is set by MCCD or private lender, and can be for up to 10 years.
- Applicants must repay the loan and be an acceptable credit risk.
- Applicants agree to meet with an "Open to Business" business advisor for ongoing business counseling at least twice a year for the first three years of the loan term and annually for the remainder of the loan term.<sup>1</sup>

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<sup>1</sup> This requirement does not apply for loans that are only for Grease Trap Projects.

### III. Eligible applicants

- All businesses located within the City of St. Louis Park, **particularly women, veteran, and minority owned businesses.**
- The applicant may be individual owners, partnerships, corporations, tenant operators, non-profit organizations (on a case by case basis) or contract for deed partners.
- In the case where the leaseholder is the applicant, written permission of the property owner is required for physical alterations to the building along with a valid lease that covers the term of the loan.

### IV. Eligible activities; costs

The following activities and costs are eligible for financing under this Program.

- Purchase and/or renovation of a building
- Building construction. Construction of a new building and/or an addition to an existing building
- Lighting
- Windows
- Walls, ceilings, floors
- Roofing
- Plumbing
- Electrical
- Mechanical Systems and air conditioning
- Sustainable building improvements such as energy efficient windows and doors, HVAC and renewable energy equipment as well as low flow plumbing fixtures,
- All work on the front and sides of business buildings facing public streets
- Masonry repairs and other façade improvements
- Repairing or replacing of cornices, entrances, doors, windows, decorative details and awnings
- Sign removal, repairing or replacement
- Architectural design services for plans and specifications
- Parking lots, including lighting, surfacing and landscaping
- Building identification/signage
- Handicap access improvements
- Streetscape costs not financed by special assessment
- Other items that are viewed necessary to complement the exterior of the building
- Purchase of machinery and equipment. Purchase of major items of machinery and equipment independent of land and buildings (These items must be defined to have a useful life of at least 10 years.)
- Leasehold improvements. Loan funds may be used for certain leasehold improvements provided the lease is equal to, or greater than, the term of the loan
- **Grease Trap Projects:** Installation of a fat, oil and/or grease interceptor system (a “Grease Trap”) at a restaurant, as required by Minnesota Rules, Part 4714 of the Minnesota Plumbing Code, to prevent blockages and obstructions to the sewer system.

**Grease Trap Projects:** An applicant may apply for a loan for **only** a Grease Trap Project, or may include a Grease Trap Project in a larger loan application that includes other eligible loan activities. If the eligible loan activities include, but are not limited to, a Grease Trap Project, then the normal 2% loan

guidelines apply. If the loan is for a stand-alone Grease Trap Project, the following conditions apply to the loan:

- Minimum loan amount of \$5,000;
- Maximum loan amount of \$25,000;
- EDA provides 100% of loan funds; no matching funds provided by MCCD or a private lender; The loan term is set by the EDA; and
- MCCD will act as the loan servicer.

**\* Exterior façade and streetscape activities shall follow the recommendations of the design guidelines that have been adopted for the area the property is located in.**

#### **V. Ineligible applicants, activities and costs**

The following applicants, projects, activities, and costs are ineligible for financing through the 2% Loan Fund.

A. Ineligible applicants: Applications from the following entities will not be considered for financing:

- Home-based businesses
- Auto repair and gas stations
- Check cashing businesses
- Gambling organizations
- Gun shops
- Pay day loan businesses
- Off sale liquor stores
- Pawn shops
- Sexually oriented businesses
- Speculative real estate
- Tattoo parlors
- Tobacco shops, vapor shops or hookah lounges
- Warehouses

B. Ineligible activities: Applications to finance the following activities will not be considered for financing:

- Any work started prior to loan closing.
- Any work on a building being repaired on a speculative basis where the property owner is not, or does not plan to be, a primary occupant and/or no tenant has been secured.
- Activities that place extraordinary demands on city services.
- Activities that are inconsistent with St. Louis Park Vision 3.0 including those considered to create environmental concerns in the opinion of the local, state, or federal governments due to the type of operation or processes involved in the business operation.
- Activities that continue and/or expand nonconforming uses.
- Any activity deemed illegal by federal, state, or local law or ordinance.

- C. Ineligible costs: Ineligible costs include, but are not limited to, developer fees, management fees, financing costs, franchise fees, debt repayment or consolidation, moving costs, refinancing, operating costs, work completed prior to loan closing, or rent payments.

## **VI. Loan terms and conditions**

Loans provided under the 2% Loan Program shall be subject to the following terms and conditions.

- A. Maximum and minimum loan amounts for eligible projects:
  - 1. Maximum loan amount. The maximum loan available from the Program for each eligible project is limited to \$75,000 or 50% of total project cost, whichever is less. The maximum loan amount for loans for Grease Trap Projects only is \$25,000.
  - 2. Minimum loan amount. The minimum loan amount available from the loan fund for each eligible project is \$10,000. The minimum loan amount for loans for Grease Trap Projects only is \$5,000.
- B. Interest rate: MCCD and or bank financed portion of the loan will be determined at the time of the loan application and funding. Interest rates will fluctuate with the Prime rate, and will be subject to other factors (collateral, borrower credit/strength, etc.). The St. Louis Park EDA's loan interest rate is fixed at two percent for the term of the loan.
- C. Term: The loan term is set by the private lender and can be for up to 10 years. For Great Tap Projects only, the term of the loan is set by the EDA.
  - 1. Balance due upon Sale. All balances will be due and payable if and when the loan recipient sells or otherwise transfers any or part of his/her interest in the property or fails to meet any of the guidelines established within this document before the maturity date of the loan or relocates any part or all of the business outside the City of St. Louis Park.
  - 2. Should the business cease operations, reduce services, or significantly alter the improvements funded through this loan within one year of the date the loan agreement is signed, repayment to the EDA for the entire loan amount will be required.
- D. Equity participation: Total Financing for the purpose of acquiring fixed assets - including real property, equipment and leasehold improvements- shall not exceed 90% of total acquisition cost. This requirement does not apply to loans provided for Grease Trap Projects only
- E. Collateral requirements: All loan agreements will be secured by one or more of the following;
  - 1. a promissory note,
  - 2. mortgage, or
  - 3. security agreement as required by the EDA.
- F. Letters of commitment: Letters of commitment from all funding sources, if applicable, must be submitted for the application to be deemed complete.

- G. Personal guaranty: Personal guaranties of persons with an ownership interest of 20% or greater are required. Personal guaranties of persons with ownership interest between 5% to 19% may be required by the EDA but are discretionary.
- H. Loan repayments: Loan payments must begin within one month of funding of the loan. The EDA may make exceptions to this rule on a case-by-case basis.
- I. Loan prepayment: Prepayments are permitted at any time in an amount equal to the principal amount outstanding plus accrued interest to the date of prepayment.
- J. Notice of award or denial: Applicants will be notified by the EDA in writing not more than fourteen (14) business days after final action has been taken on their 2% Loan fund application.
- K. Loan closing documents: The EDA will close in conjunction with MCCD loan closing and MCCD will facility loan closing.
- L. Post-closing amendments and modifications: Requests for amendments and modifications following award, closing or disbursement of funds to the underwriting of the original request require EDA approval.
- M. Loan denial: The EDA will not make a loan if it determines the loan amount would place an undue burden on the financial resources of the borrower or the borrower cannot demonstrate adequate financial capacity to repay the loan or the EDA determines that making the loan is not in the best interest of the city or EDA.
- N. Business subsidy: EDA loans of \$75,000 or above are subject to the provision of the Business Subsidy Act.

**VII. Guidelines for application approval and servicing**

MCCD will administer the 2% Loan Program. Loans will be made with a minimum 50% participation from MCCD, or other qualified lender, unless the loan is for a Grease Trap Project. The process for application approval and servicing follows:

- A. All applicants shall first contact MCCD to obtain information about the 2% Loan Program and discuss the project.
- B. The applicant shall work with MCCD to determine if additional financing from the EDA is needed to accomplish the project, and if so, how much.
- C. The applicant and MCCD shall then meet with EDA staff to discuss the project, and obtain application forms.

- D. The applicant shall complete and submit respective application forms to MCCD and EDA.
- E. At closing the applicant shall pay an origination fee of .5% on the portion of loan funds provided by the EDA in addition to any origination and/or other loan fees charged by MCCD or other lending partners.
- F. MCCD will administer the program and serve as underwriter for the 2% Loan Program. The application will be reviewed by the MCCD and EDA staff to determine conformity to all city and EDA policies and ordinances and to consider the following:
  - 1. The availability and applicability of other governmental grants and/or loan programs.
  - 2. Whether the proposed project will result in conformance with building and zoning codes.
  - 3. Whether it is desirable and in the best interests of the public to provide funding for the project.
- G. MCCD will review each application for completeness and determine its consistency with the goals of the 2% loan program as enumerated above.
- H. In the event there is ambiguity of an application's conformance with the program's guidelines, the proposed application will be brought to the EDA for further discussion.
- I. MCCD and EDA staff will evaluate the project application in terms of the following:
  - 1. Project Design: Evaluation of project design will include review of proposed activities, timelines and a capacity to implement.
  - 2. Financial Feasibility: Availability of funds, private involvement, financial packaging and cost effectiveness.
    - Appropriate ratio of private funds to EDA funds.
    - Sufficient cash flow to cover proposed debt service as demonstrated by financial statements and projections.
    - Ability to demonstrate a positive net worth.
    - Letter of Commitment from applicant pledging to complete the project during proposed project duration, if the loan application is approved.
    - Letter of Commitment from other financing sources stating terms and conditions of their participation in the project if applicable.
    - Project compliance with all city codes and policies.
    - All other information as required in the application and/or additional information as may be requested by the EDA and MCCD.
  - 3. MCCD will recommend the approval, denial, or request a resubmission to EDA staff. A recommendation from MCCD will be forwarded to the EDA staff for final action.



**VIII. Right of refusal**

The EDA may deny any project, at the sole discretion of the EDA and will deny financing for any project which, in its opinion, conflicts with or does not conform to the guidelines established in this document.

**IX. Post-approval process**

- A. Approval: If approved, the applicant will be sent a written commitment letter that will outline the terms and conditions of the loan approval. A copy of the commitment letter will be signed by the borrowers and guarantors signifying acceptance of the terms and conditions of the loan proposal and the conditions for funding. Upon the return of the executed commitment letter, EDA staff will begin the loan closing process with the EDA's legal counsel.
- B. Closing: The EDA's legal counsel and/or MCCD's legal counsel will prepare documentation. MCCD will coordinate the closing with the borrower or the borrower's counsel.
- C. Loan Servicing: The EDA will contract with MCCD for all loan servicing. When servicing EDA loans, MCCD will comply with loan program requirements and in accordance with prudent and commercially reasonable lending standards.

MCCD is responsible for routine servicing including receipt and review of the borrower's or operating company's financial statements on an annual or more frequent basis and monitoring the status of the borrower and 2% loan collateral.

MCCD will respond to borrower requests for loan modifications following approval of the EDA.

For any 2% loan that is more than three months past due, MCCD will promptly notify the EDA that the loan should be placed in liquidation unless the 2% loan has an EDA approved deferment or is in compliance with an EDA-approved plan to allow the borrower to catch up on delinquent loan payments.

MCCD will work with the EDA and borrower to cure defaults and initiate workouts.

- 1. Monitoring: MCCD staff will monitor loans for compliance with the accepted terms and conditions including job creation statistics and wage and benefit levels.

MCCD is responsible for monitoring that the borrower makes all required insurance premium payments and has paid all taxes when due.

MCCD is responsible for filing renewals and extensions of security interests on collateral for the 2% loan, as required.

- 2. Reports: MCCD will provide quarterly portfolio reports to the EDA.

3. Records: Computer files and conventional paper files will be maintained for the purpose of documenting, tracking, and monitoring program and loan activities and will be maintained by the EDA and MCCD staff
  - a. Program records: The following program information will be maintained in the project file, including but not limited to:
    - i. Environmental report;
    - ii. Eligibility determination records;
    - iii. Property inspection report;
    - iv. Progress reports;
    - v. Credit Memo;
    - vi. Correspondence;
    - vii. Loan documents; and
    - viii. Executed loan agreement and security documents including evidence of any mortgage recorded with Hennepin County and a filed UCC with the Minnesota Secretary of State in connection with any security agreement
  - b. Financial records: The following financial information will be maintained in each Loan file, including but not limited to:
    - i. Copy of the executed loan agreement;
    - ii. Disbursement data;
    - iii. Progress reports;
    - iv. Repayment data.
4. Record retention: All program and financial records, supporting documents, statistical records, environmental review records and other records pertinent to the 2% loan program shall be maintained for a period of at least six (6) years from the final project report and project closeout date.

## **X. Delinquency**

The following is the notification procedure for delinquent loans:

- A. The city finance department is responsible for the timely posting of all loan repayments.
- B. Thirty (30) day notice: Upon thirty (30) days delinquency, MCCD will notify the finance director of the delinquency and shall send the borrower a delinquency notice requesting payment within fifteen (15) days. A copy of the letter shall be forwarded to the EDA Executive Director.
- C. Forty-five (45) day notice: If payment has not been received by the 45<sup>th</sup> day a second delinquency notice will be sent to the borrower by MCCD requesting payment within fifteen (15) days. A copy of the letter shall be forwarded to the finance director and EDA Executive Director.
- D. Sixty (60) day notice: If payment has not been received by the 60<sup>th</sup> day, MCCD will attempt to contact the borrower by telephone to address the delinquency. MCCD shall also send a notice of default to

borrower via certified mail requesting immediate payment and advising the borrower the delinquency will be placed on the EDA agenda for discussion at an upcoming meeting.

- E. Ninety (90) day notice: If no repayment plan is submitted by the borrower, or if there is no attempt by the borrower to negotiate the amount due, the MCCD will contact the EDA Executive Director and the EDA attorney prior to sending a 90 day letter calling due the loan in full.
- F. Negotiation: Throughout this process, every attempt will be made to preserve the company, the jobs, and the loan funds.

**XI. Default**

If the EDA determines a loan to be in default it may adopt a resolution declaring the borrower in default and convey the matter to the EDA legal counsel for disposition.

**XII. Recaptured funds**

Loan repayments shall be deposited into the city's Development Fund. These recaptured funds are available to other applicants for utilization as gap financing for certain approved economic development projects. The 2% Loan Program shall be administered by a financial management system in compliance with all state and federal requirements.

**All Program guidelines are subject to change without notice.**