

Ohio County Economic Development Alliance

Revolving Loan Fund Policy

September 2014

PART I

REVOLVING LOAN FUND STRATEGY

A. Community and Economic Development Strategy

Goals and Objectives

The goals and objectives of the OCEDA RLF are as follows:

- Retention of existing business and industry;
- Expansion of existing business and industry; and
- Assistance to new business and industry.

Characteristics of Targeted Businesses

The RLF will enable the OCEDA to attract and expand identified business and industry which will include industrial, commercial, and service sectors.

Types of Assistance Needed

Entrepreneurs and small businesses need sources of grants and low-interest financing to develop their business and projects for economic development in the county.

Existing Programs

While it is still possible to receive financing from traditional lending entities, OCEDA recognizes many economic development projects related to entrepreneurs and small businesses are only receiving partial funding, thereby making it more difficult to complete or even begin a worthwhile project.

B. Financing Strategy

Financing Needs and Opportunities

Small businesses and entrepreneurs are in need of low-interest financing to continue or initiate operations that will increase the local tax base and infuse local economies.

Current Availability of Public and Private Financing

Public financing through the RLF program serves to meet the gap financing needs of the small business owner.

RLF Financing Characteristics

The primary borrowers of the RLF funds will be small business owners and entrepreneurs. The RLF will fill gaps for the financing of economic development and leverage other public and private monies through the use of lower interest loans. Loans will be made for a period not to exceed:

- Fifteen (15) years for economic development land and building projects;
- Seven (7) years for economic development machinery and equipment projects; and
- Five (5) years for economic development permanent working capital project.

Anticipated Impact of Financing

The RLF will increase the number of financing opportunities available for economic development in the county. The RLF will be utilized to bridge financing gaps that currently exist. By providing loans at or below the market interest rates, the RLF will help stimulate and leverage other public and private investments.

C. Financing Policies

Standard Lending Terms

Interest Rate -- The minimum interest rate that can be charged is four (4) percentage points below the prime rate as published by the Wall Street Journal. Should the prime rate exceed fourteen (14) percent, the RLF interest rate is not to exceed ten (10) percent. The proposed interest rate is 75% of said prime rate. This rate, adjusted on the first business day of each year, will be set on the date of closing.

Interest will be charged on the unpaid balance of the principal for the actual time the money is outstanding on the loan. Interest will be compounded monthly.

Any other participating lenders may set the rate of interest on their portion of the loan advanced from their own funds.

The OCEDA Board of Directors shall have the authority to adjust the interest rate on any RLF loan as the economy dictates.

Equity Requirements -- Economic development projects and loans to businesses will require a minimum equity investment of ten (10) percent of the total project.

Repayment Terms -- Generally, loans shall be paid in equal monthly installments, including interest and principal. Loans including extension or renewals thereof may be made for a period not exceeding ten (10) years. Loan terms for various projects are established as follows:

- Economic Development/Land and Building Purchases -- 15 years
- Economic Development/Machinery and Equipment -- 7 years
- Economic Development/Permanent Working Capital -- 5 years

Repayment terms for business/economic development loans will be established by considering the project scope.

The borrower may repay all or part of the RLF loan at any time without prepayment penalty.

Special Financing Techniques -- Modification of the terms or conditions of the RLF financing may be approved by the OCEDA Board of Directors when it is demonstrated that substantial economic development benefits will result and/or the project will enhance private or public sector job creation and the capability of the RLF to achieve program objectives.

Since the RLF is designed to promote economic development and enhance economic opportunities, the OCEDA Board of Directors shall have the authority, for good cause, to grant a moratorium on the repayment of principal and/or initial interest for a period of time, but such a moratorium shall never exceed one-tenth (1/10) of the life of the loan. During the moratorium period, interest will be accrued and be capitalized.

In a direct fixed asset loan, the OCEDA Board of Directors may authorize that the lien positions of the RLF be made subordinate and inferior to a lien or liens securing other loans made in connection with the project. However, such subordination shall apply only in regard to such indebtedness or contractual obligations as are incurred by the borrower specifically to acquire tangible assets, upon which the lender shall have a lien. In no case will RLF proceeds subordinate to borrowed equity.

Restructuring RLF Loans -- Upon authorization by the OCEDA Board of Directors, the rates, terms, and other conditions of an outstanding RLF loan may be restructured or modified to maintain operations and retain jobs. Each case will be evaluated on an individual basis, weighted upon the negative impact the loss would create to employees and the community.

In the event that OCEDA determines it is necessary or desirable to take actions to protect the interest of the RLF, GRADD may take action to sell, collect, liquidate, or otherwise recover on loans or guarantees extended by the RLF in accordance with legal rights of the Ohio County Economic Development Alliance, other participating lenders, and the RLF borrower.

Collateral Requirements

In the determination of collateral requirements, the OCEDA Board of Directors will consider the merits and potential economic benefits of each project. Acceptable collateral options

for economic development loans to small businesses or entrepreneurs may include, but not limited to, on or more of the following:

- Mortgage to secure debt on real estate and building facility. The OCEDA RLF may hold first mortgage or take subordinate positions as appropriate;
- Liens on equipment, machinery, fixtures, etc;
- Assignment of warehouse receipts for marketable merchandise;
- Assignments of certain types of contracts;
- Security interests in personal property or chattel;
- Assignments of current accounts receivables and inventories;
- Letters of credit; and
- Beneficiary assignment in life insurance policy of business principals.

Loan Sizes

OCEDA will entertain minimum loans of \$10,000. The maximum loan will be \$100,000. The OCEDA Board of Directors can increase the maximum loan amount if a project is determined to have a substantial economic impact on the community.

D. Portfolio Standards and Targets

Percentage of RLF Investment

The RLF is established to serve the financing needs of the county's businesses and entrepreneurs. Because there is substantial need and interest for both types of projects, there is no formula or percentage to reserve funds for specific or particular types of projects.

Private Investment

These loans are expected to stimulate private investment equal to three times the amount of the loan.

Cost Per Job Ratio

For economic development projects, the cost per job ratio is expected to be \$10,000.

E. RLF Loan Selection Criteria

OCEDA staff will include the following criteria in making its recommendations to the OCEDA Board of Directors:

- Projects must be located within Ohio County
- Project must be in the industrial, commercial, and service sectors.

- The OCEDA RLF may participate up to 50 percent of a project. The maximum loan is \$100,000 for fixed assets. The maximum working capital is \$50,000. In no case shall the total loan amount exceed \$100,000 per borrower.
- The project owner(s) must inject a minimum of 10 percent of the total project cost.
- The RLF requires other lender participation on the project.
- Maximum RLF terms:
 - Working Capital 5 years
 - Equipment 7 years
 - Land & Building 15 years
- Applicants are required to have existing net working capital of at least twenty (20) percent of its total working capital needs.
- Projects must create new jobs, retain jobs, or have a significant impact on the economic growth of a community.
- The recommended interest rate charged on all loans will be 75% of the Prime Rate as published by the Wall Street Journal.
- As appropriate and practical, financing will be secured with mortgages, liens, or assignments of rights to assets of the borrower. Personal guarantees are required by all owners of the business.
- At least annually, all borrowers will submit company and/or personal financial statements as required by the OCEDA.

F. Performance Assessment Factors

The performance of the Revolving Loan Fund will be assessed annually in conjunction with the report provided to the OCEDA Board of Directors. The performance assessment will examine each of the objectives of the RLF in terms of the portfolio. The RLD plan will be modified if the performance assessment indicates it is necessary in terms of changes in the economic condition, activities, or other conditions that may warrant the alteration.

PART II

REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. Organizational Structure

Overview of Organization

The RLF will be administered by the OCEDA staff, which possesses experience and training in aspects of both governmental and business finance. The RLF staff has experience in financial analysis, economic development, and community development. Staff has numerous

hours of training and continuing education relative to business development and development finance.

OCEDA staff will be available to provide technical assistance and managerial assistance to the borrower. OCEDA staff has experience in all phases of financial packaging, including business plan development, financial statement analysis, loan packaging, servicing, and processing. OCEDA has excellent relationships with various local banks, development organizations, and state and federal programs.

Detailed Structure

The Ohio County Fiscal Court will be the final decision making authority on all loans.

Prior to approval by the Ohio County Fiscal Court, the loan must be approved by the OCEDA Board of Directors. The Board functions with the assistance of its officers: Chairman, Vice-Chairman, Secretary, and Treasurer. The Chairman serves as the Board's executive officer and is responsible for seeing that all policies and directives of the Board are implemented. The OCEDA Bylaws are structured on a one person/one vote system. The Board will periodically review the investment portfolio for compatibility with RLF strategy and goals.

Prior to approval by the OCEDA Board of Directors, the initial loan application will be reviewed by OCEDA staff. OCEDA staff is responsible for approving loans, all major loan modifications/waivers and foreclosure actions. It will also be responsible for recommending RLF loan policy.

B. Loan Processing Procedures

Standard Loan Application Requirements

Information required in application for loans include:

- A history and description of the business, an analysis of management ability, and a description of the project.
- Detail the use of proceeds of this project (cost of land, building, and equipment).
- Personal financial statement, current within 30 days, for each proprietor or stockholder with 20 percent or more ownership. Personal guarantees are required of any owner with over 20 percent ownership of the company. Make sure the date at the top of the statement and the date they are signed are the same and the information is current as of that date. The personal financials must be signed by both husband and wife if the personal financial statement includes joint assets.
- Resumes of principals involved in day-to-day management.
- Balance sheet with current pro-forma (within 30 days). Please provide assumptions that support the financial information.

- For a new or existing business, a monthly cash flow analysis for the first 12 months of operation or for three months beyond the break-even point (whichever is longer) together with a description of assumptions.
- Estimated projection and forecast of three years' earnings.
- A schedule of debts that includes current debts and debts planned for the next 12 months.
- The names of affiliated (through ownership or management control) or subsidiary business, as well as the last two fiscal year-end financial statements and a current financial statement for each of these firms.
- If the business is a franchise, include a copy of the Franchise Agreement and the Franchiser's Disclosure Statement that is required by the Federal Trade Commission.
- A copy of key cost documents, such as real estate purchase agreements, contractor cost estimates, vendor quotes for machinery and equipment, etc. If the equipment is being purchased, give a list of the equipment and a letter from a vendor or appraiser that states the equipment has a life of at least ten (10) years.
- If applicable, a copy of the existing or proposed lease agreement.
- An independent appraisal for construction projects on an "as completed basis," or an architect's certified cost estimate, or a contractor's contract based on completed plans and specification.
- Environmental analysis, if applicable.
- A commitment letter from the private lender outline the amount of the loan, term, interest rate, and collateral.
- Tax Returns -- Provide the previous three years' business tax returns, which must be signed by the borrower.
- List of major customers and potential new customers.
- List of major competitors.

Such statements and balance sheet should reflect the applicant's ability to repay the debt principal out of earnings. When applicable, other non-financial information requested may include estimates, firm quotations, receipts, contracts, orders, invoices, leases, or equivalent documentation from architects, engineers, contractors, sub-contractors, material suppliers, and others involved in the sale or lease or construction of fixed assets. The applicant will be requested to detail the schedule for implementation of the project and provide back-up information regarding operating costs including projected employment by job category and applicable wage rates and costs.

Credit Reports

OCEDA staff will make credit and performance checks regarding the borrower (ie, Dunn and Bradstreet report), as necessary.

Appraisal Reports

Appraisal reports will be required to document the value of a real estate that may be acquired and/or taken as additional collateral with RLF funds.

Standard Collateral Requirements

Financing made available to entrepreneurs and small business owners will be secured through various and combined collateral options including, but not limited to:

- Mortgage to secure debt on real estate and building facility. The OCEDA RLF may hold first mortgage or take subordinate positions as appropriate;
- Liens on equipment, machinery, fixtures, etc;
- Assignment of warehouse receipts for marketable merchandise;
- Assignments of certain types of contracts;
- Security interests in personal property or chattel;
- Assignments of current accounts receivables and inventories;
- Letters of credit; and
- Beneficiary assignment in life insurance policy of business principals.

Standard Equity Requirements

Economic development projects and loans to businesses will require a minimum equity investment of ten (10) percent of the total project.

Loan Write-Up

Upon receipt of a completed application, the staff will perform an analysis for consideration by the OCEDA Board of Directors. Staff will provide a loan write-up which at a minimum consists of the following items:

- Summary of the project description, management capabilities, and any other pertinent information;
- Sources and uses of funds;
- Analysis of financial condition and repayment ability;
- Collateral availability; and
- Consistency with the RLF goals and objectives.

Procedures for Loan Processing

During the initial consultation with potential applicants, OCEDA staff will work with the applicant(s) to screen projects and to determine what programs or services are available to provide the most assistance. The staff will discuss in detail with the applicant the requirements of the RLF program and check to see if the applicant is capable and/or willing to meet the requirements of the RLF plan.

It will be the borrowers' responsibility to complete the application. However, OCEDA staff will assist the borrower in packaging RLF proposals and work in cooperation with other participating funding agencies and organizations.

Once the staff receives a full application, it will be reviewed to ensure all information is included. Applications needing more information will be returned to the applicant for completion or modification. Complete applications, along with staff recommendations for approval or rejection, will be brought before the OCEDA Board of Directors which will meet as needed to review the applications.

The OCEDA Board of Directors action will be in the form of recommendation for approval, disapproval, or approval with special conditions. Those applications that are approved with special conditions will be returned to OCEDA staff for additional work with the applicant. Recommendations by the OCEDA Board of Directors will be presented at the following Ohio County Fiscal Court meeting. The Fiscal Court will either approve, reject, or make modification recommendations. Those recommendations from the Fiscal Court to modify a loan will be returned to OCEDA staff for further work with the applicant. Notification of the Fiscal Court's decision will be provided to the applicant within the next five working days. Upon approval by the Fiscal Court, arrangements will be made with the applicant for the loan closing and other management requirements. If the Fiscal Court rejects the application, OCEDA staff will forward a denial to the applicant.

C. Loan Closing and Disbursement Procedures

Loan Closing Documentation Requirements

Loan closing documentation will at a minimum consist of the following items:

- RLF loan agreement;
- Promissory note;
- Mortgage and/or security agreement (with financing statement and list of collateral);
- Guaranty agreement;
- Amortization schedule; and
- The loan agreement shall provide that all applicable laws and regulations shall be complied with completely.

Loan Disbursement Requirements

Upon submission of all required documentation and evidence that all other financing is committed, a loan closing date will be established. The purpose of the RLF is to stimulate economic development projects. At closing, 100 percent of the funds will be distributed to the borrower. Interest will be charged on funds drawn. At the closing, the borrower will receive a settlement statement reflecting the loan amount, loan fees, and closing costs incurred. All fees

are the responsibility of the borrower. If the project is for a capital purchase, funds will be disbursed upon the presentation of documentation in support of the lien request.

D. Loan Servicing Procedures

Loan Payment and Collection Procedures

The RLF borrower will make either monthly, semi-annual, or annual payments, for the amount indicated in the loan agreement, by check, no later than the first day of each month. The Ohio County Treasurer is responsible for making sure all receipts are deposited into the appropriate account. All funds will be deposited into a bank with FDIC coverage.

Loan Monitoring Procedure

OCEDA staff will administer the RLF program and will service all RLF loans. This includes the coordination of loan closings, disbursement of RLF funds, and servicing to ensure proper fund management and timely payment of principal and interest.

Staff will also be responsible for ensuring compliance with all applicable laws and regulations.

Periodically, but no less than annually, staff will evaluate the RLF program and the loans using criteria obtained from goals and objectives of the RLF plan.

Late Payment Follow-Up Procedures

- All payments are due on or before the first of the month.
- Any payment that is not received by the fifteenth (15) day of each month will result in the loan being considered delinquent.
- Delinquent borrowers will receive a letter indicating their delinquency, requiring payment immediately and notifying the borrower that a five (5) percent late fee has been charged to the account and is due with the payment.
- If an account becomes thirty (30) day delinquent, a second delinquency notice is mailed, via certified mail, indicating payment is now due, along with the late fee, requiring a written explanation of the delinquency and explaining that if the account becomes forty-five (45) days delinquent, it will be turned over to an attorney for collection. OCEDA staff may, at their discretion, ask for financial statements as well.
- If an account becomes forty-five (45) days delinquent, a working letter from our attorney will be sent.
- When payment is sixty (60) days late and no remedial action has been taken by the borrower, payment in full is demanded and foreclosure is to be started.

Write-Off Procedures

OCEDA shall exhaust all remedies available to ensure that the entire debt is collected. Upon final disposition of the loan, if a portion of the loan is deemed uncollectible, it will be written off in accordance with general accounting procedures and the most current United States Economic Development Administration (EDA) specifications.

E. Administrative Procedures

Procedures for Loan Files and Loan Closing Documentation

The loan files, at a minimum shall consist of the following:

- Application and supporting documentation, including OCEDA minutes and staff review information;
- Loan closing documents, including loan agreement, note, mortgage, security agreements, personal guarantees, equipment lists, and other documents included in the closing process;
- Site visit reports, if applicable;
- Annual financial information, where applicable;
- General correspondence;
- Servicing and other monitoring information; and
- Any other information required to be in borrower files by EDA.

Procedures for Complying with EDA Reporting Requirements

OCEDA will establish a separate account for their receipt, disbursement, and account of the RLF funds. It will abide by all disbursement procedures as established by EDA. OCEDA will have their cash match in place prior to the first EDA disbursement.

Records will include an accurate account of any principal repayments, interest, loan fees, or other proceeds generated by the RLF and will document how these funds are used. Administrative expenses paid for with interest, loan fees and other proceeds generated by the RLF will be charged based upon actual expenditures and will be documented with time sheets, logs, or other supporting documentation. All RLF records, including loan documentation, shall be stored in a fireproof file cabinet within the OCEDA offices.

Reports shall be submitted to the EDA Regional Office every six months for a minimum of one year after disbursement of all grant funds, after which it may be requested in writing for a shorter annual reporting requirement.

Procedures to Ensure Compliance with Grant Requirements and Monitoring of the RLF Portfolio

The RLF will be audited in accordance with the EDA RLF Administrative Manual dated August 15, 1997. Independent audits of financial operations, including compliance with all grant requirements, will be conducted at least every two years throughout the five-year reporting period, or for a period of time as determined by EDA.

OCEDA will maintain financial management systems and retain financial records in accordance with standards prescribed in OMB Circular A0128 and in accordance with the General and Special Terms and Conditions of the grant.

Procedure for Disbursement

Borrowers will present documentation to RLF staff supporting their request for payment. Following review and approval of the documentation by the RLF staff, it will be forwarded to the County Treasurer for processing. Following their review, a check will be issued in the appropriate amount. The executive director and chairman of the OCEDA Board of Directors sign all checks. They will then be disbursed for payment.