



STAFF REPORT

AGENDA ITEM #: 20-47
COUNCIL MTG. OF: April 28, 2020
FROM: Dave Caron, Town Administrator
OFFERED BY: Administration
PREPARED BY: Administration
SUBJECT: Derry Revolving Loan Program Amendment

INTRODUCTION:

To seek Council approval to amend the Derry Revolving Loan Program regulations to provide emergency assistance to Derry businesses adversely impacted by COVID-19.

TOWN ADMINISTRATOR COMMENTS

Please see comments within this staff report.

BACKGROUND

The Town Council has partnered with the Regional Economic Development Center (REDC) for the past decade to grant and manage loans to Derry businesses. The loans granted through this program originate with a review by REDC and then are acted upon by REDC's 11-member Bank Credit Committee; the Committee's recommendations are then formally approved by the REDC Board of Directors.

The program currently has loans outstanding to six Derry businesses totaling \$260K, with interest rates ranging from 6.00 – 8.50%. REDC retains ½ of the interest earnings to pay administrative and overhead costs; the balance accrues back to the fund. Current funds available for future loans is \$156K.

DISCUSSION

The Town Council has been very proactive with supporting the Derry business community; that support has accelerated as the economic ramifications of COVID-19 are becoming clearer. The Town's Economic Development Director has been working with REDC to structure a program which could provide emergency relief to the Derry Business community.

There are two programs which could assist:

- 1) Four of the current six clients are in forbearance as they are not operating per the Governor's directive to close. When they re-open, we expect some/all may require significant time to ramp up activity to pre-COVID-19 levels. Thus, this proposal would include the Town forgiving its share of the interest for a period of one year. We need to work with REDC legal and loan officers to determine the feasibility of this program; thus we will be seeking authorization to proceed, if feasible.

- 2) The Town could create a COVID-19 Emergency Fund which would augment any SBA PPP which the business may receive. The outline of the program is as follows:
- a. The money may be used only for working capital costs not covered by other federal programs, examples of working capital are occupancy costs, non-deferred loan payments, owners draw (amount to be approved by REDC) supplies, payments to vendors. All borrowers will be required to show proof of how they spent the funds. REDC will develop a spreadsheet to help borrowers track which federal sources are used for which expenses.
 - b. Borrowers will be required to submit monthly P&L's and Balance sheets to REDC as well as have a virtual or in-person meeting to review how REDC can continue to support the business as well as allow us to report to funders what the latest business needs are.
 - c. The money cannot be used for any type of debt refinance, construction, renovations, or equipment purchase.

Terms of the loan:

- d. Interest rate fixed at 2.25%
- e. No payments, or interest accrued, for twelve months
- f. Interest only for six months, with the potential for an additional six-month interest-only period at the discretion of REDC.
- g. Regular principal and interest payments will begin at the end of the eighteen-month period unless an additional six months of interest only are granted.
- h. The remaining term of the loan will be sixty months of principal and interest payments for all loans \$20,000 and up and thirty months of principal and interest payments for all loans less than \$20,000. I would suggest Derry limit the loan amount to \$20,000 due to the availability of funds.
- i. Should the business close; the loan will be forgiven.
- j. REDC will collect a corporate guarantee only.
- k. The only cost to the client will be a minimal legal fee of \$250, of which \$125 will be covered by the legal aid fund should they be LMI. The remainder can be paid from loan proceeds.
- l. Fee to Derry \$2,500 for REDC to originate, close, manage the loan as well as provide ongoing technical assistance for these clients. REDC would keep the interest on the loans as well.

FISCAL IMPACT

Program #1 - The Derry Revolving Loan Fund would forego approximately \$9,600 in interest over the next twelve months;

Program #2 – For the first year (assuming the available balance were to be loaned out at the average interest rate of 7.08%), the program would forego \$5,487; stretched over 48 months (average between loans of <\$20K and those at \$20K) would result in lost income to the program in the amount of \$22K

RECOMMENDED ACTION BY COUNCIL

Adopt Resolution #2020-026 to assist the Derry Business community to survive the impacts of COVID-19.

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RESOLUTION

Number 2020-026

To Revise the Derry Revolving Loan Agreement to Provide COVID-19
Emergency Funding

WHEREAS, Section 5.1 of the Town Charter vests in the Town Council the powers of the legislative and governing bodies; and

WHEREAS, the Town Council previously created the Derry Revolving Loan Fund to assist new and existing Derry businesses; and

WHEREAS, the program has successfully loaned funds to new and existing Derry businesses for over ten years under the management of the Regional Economic Development Center (REDC); and

WHEREAS, the COVID-19 Pandemic has resulted in significant impacts to the Derry business community; and

WHEREAS, the Town Council can proactively assist Derry businesses by amending its loan provisions and program goals;

NOW, THEREFORE, BE IT RESOLVED IN COUNCIL that the Town Council hereby amends the Derry Revolving Loan Fund regulations by authorizing the Town Administrator to investigate a reduction in the interest rate on existing loans and further authorizing the issuance of emergency loans to assist businesses during the Pandemic.

This Resolution shall take effect immediately upon its passage.

Adopted: April 28, 2020

Attest:

X _____

Charles Foote, Council Chair

Date: _____

X _____

Daniel Healey, Town Clerk

Date: _____