



Village of Oak Park Section 108 Business Loan Fact Sheet

Oak Park Section 108 Business Loan Fund

Through the U.S. Department of Housing and Urban Development (HUD), the Village has established a Section 108 loan fund for small to midsize businesses. The Section 108 Loan Fund is expected to have positive economic benefits to the Village by assisting businesses, expanding the tax base, and creating and/or retaining jobs for low- and moderate-income persons. Eligible activities are Community Development Block Grant (CDBG) Special Economic Development Activities, which include:

- Acquisition;
- Construction, reconstruction, rehabilitation and other improvements;
- Purchase and installation of equipment;
- Operating capital;
- Technical assistance and other forms of support.

Prospective Section 108 loan businesses are expected to have additional sources of funding for the proposed economic development activity, and each loan application will go through an intensive and thorough underwriting process to minimize risk, partially based on the following HUD guidelines:

HUD Underwriting Guidelines

Project costs must be reasonable; all sources of project financing should be committed; to the extent practicable, CDBG funds should not be substituted for non-Federal financial support; the project must be financially feasible; return on the owner's equity investment should not be unreasonably high; and (if the loan is provided) funds should be disbursed on a pro rata basis with other finances provided to the project.

Securing the Loan

Because the funds used for the loan fund are from the federal government, all loans must be secured by one or more of the following:

- A lien on real property (e.g., a house, commercial building, or equipment) that has a value that is sufficient to cover the amount of the loan;
- A security interest in machinery and equipment, accounts receivable, or inventory that has sufficient value to cover the amount of the loan;
- Personal Assets.

CDBG National Objective/Eligibility

Low/Moderate Income Job Creation/Retention (LMJ) – Each activity must create and/or retain permanent jobs, at least 51 percent of which (computed on a full-time equivalent basis) will be made available to or held by low/moderate income persons. Each activity must be eligible per the criteria for CDBG Special Economic Development Activities.

HUD Public Benefit Requirements

HUD Public Benefit standards must be met. One low/moderate income full-time equivalent job must be created or retained for every \$35,000 invested for each individual loan activity.

Job Creation/Retention Monitoring

After a loan has closed and operations are up and running, staff will visit each business periodically to verify new or retained employees.

Interest Rate Range

Village notes guaranteed under Section 108 during the interim financing period will bear a floating rate based on a formula (3 month LIBOR plus 20 basis points, or 0.20%, adjusted monthly). The Village will charge the borrower up to 3% over the initial floating rate on the Village's note. After inclusion in a public offering arranged by HUD, the Village will carry a fixed rate for each maturity of principal pursuant to the public offering. The Village will charge the borrower up to 2% more than the rate on the Village's note.

Fees

The Village will charge the following fees to all applicants, which will cover the fee HUD charges the Village and also go into a Loan Loss Reserve to protect the Village against risk:

- Processing Fee: A non-refundable application fee of \$200;
- Section 108 Loan Fee: The applicant will pay up to 2%-3% of the total Section 108 loan amount due at the time of closing;
- Other Fees: These may include bank, Small Business Association (SBA), and institutional lender fees, appraisal and environmental fees, and legal fees from outside firms.

Maximum Loan Amounts

The Village's Section 108 loans will have a maximum amount of \$1 million. There is no minimum loan amount.

Loan Terms

A maximum 20 year repayment term, with the option of some loans having shorter terms.

Loan Disbursement Details

Loan funds can only be used to pay for or reimburse the specific expenses approved by the Village for the loan.

Monthly payments will be a fixed amount, to include principal and interest, calculated based on the amount of the loan approved and the interest rate. During the draw down period, interest will be calculated only on the funds drawn down and will be due with the first monthly payment of principal and interest.

The Section 108 Loan Fund contact person for the Village is:

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