



## **REVOLVING LOAN FUND POLICY**

### **PURPOSE**

The Preston Economic Development Authority's Revolving Loan Fund (RLF) is available to individual business owners, partnerships, corporations, tenant operators or Contract for Deed purchasers of any legitimate business whose primary place of business is located within the City of Preston or within 2,000 feet of the Preston city limits. Its purpose is to provide first position and gap financing to small and medium sized business owners through low interest loans for the improvement of Preston's economic health.

### **ELIGIBILITY AND LIMITATIONS**

An applicant cannot be a lending institution, a not-for-profit organization or a real estate developer. Loans shall be limited to one per year for any borrower or related activity. Generally, gap financing for building purchases is reserved for building owners that intend on using the building for their own business and not for speculation or to sublease the building.

RLF financing is limited to no more than \$25,000 per loan and shall not exceed more than 40% of the project. At least 10% of the total project cost shall be provided by the business owner/applicant in cash or owner equity. The balance of the project may be funded privately through a lender or other financing source. Loans to childcare programs will follow the Childcare RLF Policy.

Eligible projects include:

- Startup operating costs, inventory, and working capital
- Purchase of real estate and/or equipment directly related to the function of the business
- Exterior and/or interior work that improves the look and function of the building's use for the intended business purpose
- Loans to childcare programs that create new slots or improve the quality of care in an existing program (*see Childcare RLF Policy*)

Ineligible projects include:

- Refinancing existing debt
- Work that has already been completed or equipment that has already been purchased
- Exterior work not in compliance with the City of Preston's design standards
- Projects that do not comply with the City of Preston's zoning ordinances and are ineligible for a Conditional Use Permit



- Preplanning expenses such as engineering, legal, architectural design and other related service fees

## **INTEREST RATE, FEES, AND TERMS**

The RLF interest rate shall be determined annually by the Preston Economic Development Authority (EDA) and ratified by the Preston City Council. The current lending rate is 0.5 of the Wall Street Journal Prime Rate at the time of loan approval. The interest rate is fixed for the term of the loan, and the minimum interest rate is 2.0%.

A service fee of 1.0% of the amount borrowed, with a minimum fee of \$500.00, shall be charged based on the RLF loan amount and paid at the time of closing. Filing fees for perfecting the City's collateral position (e.g., Mortgage registration tax and recording fees, UCC-1 and Security Agreement fees) will be paid by the borrower at the time of closing. Fees will be collected by the City's designated attorney completing the loan closing.

A late fee of 10% of the payment amount, but not more than \$25.00, will be assessed to payments made fifteen (15) days past the payment due date shown in the Loan Agreement.

Loan terms will be based on the useful life of assets with the recommended terms below:

<b>Activity</b>	<b>Term length</b>
Acquisition of Land	15 years
Acquisition of Building	15 years
New Construction	15 years
Machinery and Equipment	5 years
Building Renovation	7 years
Working Capital	5 years
Inventory	3 years

## **COLLATERAL & PERSONAL GUARANTEES**

Each loan shall be secured by collateral with adequate value to protect the City of Preston. Types of collateral include, but are not limited to, a real estate mortgage filing, Uniform Commercial Code (UCC-1) filing, and a Security Agreement filing. If the City of Preston is the sole lender, it will take first security interest in the assets held as collateral. If the loan is in partnership with another lending source (e.g., bank, Initiative Foundation), the City of Preston will take a subordinate interest behind the primary lender(s). Personal Guarantees will be required for all loans and may be collateralized with personal assets when appropriate.



Loan recipients will be required to maintain adequate insurance on all collateral held by the loan agreement and include the City of Preston as Loss Payee on all insurance policies related to said collateral. Flood insurance will be required when applicable.

While the EDA will endeavor to secure each loan with adequate collateral, the lack of hard collateral, by itself, will not be a reason to decline a loan.

## **CHILDCARE RLF POLICY**

Preston EDA recognizes childcare as an essential community need and values the importance of supporting high-quality childcare programs in the community. The following terms apply to loans made to family-based providers and center-based organizations.

### **Family-based providers**

- Maximum of \$5,000
- 50% matching funds requirement, cash or equity
- Maximum 3-year repayment term
- Interest rate, Fees, and Collateral to follow regular RLF guidelines
- Eligible uses must be to add or retain childcare slots and may include improvements to the childcare space, equipment and supplies
- Must be properly licensed as a family or special family childcare provider with Fillmore County or the State of Minnesota; funds will not be released until evidence of active licensure is provided
- Must maintain active licensure and provide childcare throughout the duration of the loan term. If the borrower's license lapses, Preston EDA may exercise its option to call the loan due.

### **Center-based providers**

- Maximum of \$10,000
- 50% matching funds requirement, cash or equity
- Maximum 5-year repayment term
- Interest rate, Fees, and Collateral to follow regular RLF guidelines
- Eligible uses must be to add or retain childcare slots and may include improvements to the childcare space, equipment and supplies
- Borrower must be properly licensed as a center-based childcare provider with the State of Minnesota; funds will not be released until evidence of active licensure is provided
- Borrower must maintain active licensure and provide childcare throughout the duration of the loan term. If the borrower's license lapses, Preston EDA may exercise its option to call the loan due.



## **EVENTS OF DEFAULT**

The following shall be considered Events of Default under the RLF Policy:

1. Borrower violates any Federal, State, or local law, regulation, rule, or restriction, regarding the collateral or the property secured by the Note;
2. Borrower becomes delinquent in payments due under the Note;
3. Borrower fails to timely pay real property taxes; or
4. Borrower violates any loan covenants, certifications, terms, or conditions contained in the Loan Agreement, Note, Personal Guarantee, Mortgage, or Security Agreement (collectively, the "Loan Documents") securing the loan.

If any of the above Events of Default shall occur, then the EDA or City may call the entire outstanding principal amount due, including accrued interest, due and payable without notice or demand. The EDA or City also reserve the right to exercise any remedies as contemplated in the Loan Documents.

## **LOAN REVIEW AND IMPLEMENTATION PROCESS**

The Preston EDA Director will work with applicants to prepare a full and complete application package, including:

- Completed loan application
- Current Business Plan
- Confirmation of other financing and owner cash/equity contribution(s)
- Three years of financial projections, prepared with assistance from the Small Business Development Center or other qualified organizations (e.g., accountant, bank, financial planner)
- Two years of business tax returns and current financial statements (including balance sheet and monthly Profit and Loss statements) for existing businesses
- Two years of personal tax returns and current personal financial statement for each owner with greater than 20% stake in the business
- Ratio analysis (e.g., Debt Service Coverage and Loan to Value) (*completed by Preston EDA staff*)
- List of collateral and the City of Preston's collateral position
- Any additional material the EDA Director or RLF Committee deems necessary to make a recommendation

The City of Preston may maintain a Revolving Loan Fund Committee under separate guidelines. The RLF Committee is an advisory body and does not hold decision-making authority for the City of Preston. It does not contain a quorum of either the EDA Board or the City Council. Therefore, it is not subject to Minnesota Open Meeting Laws, as clarified in *Minnesota Daily v. University of Minnesota*, 432 N.W.2d 189 (Minn. App. 1988). Due to the



sensitive nature of the loan application and financial materials, RLF Committee meetings will not be open to the public.

The RLF Committee will review and provide a recommendation to the Preston EDA Board. If approved by the Preston EDA Board, the application will be presented to the Preston City Council for final decision of loan approval or denial. If approved by the Preston City Council, Preston EDA staff will work with the City's designated attorney to complete the loan closing. If denied, Preston EDA staff will notify the applicant in writing with a reason for denial. Denial of a loan application does not prohibit the applicant from re-applying with new information.

**Approved by Preston EDA Board March 26, 2026**  
**Ratified by Preston City Council April 6, 2026**