

SMALL BUSINESS ASSISTANCE



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PROGRAM GUIDELINES



City of Garden Grove
Community Development Block Grant (CDBG)
Economic Development Initiative

COMMUNITY AND ECONOMIC DEVELOPMENT DEPARTMENT

For more information, please contact
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SMALL BUSINESS ASSISTANCE



The City of Garden Grove has established a Small Business Loan Program designed to stimulate economic growth and create jobs that will improve the living conditions of residents in the community. The Program provides affordable, non-conventional financing to eligible businesses and development projects that are not able to receive sufficient funding elsewhere.

ELIGIBILITY REQUIREMENTS

- ◆ Business located within the incorporated City limits of Garden Grove, California.
- ◆ A valid City Business License, insurance, and any other applicable permits, licenses, certifications, etc.
- ◆ \$75 application fee.
- ◆ Minimum credit score of 600 or greater.

ELIGIBLE ACTIVITIES

- ◆ Working capital (including business license and building permit fees).
- ◆ Rehabilitation of leased space or owned buildings (including engineering, architectural, and local permits or fees).
- ◆ Purchase of manufacturing equipment (with or without installation costs).

LOAN TERMS

- ◆ Maximum loan amount is \$25,000.
- ◆ Loan term may vary depending on amount and collateral, but will not exceed five (5) years.
- ◆ Interest Rate based on the United States Prime Rate, plus up to an additional 5%.

View the Program Guide and fill out an application online at <http://www.ci.garden-grove.ca.us/commdev>.

**For more information about this program, please contact Nate Robbins
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Introduction

The City of Garden Grove (“City”) has established a Small Business Assistance Program (“Program”) designed to stimulate economic growth and job creation that will improve the living conditions of residents in the community. The Program provides affordable, non-conventional financing to eligible businesses and development projects. The Program guidelines are in conformance with the U.S. Department of Housing and Urban Development (HUD) regulations pertaining to the use of Community Development Block Grant (CDBG) funds.

Eligible Applicants

Funding under this Program is available to all eligible businesses located within the City of Garden Grove. Applicants must be an existing legal business located within the City with a valid City business license, insurance, and all applicable required permits. Start-up or new businesses are eligible to apply, but possession of proper licenses, permits, and insurance, will be a condition of loan funding.

I. Program Requirements

1.1 Eligible Activities

CDBG funds under this Program are restricted to certain eligible costs including but not limited to the following:

- Working capital (including business license and building permit fees);
- Rehabilitation of leased space or owner-occupied buildings (including pre-development costs; associated with engineering and architectural, and local building permit fees); or,
- Purchase of equipment (bolted down/real property, with or without installation costs).

In most cases, loan funds will be disbursed incrementally on a reimbursement basis, or direct payment of vendor/contractor invoices, as eligible costs are verified. Funds under this Program are provided to eligible businesses as loans. CDBG underwriting (see Section 4.1) provides for greater flexibility for loan terms, lowered interest rates and repayment terms. These flexible loan terms must be balanced by the Borrower and City with the obligation to meet CDBG and Program requirements.

Once approved, loan funds cannot be shifted from one approved type of cost to another without formal written approval by the Community and Economic Development (CED) Director.

1.2 Ineligible Activities

The goal of this Program is to stimulate economic growth and create/retain high quality jobs. There are restrictions in how CDBG funds can be utilized and certain ineligible expenses. CDBG funds under this Program will **not** pay for:

- Reimbursement of expenses incurred prior to the City’s formal loan approval and/or completion of project’s environmental review;
- Support to another businesses in which the borrower may have an interest;
- Subsidy of interest payment on existing loans;
- Refinancing or consolidating existing debt;
- Reimbursement for expenditures prior to loan approval; or
- Reimbursement for legal or accounting expenditures.

1.3 Ineligible Applicants

Loans shall not be available for the following types of businesses:

- Speculative investment companies;
- Real estate investment companies;

- Lending institutions;
- Gambling operations;
- Non-profit organizations; and
- Other businesses not serving the interest of the City of Garden Grove.

1.4 Meeting a National Objective

All CDBG funded loans must meet the “National Objective” as described in the federal regulations (24 CFR 570.208). Use of loan funds under this Program must meet the National Objective of “benefiting a low and moderate income area by satisfying the requirement of “Job Creation/Retention.”

Job Creation/Retention - An applicant meets the Job Creation/Retention objective when the approved business uses the loan funds to create or retain jobs, of which 51% will be held or made available to LMI persons. In order to meet this requirement, the Approved Business/Borrower shall certify the following:

Provide documentation of family household income levels of newly hired or retained employees to document that over half of them are qualified as low or moderate income;

- Execute City documentation for creation of new jobs for LMI persons in the CDBG loan documents signed at loan closing;
- Report that new jobs have been created/retained and filled by low/moderate income individuals by submitting a self-certification form (See **Exhibit A**) to be completed by each employee holding the new/retained positions.
- Provide documentation that the job retention by the business would have been lost without the CDBG assistance, if applicable.

All employee information is confidential and will not be released unless disclosure is required by law.

1.5 Meeting Proper Public Benefit Requirement

CDBG regulations (24 CFR Part 570.209) require that Economic Development related activities provide benefit to the public. Under the HUD federal regulations, applicants creating/retaining jobs must create/retain one (1) job for every \$35,000 funded. For qualifying Job Creation/Retention applicants:

- One full-time equivalent (FTE) job must be created for each \$35,000 in CDBG assistance provided;
- Part-time staff may be combined to make up one FTE; and,
- One FTE consists of 2,080 staff hours per year.

As with the National Objective requirement outlined in Section 1.4, the CDBG job creation/retention requirements will be enforced via a loan agreement the borrower executes at loan closing. The loan agreement requires that the business provide documentation to the City showing job creation/retention sufficient to meet the above listed requirements. Once sufficient documentation is supplied to the City, no further monitoring will be required.

Each new hire, or retained position, must complete a Self-Certification Family Income Verification form. This form must be completed and provided to the City to make available the demographic and income information in the annual report submitted to HUD. (See **Exhibit A** - Self-Certification Family Income Verification form)

1.6 Other Federal Requirements

There are a number of other federal laws and requirements that are triggered by the use of CDBG funding. The City will require borrowers to comply with these CDBG regulations in conformance with standards set by HUD. Impacts these federal regulations will have on a proposed project will be explained to the borrower at the time of loan application.

Environmental Review Record (ERR) – National Environmental Policy Act (NEPA) regulations require an ERR to be submitted for each project/business funded with CDBG monies prior to award or approval of funds. The City is required to complete the proper NEPA review, along with any state review under

California Environmental Quality Act (CEQA) review. The ERR level of review is based on the type of project proposed and all aggregated activities to be undertaken. Applicants will be informed of any additional time required for loan processing due to environmental review. The ERR will be prepared as soon as the City determines that the project is eligible for funding. No costs will be charged to the borrower for this process. Once an application is submitted, no activities can be performed on the project until completion of the ERR and CEQA, as applicable.

Data Universal Numbering System ID (DUNS), Insurance, & Federal Debarred List – All businesses who wish to receive funds under this Program will be required to obtain a DUNS number. The DUNS number is free and can be obtained online at www.dnb.com. In addition, and prior to funding, the City will require that each business be checked to confirm they are not on the federal debarred contractors list. Applicants will be required to obtain all proper licenses and insurance to operate legally within the community.

Federal and/or State Labor standards – Federal and/or State Labor standards and provisions (Davis-Bacon Act) may apply for projects assisted with CDBG and/or other public funds. The Borrower attests that all applicable standards and provisions will be strictly adhered to, including, if applicable, prevailing wage requirements. You should seek legal and or other professional advice regarding the application of prevailing wage requirements prior to applying for a loan.

Other requirements related to CDBG funds – The Borrower agrees to comply with all other requirements associated with the use of CDBG funds, including but not limited to, Acquisition, Anti-Displacement, and Relocation provisions, Equal Opportunity and “Section 3” regulations, Contractor Eligibility and Certification provisions, and Procurement regulations (See section 8).

Underwriting Standards – In addition to documenting that the project meets CDBG public benefit standard, the project must also be documented as meeting six HUD underwriting standards, per federal regulation 24 CFR Part 570.209. These underwriting standards are required to document a minimum “due diligence” of the Lender and ensure projects are financially sound enough to meet public benefit and national objective standards, i.e. create new or retain existing job positions. The six HUD underwriting standards are general, qualitative and are supported by commercial underwriting standards in Section 4 of these guidelines.

The Six Underwriting Standards are:

1. Project costs are documented as reasonable (typically, third party cost estimates);
2. All sources of funding for the project are documented with final commitments;
3. To the extent practicable, CDBG funds are not substituted for private (non-federal) funds;
4. Documentation that project is financially feasible (based on cash flow projections to support jobs and debt service, etc.);
5. To the extent practicable, the return of the owner’s equity investment is not unreasonable (based on level of equity and proposed CDBG loan terms);
6. To the extent practicable, CDBG funds are disbursed on a pro-rata basis with other financing provided for the project.

1.7 Special Considerations

Although all loans that meet the minimum requirements will be considered, preference will be given to applicants that meet one or more of the following:

- a. Demonstrate that funds are not available from other sources (e.g. SBA or bank financing);
- b. Show that the minimum requirements of job creation will be exceeded while maintaining the ability to make loan payments;
- c. Able to secure loan funds via a lien on real property; and,
- d. Complete an approved entrepreneurial training course or other businesses training.

II. Loan Processing

2.1 Fair Lending Compliance

This Program will be implemented consistent with the City's commitment to fair lending laws. No person or business shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Program funds on the basis of his or her religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status, physical or mental disability, sexual orientation, or other arbitrary cause. All personal information of loan applicants will be kept confidential unless disclosure is required by law.

2.2 Loan Application Processing

Loan applications will be processed on a first-come, first-served basis unless identified as a "preferred loan" per Section 1.7. Applications will generally follow these procedures:

- a. A completed Pre-Qualification Application would be submitted and reviewed by the City to determine initial eligibility. Pre-Qualification Applications that do not meet basic requirements of the Program will be returned along with an explanation of outstanding requirements.
- b. Applicants that meet basic eligibility requirements will be contacted by the City and provided a Small Business Loan Application packet for completion.
- c. Completed packets will be reviewed and underwritten by the Orange County Small Business Development Center (OC-SBDC) and/or an alternate underwriter as determined by the Community and Economic Development Director, using the criteria detailed in Section 4 of this Program Guide.
- d. A meeting and/or site visit will be conducted with the business owner(s) and City representative to perform an inspection and determine the qualified scope of work.
- e. The OC-SBDC will prepare a loan file that would be comprised of the credit report, financials, and other related information to evaluate loan eligibility.

The **SBA Program Pre-Qualification Application** and the **SBA Program Loan Application Packet** is attached as **Exhibit C** and subject to periodic review and modifications by the Community and Economic Development Director or his/her designee.

2.3 Loan Approval Process

A Loan Review Committee shall be established and recommended to be comprised of three members. City staff will ask committee members to volunteer for this board. Committee members can be from local financial institutions, the City, or other interested parties who have the professional capacity to review and evaluate commercial loans. See **Exhibit B** for City loan approval memo format.

The Loan Review Committee meetings will be scheduled once the SBA Program Loan Application has been underwritten, and is ready for review and approval. City staff will be responsible for reviewing each loan application funding proposal and preparing recommendations of consideration by the Committee. If the loan is approved, then the project can proceed with loan closing.

If Loan Review Committee approval is not achieved, the applicant will receive a written denial letter explaining the reason(s) for the denial. Denied applicants may take dispute resolution actions, per Section 2.4 of these guidelines.

Approved loans will enter into the bidding process where they will be required to follow HUD's approved procurement procedures. (See Section 8)

2.4 Loan Applicant Confidentiality

Persons serving as a City representative for this Program will not disclose any of the Borrower's personal, confidential information as part of the loan approval process. All confidential information of businesses

will only be disclosed to persons required to view the information as part of loan review and approval. Notwithstanding the foregoing, records and information may be disclosed if required by law.

2.5 Dispute Resolution/Appeals Process

Any applicant requesting assistance through this CDBG Program has the right to appeal if their application is denied. The appeal must be made in writing to the City within thirty calendar (30) days of receiving notification that the loan was denied. The appeal process shall follow the City's established procedure for appeals of department or City Manager level reviews.

2.6 No Conflict of Interest Allowed

In accordance with Title 24, Section 570.611 of the Code of Federal Regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities in connection with the planning and implementation of the CDBG Program shall directly or indirectly be eligible for this Program. Exceptions shall only be made as permitted, and in accordance with, Federal and California State law.

2.7 Exceptions and Special Circumstances

Except as otherwise stated herein, the City may consider requests for an exception in special circumstances if doing so would further the City's progress in meeting its Economic Development goals. A report on the request for an exception will be prepared, which shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The City's Community and Economic Development Director, or his/her designee, shall make a determination of the exception request.

Loan payments may, on a case by case basis, be deferred for a period of time to allow a start-up or expansion of a business to take place. This payment deferral determination is made by the City based on the break-even point of the business in the future and the ability of the owner to pay his or herself a regular salary.

2.8 Loan Closing Process

Upon loan approval, City staff will prepare all documentation necessary for loan closing. The Borrower shall sign all the necessary documents and agreements within 30 days of receipt. If signed documents are not received within 30 days, the application will be considered withdrawn. The City will prepare the loan closing documents, title and lien searches, and UCC-1 filings, if appropriate. All documents shall be approved as to form by the City Attorney and signed by the CED Director. Escrow companies may be used to close loans and secure liens.

III. Description of Loans

3.1 Loan Amount

The Program has a maximum loan amount of \$25,000. Loan amounts will be determined based on the submitted Scope of Work, jobs to be created or retained, the ability of the business to repay the loan, and the reasonableness of the costs to be paid for by the loan.

3.2 Loan Term

The loan term will be determined by what is being funded and what security is being pledged for the loan. It will also take into account the use of proceeds, the useful life of the assets being financed, and the borrower's ability to repay the loan. If a business only needs operating capital, then the term of the loan is normally two (2) to three (3) years, but in no case may it exceed five (5) years. City staff will confirm that the proper term is given based upon the use of the funds and collateral being provided.

3.3 Interest Rate

The loan's interest rate will be based on the current United States Prime Rate (3.75% as of December 16, 2016) plus an additional maximum of five percent (5%), to be determined by the City at the time of loan approval. The loan's interest rate will be based upon the underwriting analysis done by the SBDC. Some of the factors that will drive the interest rate are:

- a. The amount of equity the business brings into the proposed project;
- b. The ability of business to service the loan;
- c. The rate of return the borrower will receive with a lower interest rate; and
- d. The credit risk factors and management experience.

Based on the review of the SBA Loan Program Application, the interest rate for each applicant shall be established to best meet the needs of different businesses in the community.

3.4 Loan Types

There are two types of loans offered under this program. The type of loan will be determined by how the applicant intends to use the funds.

Rehabilitation/ Equipment Purchase – Federal regulations place wage requirements on labor and installation costs, as well as requiring outside monitoring of the project. Due to the increased cost of labor, and the monitoring fees associated with rehabilitation and equipment installation, loans funded for these purposes will be deemed 30% forgivable. A forgivable loan is one in which a portion of the principal does not need to be repaid, as long as certain conditions are met. Failure to meet the conditions outlined in the loan documents will result in the borrower being responsible for repayment of the entire loan amount.

Working Capital – Loans funded for this purpose will not be forgivable, as there are no increased costs associated with expending the funds and monitoring the project.

3.5 Loan Modification

While all loans should be considered final once executed, there are some instances where the City will consider modifying a loan. Loan modification requests will be reviewed on a case-by-case basis by the Loan Review Committee, and the final determination will be made by the Community and Economic Development Director or his/her designee.

3.6 Fees

There is a \$75 non-refundable application fee associated with this program. There is no pre-payment penalty on the loans under this Program.

IV. Underwriting Standards

4.1 Initial Evaluation

Each project and business will be evaluated based on how it has performed in the past and its future financial forecast. Specifically, the following questions will be asked of the applicant through the loan application process:

- a. Will the project meet a CDBG National Objective by creating or retaining jobs?
- b. Are the costs to be paid CDBG eligible?
- c. Are the business and its owner(s) credit worthy?
- d. Do they have good "character" (pay bills on time, collect on time)?
- e. Does the business have management capacity?
- f. Does the start-up have solid business plan and document market demand?
- g. Does the business have financial expertise to expand or start-up?

- h. Is the owner(s) contributing a reasonable amount of equity?
- i. Is the owner able to get conventional bank financing, if not, why not?
- j. Was the business financially viable in the past (net income covers expenses including debt)?
- k. Are there reasonable financial assumptions for future viability/success?
- l. Is there enough collateral available to secure the loan funds?

By collecting enough initial application information from the borrower(s) to answer the above list of questions, the City will understand the strength of the borrower and how successful they will be if given a CDBG loan. By asking these questions the City will know what additional information and documentation needs to be collected to provide a clear picture of how CDBG funds can be used to assist the applicant.

After the initial review, the City will collect any additional information not included in the original application that may be required for loan underwriting. The amount of documentation and detailed underwriting is based on size of the loan and type of business (existing or start-up) and whether the project will create or retain jobs. Additional documentation may be required to clarify special circumstances of the business. Below are some of the basic underwriting requirements for a typical loan applicant (Sections 4.2 – 4.5).

4.2 Credit Requirements

The City requires a credit report for all owners of the business with twenty percent (20%) or more equity. For this Program, credit scores of 600 and above are generally considered acceptable credit.

4.3 Financial Information

In order to evaluate the credit-worthiness of each applicant, the City requires submittal of the following financial information:

Credit Bureau Report – Credit scores from the three primary reporting agencies (Experian, Trans Union, and Equifax) for all owners with 20% or more interest in the business.

Personal financial statements – Required for each person who owns 20% or more of the business. Financial statements need to show all assets and liabilities of the interest holder.

Federal Personal and Business tax return statements – Required for the business and for owners who own 20% or more of the business for the past three (3) years.

Business financial statements – This includes a business debt schedule, business income statement, a statement of cash flows, and a balance sheet. All financial documents should reflect the last 12 months and should be prepared by the person normally responsible for doing the bookkeeping and finance management for the business. The City may require audited financial statements and applicants shall provide these to the City upon request.

Future projected financials – These will consist of pro-formas showing projected revenue and costs for the business on a monthly basis for each fiscal year from one (1) to three (3) years out. These pro-formas must include projected cash flows, how the City's loan will be repaid, as well as showing the increased costs associated with hiring additional employees. This will provide evidence of the benefit/increased profit the business will receive by using the more affordable CDBG loan.

Project sources and uses – Applicant must demonstrate how the loan funds will be used and the amount and source of all funding used, including the loan from the City. Other sources may include the owner's equity, private bank financing, and any other investments from other sources. The sources and uses give a clear idea of what costs the CDBG loan will cover and its information must be reflected in the pro-formas as described above.

Using the information in these financial statements, along with any back up documentation required, the City will conduct an analysis of the project and the creditworthiness of the business per HUD required underwriting guidelines as outlined in Section 1.6.

Free and confidential assistance is available through the Orange County California Small Business Development Center (OCSBDC) and SCORE to prepare the documentation discussed throughout.

4.4 Collateral

All loans under this Program that exceed \$5,000 will be collateralized using normal commercial lending standards. Collateral coverage will be assessed based on assets available as security and the level at which liens already exist. CDBG funding is typically in a subordinate position to banks and other lenders. It is the goal of the Program to get the best lien position possible to ensure loan repayments and program compliance. Types of collateral that may be used are listed below in preferential order:

- a. Secured liens on real property
- b. Standby Letter of Credit
- c. UCC liens on vehicles, machinery, equipment, inventory, or other fixtures
- d. Lease assignments, as appropriate
- e. Life insurance and other collateral, as appropriate
- f. Personal guarantees, as appropriate (if acceptable to the Loan Advisory Group and the City Manager in his/her sole discretion). If this option is used, a higher interest rate may apply (see Section 3.3)
- g. Corporate guarantees, as appropriate

Appraisal of assets may be required as part of determining how to obtain the best lien positions for the CDBG loan. Equipment and inventory secured should be properly discounted to reflect actual resale value when doing loan to value calculations. As applicable, borrower shall provide and maintain hazard insurance on all real and personal property collateral for the loan.

4.5 Experience/Management Capacity

Applicants must submit resumes with their application packets to show the experience of business owners and their management staff in successful operation of the existing business or a comparable business. This will be most important with start-up businesses or with applicants that wish to use CDBG funds to purchase an existing business that is closing. All start-up businesses and those open for less than one (1) year will be required to receive five (5) hours of business counseling from the Orange County Small Business Development Center (OCSBDC).

V. Loan Servicing

Servicing of loans will include monitoring payment performance, periodic reviews of the conditions of the loan approval, including but not limited to, financial data, job creation, collecting and posting payments, personal inspections and site visits, as deemed appropriate.

VI. Breach of Loan Agreement

The loan shall be considered in material default when payments are more than 30 days past due. In the event of a default, the Loan shall become due and immediately payable and the City shall promptly issue a notice of default to the business owner. The City may exercise its right to foreclose on the security on the loan after the date of default.

In the event of sale or transfer of the business, closure of the business, refinancing, or failure to occupy the premises, the Loan shall become due and immediately payable. In the event of a sale, transfer, or closure of the business the business owner, subject to the City's discretion, may have the option to continue making payments, pay off the loan, or transfer the loan to the new owner. For a transfer to be considered, the new owner must meet all eligibility requirements and possess sufficient collateral to securitize the remaining balance of the loan.

VII. Program Oversight

The City's Community and Economic Development staff will serve as the primary contact for the Program. Once a loan is at the point of approval, the Program Administrator will prepare the loan package and coordinate submittal for review and approval. City staff will ensure all loan documents are properly reviewed by the City Attorney, signed by the CED Director, and meet CDBG requirements prior to signing by the borrower. In addition, the City staff will provide oversight regarding loan collection in the case of default, in conjunction with the City Attorney. City staff will complete required HUD CDBG financial reports for Program income. City staff will complete the proper quarterly and annual reports for review, approval, signature and submittal by the City to the appropriate HUD representative.

VIII. Contractor Procurement and Payment

Rehabilitation and Equipment Purchases - Upon approval of a loan, borrowers will be responsible for obtaining three (3) independent contractor bids to perform the determined scope of work. The bids will be submitted to the City, along with supporting documentation (i.e. resumes, past jobs, recommendations, accommodations, etc.) provided by the contractor that demonstrates their ability to complete the work efficiently and effectively. Upon receipt, the City will review the submissions and select the "lowest responsible" bidder.

The City will draft a "Multi-party" contract in which all three parties (the City, Borrower, and Contractor) agree upon a scope and cost of work. As work is completed, the contractor will submit invoices to the City, and the City will reimburse the contractor from the Borrower's loan account.

At no time may funds be used to pay for work outside of the original "scope of work" without written approval by the City.

Working Capital – At loan closing, borrowers will receive fifty percent (50%) of their approved loan amount. The borrower will submit a monthly report detailing the goods/services the loan funds were used to finance. Upon receiving documentation the initial loan funds were expended appropriately, the City will release the remaining balance of the loan. The borrower will continue to submit a monthly report of goods/services until the entire loan amount has been accounted for.

In some cases, borrowers may be able to collect the entire loan amount at the close of the loan. These special circumstances will be reviewed by city staff and, if approved, included in the loan documents.

At no time may funds be used to pay for ineligible goods/services. (See Section 1.2 Ineligible Activities)

IX. City Contacts

Questions regarding this Program should be directed to:

Nate Robbins, Senior Program Specialist
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