2019 Revolving Loan Fund Plan

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PART I: REVOLVING LOAN FUND STRATEGY

A. ECONOMIC ADJUSTMENT OVERVIEW
Region Five Development Commission (R5DC) serves the five-county region of Cass, Crow Wing, Morrison, Todd and Wadena -- located in North Central Minnesota. This rural and small-town area has a population of 165,027 in 68,303 households spread over an area of 3,996,051 acres. Over the past decade, this region has faced an uncertain future due to the economic downturn (called the “Great Recession” by the Minnesota State Economist Tom Stinson). The Comprehensive Economic Development Strategies (CEDS) used a five-year region-wide planning process engaging more than 200 individuals to identify ways to improve the economic future for the region.

1. Nature and scale of economic adjustment problems and economic distress to be addressed by the RLP: The Region Five Development Commission covers five counties in North Central Minnesota. The region, regional economy, and industry and wage trends are described in detail.

The region: The federally designated Minnesota Economic Development District 5, or Region Five, is comprised of an area that covers five counties in North Central Minnesota. These counties include Cass, Crow Wing, Morrison, Todd, and Wadena. Geographically, the region encompasses classic and traditional Minnesota topography. The geography of our region includes lakes and rivers, rural farming communities and forested areas. While the area faces an abundance of diverse issues and opportunities, similarities do exist among these five counties. Within the counties that comprise the region, there are 65 communities and over 150 townships. Cities have populations that range in size from under 500 to over 10,000, though many cities in the region have populations under 2,000.

Regional economy: The region has a mix of industries, from tourism to manufacturing. In 2017, there were a total of 4,864 firms employing 62,645 workers. The three largest employing sectors in the region are healthcare and social assistance (17.7%), retail trade (14%), and accommodation and food service (12%).

Average weekly wages in 2017 for all industries was $713 compared to the state average of $1,079, a difference of $366 per week or $19,032 annually.

According to data from DEED’s Local Area Unemployment Statistics Program, Region Five had an average labor force of about 83,500 in 2017. Despite some instability, the regional labor force has increased since year 2000, adding over 5,200 workers since then. However, the labor force has declined by about 1,400 workers since its peak in 2010 (85,035).

Increasingly tight labor markets and a growing scarcity of workers is now recognized as one of the most significant barriers to future economic growth in Region Five. In the face of these constraints, it has become evident that a more diverse workforce in terms of age,
gender, race, ethnicity, disability, status and immigration has been and will continue to be a vital source of the workers that employers need to succeed. As the White, native-born workforce continues to age, younger workers of different races or from different countries will comprise the fastest growing segment of the labor force.

Four of the five counties in the region are designated as distressed by EDA. Cass, Morrison, Todd, and Wadena counties are distressed; Crow Wing county is not.

**Industry and wage trends:** Data, available through the Minnesota Department of Employment and Economic Development (DEED) allows a comparison of state and local industries with an “above-average” market share. In 2017, Region Five held 2.8% of all Minnesota jobs. Generally, wages in Region Five are lower than the statewide average. A total of 52 occupations (out of 330 occupations with available wage data in Region Five) pay above the Minnesota median wage for that given occupation. Some examples of those occupations with the highest employment numbers include Healthcare, Protective Service Occupations, Home Health Aids, School Bus Drivers, Packaging and Filling Machine Operators, and Highway Maintenance Workers.

The Minnesota Job Vacancy Survey showed 5,773 job vacancies in the region during the second quarter of 2018. Food Preparation and Serving Occupation related occupations accounted for 1,359 of the vacancies. Fourteen (14%) percent of the vacancies require a post-secondary education, while 27% require work experience. The Minnesota job vacancy rate is lower at 5.2% compared to the region's (9.1%).

In April 2017, the regional unemployment rate was at 5.2%, compared to Minnesota's rate of 3.4%. The last time the region’s unemployment rates were so low was in 2000 (4.5%). During 2009, the region experienced an unemployment rate of 10.1%. Comparably, the state recorded a high of 7.8% in 2009 and a low rate of 3.2% in 2000. Historically, the Region 5 numbers remain considerably higher than the Minnesota unemployment rates for this same time period.

2. **The plans and strategies to deal with the economic adjustment problems and economic distress, and the CEDS:** The Business Development Strategy and Financing Strategy contained in this Revolving Loan Fund Plan outline the scope of work to be followed to deal with economic adjustments in our Region. Our Region is known for its natural amenities, lakes, forests and tourist opportunities. What is not commonly known is that there are unique and amazing partnerships that collaborate together with talent, knowledge and skills toward common goals, identifying problems and promoting/sharing business development within the five-county region. The CEDS (See Addendum IV) puts forth our regional strategy for growing businesses as well as addressing other critical issues: the in-migration of an aging population, access to quality daycare, developing a sustainable delivery system for local foods and looking at innovative energy ideas to name a few.

3. **How the RLF will be used to support economic adjustment activities identified in the CEDS:** This Revolving Loan Plan outlines the goals, objectives and process of delivering
business and loan assistance to the region. It provides a clear path and vision that will enable projects to get done. The CEDS identifies the industries targeted and the Plan provides the fiscal capabilities to invest in the region. By uniting with fellow gap lenders and leveraging resources of other partner agencies, projects of regional importance are achieved, and efforts are not duplicated, thus maximizing the return on investment for our region. The RLF is key component of the regional strategy.

B. BUSINESS DEVELOPMENT STRATEGY
The NCEDA developed a business development strategy for targeting RLF resources in pursuit of its economic adjustment goals and objectives and are identified in the CEDS (See Addendum V). The business development strategy outlines how financial institutions, revolving loan funds, and other financing programs, as well as technical assistance will be targeted to particular businesses or economic sectors. The strategy is based on the knowledge of the Economic Development Department of the R5DC and the NCEDA, as well as through discussions with economic development professionals and organizations, lenders, business owners, community leaders, and elected officials. The strategy is intended to be an overall strategy for business investments in the region and is not intended to limit investments in other businesses or activities, which would further diversify the regional economy.

1. **Objectives of the business development strategy**: The following goals of the Business Development Strategy were developed from and intended to be consistent with the region’s CEDS:
   a. Provide financing mechanisms through which public investment will stimulate private investment in the commercial and industrial revitalization of the region.
   b. Increase the following enterprise development in the Region Five service area: minority, veteran, women, low-income, persons with disabilities, artists, business accelerators and others.
   c. Increase the growth potential of businesses in the Region Five service area.
   d. Generate additional tax revenues for the Region Five service area.
   e. Encourage the development of vacant land and the rehabilitation of dilapidated or vacant buildings in the Region Five service area.
   f. To encourage the development of the infrastructure necessary to support local economic development.
   g. To provide business planning assistance or referrals.
   h. To assist in business financing efforts.
   i. To fund companion businesses that add value to existing local businesses.

The five primary objectives to be achieved by the RLF which together relate to the economic development goals adopted by the Region Five Development Commission via the CEDS address the areas of labor force development, entrepreneur & innovation, infrastructure, natural & social environments (social capital), and finance.

Further stated objectives of the Fund include:
   a. Increase ownership/entrepreneurship opportunities for small-business persons, non-profits and local units of government in the Region.
b. To create or retain permanent, full-time, private sector jobs in Region Five, preferably for the underemployed and unemployed.
c. To provide capital for business development and expansion within the Region Five service area, especially for businesses unable to obtain adequate, affordable capital from the private capital market.
d. To leverage other public and private investment in order to achieve the maximum number of jobs per RLF dollar.
e. To bolster the tax bases of local units of government with the creation, retention, and expansion of new and existing businesses.
f. Increase manufacturing activity in the Region through capital formation.
g. Support innovative products and processes, especially the renewable/alternative energy industry, and as identified in the CEDS process.
h. Create or retain, at a minimum, one job for every $20,000 (or less) of RLF funds lent.

Furthermore, a primary objective of the Fund is to participate in projects which attract private capital and that create livable wage employment opportunities. It is not the intent of the Fund to replace private sector financing or reduce existing private exposure in a borrower's liability structure (in other words, the Fund will not merely refinance debt).

2. **Targeted sectors:** Historically most businesses in the region employ ten or fewer employees. It is realistic to expect applications to continue this trend. Targeted businesses can be either start-up or expansion, with no more weight given to either application for funding. NCEDA has targeted the following industry clusters in the Region Five service area for business assistance.
   a. Healthcare, including pharmaceuticals, medical devices, biotechnology and healthcare services
   b. Environmental, including environmental technology and environmental services
   c. Alternative and renewable energy companies
   d. Manufacturing, including food processing
   e. Service industries, including child/adult daycare
   f. Value added agriculture
   g. Technology based companies and ventures that advance access to broadband

3. **Sector needs:** Because the RLF cannot fill the capital needs for all the economic development projects in the Region, it is necessary that the use of these funds be focused – targeted to meet CEDS objectives. The focus will be to achieve the RLF objectives and to advance the goals and strategies of the CEDS. Therefore, the RLF will focus on the following sector needs:
   a. Job creation for the unemployed: Job Service, unemployed, underemployed and other state services will be used.
   b. Financing minorities: Loans for minorities and for women are to be promoted.
   c. Increase income levels: Emphasis will be placed on creating jobs that offer wages higher than minimum wage and or living wage levels as defined by Minnesota Department of Revenue.
d. Diversify regional economy: manufacturing, agricultural processing, and service export projects shall be preferred over commercial, retail projects, everything else being equal.

e. Improve tax base: A project that will increase local taxes shall be preferred over those that do not, everything else being equal.

f. Stimulate private investment: A business project with local enterprise will leverage at least three public or private dollars for every dollar of RLF funds shall be preferred over those that do not. At a minimum the RLF shall leverage two public or private dollars for each RLF dollar.

g. Working capital loans: Up to fifty percent (50%) of the RLF portfolio may finance working capital; maximum of 50% of borrower’s working capital needs may be RLF-financed.

4. Other programs and activities: The programs and activities to be undertaken by the public sector and/or economic development organizations to address the needs of the targeted businesses include required leveraging from public sources and mentoring services from the public and private sectors.

a. Leverage other resources: Staff will seek out additional sources of financing and coordinate Region with state, federal, local, and other financing programs.

   i. Match contribution: All counties contributed to the EDA required match that established the RLF is considered a permanent contribution and may not withdraw.

   ii. County eligibility: All counties, including their respective cities and townships, within the Region 5 service area are eligible.

   iii. Local matching funds: The required local match shall be available in cash for lending in the same manner as the EDA grant funds. The funds shall be loaned out proportionately. All contributing jurisdictions shall proportionately share in the local matching portion of RLF loans outside of their respective legal boundaries.

b. Mentors: R5DC already has relationships with several private and public sector organizations that support business development, retention, and expansion. Examples include:

   i. Small Business Development Center: The region has a strong and effective SBDC that has been instrumental in retaining and support local businesses during the downturn in the economy.


   iii. EDO Pro network; R5DC has convened over 10 economic development professionals quarterly since 2001, all whom support business development.

   iv. Women’s Fund Mentoring Program: The area Women’s Fund has offered classes, workshops, and one-on-one mentor-ships for low-income women of the region.
C. FINANCING STRATEGY
The counties eligible to receive lending from the NCEDA RLF are Crow Wing, Cass, Morrison, Todd and Wadena in central Minnesota.

1. Financing needs: Both existing business in all sectors and entrepreneurs have traditionally had a difficult time obtaining sufficient financing from local banks and credit unions in the region. There are two key reasons for this lack of financing for business development. First, most of the region's lending institutions are small with limited assets. Second, agriculture lending has historically been the focus of the region's lenders because of the area's large agriculture base. As a result, business lending has been and continues to be a small part of the portfolios for the region's lending institutions.

2. Local capital market: Due to these limiting factors for accessing private financing, public financing is a vital tool for business development in the region. RLF financing will be used to fill financing gaps and be accessed when credit is otherwise not available. The RLF will try to partner with other public and private sources of funds whenever possible to fill financing gaps. Other gap financing sources that may be accessed include, but are not limited to:
   a. Public and Private Funding sources.
   d. Local: Initiative Foundation, County & City RLF's, Utility RLF's, SBA lenders.

3. RLF financing niche: The RLF financing niche will be to provide gap financing to businesses that fulfill one or more objectives of the RLF's business development strategy. To fulfill the RLF's goal and objectives stated herein the RLF may take guidance from the following financing impact factors:
   a. The RLF should be market based. RLF investments should capitalize on the region's unique assets and strengths when possible to build comparative advantages for future business investment.
   b. The RLF financing strategy should be proactive in nature and scope. RLF investments should attempt when possible to support and advance innovation and increased productivity. The RLF should attempt to enhance the region's success in achieving a high and rising standard of living.
   c. The RLF looks beyond the immediate economic horizon, anticipates economic changes and diversifies the local and regional economy. The RLF investments should attempt to be part of an overarching, long-term regional strategy that includes expanding existing industry and developing emerging, new industry. Investments should try to create conditions for sustained productivity.
   d. RLF investments maximize the attraction of private sector investment that would not otherwise come to fruition absent RLF investment. The RLF should try to serve as a unique public sector source of capital to assist distressed communities that
otherwise would be at a competitive disadvantage in attracting the private capital investment.
e. RLF investments should have a high probability of success.

D. FINANCING POLICIES
RLF loans may be made to qualifying businesses for working capital, equipment and machinery and real property acquisition. It is NCEDA's policy to weigh start-up or expansion funding requests on an equal basis. The only factor that limits the number of loans that can be made is the availability of funds. The Loan Committee shall take guidance from the following points in its implementation of the RLF:

1. **Eligible land area:** Region Five consists of Cass, Crow Wing, Morrison, Todd and Wadena counties, other eligible lending areas may be added in the future with EDA's prior written approval.

2. **Allowable borrowers:** Non-profit and for profit are eligible to apply. Businesses can be start-up or expansion; preference is given to those sectors identified in the CEDS.

3. **Allowable lending activities:** The allowable and prohibited uses of RLF capital follow.
   a. Allowable loans: Loans that are allowed include specifications regarding working capital and fixed assets:
      i. Working capital: Working capital loans are limited to no more than fifty percent (50%) of the RLF portfolio. However, the RLF Board will be encouraged to limit the portion of such loans to approximately 33% of the RLF portfolio. Priority will be given to manufacturing projects.
      ii. Fixed assets: The financing of equipment and machinery with short useful lives of one to fifteen years and real estate with income generating potential of up to thirty years are eligible activities.
   b. Prohibited loans: Prohibited uses of RLF capital include:
      i. General: RLF Capital shall be used for the purpose of making RLF loans that are consistent with an RLF Plan or such other purposes approved by EDA. To ensure that RLF funds are used as intended, each loan agreement must clearly state the purpose of each loan.
      ii. Restrictions on use of RLF Capital. RLF Capital shall not be used to:
         (a) Acquire an equity position in a private business,
         (b) Subsidize interest payments on an existing RLF loan,
         (c) Provide for borrowers' required equity contributions under other Federal Agencies' loan programs,
         (d) Enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation,
         (e) Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs,
(f) The potential economic benefits must be clearly consistent with the strategic objectives of the RLF,
(g) Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit or any investment unrelated to the RLF, or
(h) Refinance existing debt.

4. **Loan size:** The Fund will make loans from a minimum of $5,000 up to $100,000. Loans above this threshold up to 25% of the value of the fund may be made available on a case-by-case basis. Based on past performance of the revolving loan fund, most of the loans should be in the middle of the range, averaging $50,000.

5. **Interest rates:** The general rule and exceptions are these:
   a. **General rule:** An RLF NCEDA may make loans to eligible borrowers at interest rates and under conditions determined by the RLF to be appropriate in achieving the goals of the RLF. The minimum interest rate an RLF borrower may be charged is four (4) percentage points below the lesser of the current money center prime interest rate quoted in the Wall Street Journal, or the maximum interest rate allowed under State law. In no event shall the interest rate be less than the lower of four (4) percent or 75 percent of the prime interest rate listed in the Wall Street Journal.
   b. **Exception:** Should the prime interest rate listed in the Wall Street Journal exceed fourteen (14) percent, the minimum RLF interest rate is not required to be raised above ten (10) percent if doing so compromises the ability of NCEDA to implement its financing strategy. The RLF will operate with fixed interest rate schedules which shall be negotiated between the Loan Committee and the borrower after taking into account interest rates prevailing in the local commercial market, the term of the loan request, and the financial projections for the project. The Loan Committee will consider an interest rate in line with the business's internal rate of return. Interest rates will generally be below local financial institutions short-term rates.

6. **Terms:** The term selected will depend on the projected income-generating stream of the assets to be financed and on the forecasted cash flow of the project. The experience of other RLF's reveals that terms vary from four to ten years with an average of seven years. In all cases, the term will match the useful life of the assets except for working capital, which shall have a maximum term of three (3) years. Fixed assets including real estate shall have a maximum term of Thirty (30) years, usually with a five (5) year balloon. The maturing loan may be renewed or extended if loan conditions/projections have been met and private financing cannot be obtained at reasonable terms.

   Special financing techniques: The Fund reserves for itself the ability to employ the following financing techniques, as determined by the Loan Committee:
   a. Deferred principal payments;
   b. Subordinated position in cases that involve primary lending institutions;
c. Scheduled balloon payments, e.g., a fixed asset loan amortized over ten years with a five-year balloon payment.

7. **Fees:** A loan origination fee shall be charged at the time of closing. Filing fees and attorney costs, if applicable, will also be added.

8. **Equity & collateral:** The Loan Committee will require a minimum borrower equity contribution of ten (10) percent of the total project cost. In kind equity will be allowed however to permit greater flexibility. The Loan Committee shall make no unsecured loans. Any asset shall collateralize working capital and any possible security positions deemed appropriate by the Loan Committee. For example, it may accept unconventional forms of security of collateral such as personal guarantees, assignments of contracts for deed, or other creditor's interest in property, and subordinate positions to other private financing.

9. **Moratoria:** General Policies for Restructuring or Modifying Terms of RLF Loans - The Loan Committee may extend the terms of a loan through a moratorium on principal payments up to six months upon borrower request if circumstances warrant such action. In addition, the Loan Committee may choose to include a call clause that would allow the Fund to withdraw its funds ahead of schedule from successful firms that have the called-for repayment ability. The calling of a loan under such circumstances will not take place until a review has made by the Loan Committee of the ability of the borrower to repay early the amount of the loan outstanding. Such reviews may be stipulated in the loan agreement and may take place periodically (e.g. every five years) or at the discretion of the Loan Committee. The Loan Committee will not begin an unscheduled review without the prior knowledge of the borrower. This mechanism gives the Fund added flexibility in managing its portfolio so as to achieve the most wide-spread and rapid impact over time, by shifting its resources from borrowers that no longer require them to firms that qualify for Fund assistance.

**Loan Guarantees** – The Fund will not, under any circumstances, generate loan guarantees.

10. **Start-ups:** Loans for start-ups (new businesses) versus loans for retention or expansion of an established business -- are waited equally and the policies are the same.

11. **Working capital:** Loans are limited to no more than fifty percent (50%) of the RLF portfolio. However, the RLF Board will be encouraged to limit the portion of such loans to approximately 33% of the RLF portfolio. Priority will be given to manufacturing projects. The maximum term for working capital loans will be three (3) years.

**Use of the RLF with other loan programs:** The use of RLF resources in conjunction with any other loan program where it is permissible under the other programs' policies and where the use of the RLF is considered appropriate and necessary by
the Loan Committee is encouraged; however, EDA RLF requirements will be adhered to in all circumstances.

12. **Credit not otherwise available:** The RLF will normally require documentation from outside sources which may include lender denial letters or other documentation, as appropriate, to support the claim that the RLF is not substituting for private capital.

13. **Other considerations:** The Fund will document compliance in each borrower's loan file through loan developer's written analysis and recommendation and other appropriate means, including but not limited to lender turn--down letters and/or written responses to borrower's request, to sufficiently evidence that credit is not available on terms and conditions that would permit the project to be completed or successfully operated unless RLF funding is included in the overall financing package.

   a. **Technical and management assistance:** Pre-application loan structuring assistance will be provided to businesses and prospects by the Fund. The Region Five Economic Development staff provides loan packaging assistance and related business consulting advice. The Small Business Development Centers (SBDC) aids in marketing, management, and financial analysis. This SBDC network also conducts ongoing seminars on various aspects of business problems.

   Post-closing assistance will be given to meet businesses continuing needs. The intent of this ongoing relationship is geared to prevent loan delinquencies by helping the firm identify and correct problems early. The use of interest earnings from the RLF for expenses incurred in such activity will help to prevent losses from the Fund.

   Borrowers must make a reasonable effort, as a condition of receiving RLF financing, to ensure that the Fund Loan Committee understands to its satisfaction their business operations. Borrowers should inform the RLF administration of any existing or potential business problems and follow to the best of their ability the advice and direction given.

   b. **Loan packaging and referral services:** To meet the financial needs of businesses and developers, the RLF shall be coordinated with available public/private financing sources. Both the Region Five Economic Development staff and Business Development Specialists such as local development corporations, SBDC's, DEED, Initiative Foundation loan developers, municipals, economic development professionals and other qualified loan development practitioners will help to put deals together.

**E. PORTFOLIO STANDARDS AND TARGETS**

To assure that the RLF meets the objectives spelled out above, the Fund has set standards for the loan portfolio. The RLF Loan Committee in its review and prioritization of applications uses these standards.
1. **Target percentage:** No more than 30% of the total RLF will go to working capital; otherwise, there are no targeted percentages for RLF investments based on the categories of land use, business status, fixed asset loans. The loans awarded depend on the quality of the loan application and the degree to which they create jobs within the targeted sectors.

2. **Private sector leverage:**
   a. **Requirements:** The following portfolio standards are EDA requirements and will be used by the Loan Board to measure the performance of the RLF, prioritize applications and fulfill the EDA RLF objectives. RLF loans must leverage private investment of at least two dollars for every one-dollar of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF’s operation. To be classified as leveraged, private investment must be made within twelve (12) months of approval of an RLF loan, as part of the same business development project, and may include:
      i. Capital invested by the borrower or others;
      ii. Financing from private entities; or
      iii. The non-guaranteed portions and ninety (90) percent of the guaranteed portions of the U.S. Small Business Administration’s 7(A) loans and 504 debenture loans.
      iv. Private investments shall not include accrued equity in a borrower’s assets.
   b. **Guidelines:** The following standards are meant as guidelines, not as absolute requirements of the Fund. The NCEDA Loan Board will apply these standards to implementation and performance of the RLF loans, balancing job creation and leveraged investment against the risk of default and the strength of security.
      i. Retail: Retail type business loans will not exceed 30 percent of the RLF capital portfolio.
      ii. Working Capital: Working capital loans shall not exceed 50 percent of the RLF capital portfolio.
      iii. Participation Rates: The suggested RLF participation rate for projects is up to 50 percent of the total project costs. EDA recommends 2:1 leveraging; however, a strong application could be lent 100% of the project. EDA does not have statute that requires a participation rate. The TOTAL RLF pool must have a 2:1 leveraged position.
      iv. Eligibility: For-profit and non-profit are eligible borrowers. The applicant must meet job creation guidelines. Firm commitment from the borrower to create jobs is mandatory.

3. **Job cost ratio:** A goal of one job created or retained for every $20,000 of RLF dollars loaned for the loan portfolio overall. In some cases, and at the discretion of the loan board, that amount may be adjusted upward to accommodate loan requests from the targeted employment sectors. Job retention results from loans to existing firms in the eligible lending area where these jobs would be lost to the local economy if not for the RLF.
F. RLF LOAN SELECTION CRITERIA

Each application must demonstrate that financing is not otherwise available on terms or conditions that would permit completion and/or the successful operation or accomplishment of the project activities to be financed. The primary evidence for this will be the analysis provided in the credit memo supported by outside documentation, for example, a decline letter from lender.

Priority in processing loan applications will be given to applications that further the targeting of RLF funds as outlined in Section D above. Loan applications will be considered for processing, if:

1. Staff can demonstrate credit worthiness based upon the financing policies of this plan.
2. The project is consistent with the business development strategy.
3. The loan will meet program goals to facilitate in the creation of higher paying, higher skilled, private sector jobs diversify and strengthen the economy, and stimulate private investment. Priority will be given to those projects that provide the highest economic benefit.
4. The loan is consistent with the goal of maintaining a diversified portfolio.
5. A processing fee of $100 is paid at the time the application submitted.
6. All requested documentation has been submitted.
7. Owner is injecting equity of at least 10% into project

In addition to traditional financing not being available, other criteria will be used in evaluating projects. Projects that diversify the regional economy provide income levels above the minimum wage, improve the local tax base, and benefit minorities including women and the unemployed and underemployed shall be given priority. Sectors targeted in the CEDS will have preference. See Addendum IV.

G. PERFORMANCE ASSESSMENT PROCESS

Performance of the RLF will include evaluation of the RLF and reviewing and updating the RLF Plan as needed:

1. Evaluation: To ensure the RLF is meeting the objectives set out in the plan, an annual evaluation will be performed by Region Five staff, or by persons appointed by the Chairman of the Board. This evaluation will compare the actual performance in terms of the number and types of loans, number and types of jobs created or maintained, and other indicators with specific criteria for each area. After evaluating the performance of the RLF, staff will recommend to the Region Five Commission any necessary modifications it sees necessary to meet the financing needs of businesses in the region.

2. Reviewing and updating RLF Plan: The portfolio goals will be monitored at the time of the annual report to EDA. If targets are out of line or a trend is noticed in this direction, these trends will be analyzed to determine if any modifications to the Plan and/or portfolio are required. This will be accomplished by utilizing the current database software that is utilized to generate the EDA report.

The EDA Administrative Plan will be reviewed annually as part of the annual certification. Changes will be made to the plan as deemed appropriate to ensure the plan is
consistent with the area's current economic development strategy and that the RLF is being operated in accordance with policies and procedures contained in the approved plan. As required by EDA, the RLF will be reviewed and updated every five (5) years.

**PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES**

**A. ORGANIZATION STRUCTURE**

The organization structure including critical operational functions, loan administration board and how conflict of interest is handled follow:

1. **Critical operational functions:** The marketing of the RLF, assistance and advisory services, environmental review, loan processing, loan monitoring, loan closing, and organizational administration are summarized below. More detailed discussions on each topic are included in subsequent sections.
   a. Marketing the RLF: The RLF will be publicized throughout the region so that businesses most in need of assistance are aware of the program and have access to the funds. Widely disseminated information about the RLF serves the recruitment and marketing effort, the civil rights requirements, and the goal of finding the best applicants under the criteria. The recruitment program will offer the RLF to applicants in a manner that is fair and nondiscriminatory. The RLF shall explore alternative marketing strategies, such as, direct or targeted marketing. Press releases and other free marketing strategies will be used.
   b. Business assistance and advisory services to prospective and actual borrowers: Throughout this plan the assistance and advisory services are described ([See B. LOAN PROCESSING PROCEDURES C. LOAN CLOSING AND DISBURSEMENT PROCEDURES, AND D. LOAN SERVICING PROCEDURES. Pages 20 to 29 for greater detail](#)). In summary, the loan selection process begins when a loan applicant contacts the loan developer to discuss his/her proposal, the loan developer will connect the applicant with appropriate resources, if needed, such as SBDC, Women's Fund Mentoring Program, and R5DC Business Retention & Expansion certified staff.
   c. Environmental review: The environmental review is discussed in detail under B. LOAN PROCESSING PROCEDURES, 3. Environmental Review ([See Pages 21 to 22](#)). The RLF Administrator, with the assistance of appropriate staff, will work with potential borrowers to assess the significance of all environmental impacts of activities to be financed in compliance with guidelines and standards contained in the: National Environmental Policy Act of 1969, the U.S. Department of the Interior; Fish and Wildlife Services Wet Land Standards; FEMA Flood Insurance Rate Maps; State Historic Preservation Officer (SHPO); and EPA 40 CFR 300 Hazardous materials guidelines.
   d. Loan processing, loan closing, and loan servicing: The loan processing procedures are described in detail under B. LOAN PROCESSING PROCEDURES, C. LOAN CLOSING AND DISBURSEMENT PROCEDURES, and D. LOAN SERVICING PROCEDURES ([See Pages 20 to 29](#)). In summary the RLF Administrator and Loan Developer work with the applicant to prepare the items required by the RLF loan application. The Loan Developer prepares loan write-ups and distributes them to the Loan Committee.
The Loan Committee makes the final decision (by majority vote) to approve or disapprove the loan. The RLF Administrator and Loan Developer are responsible for servicing and closing the loan.

e. Organizational administration: EDA RLF Grant recipient: The R5DC will serve as the grant recipient and administrator for the RLF and will operate consistently with “Prudent Lending Practices” as defined in 13CFR 307.8.

RLF Corporate Board: The R5DC will administer the RLF by utilizing the North Central Economic Development Association, Inc., (NCEDA RLF) a separate, nonprofit corporation. The recipient is a co-recipient of Federal EDA funding; the responsibilities for each entity are outlined in the Lead Agent Agreement. Region Five Development Commission will take the lead agency position and their decisions will govern the RLF. The recipient’s duties in administering the RLF remain the same.

The nonprofit corporation functions within the eligible lending area of Cass, Crow Wing, Morrison, Todd and Wadena Counties. Membership of the Corporate Board shall consist of three representatives from the five participating counties and from those members a chair and one representative from each county will comprise the Board of Directors. The Corporate Board meets semi-annually, a chairperson and loan board members are elected for a term of one year. The Corporate Board will also set RLF policies, review the activities of the RLF and certify the RLF Plan. The recipient RLF operates under a set of by-laws (See Addendum II), operational procedures and this RLF Plan that dictates the functions of the Corporate Board and Loan Board. The Loan Developer will meet with and provide an orientation packet to each new member prior to their first meeting. All members of the NCEDA Full Corp are required to sign a “receipt and acknowledgement of RLF operational procedures” as a condition of NCEDA membership. Please refer to Addendum I for a chart of the organizational structure.

RLF management: Administrative and management functions of the RLF are carried out by R5DC staff. The recipient RLF has a contract with the R5DC to provide administrative functions and service for the RLF. R5DC makes all staffing decisions concerning the administration and management of the fund. For matters requiring legal counsel, the RLF may contract with an attorney.

The Region Five Development Commission oversees the NCEDA Loan Board and RLF Portfolio and has full authorization to rescind a NCEDA loan board decision if deemed necessary to preserve the integrity of the fund. The administrative contract/management agreement is included in this document as Addendum II.

NCEDA maintains a separate bank account established for the RLF so that repayments and interest income are clearly identifiable and auditable. The EDA RLF portfolio and cash are clearly distinguishable from any other loan program. This includes both the EDA and local share portions of the RLF. NCEDA will ensure that
the RLF is operating in accordance with Generally Accepted Accounting Principles (GAAP).

2. **Loan administration board:** NCEDA RLF Board of Directors/Loan Board - The NCEDA RLF Board of Directors also serves as, and may be referred to as, the Loan Board or Loan Committee.
   a. **Size:** There are six members of the Loan Board including the chairperson. Members of the Loan Board, including the Chairperson, shall be nominated by the Full Corporation consisting of the fifteen appointed members and confirmed by the Region Five Commission. The president/chair of the Loan Board shall be a nonvoting member except in cases of a tie vote. The Loan Board shall have at least one voting member from each of the five participating counties.
   
   b. **Composition:** The Loan Board's composition to the extent possible will have equal representation by women and minorities in its membership.
   
   c. **Occupational requirements:** Loan Board members are encouraged to be from a business, accounting, education, financial, or economic development background.
   
   d. **Membership terms:** The term of each Loan Board member is three years and three consecutive terms (nine years) may be served.
   
   e. **Quorum requirements:** A quorum of the Loan Board requires four members. The Loan Board is responsible for approving or denying all loan requests, all major loan modifications or waivers, loan foreclosure actions, recommending RLF loan policy and any other administrative items requiring Loan Board action that comes before the RLF.

3. **Conflict of interest/code of conduct and ethics policy:** NCEDA Full Corp members and officers, staff, and outside staff shall not act on proposed loan packages by vote, date interpretation or other means of influence in which they have a personal, financial, or other interest which would provide them or their firm/business with a monetary gain. This does not refer to salaries, per diems, travel reimbursement and the like incurred in the normal course of Fund activities. Violation of this clause may result in action by Region Five Development Commission Board of Directors to terminate the membership or office of a Loan Board member or staff person. All NCEDA members annually sign a conflict of interest statement.
   
   a. **General.** It is EDA's and the Department's policy to maintain the highest standards of conduct to prevent conflicts of interest in connection with the award of Investment Assistance or its use for reimbursement or payment of costs (e.g., procurement of goods or services) by or to NCEDA.

   A conflict of interest generally exists when an Interested Party participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests. A conflict may also exist where there is an appearance that an Interested Party's objectivity in performing his or her responsibilities under the Project is impaired. For example, an appearance of impairment of objectivity may result from an organizational conflict where, because of other activities or relationships with other persons or entities, an Interested Party is unable to render
impartial assistance, services or advice to the recipient, a participant in the Project or to the Federal government. Additionally, a conflict of interest may result from non-financial gain to an Interested Party, such as benefit to reputation or prestige in a professional field.

b. Prohibition on direct or indirect financial or personal benefits.
   i. Costs incurred in violation of any conflicts of interest rules contained in this chapter or in violation of any assurances by NCEDA may be denied reimbursement.

c. Special rules for Revolving Loan Fund (“RLF”) Grants. In addition to the rules set forth in this section:
   i. No NCEDA member or employee shall disclose without proper authorization non-public information or records concerning any aspect of the operation of the NCEDA Corporation, nor shall he or she use such information to the advantage or benefit of himself or herself, or any other person. This confidentiality includes records maintained on borrowers and kept in a client file.
   ii. Recognizing that NCEDA members are chosen from a broad range of fields, professions and interests renders difficult the limitation of external interests and activities. In so far as possible, members are generally enjoined to follow the standards of conduct that are outlined herein. Further, it is expected that Loan Board members will outline their potential conflicts of interest prior to assuming a seat on the Loan Board.
   iii. No NCEDA member or outside entity may use his or her position to intimidate, coerce, persuade or otherwise influence any NCEDA decision/activity, fellow NCEDA Loan Board members or employees of R5DC. It is strictly prohibited to lobby for or against any loan application outside of the loan board meetings. “Lobbying” is defined as trying to influence the actions of NCEDA Board Members. Questions or concerns about loan presentations should be directed to R5DC staff.
   iv. The Region Five Development Commission has an Ethics Review Committee. The committee as outlined in the Region Five Development Commission’s Code of Conduct and Ethics Policy will review any questions concerning alleged or suspected infractions.

d. Outside Staff Accountability: Any person(s) hired to provide professional services to the Fund who is not an employee of Region Five will be required to become familiar with this RLF Program Plan. He/she will also be required by terms of their contract to adhere to the objectives and intent of the Plan.

Conflicts of Interest. (13 CFR § 300.3; 13 CFR § 302.17)
Definitions.
   a) An “Interested Party” is any officer, employee or member of the board of directors or other governing board of NCEDA, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of NCEDA, such as agents, advisors, consultants, attorneys, accountants or shareholders. An Interested Party also includes the Interested Party’s “Immediate Family” (defined as a person’s spouse or partner in a domestic relationship, parents, grandparents, siblings,
children and grandchildren, but not distant relatives, such as cousins, unless the distant relative lives in the same household as the person) and other persons directly connected to the Interested Party by law or through a business arrangement.

b) A conflict of interest generally exists when an Interested Party participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests or there is an appearance that an Interested Party's objectivity in performing his or her responsibilities under the Project is impaired.

c) An appearance of impairment of objectivity could result from an organizational conflict where, because of other activities or relationships with other persons or entities, a person is unable or potentially unable to render impartial assistance, services, or advice. It also could result from non-financial gain to the individual, such as benefit to reputation or prestige in a professional field.

Conflicts of Interest Rules.
NCEDA must adhere to EDA conflicts of interest rules set forth at 13 CFR § 302.17, including the following rules specific to RLFs:

a) An Interested Party of NCEDA shall not receive, directly or indirectly, any personal or financial benefit resulting from the disbursement of RLF loans. A financial interest or benefit may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a subaward.

b) NCEDA shall not lend RLF funds to an Interested Party.

c) Former board members of NCEDA and members of their Immediate Family shall not receive a loan from the RLF for a period of two years from the date that the board member last served on the board of directors.

Duty to Disclose.
NCEDA must, in a timely fashion, disclose to EDA in writing any actual or potential conflict of interest.

Written Standard of Conduct.
a) NCEDA maintains written standards of conduct to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of a personal or organizational conflict of interest or personal gain in the administration of this RLF Award.
b) NCEDA maintains written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts. See Section K, Other EDA Requirements, Subsection 4., Codes of Conduct and Sub-Award, Contract and Subcontract Provisions, Subsection b), Competition and Codes of Conduct for Subawards.

**DOC Standard Terms and Conditions.**

NCEDA adheres to the requirements for conflicts of interest set forth at Part III of these RLF Standard Terms and Conditions, DOC Standard Terms and Conditions, Section F., Conflict of Interest, Code of Conduct and other Requirements Pertaining to DOC Financial Assistance Awards, Including Subawards and Procurements Actions, Subsection .01, Conflict of Interest and Code of Conduct.

**B. LOAN PROCESSING PROCEDURES**

1. **Standard loan application requirements:** The following is a list of standard items required by RLF loan applicants. It should be noted that not all items will apply to each loan applicant. In certain situations, additional items not included on the following list may be required.
   a. Complete and signed RLF loan application.
   b. Business plan, or a summary of the business's history and a description of the proposed project for which financing is being requested.
   c. Credit reports.
   d. Financial projections/or past 3 years financial statements if an existing business.
   e. Schedule of business debts.
   f. Statement of collateral.
   g. Personal financial statements: Current, dated, and signed personal financial statements on all principles with a significant financial interest in the business will be required. The Loan Board may require joint personal financial statements that show a spouse's assets and liabilities as well.
   h. Primary lender letter: The letter from the primary lender should state the financial commitment of the institution to the project and why they are not able to finance the entire project. If the primary lender declines to participate, a denial letter or verbal rejection is needed for the applicant to seek NCEDA funding.
   i. Affiliates: Description of any affiliates or subsidiaries of the business or principals requesting assistance, as well as balance sheets and income statements for the past two years on such.
   j. Appraisals: An appraisal is needed only if RLF financing is being used to finance real estate.
   k. Business filing verification and status.
   l. Income tax statement: The most recent income tax statements for both the business and principal owner(s).

2. **Credit and financial analysis:** Credit reports, appraisal reports, standard collateral requirements and standard equity requirements are specified as follows.
a. Credit reports: Credit reports will be required of all loan applicants and guarantors. The cost of these reports is accounted for in the application fee.

b. Appraisal reports: Appraisals are usually only required in projects where the RLF is financing real estate such as land and buildings. In these projects the private lending institutions always require appraisals, which they share with Region Five. Appraisals are always analyzed carefully to determine the value of the collateral and the level of security that the RLF will be able to obtain. In projects that do not involve real estate, appraisals may be required for equipment, or financial statements are obtained which usually reveals the value of inventory and other types of collateral. By working very closely with the lead lender and/or economic development organization, appraisals and other forms of information that help determine collateral values are readily available upon request.

c. Standard collateral requirements: The Loan Committee will make no unsecured loans. Working capital will be collateralized by any asset and any possible security positions deemed appropriate by the Loan Committee. For example, it may accept unconventional forms of security such as personal guarantees, assignments of contracts for deed, or other creditor’s interest in property, and subordinate positions to other private financing. When loans are made to corporations, personal guarantees will be required from the principal owners of the company. In projects where individuals are borrowing funds for purposes that benefit a corporation in which they are an owner, corporate guarantees will be required as added security.

d. Standard equity requirements: A minimum of 10% equity is required for new startup companies. This equity can be in the form of cash, or assets that are being contributed toward a project such as machinery or equipment, provided the borrower has an equity position, or the equity is free of any liens. Existing companies are also required to show a minimum of 10% cash equity, however greater flexibility can be given to meet this requirement. For example, if an existing company has built up equity in real estate and/or equipment over several years, this can be used to meet the equity requirements for the RLF. By providing this flexibility, companies that invest cash back into the business and establish equity positions are not penalized for doing so.

3. Environmental review:
   a. The RLF Administrator, with the assistance of appropriate staff, shall assess the significance of all environmental impacts of activities to be financed in compliance with the National Environmental Policy Act of 1969 and other Federal environmental mandates, as per the Assurances (SF 424D as revised) executed with the Economic Development Administration. No activity shall be financed which would result in a significant adverse environmental impact unless the impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.
   b. No project shall be approved which would result in the alteration of or have an adverse impact on any wetland without prior consultation with the U.S. Department of the Interior, Fish and Wildlife Service, and, if applicable, obtaining a section 404 permit from the Army Corps of Engineers.
c. Consistent with E.O. 11988, no project shall be approved which would result in new above ground development in a 100-year flood plain. Reviewing the proposed development against FEMA Flood Insurance Rate Maps will make this determination.

d. The State Historic Preservation Officer, (SHPO) shall be notified of each loan proposal that involves significant new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. The RLF Administrator shall work with the SHPO and EDA in cases where the SHPO has recommended actions or has been determined an adverse impact.

e. All loan applicants shall be requested to provide information indicating whether there were hazardous materials such as EPA listed (see 40 CFR 300), hazard substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials on site that have been improperly handled and have the potential of endangering public health. If deemed necessary, loan applicants may be required to perform or provide evidence of a Phase I site assessment to identify possible sources of contamination, a Phase II site assessment to test soil and/or groundwater samples, and a Phase III site remediation involving mitigation of applicable contaminants. In cases where there are unresolved site contamination issues, the RLF Administrator shall work with the loan applicant and the appropriate state environmental agency office to resolve these outstanding issues.

4. **Loan write-up:** Loan write-ups are prepared by the Loan Developer and distributed to Loan Committee members prior to meetings for their review. When available, loan write-ups are obtained from the private lender and analyzed to determine why the lead lender was unable to provide all the financing. In addition, the private lender should provide a loan commitment letter that explains their financial commitment to the project and their reasons for not being able to provide all the financing. The Loan Developer prepares loan write-ups that cover the following information:
   a. History/management
   b. Eligibility (consistency with RLF financing policies)
   c. Use of personal/business resources
   d. Sources & uses of proceeds
   e. Balance sheet analysis
   f. Collateral
   g. Repayment ability
   h. Environmental concerns
   i. Recommendations

5. **Procedures for loan approvals:** Below are the procedures for loan approvals.
   a. Selection of Borrowers: The loan selection process on the part of the Fund begins when a loan applicant contacts the loan developer to discuss his/her proposal. The loan developer will interview the prospect and make a preliminary analysis. The loan developer will seek to determine the eligibility of the project for the RLF. The loan
developer will communicate with economic development agency representatives to
test the possible use of other public/private financing sources.
b. If the prospect's business plan meets the basic RLF standards, the loan developer
will make an initial decision as to the eligibility of the application.
c. If deemed eligible by the Loan Developer, a formal application will be prepared.
d. A formal application submittal does not mean that the loan is certain. It does mean
that the project meets the (preliminary) selection requirements. The initial eligibility
determination should take no more than 15 days from receipt of all documentation
from the applicant.
e. Once the Loan Developer authorizes the submittal of a formal application, the loan
developer will meet with the prospect and involved parties to negotiate the most
desirable loan package. Responsibility for a completed loan package is with the
borrower. The loan developer and other staff will spend as much time as is
reasonable with a given prospect. The staff will be careful not to provide accounting
and/or legal services which the applicant could obtain from local professionals.
f. Upon completion of the loan package, the loan developer will make an extensive
financial review of the package. Project cost estimates must be supported by
verifiable quotations and estimates. Assumptions must be clearly identified and
explained. Forecasting methods must be described and justified. Turnaround time
for action on a completed application should be no more than 30 days.
g. The Loan Committee shall make an extensive review of the loan package, the
analysis prepared by the loan developer and the staff recommendations for
approval or disapproval. Since a goal of the RLF is to respond quickly, the Committee
shall make its decision by majority vote of Committee members in a timely manner.
h. When approving a package, the Committee will set specific interest rates; term of
the loan; limitations, if any, on uses of loan funds and other conditions to be
included in a written confirmation letter to the applicant. Automated ACH loan
payments are encouraged.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. Loan closing documents:
   a. Proof of equity, such as current bank account statements showing the needed funds
      on deposit, will be required for all loans requiring an equity injection;
   b. If existing debt is being converted to equity, or subordinated, evidence such as a
      subordination agreement, the original note, the conversion agreement, corporate
      resolutions and copies of shares issued will be required.
   c. Where another lender is involved in the financing of a business an inter-creditor
      agreement setting forth the respective rights of the parties shall be required where
      appropriate for the protection for the RLF.

2. Loan agreement provisions:
   a. All loans will require a promissory note and a loan agreement: The Loan Agreement
      shall contain covenants that shall require the borrower to comply with the Federal
      statutory and regulatory requirements that apply to activities carried out with RLF
      loans. The Loan Agreement shall contain a provision to protect and hold the Federal
government harmless from and against all liabilities that the Government may incur as a result of providing an award to assist (directly or indirectly) in site preparation or construction as well as the renovation or repair of any facility or site. This applies to the extent that such liabilities are incurred because of ground water, surface, soil or other conditions caused by operations of the RLF NCEDA or any of its predecessors on the property. The Loan Agreement shall also include a list of the Federal requirements that apply to RLF Borrowers as provided in Part III.B. of the U.S. Department of Commerce Economic Development Administration Revolving Loan Fund Standard Terms and Conditions of March 14, 2018, as may be amended. Refer to file for checklist of required documents:

1. Complete application
2. Signed confirmation letter
3. NCEDA minutes approving project
4. Promissory Note
5. Security agreement
6. Commercial guaranty
7. Mortgage
8. Participation agreement
9. UCC filing
10. Deny letter/email from bank
11. Personal guaranty
12. ACH form
13. Other: ______________

b. Sole proprietorships using a “doing business as/dba” will be required to provide copies of fictitious name filings.

c. Partnerships will be required to provide copies of the partnership agreements and buyout agreements if applicable.

d. Corporations will normally be required to provide copies of the Articles of Incorporation, By Laws, certificates of good standing, and corporate resolution to borrow.

e. All loans will require a security agreement where personal property secures a loan.

f. Perfection of collateral will require UCC filings on equipment and fixtures, inventory and receivables, recording deeds of trust on real property, and certificates of title or stock registration, as appropriate.

g. UCC searches will be performed before loan board review to determine position. UCC searches may also be performed after loan closing and UCC filings to confirm that the desired lien position was obtained.

h. Lenders Title insurance will be required for all financed real property.

i. Vehicle titles that are unencumbered will be filed by staff to show the NCEDA as lien holder. If a third party holds title, this collateral option will not be considered.

j. All principals with 20% or more ownership will normally be required to provide continuing guarantees, and subordination agreements, as appropriate.

k. Inter-creditor Agreement, if necessary, to preclude prior lien holder from increasing debt, and/or to delineate collateral and responsibilities of lenders.
I. Prior to closing, the borrower will present the required hazard and liability insurance policies, and any other insurance coverage such as assignment of life insurance, as required.

m. Lease assignments will be taken as appropriate.

3. Loan disbursement requirements/Loan agreement provisions:
   a. The borrower will certify in the loan agreement that the funds are to be used for the purposes intended as specified in the loan application. A positive covenant shall be included in the loan agreement stating the purpose of the loan. A breach of this covenant shall be deemed an event of default and the loan may be called.
   b. For working capital loans, cash flow projections or other documentation will be required to determine the loan amount and the schedule for loan disbursement.
   c. If the proceeds are for the purchase of equipment, fixtures, or vehicles, the borrower must show original invoices, and the check will be made payable to the vendor or jointly to the vendor and business.
   d. In instances where construction is in progress, a building control account will be established as necessary to avoid mechanics liens.

D. LOAN SERVICING PROCEDURES

1. Loan repayment & collection procedures: In projects where NCEDA makes a direct loan and services the loan, borrowers may be required to remit via ACH loan payments or are given a loan amortization schedule at the loan closing. Loan payments are receipted the day they are received and deposited within five days. Inactive RLF funds that are waiting to be lent will be deposited in an interest-bearing money market account that is federally insured and collateralized.

2. Loan monitoring procedures: The R5DC uses Portfol software to manage all accounting activities of the RLF. Monthly updated statistical reports are generated to monitor RLF activities including payments. In addition, borrowers are required to send, at a minimum, annual financial statements and proof of insurance. Generally, as a lien holder, NCEDA is notified by the insurance companies when any changes or problems occur. A tickler file is set up to monitor UCC filings, which are required to be re-filed every 5 years. The Loan Developer conducts annual borrower site visits. During these visits the condition of the business and the RLF’s collateral is analyzed. In addition, the borrower is asked to verify the number of employees by occupation, race and sex to monitor actual job creation/retention and compliance with civil rights, etc.

3. Loan files: Procedures for loan files, loan closing documentation, loan file maintenance, late payment follow-up, handling loans over 90 days in arrears, write-off, loan modification requests, delinquency policies follow:
   a. Procedures for Loan Files and Loan Closing Documentation
      i. Region Five will follow the same procedures for loan files and loan documentation for all RLF funds. This includes keeping files that contain application forms and supporting documentation for each approved loan
These files will also contain all legal documents used in the closing process.

ii. Region Five staff will also ensure compliance with all EDA reporting requirements. Compliance reporting includes the semi-annual and final closeout reports.

iii. Region Five will institute control procedures for ensuring compliance with all grant requirements and for monitoring the RLF portfolio. The procedures will be used for all RLF funds.

b. Loan File Maintenance: Loan files are kept in a locked fireproof file cabinet. Any sensitive documents to be discarded are shredded. Loan department requests the following documents annually from active loan files and keep information in physical or server files:
   i. Proof of insurance with NCEDA listed as insured “loss payee”
   ii. Site visit form
   iii. Job report
   iv. General correspondences - optional

c. Late payment follow-up procedures: Generally late payment letters are sent to notify borrowers that are 30 days or more past due. A series of past due notices gives the borrower several opportunities to pay or respond in some other manner to the delinquency. The series will begin with two or more written requests for payment and may begin with a telephone call. A meeting with the borrower may be scheduled, which can provide important information about the reason for the delinquency and can lead to an agreement to restructure a payment schedule. The notices are given on a defined timetable. Each time a notice is given, the tickler file is updated to include the nature and date of the next action if no payment is received.

d. Loan modification requests: Modifications may be made to the original terms of a loan, provided that the request is submitted in writing. Loans may be restructured if mutually agreeable as a delinquency solution or to meet the needs of a changing business climate. The amount of the rescheduled note shall include all accumulated fees as part of the principal, all unpaid principal, interest and penalty fees. The interest rate will be set in accordance with this RLF Plan. A $100 processing fee must also accompany the request before it can be officially entertained, in all situations except financial hardship. Financial hardship is determined by the Loan Board.

e. Loan delinquency/default & loan restructuring Procedures:
   i. Delinquency policy: All payments are due on the date identified in the loan promissory note. A payment is considered delinquent if more than 10 days past due. In cases where payments are made continually late, there will be penalties on a per month basis.
   ii. Pre-knowledge of impending delinquency: If a situation arises where loan NCEDA anticipates inability to make payments in a timely fashion, our office should be contacted, and the situation explained. These accounts will be handled on an individual basis and in a courteous manner. If the situation warrants, a meeting between the NCEDA, staff, and/or lead lender can be arranged to discuss changing business needs.
f. Insufficient funds procedures: The following applies to loans that are administered directly by NCEDA.

i. The first occurrence of a returned check, staff will contact the borrower. A late fee will be assessed if payment is 10 days past due per the associated loan agreement. Returned checks will also be assessed a returned check fee of $50.00 or double the amount of the associated bank's fee, whichever is less.

ii. 30 days delinquency: If borrower does not make payment on due date:
   1. Borrowers Role - The borrower will contact NCEDA loan staff and make arrangements for payment. The borrower will also relay any problems they are having in not making their payment.
   2. NCEDA staff will generate a late payment notice within 10 business days of a missed payment. Staff will determine if assistance is needed for the borrower's business. Questions of possible solutions will be developed in conjunction with all parties.

iii. 60 days default: If borrower has not made the previous month's payment, or this month's payment by the due date.
   1. Borrowers Role - The borrower will contact NCEDA staff and will make immediate arrangements for payment.
   2. A letter will be sent to the borrower from NCEDA notifying borrower of default status. The letter will state that if payment or arrangements are not made before the next due date, NCEDA will consider the loan in default. Staff will continue to make direct contact and continue to seek solutions in conjunction with all parties until the matter is considered resolved by the NCEDA Loan Board.

iv. 90 days acceleration/collection: If borrower has not made the previous two months' payment, nor is willing or able to work with Staff on a solution of delinquency. The loan is considered to be in default if no payments have been made for 3 consecutive months.
   1. Borrowers Role - The borrower will need to contact Staff and make arrangements for payment.
   2. Staff will continue to make contact with the borrower and seek delinquency solutions. NCEDA staff will send a default letter to the borrower when the debt reaches a 90-day delinquent status. The loan will be defaulted if the entire principal balance is unpaid thirty (30) days after written default notice is sent to the borrower. The NCEDA attorney or staff will immediately begin collection procedures to recover the unpaid balance of the loan.

v. Loan Restructuring: Loans may be restructured if mutually agreeable as a delinquency solution or to meet the needs of a changing business climate. The amount of the rescheduled note shall include all accumulated fees as part of the principal, all unpaid principal, interest and penalty fees. The interest rate will be set in accordance with this RLF Plan. Restructuring requests will have a $100 administrative fee.

vi. Amendment Procedures: The Loan Review Board, with the full Commission's approval, can amend the RLF plan, as needed. Written approval from EDA is required.
4. **Job creation:** The primary goal is to create or retain, at a minimum, one job for every $20,000 (or less) of RLF funds lent. Job creation is embedded throughout this plan.
   
a. **Eligibility:** For-profit and non-profit are eligible borrowers. The applicant must meet job creation guidelines. Firm commitment from the borrower to create jobs is mandatory. A goal of one job created or retained for every $20,000 of RLF dollars loaned for the loan portfolio overall. In some cases, and at the discretion of the loan board, that amount may be adjusted upward to accommodate loan requests from the targeted employment sectors. Job retention results from loans to existing firms in the eligible lending area where these jobs would be lost to the local economy if not for the RLF.

b. **Loan selection criteria:** Priority in processing loan applications will be given to applications that further the targeting of RLF funds as outlined in Section D above. Loan applications will be considered for processing, if: The loan will meet program goals to facilitate in the creation of higher paying, higher skilled, private sector jobs diversify and strengthen the economy, and stimulate private investment. Priority will be given to those projects that provide the highest economic benefit.

c. **Performance Assessment Process:** Performance of the RLF will include evaluation of the RLF and reviewing and updating the RLF Plan as needed.
   
i. **Evaluation:** To ensure the RLF is meeting the objectives set out in the plan, an annual evaluation will be performed by Region Five staff, or by persons appointed by the Chairman of the Board. This evaluation will compare the actual performance in terms of the number and types of loans, number and types of jobs created or maintained, and other indicators with specific criteria for each area. After evaluating the performance of the RLF, staff will recommend to the Region Five Commission any necessary modifications it sees necessary to meet the financing needs of businesses in the region.

ii. **Reviewing and updating RLF Plan:** The portfolio goals will be monitored at the time of the annual report to EDA. If targets are out of line or a trend is noticed in this direction, these trends will be analyzed to determine if any modifications to the Plan and/or portfolio are required. This will be accomplished by utilizing the current database software that is utilized to generate the EDA report.

5. **Defaulted loans:** Procedure for handling loans over 90 days in arrears - If a borrower is 90 days or more past due and previous attempts have been made to rectify the situation, the borrower may be sent a letter notifying him/her that the loan is due in full, unless payments are received, or arrangements are made to restructure the payment schedule. If the borrower does not respond the next step may be to have an attorney draft a demand letter, followed by legal action, if necessary. All other courses of action will be exhausted before any legal action is taken, however, some situations may require legal action to protect the interests of the RLF. Please see **Addendum IV** for additional procedures for handling delinquent and defaulted loans.

6. **Write-off procedures:** If the above-mentioned actions do not result in recovering the loan proceeds, it may be necessary to write-off the loan and consider it a loss.
Approximately 40-50% of the interest earned on loans is put back into the RLF for relending and loan losses. The RLF has been very effective in minimizing loan losses, with income earned by the RLF far exceeding any losses that have occurred.

E. ADMINISTRATIVE PROCEDURES

1. **Accounting:** As stated above, NCEDA maintains a separate bank account established for the RLF so that repayments and interest income are clearly identifiable and auditable. The EDA RLF portfolio and cash are clearly distinguishable from any other loan program. This includes both the EDA and local share portions of the RLF. NCEDA will ensure that the RLF is operating in accordance with Generally Accepted Accounting Principles (GAAP).

2. **Administrative costs:** Administrative costs are outlined in the management agreement between Region 5 and NCEDA. The 2016 to 2021 may be found in the Management Agreement in the See Addendum III.

3. **Allowable Cash Percentage:** Effective Jan. 2, 2018, EDA replaced the Capital Utilization Rate of 25 percent with region-specific Allowable Cash Percentage (ACP) that is updated annually. The ACP is the average cash available for RLFs in the Chicago EDA region and is used for risk rating RLFs according to the Risk Analysis System.

   Lending activity will be managed so that the cash available for lending is less than the current ACP in effect for the Chicago Region. However, if the Cash Available for Lending is greater than 50% of the RLF Capital Base for 24 consecutive months, EDA may take action to disallow the persistent excess cash.

4. **EDA reporting:**
   a. Region Five will comply with EDA RLF reporting requirements.
   b. GPRA report submitted to EDA annually to track job creation and retention after loan approval.

5. **Audits:** NCEDA acknowledges that EDA RLF funds are subject to an annual audit requirement and the full value of the RLF (outstanding loans and available cash) will be shown every year on the NCEDA's Schedule of Federal Expenditures. NCEDA will ensure that the auditor performs the required federal audit procedures. As stated above, NCEDA already undergoes a separate audit of the RLF in compliance with Generally Acceptable Accounting Principles (GAAP). The audit procedures are updated whenever this is an update to GAAP to ensure that the audit always remains in compliance with these principles.

Addendum I – Organizational Chart
Addendum II – By-Laws
Addendum III- Management Agreement – “indicates administrative costs”
Addendum IV – CEDS(CREDS)