

RHODE ISLAND CLEAN WATER FINANCE AGENCY

LOAN POLICIES AND PROCEDURES

SEWER TIE-IN LOAN FUND

AUGUST, 2007

AUTHORITY: Policies and Procedures adopted in accordance with Chapter 46-12.2 of the General Laws of Rhode Island as amended.

RHODE ISLAND CLEAN WATER FINANCE AGENCY

LOAN POLICIES AND PROCEDURES

for the

SEWER TIE-IN LOAN FUND

- I. **PURPOSE:** These Loan Policies and Procedures of the Rhode Island Clean Water Finance Agency (Agency) have been established to govern the lending activities between the Agency and local governmental units in the state of Rhode Island in connection with a Sewer Tie-In Loan Fund (STILF) under and pursuant to Chapter 46-12.2 of the General Laws of Rhode Island as amended.
- II. **DEFINITIONS:** Except as otherwise defined herein, the words and phrases used within these Loan Policies and Procedures have the same meaning as the words and phrases have in Chapter 46-12.2 of the General Laws of Rhode Island as amended.
- III. **FINANCIAL ASSISTANCE:** The objective of these Loan Policies and Procedures is to provide financial assistance to local governmental units to initiate a program of sewer tie-ins for existing homes in their community. The STILF is a source of funds to provide subsequent loans to homeowners to connect their homes into the local sewer system and abandon their individual septic systems.

The RICWFA and the local governmental unit will establish a relationship to be evidenced by a loan agreement to provide financing for homeowners within the local governmental unit to connect their homes into the local sewer system and abandon their individual septic systems. Rhode Island Housing and Mortgage Financing Corporation (RI Housing), or its successor, will be the loan servicer on the subsequent homeowner loans. RI Housing will: accept applications from homeowners; coordinate payments to sewer tie-in contractors/vendors; collect repayments from homeowners; credit the homeowner repayments to the principal payment responsibility of the local governmental unit; and make monthly reports to both the Agency and the local governmental unit.

- IV. **LOAN APPLICATION:** Request for financing under the Sewer Tie-In Loan Fund should be submitted in writing by the chief executive officer of the local governmental unit to the Executive Director of the Agency. No particular form of application shall be required but the written request should generally include:
 - 1) A projection of the estimated need for homeowners within the local governmental unit to connect into the local sewer system and abandon their individual septic systems as detailed in the local governmental unit's

Sewer Tie-In Program Plan as approved by the Department of Environmental Management.

- 2) Indication of approval of the Local Governmental Unit's Sewer Tie-In Program by the Department of Environmental Management (DEM), including the listing of the local governmental unit's STILF program on the most current DEM Project Priority List, for financing from the Agency to establish a Sewer Tie-In Loan Program within the local governmental unit.
- 3) A description of the dedicated source of loan security in the event of homeowner loan default or non-payment, i.e., pledge of general revenues from property taxes of cities and towns, property liens, or other source available to the local governmental unit and deemed appropriate by the RICWFA.
- 4) A description of the overall operation of the local governmental unit with an emphasis on (a) legal structure; (b) management; (c) sources of revenues; (d) operating expenses; (e) operating surpluses or deficits; (f) actual results versus budget; and (g) sources of financial liquidity. The most recent annual report or audited financials may be submitted in satisfaction of all or any part of this item.
- 5) Legal authority or authorities to borrow from the Sewer Tie-In Loan Fund.
- 6) Such other information as will support a finding by the Agency that committing to the loan will not have an adverse impact on the finances of the Agency or its other borrowers.

V. LOAN APPROVAL PROCESS: Subject to availability of Agency funds and to prioritization by DEM of projects as listed in the most current DEM Project Priority List, as well as an indication of approval for financing from the Agency to establish a Sewer Tie-In Loan Program within the local governmental unit, loan applications will be reviewed by the Board of Directors of the Agency for any eligible local governmental unit STILF Loan. The Agency Board of Directors shall make a determination on each loan application from an eligible local governmental unit. The local governmental unit will provide a general obligation pledge, promissory note in fully marketable form, or other assurance deemed appropriate by the Agency to ensure repayment of the STILF loan. A credit review, including but not limited to a review of the following factors, of the local governmental unit and a report by the Executive Director will be taken into consideration:

- 1) sources of revenue and financial liquidity;
- 2) historical and projected financial operating results;
- 3) present and future debt service requirements;
- 4) impact of dedicated user fees and/or general revenues;
- 5) socioeconomic conditions and trends; and

- 6) effects of legal structure and any regulatory control.

VI. TERMS AND CONDITIONS: The homeowner repayment stream will be credited towards the community's responsibility for repayment of the principal portion of the STILF loan.

- 1) Rate – The STILF loan to the local governmental unit from the Agency will be at a rate of zero percent (0%). The subsequent loans to homeowners will carry a rate equivalent to two percent (2%) which will include all homeowner fees to be distributed as follows:

RI Housing	1.0% Homeowner Loan Origination Fee
	0.5% Homeowner Loan Service Fee
RICWFA	0.5% Community Loan Service Fee
	<u>2.0%</u> Total STILF Rate

(STILF loan rates are subject to periodic changes as per Section X of this document.)

- 2) Community Fees - The local governmental unit will be responsible for its own out of pocket closing costs, i.e. borrower's counsel fees and financial advisor fees.
- 3) Amortization - The loan repayments from the homeowners will provide the principal and interest repayments to the Agency. As the primary borrower, the local government unit is responsible for any shortfall or default in the repayments from the homeowners. Amortization on the local governmental unit's loan will begin on the first day of the quarter after the loan closing and on a quarterly basis thereafter. RI Housing will collect payments from the homeowners and make principal and interest payments to the Agency on behalf of the local governmental unit.
- 4) Prepayments - The loan may be prepaid by the borrower at any time but may be subject to a prepayment penalty based on the cost of reinvesting the prepayment or any other negative financial impact to the Agency.
- 5) Security - Loans may have a pledge of (a) general revenues, (b) may be secured by any revenues or other assets which the Agency deems appropriate to protect the interest of the other participants in the loan programs of the Agency, other creditors of the Agency, bondholders, or the finances of the Agency, or (c) may be subject to and dependent upon appropriations being made by the Borrower for such purposes.
- 6) Loan Advances - The local governmental unit will indicate in written form an estimate of its yearly requirement for sewer tie-in and abandonment of

septic system loans. As loans to homeowners are originated, the Agency will advance the necessary amount for disbursement for approved project costs. RI Housing will act as paying agent on behalf of the local governmental unit for payments to contractors/homeowners for approved project costs.

- 7) Community Specific Criteria for Homeowner Loans - The community may apply specific homeowner loan criteria such as; number of estimates needed from licensed sewer-tie in contractors; maximum number of housing units per structure allowed access to the STILF; owner/non-owner occupied borrowers; and other such specific requirements. The community may not raise or lower the current homeowner STILF rate of 2% but may combine the STILF with other sources of money so as to provide a greater dollar amount available for loans or to provide a greater economic incentive for homeowners to tie-in to the local sewer system and abandon their septic system. All additional criteria must be detailed in the community's Sewer Tie-In Program Plan. Any additional criteria applied by the local governmental unit cannot negate or otherwise overrule any federal and state laws and regulations which apply to the STILF.
- 8) Ineligible Project Costs – STILF funds cannot be used to connect newly constructed homes to the local sewer system or to repair, replace, or upgrade existing sewer connections.

VII. REPORTING REQUIREMENTS: Community borrowers will be required to provide information to the Agency during the life of the loan. Required information includes:

- 1) A record of the number and type of sewer tie-ins and abandonment of septic systems funded by this program.
- 2) A copy of its Annual Audited Financial Statements in accordance with Generally Accepted Government Accounting Standards annually within 180 days of end of fiscal year.
- 3) Copies of reports submitted to RIDEM, the Environmental Protection Agency (EPA) and any other regulatory agency relating to the sewer tie-ins financed by the loan.
- 4) Other information or reports that the Agency deems appropriate.

VIII. LOAN DOCUMENTS: The terms and conditions of each loan will be evidenced by an agreement outlining the specific terms and conditions of the loan and such agreement will be accompanied by an opinion of counsel, as required by the Agency enabling act.

- IX. COMPLIANCE WITH STATE AND FEDERAL LAW:** Recipients (the community) of loans must comply with all applicable state and federal laws and regulations.
- X. MODIFICATIONS:** Where deemed appropriate by the Agency, waiver or variation of any provisions herein may be made or additional requirements may be added.

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