NOTICE OF PUBLIC COMMENT PERIOD
CITY OF JOLIET SUBSTANTIAL AMENDMENT
USE OF COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS

Pursuant to the United States Department of Housing and Urban Development (HUD) regulations, the City of Joliet prepared and submitted an Annual Action Plan every Fiscal Year. The Annual Action Plan describes the resources available and the proposed use of those resources to meet the community development, affordable housing, and homeless priority needs as outlined in the City's Five Year Consolidated Plan 2015-2019. The City's Annual Action Plans and the Five Year Consolidated Plan are available for review at the City Hall located at 150 W. Jefferson Street in Joliet.

Notice is hereby given that the City of Joliet is proposing to substantially amend the budgets of its previously published 2015 Annual Action Plan

Section 108 Loan Pool Summary

A key neighborhood revitalization initiative is the acquisition of Evergreen Terrace by the City of Joliet. The City condemned the property and through a lengthy court battle and final agreement with HUD the City will be acquiring the property. This is a large scale development of affordable housing that needs to be completely rehabilitated. The Court has awarded the owners a value for the property and the City will pay the value using previous years' CDBG funds, and potentially Section 108 Loan guarantee pool, general corporate revenue or City bond issue. Plans for the redevelopment of the site are being prepared. Preliminary designs include some demolition of existing buildings, rehabilitation of other housing units, construction of a community center and an open park/recreational area. To support the Evergreen Terrace project, the City intends to make application to the U.S. Department of Housing and Urban Development (HUD) for the use of Section 108 Loan Guarantee Pool in an amount not to exceed $4,849,565.00.

The purpose of the Section 108 Loan Pool is to assist with economic, housing, and community development activities throughout the City of Joliet. This will foster job creation, and community and housing revitalization in these communities. Goals of the Section 108 Loan Pool include acquiring land for redevelopment and directly assisting businesses, nonprofits, and real estate development projects that produce a public benefit. Individual projects are proposed to be evaluated by a loan and investment committee involving City and community representatives, led by the City's Department of Community and Economic Development (DCED). The Section 108 Loan Pool will be leveraged as a tool to bring real estate and community development projects to fruition in the City.

Section 108 National Objectives and Public Benefit Criteria

There are specific National Objectives, as defined by HUD, which this loan pool will address. Title 24 of the U.S. Code of Federal Regulations (CFR), Section 570.208, defines the criteria under which an activity may meet Section 570.200(a)(2), National Objectives. Section 570.200(a)(2) requires that all CDBG activities meet one of three national objectives. These objectives are to: 1) benefit low and moderate income families, 2) aid in the prevention or elimination of slums or blight, and 3) meet other urgent community development needs that pose a serious and immediate threat to the health or welfare of the community. Each project funded through the Section 108 Loan Pool will meet one of these National Objectives as detailed in Section 570.208. The primary national objective for Joliet's Section 108 Loan Pool will be the benefit of low and moderate income families using the housing occupancy criteria. Use of the urgent need national objective is not anticipated. Section 108 loans will also benefit the public directly and indirectly by allocating funds for redevelopment projects that would not occur in their absence.

Loan Activities

Section 108 funded projects will benefit residents of the City of Joliet as they will either provide opportunities for low and moderate-income residents to access permanent residential housing or will permit other economic development activity to take place. Other economic development activity must be targeted either to citizens in a geographic area where at least 51 percent of residents are of low or moderate income or to groups of citizens residing anywhere within the City in which at least 51 percent of beneficiaries are of low or moderate income. The last possible usage of the loan pool is to provide jobs for individuals, of which at least 51 percent of said jobs employ persons of low or moderate income.

The Section 108 Loan Pool is intended to utilize three primary eligible activities:

- Special Economic Development (24 CFR 570.703(i) and 24 CFR 570.203/204)
- Acquisition of Real Property (24 CFR 570.703(a))
- Housing Rehabilitation (24 570.703(h))

As required by Title 24 of the CFR, Section 570.209, one of the underwriting objectives for the Section 108 Loan Pool is to avoid substituting CDBG funds for non-Federal financial support. Additionally, the creation of Joliet's Section 108 Loan Pool will create jobs for low and moderate income persons, provide services to a low income area and/or eliminate conditions of blight in the City. The specific hiring parameters for jobs created or retained through Section 108 funds may not exceed $50,000 per full-time permanent job created by the CDBG assistance, or $1,000 per low- and moderate-income person aided by the creation of the activity. The goal of using Section 108 loan pool to lend to businesses that invest in real estate activities is to create net new jobs in the City of Joliet, especially on behalf of individuals meeting the low to moderate income criteria.

Section 108 loans will be used for traditional lending, in addition to short-term financing. An example of the type of loans that the Section 108 Loan Pool may provide is short-term monies dedicated to bridging a financial gap for economic development projects that will utilize local and state investments in the future, but which need immediate assistance in gathering initial financing.

Financial Guarantees, Reporting, and Usage

If the Section 108 Loan Pool is approved, any potential borrowers will be obligated to send quarterly reports to the City detailing job creation resulting from Section 108 Loan Pools. Collateral needed to secure a loan through the Section 108 Loan Pool includes real property assets, personal and/or corporate guarantees, and pledge of future CDBG allocation. However, the City anticipates that all loans, individual and collectively, will be self-supporting. In the event loan pool funds are used to support Public Facilities or infrastructure projects, the City may pledge other assets or income to secure the transaction.

Changes to the Annual Action Plan will be available to the public for review and comment from April 6, 2016 to May 9, 2016 at the City's Community and Economic Development office, located at 150 W.

Jefferson in Joliet or online at www.cityofjoliet.info/comment. The City of Joliet encourages citizen participation in the Consolidated Plan process. Please submit all written comments to Mr. Alfredo Melesio, Neighborhood Services Director, 150 W. Jefferson, Joliet, IL 60432 or amelesio@jolietcity.org. The City will accept and consider all comments received before 5:00 PM on May 9, 2016. If you have any questions, please contact Mr. Melesio at (815) 724-4100. Se habla español.

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OMB Number: 4040-0004
Expiration Date: 01/31/2009

Application for Federal Assistance SF-424 — Version 02

*1. Type of Submission:	*2. Type of Application	* If Revision, select appropriate letter(s)
☐ Preapplication	☒ New	
☒ Application	☐ Continuation	*Other (Specify)
☐ Changed/Corrected Application	☐ Revision	

3. Date Received:

4. Applicant Identifier:

5a. Federal Entity Identifier:

*5b. Federal Award Identifier:

State Use Only:

6. Date Received by State:

7. State Application Identifier:

8. APPLICANT INFORMATION:

*a. Legal Name: City of Joliet, IL

*b. Employer/Taxpayer Identification Number (EIN/TIN): 36-6088568

*c. Organizational DUNS: 07-440-7891

d. Address:

*Street 1: 150 W. Jefferson St.

Street 2:

*City: Joliet

County: Will

*State: IL

Province:

*Country: USA

*Zip / Postal Code 60432

e. Organizational Unit:

Department Name: Planning and Economic Development

Division Name: Neighborhood Services

f. Name and contact information of person to be contacted on matters involving this application:

Prefix: Mr.

*First Name: Alfredo

Middle Name:

*Last Name: f

Suffix: Melesio

Title: Neighborhood Services Director

Organizational Affiliation:

*Telephone Number: (815) 724-4100

Fax Number:

*Email: amelesio@jolietcity.org

OMB Number: 4040-0004
Expiration Date: 01/31/2009

Application for Federal Assistance SF-424 Version 02

***9. Type of Applicant 1: Select Applicant Type:**

C. City or Township Government

Type of Applicant 2: Select Applicant Type:

Type of Applicant 3: Select Applicant Type:

*Other (Specify)

***10 Name of Federal Agency:**

Department of Housing and Urban Development

11. Catalog of Federal Domestic Assistance Number:

14.248

CFDA Title:

Section 108 Loan Guarantee

***12 Funding Opportunity Number:**

*Title:

13. Competition Identification Number:

Title:

14. Areas Affected by Project (Cities, Counties, States, etc.):

City of Joliet

***15. Descriptive Title of Applicant's Project:**

Section 108 Loan Pool

OMB Number: 4040-0004
Expiration Date: 01/31/2009

Application for Federal Assistance SF-424 — Version 02

16. Congressional Districts Of:

*a. Applicant: 11th

*b. Program/Project: 11th

17. Proposed Project:

*a. Start Date: 8/1/2015

*b. End Date: 8/1/208

18. Estimated Funding ($):

*a. Federal	4,800,000
*b. Applicant	
*c. State	
*d. Local	1,200,000
*e. Other	
*f. Program Income	
*g. TOTAL	6,000,000

***19. Is Application Subject to Review By State Under Executive Order 12372 Process?**

☐ a. This application was made available to the State under the Executive Order 12372 Process for review on ____

☐ b. Program is subject to E.O. 12372 but has not been selected by the State for review.

☒ c. Program is not covered by E. O. 12372

***20. Is the Applicant Delinquent On Any Federal Debt? (If "Yes", provide explanation.)**

☐ Yes ☒ No

21. *By signing this application, I certify (1) to the statements contained in the list of certifications** and (2) that the statements herein are true, complete and accurate to the best of my knowledge. I also provide the required assurances** and agree to comply with any resulting terms if I accept an award. I am aware that any false, fictitious, or fraudulent statements or claims may subject me to criminal, civil, or administrative penalties. (U. S. Code, Title 218, Section 1001)

☒ ** I AGREE

** The list of certifications and assurances, or an internet site where you may obtain this list, is contained in the announcement or agency specific instructions

Authorized Representative:

Prefix: Mr.

*First Name: James

Middle Name: D.

*Last Name: Hock

Suffix:

*Title: City Manager

*Telephone Number: ((815) 724-4100

Fax Number:

* Email:

*Signature of Authorized Representative:

*Date Signed:

Authorized for Local Reproduction

Standard Form 424 (Revised 10/2005)
Prescribed by OMB Circular A-102

OMB Number: 4040-0004
Expiration Date: 01/31/2009

Application for Federal Assistance SF-424

Version 02

***Applicant Federal Debt Delinquency Explanation**

The following should contain an explanation if the Applicant organization is delinquent of any Federal Debt.

Exhibit A

Exhibit A: Project Description

The City of Joliet wishes to establish a Section 108 Loan Pool of approximately $4.8 million. The Loan Pool will be available to prospective borrowers citywide and provides a ready source of long-term, fixed-rate and reasonable priced financing that is not available conventionally. The Loan Pool will bridge financing gaps and enable borrowers to proceed with their respective transactions.

The City anticipates the eligible activities it will fund are housing rehabilitation, acquisition of real property, economic development and public facilities (see Exhibit B). For each individual transaction, staff will properly document an eligible activity, a national objective and appropriateness (if applicable).

The City has developed Underwriting Guidelines to ensure the individual projects conform to a low risk profile (see Exhibit F). There are separate guidelines for income-producing properties, business loans and public facilities. In addition, there is a 1% spread over cost of funds for private borrowers. The spread will serve as a loan loss reserve for the Section 108 portfolio.

The City will establish a delivery system for each component of the implementation process (see Exhibit H). The City is part of the OneCPD technical assistance effort. The Enterprise Community Partners technical assistance team has extensive experience in each component of the delivery system and will provide staff with checklists and guides for each subsystem.

One transaction the City is considering for the Loan Pool is the purchase and rehabilitation of Evergreen Terrace I and Evergreen Terrace II. The City has gone through a series of complicated legal actions to condemn and purchase the properties. The courts appear to have ruled the City may proceed with the condemnation and the City has paid $15,077,406 into the court. There is now a settlement among the vested parties- the United States of America, HUD and the City of Joliet. Once the development plan and other details of the transaction are refined, the City will consider utilizing the Section 108 authorization in the capital structure.

Exhibit B

Exhibit B: Eligible Activities

The Section 108 Loan Pool is intended to utilize four potential eligible activities:

- Special Economic Development (24 CFR 570.703(i) and 24 CFR 570.203/204)
- Acquisition of Real Property (24 CFR 570.703(a))
- Housing Rehabilitation (24 CFR 570.703(h))
- Public Facilities (24 CFR 570.703(l))

As the City of Joliet identifies individual projects, staff will document compliance with one of the eligible activities. For transactions utilizing the eligible activity of special economic development, staff will document conformance with the appropriateness criteria, including public benefit.

Exhibit C

Exhibit C: National Objective

The Loan Pool anticipates utilizing the national objectives of benefitting low and moderate-income citizens via job creation/ retention (24 CFR 570.208(a)(4)); eliminating slums and blight on an area basis (24 CFR 570.208(b)(1)) or housing occupancy (24 CFR 570.208(a)(3)). If applicable, the City may also utilize LMI area benefit (24 CFR 570.208(a)(1) regarding public facilities or economic development projects in which the applicable service area provides goods or services to predominately LMI neighborhoods.

If applicable, the City will utilize the presumption provision. In order for a grantee to presume a job is LMI, it must document compliance with two tests. The first is that the poverty rate of the census tract must equal or exceed enumerated thresholds (greater than 20%; 30% for projects located in the CBD). The second is that the grantee must document that the activity is located in an area of pervasive poverty or general distress (generally the project is located in a block group with a poverty rate above 20%). In the event the City utilizes eliminating slums and blight as a national objective, it will also document compliance with the 70% rule (70% of expenditures benefit LMI citizens over a one, two or three year accounting period).

Exhibit D

EXHIBIT D: SOURCES AND USES OF FUNDS

<u>USUES OF FUNDS</u>		
INDIVIDUAL TRANSACTIONS		6,000,000
<u>SOURCES OF FUNDS</u>		
SECTION 108	4,800,000	
EQUITY	1,200,000	
TOTAL		6,000,000

*NOTE: Minimum numbers- Each individual project will vary according to private financing and other sources of funds.

Exhibit E

REPAYMENT SCHEDULE

AMORTIZATION

AMOUNT	4,800,000
RATE	3.18%
TERM	20
AMORTIZATION PERIOD	20
INTEREST ONLY	1

YEARS	1	2	3	4	5	6	7	8	9
BEGINNING BALANCE	4,800,000	4,800,000	4,612,171	4,418,369	4,218,404	4,012,081	3,799,196	3,579,541	3,352,902
PAYMENT	152,640	340,469	340,469	340,469	340,469	340,469	340,469	340,469	340,469
INTEREST	152,640	152,640	146,667	140,504	134,145	127,584	120,814	113,829	106,622
PRINCIPAL	0	187,829	193,802	199,965	206,324	212,885	219,655	226,640	233,847
ENDING BALANCE	4,800,000	4,612,171	4,418,369	4,218,404	4,012,081	3,799,196	3,579,541	3,352,902	3,119,055
ROUNDING	0	188,000	194,000	200,000	206,000	213,000	220,000	227,000	234,000

10	11	12	13	14	15	16	17	18	19	20	
3,119,055	2,877,772	2,628,816	2,371,943	2,106,902	1,833,433	1,551,267	1,260,128	959,731	649,782	329,976	
340,469	340,469	340,469	340,469	340,469	340,469	340,469	340,469	340,469	340,469	340,469	
99,186	91,513	83,596	75,428	66,999	58,303	49,330	40,072	30,519	20,663	10,493	
241,283	248,956	256,873	265,041	273,469	282,166	291,139	300,397	309,950	319,806	329,976	4,800,000
2,877,772	2,628,816	2,371,943	2,106,902	1,833,433	1,551,267	1,260,128	959,731	649,782	329,976	0	
241,000	249,000	257,000	265,000	273,000	282,000	291,000	300,000	310,000	320,000	330,000	4,800,000

Exhibit F

Exhibit F: Additional Security

The primary security for the Section 108 Loan Pool is the underwriting guidelines that follow in this exhibit. The portfolio will conform to the low risk profile. Moreover, the City will add a spread of 1% over its cost of funds to private borrowers. At current rates, this equates into the present value equivalent of a 7% to 8% loss reserve.

Underwriting Guidelines- Businesses

Definition

User transactions involve projects in which debt service is repaid from cash flow generated by an operating business- either from the production of a good or from the provision of a service. Whether a retail store, a wholesaler, a manufacturer or an accounting firm, all transactions, large and small, are analyzed in the same disciplined manner.

Numerically, business projects are defined as follows (a C-Corp):

Net Sales
Less: Cost of Goods Sold (Usually Nominal in a Service Business)
Equals: Gross Margin
Less: Operating Expenses
Equals: Operating Profit
Less Non Operating Expenses
Equals: Earnings Before Tax
Less: Taxes
Equals: Net Profit After Tax

Project Review

Staff will review transactions on two levels: 1) upfront evaluation to determine whether the loan should be made (credit and federal eligibility) and 2) an annual review to determine whether reserves, collateral and additional security are sufficient. The annual credit review will ensure that the reserves are consistent with risk profiles over time.

Credit Criteria

There are six credit criteria for business transactions. Although the criteria are similar for real estate projects, the process of analysis is materially different.

- Ability to Repay
- Collateral
- Commitment of Entrepreneur
- Adequacy of Balance Sheet
- Management Experience
- Character

All of the criteria are important and a material deficiency in any criterion may be sufficient to decline a loan request. In general, compilation financial statements are sufficient although small firms may only have tax statements available.

Ability to Repay

The ability to repay is generally determined by the debt coverage ratio. It is defined as gross cash flow divided by proposed and existing debt service. Unless a loan is subordinated in repayment to the Section 108 obligation, the debt service of all loans is included in the denominator.

In calculating gross cash flow, the analyst will include existing net profit after tax (if a C-Corp) plus depreciation. Moreover, the analyst can add any after-tax savings related to the proposed transaction, including discretionary expenses, rent savings, reduction of taxes due to increased depreciation and interest expenses, extending the maturities or maturation of existing debt, etc. Conversely, the analyst must net out the after-tax effect of any increased expenses, such as ad valorem tax, insurance, etc.

Since gross cash flow must fund additional capital expenditures and incremental working capital needs in addition to debt service (particularly for growing companies), the analyst must ensure the business has sufficient cash flow and/ or additional debt capacity to fund all cash needs.

For existing businesses, the analyst will spread financial statements and observe trends in sales and profit growth, analyze operating costs as a percentage of sales and on an incremental basis, reconcile net worth from one period to the next and trace changes in cash position between statements.

Collateral

As a second means of repayment, staff will require specific liens on assets for all loans. The City will require verification of value from independent, qualified parties. Concerning appraisals for real estate, the analyst will ensure that the appraiser is acceptable to any co-lending conventional lender. The appraiser must be state certified and have experience with projects similar in size and scope to the subject. The borrower will pay for the appraisal; however, staff or a conventional lender will commission the document. The City will recognize the lower of cost or value and will scrutinize the methodology the appraiser utilizes to derive a reconciled value.

In general, staff will evaluate the adequacy of the collateral by using a loan to value ratio. The thresholds are enumerated for each classification of asset financed in the risk profiles.

Commitment

Third party borrowers must evidence commitment through the investment of equity and the pledge of corporate and personal guarantees for any owner or principal with an ownership interest equal to or greater than 20%. The City will have discretion in accepting limited guarantees or in very rare occasions, waiving the requirement for personal guarantees.

Adequacy of the Balance Sheet

The analyst will spread the balance sheet over time and will evaluate several quality indicators. The analyst will relate all of the measures to peers in their respective industries with any material disparities requiring further inquiry.

In addition to the following measures, the analyst will reconcile net worth and changes in sources and uses of cash between financial statements. Since the company's survival is dependent upon it capacity to generate cash, the analyst must ensure that all cash needs (debt service, working capital, capital expenditures) are met.

Receivables

The analyst will calculate day's receivable and request an aging of receivables for periods of 0-30, 30-60, 60-90 and 90+ days. Unless there is a compelling reason, all receivables in excess of 90 days will be deemed uncollectable. The analyst will also evaluate the credit quality of the receivables in addition to detecting concentrations of sales and receivables to any one customer.

The Days Receivables is calculated by dividing sales into receivables and multiplying the result by the number of days in the period covered by the financial statements. The day's receivables is the average collection period of the business, which is then compared to the terms the company extends. The analyst will look at the trend over time. These two simple measures will give the analyst a good indication of the ability of the company to collect its accounts and the quality of the receivables.

$$\text{Days Receivables} = \frac{\text{Receivables}}{\text{Sales}} \times \text{Days In Period}$$

Inventory

The analyst will also compute a day's inventory ratio and an inventory turnover ratio. The Days Inventory is calculated by dividing inventory by cost of goods sold and multiplying the result by the number of days in the period. The Days Inventory is a rough calculation of the average number of days of cash flow relative to volume that the company has invested in inventory.

Inventory Turnover is defined as cost of goods sold divided by inventory and is the average number of times the inventory turned during the accounting period. The analyst will observe changes in these computations over time.

The inventory analysis is more relevant to non- service businesses since most service businesses have small or nominal amounts of inventory. If the transaction involves a relatively large manufacturing firm, the analyst may request an itemization of inventory as to raw materials, works-in-progress and finished goods. In some situations, an itemization as to product line may be needed.

The two simple measures will give the analyst a good indication of the ability of the business to manage its inventory and its quality.

$$\text{Days Inventory} = \frac{\text{Inventory}}{\text{COGS}} \times \text{Days In Period}$$

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Inventory}}$$

<u>Days Payables</u>

The analyst will calculate Days Payables which is defined as payables divided by cost of goods sold times the number of days in the accounting period. The analyst will compare this number to the terms its suppliers extend to the company. Moreover, the analyst will request an aging of payables on a similar schedule as that specified for receivables. Unless proven otherwise, the analyst will assume that a payable in excess of 90 days is reason for the affected supplier to discontinue business with the prospective borrower. In addition, the analyst will note whether the business is exploiting discounts.

$$\text{Days Payables} = \frac{\text{Payables}}{\text{COGS}} \times \text{Days In Period}$$

<u>Days Accruals</u>

The analyst will calculate Days Accruals which is defined as accruals divided by cost of goods sold times the number of days in the period. If the number is high the analyst will request an itemization and ensure that the company is not raiding its payroll withholding accounts.

$$\text{Days Accruals} = \frac{\text{Accruals}}{\text{COGS}} \times \text{Days In Period}$$

<u>Debt/ Worth</u>

The analyst will determine the Debt/ Worth Ratio, which is defined as total liabilities divided by net worth of the company. Concerning officers loans, the amount may be treated as equity (subtracted from debt; added to equity) if the obligation is subordinated in both repayment and collateral. Unless there is a compelling reason, the analyst will subtract notes receivable-officers and intangible assets from net worth. Any assets reflecting value rather than cost will be reduced to book value (or adjusted basis for real estate deals) unless justified.

Since the anticipated market for the loans are small and medium sized businesses and since many small to mid-market companies hold assets personally, there are no minimum standards for this measure. The analyst and loan committee must use their judgment to ensure that the principals are not bleeding the company, that debt is reasonably managed; that the corporate guaranty has value and that there is adequate security for the loan.

$$\text{Debt to Worth} = \frac{\text{Debt - Subordinated Officer's Loan}}{\text{Net Worth + Subordinated Officer's Loan}}$$

Schedule of Debt

The analyst will obtain a schedule of installment debt including the original amount, outstanding balance, maturity, interest rate, debt service, balloon payments and security for the loan. The analyst will note any pending balloon payments and whether assets (uses) are matched to loans (sources) as to maturity.

The analyst will spread the financial statements and discern trends over time. Moreover, the analyst will review the reconciliation of net worth and the changes in cash position from year to year, which traces the sources and uses of cash. The analyst must ensure that the company is generating sufficient cash sources to repay all cash needs (debt service, working capital and capital expenditures). In general, compilation statements are sufficient for review although small firms may only have tax returns. The analyst should not employ any measure as an absolute as many are relative to specific SIC codes and other factors.

Management Experience

The management team should have direct experience in all phases of business: marketing, finance, production and operations. The management team includes not only owners and principals but also outside contractors and anyone who materially participates in the business.

Character

The principals of the company should have a good credit history, no recent bankruptcies and their past should suggest that he/ she will proceed on the project in a reasonable, legal and professional manner.

Risk Profiles

Low to Moderate Risk

Low to moderate risk loans will comprise the entire Section 108 portfolio. Low to moderate risk business transactions will primarily fund real estate projects for existing, expanding companies.

- Ability to Repay

The low to moderate risk project has a minimum debt coverage ratio of 1.20. Accordingly, there is $1.20 of cash flow available for each $1 of existing and proposed debt service. The business must be in existence at least three years and meet the debt coverage ratio for the past year from historical cash flow although the analyst may include net after-tax savings associated with the transaction. In addition to repaying debt, the analyst must ensure there is sufficient cash flow or additional debt capacity to fund incremental cash needs for working capital and capital expenditures.

- Collateral

The City will utilize the following *maximum* loan to value ratios for low risk projects:

Real Estate:	Up to 80%
Personal Property:	Up to 75%
Inventory	Up to 60%
Receivables	Up to 75%

- Commitment

Low to moderate risk transactions will require general liens in the form of corporate and personal guarantees. In general, all principals with a 20% ownership in the project must sign personally, with the loan committee having the discretion to allow limited guarantees.

- Balance Sheet

The low to moderate risk transaction has a balance sheet which indicates that the company adequately manages its receivables, inventory, debt and accruals. Moreover, management reinvests sufficient profit back into the company and generates adequate cash flow to fund its operating and non-operating cash needs.

- Management

The low to moderate risk company must evidence that the management team has direct experience in all phases of the business- marketing, pricing, operations, financial, personnel, etc.

- Character

The principal and the business should have a good credit history and sound reputations.

Underwriting Guidelines-Investor/ Real Estate Deals

<u>Definition</u>

Real estate/ investor transactions involve projects in which debt service is paid from cash flow generated from leasing property to third party tenants. Real estate lending incorporates many types of projects: retail, industrial, warehousing, office space, multi-family residential, for example. Although retail projects are different from office buildings, each transaction is analyzed in the same manner. Since the property generates income, real estate/ investor projects are also called income-producing properties.

Numerically, real estate projects are defined as follows:

Gross Rents
Less: Vacancy Factor
Equals: Collected Rents
Less: Operating Expenses (Incurred by Owner of Property)
Equals: Net Operating Income (NOI)

Net Operating Income funds three subsequent claims in the following priority: 1) debt service, 2) replacement reserves and 3) return on and of equity.

<u>Project Review</u>

Staff will review projects on two levels: 1) upfront evaluation to determine whether the loan should be made (credit and federal eligibility) and 2) an annual review to determine whether reserves, collateral and additional security are sufficient and consistent with the risk characteristics of the project. The annual credit review ensures that minimum reserves, which reflect the current risk profile, are maintained over time.

In general, an annual review should be beneficial to the City since two factors should progress in their favor over time: 1) rents, NOI and value should increase and 2) the Section 108 loan balance decreases. Combined with a fixed rate on Section 108 debt, a performing project becomes more secure as the loan ages.

<u>Credit Criteria</u>

There are five credit criteria for real estate projects. Although similar to business financing, there are differences in the criteria. The major difference is in analyzing cash flow available for debt service.

The five criteria are as follows:

- Ability to Repay
- Collateral
- Development Team Capacity/ Experience
- Developer Commitment
- Character

Although lenders disagree as to which of the criterion is the highest priority, all are important and a substantive deficiency of any of the five may be sufficient to decline a loan request.

Ability to Repay

The ability to repay is usually defined as Net Operating Income divided by debt service. Generally called the Debt Coverage Ratio, this simple calculation indicates the cushion that a prospective project has in paying debt service.

Cash flow is the first source of repayment for the Section 108 indebtedness. Unless a loan is subordinated in repayment to the proposed loan, the debt service of all loans is included in the denominator.

In calculating Net Operating Income, the analyst must determine rents, vacancy and operating expenses. The analyst should complete fundamental analysis using the following methodology:

- Observe the Market (Economic Data, Demographic Information, Absorption, Etc.)
- Find Comparable Properties
- Adjust Comparables to Subject
- Select the "Most Comparable" and Weight Accordingly
- Determine Rents, Vacancy and Operating Expenses
- Solve For NOI
- Calculate DCR

Collateral

In the event that cash flow is insufficient to pay Section 108 debt service (and the developer does not voluntarily use other resources to keep the loan current), the loan becomes delinquent. Consequently, the City must now rely on a secondary means of repayment. To repay the loan, the City must obtain a judgment and liquidate the specific lien on the asset pledged as collateral.

For real estate/ investor transactions, the asset pledged is obviously real estate. The lender loans a percentage of the value of all assets pledged as collateral. Accordingly, loan to value is defined as the loan divided by the value. In calculating loan to value, the analyst includes all loans not subordinated in collateral to the Section 108 loan. The loan to value measures the collateral cushion to the lender and indicates how much the collateral can be discounted before the lender incurs a loss on liquidation.

Development Team Capacity/ Experience

The development team for a project could include the following members:

- Contractor
- Architect/ Engineer
- Leasing Agent
- Property Manager
- Syndicator
- Construction Manager
- Mortgage Banker (Arranges Permanent and Construction Loans)
- Provider of Feasibility Study
- Developer

The development team should have experience in all phases of the development. Many large developers can perform some of these functions in-house; others contract out for these services. (In no circumstance should the developer complete the feasibility study; only independent third parties should complete this task.)

Each member of the development team should have successfully completed a project comparable to the subject. In addition, each member of the development team should be established and possess resources sufficient to ensure completion of their respective task.

Developer Commitment

In business loans, personal and corporate guarantees are routine. If a project lacks cash flow to repay the debt service and liquidation of specific liens is insufficient to pay the outstanding balance on the loan, the lender secures a deficiency judgment and attempts to collect on general liens such as personal and corporate guarantees. Consequently, guarantees are the third source of repayment.

It is difficult to rely on general liens for repayment. Homestead exemptions, rights of redemption, bankruptcy laws, state law, allocation of assets between spouses, etc. complicate the issue further.

Real estate projects have separate complexities. For intricate tax reasons, it is difficult for developers to corporately or personally guarantee permanent mortgages, especially if the ownership form is a limited partnership or limited liability corporation (which are common) and the project involves significant tax benefits. Despite the complication, developers can indicate commitment in the following ways:

Guarantee Completion of Construction

The developer should guarantee that he/ she will complete construction on the project according to the specifications agreed upon.

Absorb Cost Overruns

The developer should absorb any cost overruns on the project, regardless of cause.

Guarantee Cash Shortfalls

If NOI is insufficient to pay debt service and fully fund replacement reserves, the developer should guarantee any cash flow shortfalls. Functionally, this provision is very similar to a recourse mortgage.

Defer Development Fee

Developers earn fees for performance. Accordingly, the bulk of the developer fee should be paid only after the project is built, the property is leased and debt coverage threshold is obtained. If the deal is syndicated, the investor agreement frequently contains this provision.

The analyst must evaluate financial strength of the entity extending the guarantees and determine their respective value. Among the factors affecting this analysis are other contingent liabilities of the same or related guarantor, means of valuing assets, tax considerations and state and federal laws governing allocation of assets between spouses.

Character

A review of a developer's character includes such items as a credit history, a Dun and Bradstreet or similar report, prior bankruptcies, past criminal activity, past or pending litigation, professional standing and relationships within the community.

Regardless of the economics of a transaction, a developer with a chronic history of defaults, late payments, bankruptcy, broken promises and litigation with previous lenders may negate all of the positive aspects of the deal. Nevertheless, the analyst must use prudent judgment in evaluating the information. Credit reports and rumors frequently contain inaccurate information and the existence of a prior blemish does not necessary mean the developer is not credit worthy.

Risk Profiles

Low to Moderate Risk Projects

Low to moderate risk loans will comprise the entire Section 108 loan portfolio. Low to moderate risk transactions have the following characteristics:

- Ability to Repay

The low to moderate risk project has a Debt coverage Ratio of at least 1.20 to 1. Thus, there is $1.20 of projected NOI for every $1 of new and existing debt service. There is a strong market for the net leasable area and/or there is significant pre-leasing of qualified tenants; therefore, the analyst has a high degree of confidence in projecting NOI.

A low to moderate risk real estate transaction allows a reasonable amount of time for the project to achieve a stabilized rate of occupancy and allocates an appropriate leasing reserve in the budget. Moreover, the developer annually funds a replacement reserve to eventually renew those components of the property that wear out periodically (roof, HVAC, appliances, etc.) Furthermore, the budget is complete, reasonable and is based on a guaranteed maximum price for costs related to construction.

In addition to providing the lender with an adequate investment, a low to moderate risk project also provides adequate benefits to investors and the developer. Accordingly, the developer earns a reasonable fee if the property performs and the investors receive a market return on invested capital.

- Collateral

The loan to value should not exceed 80%.

The appraisal should be completed by an appraiser certified by the state and with a professional affiliation such as SRA or MAI. Moreover, the appraisal should conform to FIRREA standards. In general, the appraisal should determine fair market value and fee simple ownership. In addition, the appraiser should have experience evaluating comparable properties. Although the developer incurs the cost, the appraisal should be completed on behalf of the City or a conventional co-lender.

The analyst should always scrutinize the appraisal critically and not merely open the summary page and accept the reconciled value without question. The analyst should review the three approaches to value, note the assumptions and limiting conditions and made adjustments where appropriate.

- Development Team Capacity/ Experience

Each member of the development team should have experience in successfully completing a project comparable to the proposed transaction. Moreover, each member of the development team should be established and have adequate resources to guarantee the completion of their respective task.

- Developer Commitment

The developer should show commitment to the project. If the ownership entity is a limited partnership (or other entity which usually conveys a large percentage of ownership), the developer can evidence commitment by guaranteeing the completion of construction, absorbing budget shortfalls, guaranteeing cash flow shortfalls and deferring developer fees. Moreover, the entity issuing the guarantee has sufficient resources at risk in the event of a deficiency.

If the developer retains significant ownership, the developer can sign a recourse note or a limited guarantee in proportion to his interest in addition to the guarantees and deferrals enumerated above.

- Character

The developer should have a favorable credit history; moreover, the developer's past suggests that he/ she will proceed on the project in a legal, reasonable and professional manner.

<u>Effect of Size</u>

Although small deals are analyzed in essentially the same manner as larger transactions, large projects should undergo more intense scrutiny and higher standards since larger loans pose potentially more risk to the community.

Accordingly, localities should require the following for projects whose costs exceed $1 million:

Developer Financial Statements

In most projects, the financial statements of the developer should be completed by a CPA and reflect current market appraisals which are assessed by an independent, qualified appraiser. Moreover, the net worth calculation should reflect the equivalent of cash and net out sales expenses and taxes. Furthermore, the developer should sign and date the financial statements.

Cost Certification

In a cost certification, an independent third party reviews the disbursements of funds and certifies that the distributions occurred in a manner that is consistent with the approved project budget.

Feasibility Studies

For larger projects, the community should obtain a market or feasibility study from an independent, third party who is experienced in the type of project involved in the financing request.

Other Considerations

Analysis of the Budget

The analyst must scrutinize the budget for completeness, reasonableness and consistency with comparable projects. It is the starting point for determining the need for financing, for addressing the financial aspects of appropriateness and for calculating the amount of equity needed to complete the project. Both overstated and understated budgets pose risks to the community.

An inflated budget usually increases the amount of the loan without increasing value commensurately. This increases the risk to the locality and the developer frequently captures the excess as an increment in the development fee.

An understated budget poses different risks. In extreme situations, there are not enough funds to complete the project. Alternatively, the developer compromises on the quality (which may effect rents) of the project or diverts his attention to transactions with more lucrative potential for compensation.

Environmental Issues

Although HUD policy requires an environmental release prior to the disbursement of funds, the analyst should be aware of issues such as a Phase I environmental review, flood plain, earthquake prone areas and other related environmental issues. In addition, the project must conform to all applicable zoning ordinances.

Site Control

The developer must have site control for a period sufficient to complete predevelopment work and to allow for the Section 108 application and review process.

Underwriting Guidelines- Public Facilities

If the City undertakes a public facility, it is likely that the asset will not generate income (an exception is a supplemental ad valorem tax for industrial parks or other non-LMI entities). In that event, the City will pledge income streams or assets that are sufficient to adequately secure the Section 108 obligation.

- If an income stream is the security, staff will evaluate the historical cash flow and secure a projection of future cash flows for the term of the Section 108 loan. Staff will then discount the future cash flows to a present value using the interest rate forecast for the Level # 1 loan plus a 50 basis point premium. The discounted present value must equal 125% of the Section 108 loan amount (equivalent to a 80% Loan to Value).

- If assets are the security, the City will secure a qualified appraisal of the property. The property must not be "specialized" and the value should adjust for any deficiencies or "cost to cure". The asset have a minimum value sufficient to conform to an 80% Loan to Value ratio.

- An alternative to the above is having the City make the Section 108 loan a "general obligation" of the City.

Exhibit G

Exhibit G: Organizational Chart

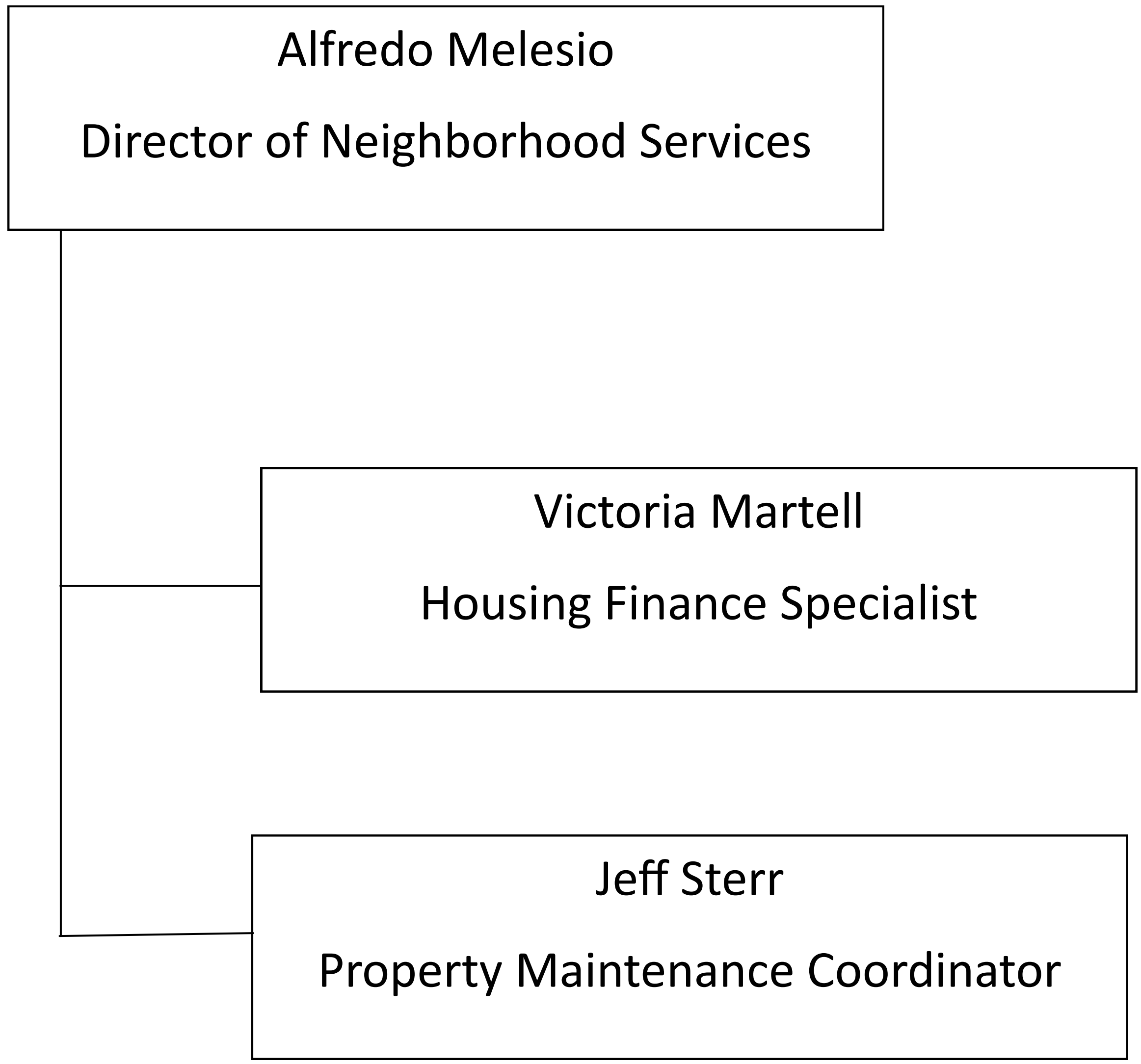
Alfredo Melesio
Director of Neighborhood Services
Victoria Martell
Housing Finance Specialist
Jeff Sterr
Property Maintenance Coordinator

Exhibit H

Exhibit H: Delivery System

The City will establish a delivery system for its Section 108 Loan Pool. The system will consist of the following components:

Marketing

The City will market the program to potential sources of transactions- developers, businesses, bankers, commercial realtors, attorneys and other persons who are aware of prospective projects. The effort will include presentations to small groups individually and marketing materials including brochures, e-mail transmissions and direct mail.

Screening

Once staff identifies a prospective transaction, it will request the potential borrower to submit sufficient information to screen the project for eligibility (eligible activity, national objective and appropriateness) and conformance to the Underwriting Guidelines (Exhibit F). Accordingly, staff will spend time only on those projects that have a reasonable chance of success (eligible and low risk).

Packaging

If the prospective transaction passes screening, staff will then proceed to preparing the Eligibility Determination.

Approving

The City presumes the Area Office will make the evaluation.

Closing

Once approved, the Level # 1 transaction goes to HUD Central for closing both the interim loan and the conversion to permanent financing at the public offering. HUD Central prepares the majority of the Level # 1 documents and most are boilerplate.

Regarding the Level # 2 transaction, the City will acquire the services of an experienced attorney to prepare the closing documents. The documents will vary with the type of transaction but usually include a Loan Agreement, a Note, Jobs Agreement (if applicable), Deed of Trust or Mortgage, UCC filing (if applicable) and some form of General Lien (guarantee).

Disbursement

The City will establish policies and procedures to disburse Section 108 funds for both Level # 1 and Level # 2 transactions. Staff will create the Loan Guarantee Custodian

Account with the Custodial lender to accept disbursements (wire transfers) from the Fiscal Agent.

The City will establish procedures to adequately document disbursements to the third-party borrower and to ensure that value is added to the project and to reduce risk to the City.

Portfolio Management

The City will develop a portfolio management subsystem to properly document conformance to public benefit and national objective provisions, collect and account for loan repayments and to preserve the value of the collateral securing the Section 108 loans. Moreover, staff will establish the Repayment and Loss Reserve Custodial Accounts with the Custodial Lender.

The City is participating in the OneCPD technical assistance effort. The Prime Contractor is Enterprise Community Partners and includes subcontractors who have extensive experience with the origination and delivery of the Section 108 program. The technical assistance team will provide staff with checklists and guides to assist in establishing and implementing each component of the delivery system.

Exhibit I

Exhibit I: Appropriateness

Since The City of Joliet may utilize the eligible activity of special economic development, individual transactions may be subject to the appropriateness criteria enumerated in 24 CFR 570.209.

Financial Aspects

The City will document compliance with each economic development transaction according to "Guidelines and Objectives for Evaluating Project Costs and Financial Requirements" specified in 24 CFR 570.209(a):

<u>Reasonableness of the Proposed Project Costs and Financial Feasibility</u>

Each use of loan funds shall be evaluated to ensure the reasonableness of proposed project costs. The scope of this evaluation will depend on the size and nature of each project. Care will be taken to use third party evaluations of costs wherever appropriate, and particular attention will be exercised when an activity involves a non-arm's-length transaction.

<u>Commitment of all Sources of Funds</u>

The City shall review every project to verify that all sources of funding are committed prior to disbursement of Section 108 Loan funds.

<u>Substitution of CDBG funds for Private Sources</u>

City staff will evaluate all projects to ensure conventional debt and equity within the capital structure are reasonable. Moreover, staff will document that Section 108 funds are not substituting for private funds and that the Section 108 funds bridge a Financing gap, a Rate of Return gap or a Locational gap.

<u>Feasibility of the Project</u>

Staff will document that with the inclusion of the Section 108 funds in the capital structure, all transactions conform to the Underwriting Guidelines enumerated in Exhibit F. Accordingly, all transactions will comply with a low to moderate risk profile.

<u>Return on Owner's Equity</u>

The City will document whether the Return on Equity is excessive. The type of transaction may affect the analysis and may include pre-tax evaluations, after-tax calculations, net present value or internal rate of return. This component is difficult to apply to small and medium businesses and may not be applicable.

Pro Rata Disbursement Policy

It is the intent of the Section 108 Loan Pool to disburse funds on a pro rata basis with other funds being used in specific projects. In those situations where pro rata disbursement is not followed (such as acquisition of real property), staff will justify the procedure and seek alternative means to mitigate risk.

Public Benefit

The City will also document the conformance of economic development transactions to "Standards for Evaluating Public Benefit" enumerated in 24 CFR 570.209(b).

Under the provisions of 24 CFR 570.209(b)(2)(v)(F), the grantee may elect to waive the aggregate standard if the assistance is provided to a business located in a census tract with a minimum of 20% of its residents below the threshold for poverty.

For the majority of transactions, staff will employ the number of jobs as the criterion for documenting public benefit; however, in limited situations, the group reserves the option of utilizing the number of low and moderate-income persons the project serves.

Exhibit J

Exhibit J: Certifications

SECTION 108 LOAN GUARANTEES
ENTITLEMENT PUBLIC ENTITY CERTIFICATIONS

In accordance with Section 108 of the Housing and Community Development Act of 1974, as amended, (the Act") and with 24 CFR § 570.704(b) the public entity certifies that:

(i) it possesses the legal authority to submit the application for assistance under 24 CFR Part 570, Subpart M ("Subpart M") and to use the guaranteed loan funds in accordance with the requirements of Subpart M.

(ii) Its governing body has duly adopted or passed as an official act a resolution, motion or similar action authorizing the person identified as the official representative of the public entity to submit the application and amendments thereto and all understandings and assurances contained therein, and directing and authorizing the person identified as the official representative of the public entity to act in connection with the application to provide such additional information as may be required.

(iii) Before submission of its application to HUD, the public entity has:

(A) Furnished citizens with information required by § 570.704(a) (2) (i);

(B) Held at least one public hearing to obtain the views of citizens on community development and housing needs; and

(C) Prepared its application in accordance with § 570.704 (a) (1) (iv) and made the application available to the public.

(iv) It is following a detailed citizen participation plan which meets the requirements described in § 570.704 (a) (2).

(v) The public entity will affirmatively further fair housing, and the guaranteed loan funds will be administered in compliance with:

(A) Title VI of the Civil Rights Act of 1964 (Pub. L. 88-352, 42 U.S.C. 2000d et *seq.); and*

(B) The Fair Housing Act (42 U.S.C. 3601-20).

(vi) In the aggregate, at least 70 percent of all CDBG funds, as defined at § 570.3(e), to be expended during the one, two, or three consecutive years specified by the public entity for its CDBG program will be for activities which benefit low and moderate income persons, as described in criteria at § 570.208(a).

(vii) It will comply with the requirements governing displacement, relocation, real property acquisition, and the replacement of low and moderate- income housing described in **§ 570.606.**

(viii) It will comply with the requirements of § 570.200(c) (2) with regard to the use of special assessments to recover the capital costs of activities assisted with guaranteed loan funds.

(ix) It will comply with the other provisions of the Act and with other applicable laws.

(x) (Where applicable, the public entity may also include the following additional certification.) It lacks sufficient resources from funds provided under Subpart M or program income to allow it to comply with the provisions of § 570.200(c) (2), and it must therefore assess properties owned and occupied by moderate income persons, to recover the guaranteed loan funded portion of the capital cost without paying such assessments in their behalf from guaranteed loan funds.

Certification of Efforts to Obtain Other Financing

The City of Joliet hereby assures and certifies with respect to its application for a loan guarantee pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended, that it has made efforts to obtain financing for the activities described herein without the use of such guarantee, it will maintain documentation of such efforts for the term of the loan guarantee, and it cannot complete such financing consistent with the timely execution of the project without such guarantee.

Certification of Legal Authority to Pledge Grants

The public entity hereby certifies and assures with respect to its application for a loan guarantee pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended, that it possesses the legal authority to make the pledge of grants required under 24 CFR 570.705(b)(2).

______________________________	____________________
Signature of Public Official	Date

Name: James Hock

Title: City Manager

Applicant/Recipient Disclosure/Update Report

U.S. Department of Housing and Urban Development

OMB Approval No. 2510-0011 (exp. 08/31/2006)

Instructions. (See Public Reporting Statement and Privacy Act Statement and detailed instructions on page 2.)

Applicant/Recipient Information

Indicate whether this is an Initial Report ☑ or an Update Report ☐

1. Applicant/Recipient Name, Address, and Phone (include area code): City of Joliet	2. Social Security Number or Employer ID Number: 366-08-8568
3. HUD Program Name Section 108 Loan Guarantee Program	4. Amount of HUD Assistance Requested/Received $4,800,000.00

5. State the name and location (street address, City and State) of the project or activity:
City of Joliet

Part I Threshold Determinations

1. Are you applying for assistance for a specific project or activity? These terms do not include formula grants, such as public housing operating subsidy or CDBG block grants. (For further information see 24 CFR Sec. 4.3).
☑ Yes ☐ No

2. Have you received or do you expect to receive assistance within the jurisdiction of the Department (HUD), involving the project or activity in this application, in excess of $200,000 during this fiscal year (Oct. 1 - Sep. 30)? For further information, see 24 CFR Sec. 4.9
☑ Yes ☐ No.

If you answered **"No"** to either question 1 or 2, **Stop!** You do not need to complete the remainder of this form.
However, you must sign the certification at the end of the report.

Part II Other Government Assistance Provided or Requested / Expected Sources and Use of Funds.

Such assistance includes, but is not limited to, any grant, loan, subsidy, guarantee, insurance, payment, credit, or tax benefit.

Department/State/Local Agency Name and Address	Type of Assistance	Amount Requested/Provided	Expected Uses of the Funds

(**Note:** Use Additional pages if necessary.)

Part III Interested Parties. You must disclose:

1. All developers, contractors, or consultants involved in the application for the assistance or in the planning, development, or implementation of the project or activity and
2. any other person who has a financial interest in the project or activity for which the assistance is sought that exceeds $50,000 or 10 percent of the assistance (whichever is lower).

Alphabetical list of all persons with a reportable financial interest in the project or activity (For individuals, give the last name first)	Social Security No. or Employee ID No.	Type of Participation in Project/Activity	Financial Interest in Project/Activity ($ and %)

(**Note:** Use Additional pages if necessary.)

Certification

Warning: If you knowingly make a false statement on this form, you may be subject to civil or criminal penalties under Section 1001 of Title 18 of the United States Code. In addition, any person who knowingly and materially violates any required disclosures of information, including intentional non-disclosure, is subject to civil money penalty not to exceed $10,000 for each violation.
I certify that this information is true and complete.

Signature:	Date: (mm/dd/yyyy)
X	

Certification of Consistency with the Consolidated Plan

U.S. Department of Housing and Urban Development

I certify that the proposed activities/projects in the application are consistent with the jurisdiction's current, approved Consolidated Plan.
(Type or clearly print the following information:)

Applicant Name: City of Joliet

Project Name: Section 108 Loan Pool

Location of the Project: City of Joliet

Name of the Federal Program to which the applicant is applying: Section 108 Loan Guarantee Program

Name of Certifying Jurisdiction: City of Joliet

Certifying Official of the Jurisdiction Name: James Hock

Title: City Manager

Signature: ______________________

Date: ______________

Certification Regarding Debarment and Suspension

U.S. Department of Housing and Urban Development

Certification A: Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transactions

1. The prospective primary participant certifies to the best of its knowledge and belief that its principals;

a. Are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal debarment or agency;

b. Have not within a three-year period preceding this proposal, been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, State, or local) transaction or contract under a public transaction; violation of Federal or State antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification, or destruction of records, making false statements, or receiving stolen property;

c. Are not presently indicted for or otherwise criminally or civilly charged by a governmental entity (Federal, State, or local) with commission of any of the offenses enumerated in paragraph (1)(b) of this certification; and

d. Have not within a three-year period preceding this application/proposal had one or more public transactions (Federal, State, or local) terminated for cause or default.

2. Where the prospective primary participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

Instructions for Certification (A)

1. By signing and submitting this proposal, the prospective primary participant is providing the certification set out below.

2. The inability of a person to provide the certification required below will not necessarily result in denial of participation in this covered transaction. The prospective participant shall submit an explanation of why it cannot provide the certification set out below. The certification or explanation will be considered in connection with the department or agency's determination whether to enter into this transaction. However, failure of the prospective primary participant to furnish a certification or an explanation shall disqualify such person from participation in this transaction.

3. The certification in this clause is a material representation of fact upon which reliance was place when the department or agency determined to enter into this transaction. If it is later determined that the prospective primary participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency may terminate this transaction for cause of default.

4. The prospective primary participant shall provide immediate written notice to the department or agency to whom this proposal is submitted if at any time the prospective primary participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

5. The terms **covered transaction, debarred, suspended, ineligible, lower tier covered transaction, participant, person, primary covered transaction, principal, proposal, and voluntarily excluded**, as used in this clause, have the meanings set out in the Definitions and Coverage sections of the rules implementing Executive Order 12549. You may contact the department or agency to which this proposal is being submitted for assistance in obtaining a copy of these regulations.

6. The prospective primary participant agrees by submitting this proposal that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency entering into this transaction.

7. The prospective primary participant further agrees by submitting this proposal that it will include the clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transaction," provided by the department or agency entering into this covered transaction, without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

8. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines this eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List.

9. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

10. Except for transactions authorized under paragraph (6) of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal Government, the department or agency may terminate this transaction for cause of default.

Certification B: Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions

1. The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.

2. Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

Instructions for Certification (B)

1. By signing and submitting this proposal, the prospective lower tier participant is providing the certification set out below.

2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

3. The prospective lower tier participant shall provide immediate written notice to the person to which this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

4. The terms **covered transaction, debarred, suspended, ineligible, lower tier covered transaction, participant, person, primary covered transaction, principal, proposal, and voluntarily excluded**, as used in this clause, have the meanings set out in the Definitions and Coverage sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of these regulations.

5. The prospective lower tier participant agrees by submitting this proposal that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.

6. The prospective lower tier participant further agrees by submitting this proposal that it will include this clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transaction," without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

7. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List.

8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

9. Except for transactions authorized under paragraph (5) of these instructions, if a participant in a lower covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies including suspension and/or debarment.

Applicant City of Joliet		Date
Signature of Authorized Certifying Official	Title City Manager	

Exhibit K

Exhibit K: Presubmission Requirements

The City of Joliet amended its Consolidated Plan and Action Plan to include the $4.8 million Section 108 Loan Pool. Accordingly, the activity conforms to the public notices, public hearings, the Citizen Participation Plan and other provisions enumerated in 24 CFR 570.704(a).