

## Town of Apex Emergency Small Business Loan Program (COVID-19)

### **PURPOSE**

The purpose of the Apex Emergency Small Business Loan Program is to assist established small businesses in Apex that are experiencing financial hardships due to ongoing efforts of Federal, State, and local governments to mitigate the impacts of COVID-19 pandemic. This loan is intended to provide funds to a business for a short period to help get the business through the emergency (i.e. pay employees, pay bills, etc.).

### **AMOUNT**

- Maximum Loan amount per business - 25,000 (less? More?)
- Businesses will be required to provide a minimum of one year of tax returns. The maximum loan available to a small business will be limited to three months of fixed operating expenses.

### **TERMS**

The loan terms are designed to be flexible and simplified so as not to cause additional strain on the business/business owner while meeting applicable legal requirements:

- Interest rate is risk adjusted as determined by a third party administrator
- Six month payment deferral period.
- Six month initial interest deferral period. Interest on unpaid balances will begin to accrue in the seventh month.
- Interest only payments due beginning in the seventh month.
- Five year repayment period.
- No prepayment penalty.
- The Town of Apex will cover any application and administrative fees associated with obtaining a loan under this program.

### **ELIGIBILITY**

Applicant/Business must:

- be located within Town of Apex corporate limits or ETJ
- have been in operation for at least 12 months
- have at least two full-time (equivalent) employees
- provide a Profit and Loss statement indicating profitability prior to coronavirus pandemic
- have no judgements or liens
- have a credit score of 625 or higher
- provide a personal guarantee of all owners with 20% or more interest in the company
- allow for an asset lien on the business
- provide tax returns for previous year

## PROCESS

Each business must complete an application to determine eligibility. Applications are reviewed by an independent, third party. Third party determines risk, adjusts interest rate, and administers the loan.

## SOME Q&A

Who decides the loan amount and interest?

We will engage a third party to underwrite the risk and loan amount. Our team is familiar with one such organization, BEFCOR (Business Expansion Fund Corporation) based in Charlotte (they have partnered with the NC Rural Center on some of their community loan programs). We spoke with them this week and found they would do a “trimmed down” review of applications and administer the loans. They would charge an initial 2% fee for review and processing and they receive ½ of interest payments received. We would get more details if this is the direction we want to go (using a third party) and would seek out other similar organizations to get proposals.

What is the current need?

We do not know the current level of interest from our business community, but know we received a letter from the ADBA encouraging this type of program.

Will this kind of loan interfere with a businesses’ eligibility for SBA loans?

The short answer is no. This type of loan does not disqualify a business and if approved for EIDL (Economic Injury Disaster Loans) through the SBA, a business may use those funds to repay other loans, including one from the town if the EIDL terms are better for the business.

Why would we do this if the SBA has programs for businesses?

The short answer here is speed. We believe that, with Council approval, we can have a program up and running in a matter of a couple of weeks, while the SBA process will take much longer. So, we can have funds in the hands of our business owners much quicker. Also, it shows the town’s (elected leadership) support for our small business community.

Can we offer 0% interest and/or forgive these loans?

Per the UNC School of Government, loan forgiveness is not permitted. Forgiveness would amount to an unconstitutional gift to the business. Similarly, we must charge an interest rate that is comparable to commercial loans as offering low-interest loans would essentially place us in direct competition with banks, which generally violates the law (per UNC School of Government).