



EXHIBIT A

SMALL BUSINESS LOAN PROGRAM GUIDELINES OGDEN CITY

GUIDELINES AND OBJECTIVES FOR EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

HUD requires that state or local government conduct basic financial underwriting prior to the provision of CDBG financial assistance to a business. HUD has developed guidelines that are designed to provide grantees (Ogden City) with a framework for financially underwriting and selecting CDBG-assisted economic development projects, which are financially viable and will make the most effective use of the CDBG funds. Ogden City's CDBG program requires that these HUD underwriting guidelines be utilized to determine whether a proposed CDBG subsidy is *appropriate* to assist a business start-up, expansion, or retention project. In addition, the project must be reviewed to determine that a minimum level of *public benefit* will be obtained from the expenditure of the CDBG funds in support of the project.

HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes. The objectives of the underwriting guidelines are to ensure:

1. That the project costs are reasonable;
2. The all sources of project financing are committed;
3. The to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
4. That the project is financially feasible;
5. The to the extent practicable, the return on the owner's equity investment will not be unreasonably high;
6. The to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project; and
7. Sufficient public benefit will be received from the expenditure of CDBG funds.

1. ***Project Costs are Reasonable.*** Reviewing costs for reasonableness is important. It will help avoid providing either too much or too little CDBG assistance for the proposed project. Ogden City must obtain a breakdown of all project costs and that each cost element making up the project must be reviewed for reasonableness.

Particular attention should be paid to any cost element of the project that will be carried out through a non-arms-length transaction. A non-arms-length transaction can occur when the business entity receiving the CDBG assistance procures goods or services or acquires property from itself or from another party with whom there is a financial interest or family relationship. If abused, non-arms-length transactions misrepresent the true cost of the project.

2. ***Commitment of All Sources of Project Financing.*** A review of all proposed sources of funding for a project must be conducted to evaluate whether the project is financially feasible given the availability and commitment of other proposed funding sources. This review is necessary to ensure that time and effort is not wasted on assessing a proposal that is not able to proceed. To the extent practicable, prior to the commitment of CDBG fund to the project, the project review should verify that: sufficient sources of funds have been identified to finance the project; all participating parties providing those funds have affirmed their intention to make the funds available; and the participating parties have the financial capacity to provide the funds.

3. ***Avoid Substitution of CDBG Funds for Non-Federal Financial Support.*** The proposed CDBG economic development project must be reviewed to ensure that, to the extent practicable, CDBG funds will not be used to substantially reduce the amount of non-Federal financial support for the activity. This will help Ogden City to make the most efficient use of its CDBG funds for economic development.

To reach this determination, Ogden City must conduct a financial underwriting analysis of the project, including reviews of appropriate projections of revenues, expenses, debt service and returns on equity investments in the project. The extent of this review must be appropriate for the size and complexity of the project and will use industry standards for similar projects, taking into account the unique factors of the project such as risk and location.

If the project's total cost is one that would normally fall within the range within which financial institutions participate, then the project review will determine the following:

- A. Private debt financing – whether or not the participating business (or other entity having an equity interest) has applied for private debt financing from a commercial lending institution and whether that institution has completed all of its financial underwriting and loan approval actions resulting in either a firm commitment of its funds or a decision not to participate in the project; and
- B. Equity participation – whether or not the degree of equity participation is reasonable given general industry standards for rates of return on equity for similar projects with similar risks and given the financial capacity of the entrepreneur(s) to make additional financial investments. If the project involves providing assistance to a microenterprise owned by a low- or moderate-income person(s) (Targeted Income Group person), then Ogden City may only need to determine that non-Federal sources of financing are not available (at terms appropriate for such financing) in the community to serve the low- or moderate-income entrepreneur.

4. ***Financial Feasibility of the Project.*** The public benefit Ogden City expects to derive from the CDBG assisted project will not materialize if the project is not financially feasible. To

determine if there is a reasonable chance for the project's success, Ogden City will evaluate the financial viability of the project. A project would be considered financially viable if all of the assumptions about the project's market share, sales levels, growth potential, projections of revenue, project expenses and debt service (including repayment of the CDBG assistance if appropriate) were determined to be realistic and meet the project's break-even point (which is generally the point at which all revenues are equal to all expenses). Generally speaking, an economic development project that does not reach this break-even point over time is not financially feasible. The following should be noted in this regard:

- A. Some projects make provisions for a negative cash flow in the early years of the project while space is being leased up or sales volume built up, and the project's projections should take these factors into account and provide sources of financing for such negative cash flow; and
- B. It is expected that a financial viable project will also project sufficient revenues to provide a reasonable return on equity investment. Ogden City will carefully examine any project that is not economically able to provide a reasonable return on equity investment. Care will be taken to assure that a business is not overstating its real equity investment or some of the project's operating expenses in the expectation that the difference will be taken out as profits, or that the business is not overly pessimistic in its market share and revenue projections and has downplayed its profits.

In addition to the financial underwriting reviews described above, Ogden City will evaluate the experience and capacity of the assisted business owners to manage assisted businesses to achieve the projections. Based upon its analysis of these factors, Ogden City will identify those elements, if any that pose the greatest risks contributing to the project's lack of financial feasibility.

5. *Return on Equity Investment.* To the extent practicable, the CDBG assisted activity should not provide more than a reasonable return on investment to the owner of the assisted activity. This will help ensure that Ogden City is able to maximize the use of its CDBG fund for its economic development objectives. Care will also be taken to avoid the situation where the owner is likely to receive too small a return on his/her investment so that his/her motivation remains high to pursue the business with vigor. The amount, type and terms of the CDBG assistance may be adjusted to allow the owner a reasonable return on his/her investment given industry rates of return for that investment, local conditions and the risk of the project.

6. *Disbursement of CDBG Funds on a Pro Rata Basis.* To the extent practicable, CDBG funds used to finance economic development activities will be disbursed on a pro rata basis with other funding sources. Ogden City is guided by the principle of not placing CDBG funds a significantly greater risk than non-CDBG funds. This will help avoid the situation where it is learned that a problem has developed that will block the completion of the project, even though all or most of the CDBG funds going into the project have already been expended. When this happens, Ogden City may be put in a position of having to provide additional financing to complete the project or watch the potential loss of its funds if the project is not able to be completed.

7. ***Standards for Evaluating Public Benefit.*** Besides reviewing a project under these underwriting factors, the project must be reviewed by Ogden City to determine that at least a minimum level of public benefit is obtained from the expenditure of the CDBG funds. The minimum standards for each type of public benefit are as follows:

- A. The project must lead to the creation or retention of at least one full-time equivalent job per \$35,000 (\$50,000 within the Central Business District) of CDBG funds used; or
- B. Provide goods or services to residents of an area, such that the number of low- and moderate-income persons residing in the areas served by the assisted business amounts to at least one low- and moderate-income person per \$35,000 (\$50,000 within the Central Business District) of CDBG funds used.