

Revolving Loan Fund Plan

For

Lane Council of Governments

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US Economic Development Administration RLF
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Part 1: The Revolving Loan Fund Strategy

A. Economic Adjustment Program Overview

1. Nature and Scale of Problem

- This EDA Revolving Loan Fund (RLF) will significantly benefit Lane County, an area which is experiencing substantial economic distress.
- Lane County is experiencing substantial economic distress as measured by its high rate of unemployment at 6.3% for the two year period ending 9/30/02. This exceeded the national average of 5.0%. This high level of unemployment is the result of several factors including the dual downturns of both the forest products and the high tech industries. This project will help to alleviate this economic distress by improving the availability of capital to persons that wish to start or expand a small business.
- Lane County is specifically identified as a “distressed” or “impacted” community.
- According to State of Oregon, Lane County has seven cities which are considered “distressed areas”.
- Lane County is also listed by State of Oregon as being a “Timber Impacted” community
- This project enhances regional competitiveness by targeting certain high-wage / high-skill industries and supports long-term development of the regional economy by directly assisting the growth of both new and existing businesses. By improving access to capital, this proposal will allow small businesses to grow and succeed. Therefore, this project serves as an ideal mechanism to create the conditions in which jobs are created and in which people can find work.
- Gap financing projects receive significant regional support from local government and technical assistance partners. Lane Council of Governments (LCOG) will work to implement a coordinated business financing strategy that encourages innovation and regional competitiveness.
- This project will help Lane county communities to implement economic adjustment strategies in response to the shift away from a natural resources based economy.

2. CEDS Process

LCOG has historically been an active member of the Cascades West Economic Development District and as such has been a key part of the CEDS process. LCOG long ago recognized that access to capital was a critical problem for new and existing small businesses in Lane County. The Lane Economic Committee, a subcommittee of the LCOG Board, has consistently looked for new business loan programs to offer to small businesses. The Lane Economic Committee unanimously voted in favor of a resolution on September 23, 2003 to support and endorse LCOG’s pursuit of a US Economic Development Administration (EDA) Revolving Loan Fund (RLF) grant. This led directly to LCOG’s EDA pre-application.

3. Area Resources/Assets

- The Lane Metro Partnership, Lane County’s business assistance and recruiting organization, has established four primary target industry clusters:
 - Recreational vehicles and equipment
 - Applied technologies (health care / bioscience)
 - Natural resources (secondary wood products / natural foods)
 - Back office / customer service centers

- LCOG has established a close working relationship with the Lane Metro Partnership and will use the Lane Metro Partnership to help market the RLF to eligible and needy businesses in these target industry clusters.
- LCOG is also coordinating its efforts with the State of Oregon Economic and Community Development Department to assist with the strengthening of local industry clusters.
- The presence of the University of Oregon is a tremendous asset of Lane County. The University provides significant direct employment opportunities as well as opportunities for technology-based economic development and technology transfer.

4. Strategic Adjustment Goals and Objectives

The Benton Lane Lincoln and Linn Regional Investment Strategy / Comprehensive Economic Development Strategy for the period 2001 – 2003 is the baseline strategy document for the LCOG RLF. This document identifies the following objectives for the region:

- Support communities and populations that have been left out of Oregon's economic expansion and diversification.
- Help companies that are starting up or are already doing business in Oregon to compete globally.
- Ensure that economic strategies reinforce Oregon's long term prosperity and livability.
- Coordinate efforts of economic and community development, education, workforce development, natural resource management and other civic activities.

5. Implementation Programs and Activities

Lane County has numerous strong economic development support organizations. LCOG's broad mission is that of a regional planning and coordinating agency. This role also applies to economic development activities. LCOG will coordinate the county wide efforts of all economic development organizations to make most effective use of this RLF. These coordinating activities will include the following:

- Provide staff support to the broadly focused Lane Economic Committee (LEC). The LEC is a committee of the LCOG Board which is responsible for coordinating economic development efforts throughout Lane County.
- Provide staff support to the Southern Willamette Research Corridor (SWRC). The SWRC is an association of business, government and education which works to support local efforts to enhance technology-based economic development and to support higher education.
- Participate in local chamber of commerce business support groups such as the Eugene Area Chamber of Commerce Economic Development Committee.
- Participate on the local association of commercial realtors.
- Continue current efforts to deliver US Small Business Administration, State of Oregon and US Department of Agriculture business loan programs to the community. All of these programs are complementary to the subject EDA RLF (See Section 1.C.3: RLF Niche).
- Meet on a regular basis with representatives from the Lane Metro Partnership, Lane Workforce Partnership, Convention and Visitors Association of Lane County and other regional providers of business services.
- Educate members of organizations providing technical assistance such as the Service Corps of Retired Executives (SCORE) office and the Business Development Center (BDC) regarding the proper usage and eligibility criteria for the RLF. SCORE and the BDC are major referral sources for small businesses in need of gap financing.

- Participate on the local commercial banker trade association.
- Sign up for numerous speaking engagements to local business groups, particularly in the harder to reach rural areas of the County.
- Use LCOG's position as a membership organization composed of many other local government organizations to educate elected officials about the RLF and other LCOG economic development tools.

6. Organizational Responsibility

The Comprehensive Economic Development Strategy (CEDS) represents the combined and integrated efforts of the Benton Lane Lincoln Linn Regional Investment Board (BL3 RIB) and the Cascade West Economic Development District (CWEDD). The BL3 RIB is a four county board appointed by the county boards of commissioners. The CWEDD is a partnership between Oregon Cascades West Council of Governments (CWCOG) and LCOG. Both CWCOG and LCOG share responsibility for implementing and updating of the CEDS

B. The Business Development Strategy

1. Objectives

The Benton Lane Lincoln and Linn Regional Investment Strategy / Comprehensive Economic Development Strategy for the period 2001 – 2003 provides the business development strategy document for the LCOG RLF. The strategy emphasizes building the economy by assisting existing and new small businesses. This document identifies 6 primary business development objectives:

- Advocate the economic development interests of the region.
- Promote coordination, cooperation, and communication among economic development groups and organizations.
- Provide access to financial incentives for business and industry in the region.
- Import outside capital into the region for economic development and public works projects.
- Conduct research and development to identify new economic opportunities in the region.
- Provide support services to others focused on business and industrial expansion.

2. Economic Sectors

The CEDS identifies and documents the six regional industry profiles (See the CEDS for more detailed information):

- Forest Products
- Fisheries
- Agriculture
- High Technology
- Software
- Tourism

3. Assistance Needed

The type of business assistance which is needed is periodically updated by various economic development organizations. This information is used to periodically update economic development strategies and methods. Following are several examples of these recent efforts:

- The State of Oregon Economic and Community Development Department conducts frequent interviews of existing small businesses through its Regional Development Officers.
- The Eugene Area Chamber of Commerce conducts an annual interview of manufacturers and wholesalers in the Eugene / Springfield metropolitan area. This CONTACT! program has received national recognition for its depth and scope.
- LCOG conducted a rural business survey of businesses in the non-metropolitan area of Lane County in 2002.

These studies consistently point to a need for increased financing availability for small businesses. The need includes both greater venture capital as well as gap financing for new and existing businesses. This project will help to address the requirement for gap financing.

4. Programs and Activities

Although there are many good local business assistance programs in Lane County such as SCORE and the Small Business Development Center, access to capital continues to be an obstacle for many small businesses. This EDA RLF will be the only local revolving loan fund available throughout all areas of Lane county.

C. The Financing Strategy

1. Current Financing Needs

Access to capital is an ongoing need in the Lane county small business community. This need exists with regards to real estate, equipment and working capital financing.

2. Current Availability

LCOG has a broad background in successfully administering federal and state business loan programs. LCOG partners with all commercial banks in the County to deliver these loan programs to eligible and needy borrowers:

- LCOG has had a successful record with the US Department of Agriculture's Intermediary Relending Program since October, 1995. It has made 67 loans during that period. The total IRP loan portfolio is \$4.3 million.
- LCOG acts as agent for the local Certified Development Company to make Small Business Administration loans in Lane County. The SBA loan portfolio is in excess of \$14 million.
- LCOG packages business loans for the State of Oregon Economic and Community Development Department as well as several small city and local loan programs.
- LCOG has an experienced staff to administer loan programs as well as other loan and financial assistance programs.

3. RLF Niche

- Although LCOG already manages an active loan program for small businesses in Lane County, we have a sizable gap in loan services which can be filled by an EDA RLF. This will allow LCOG to provide more comprehensive economic development services.
- Our biggest gap in loan services occurs when we encounter loan applications of \$25,000 to \$150,000 from small businesses within the Eugene / Springfield metropolitan area. These loan applications are not eligible under LCOG's US Department of Agriculture Intermediary Relending Program because this program is limited to smaller rural communities. Additionally, this size loan is typically too small to effectively and efficiently utilize the US Small Business Administration 504 loan program. Therefore, in these situations we are frequently unable to find the necessary gap financing for the loan applicant. Consequently, good loan applications often go unfunded. These are lost economic development opportunities which can be assisted by the RLF.
- Although the primary geographic target will be within the Eugene / Springfield metropolitan area, all of Lane County will be geographically eligible.

4. Anticipated RLF Impact

- Basic program impacts can be summarized as follows:
 - a) Increase employment.
 - b) Improve the sustainability / viability of existing businesses.
 - c) Increase the number and diversity of new businesses.
- The RLF will target projects which are anticipated to have the highest potential impact on economic development in Lane County. This means that the highest priority will be given to businesses and industries which offer high skill / high wage employment opportunities. These projects will have the highest local impact and will generate the highest return on taxpayer investment.
- This is a market based project which is in high demand by businesses in our county. Gap financing is often a critical component to completion of a small business expansion.
- New businesses are eligible to apply. It is estimated that 25% of total anticipated loans will be made to new businesses, defined as businesses which have been in operation for less than six months.
- An RLF project is by its very nature a pro-active project, given that the loans will be expected to lead to direct increases in private sector employment. We will offer the loan program to eligible and credit-worthy businesses.
- This project will meet both current and future demand in Lane County for gap financing. The revolving loan fund will be sustainable on a long term basis as funds are repaid by borrowers and then relent.
- The RLF will only fund up to 75% of a single project and will therefore require the participation of private leverage in order to finance the full project. There are no other alternatives currently available to an EDA RLF.
- Based on LCOG's prior experience with management of other business loan programs, this project should have a high likelihood of success. We have a good track record of working successfully with other agencies, with private sector banks and with the small businesses in our county.
- This project will lead to specific and measurable results in terms of job creation and job savings.
- This project has a significant portion of cash matching funds in the amount of \$333,000:
 - a) \$100,000 Lane County
 - b) \$100,000 Benton Lane Linn Lincoln Regional Investment Board
 - c) \$100,000 Lane Council of Governments
 - d) \$33,000 Private sector and other contributions

- This EDA RLF has a high level of support from throughout the community. The project has been endorsed by the following:
 - e) City of Eugene
 - f) City of Springfield
 - g) Lane County
 - h) Eugene Area Chamber of Commerce
 - i) Springfield Chamber of Commerce
 - j) Lane Metro Partnership
 - k) State of Oregon Economic and Community Development Department
 - l) Lane Economic Committee
 - m) Cascades West Council of Governments
 - n) Congressman Peter Defazio
 - o) Senator Ron Wyden
 - p) Senator Gordon Smith

D. Financing Policies

1. Availability of Financing

- The borrower will demonstrate that financing is not otherwise available from conventional bank sources with terms under which the project could be successfully completed.

2. Rates

- The interest rate charged to ultimate borrowers will be based on the money center prime rate at time of loan approval. Each loan will carry a spread of anywhere from 400 basis points below to 300 over the prime rate. The minimum annual rate that may be charged for any loan is 4.0 percent or prime minus four percent, whichever is higher.
- The loan rate will be fixed for the life of the loan at the time of funding.
- In determining the rates and terms for loans, LCOG staff will consider a number of factors including: the needs of the borrower, the particular risk components of each project, the private financial market conditions at the time the loan is made, terms and rates of other financing in the project, community impacts of the project, and LCOG's administrative costs.
- The Loan Administrative Committee has the authority to charge any appropriate rate in a loan workout situation.
- The Loan Administrative Committee may choose from time to time to amend rates for existing borrowers. This decision will be based on the current interest rate environment, the historical payment performance of the borrower, collateral position and other factors.

3. Equity Requirements

- Borrowers will normally be expected to contribute cash equity in the minimum amount of 10%.
- This will normally be a cash equity contribution but in-kind equity contributions may be considered.
- For working capital loans, the equity injection may be in the form of net working capital in the business equal to 10 – 30%, depending on risk and other factors.

4. New and Established Businesses

- Both new and established businesses will be eligible for this program.
- New businesses will be given closer scrutiny with regards to cash flow, personal credit and collateral. New businesses may be required to provide a higher equity contribution.

5. Working Capital Loans

Eligible.

6. Repayment Terms

The term of a fixed asset loan will not exceed the average useful life of the fixed asset in the project, and in no case will it exceed fifteen years. The term of a working capital loan will not ordinarily exceed five years. Longer amortizations with balloon payments may be considered. Expected maturities are as follows:

- working capital 1 – 3 years
- Equipment 5 – 7 years
- Real estate 10 – 15 years

7. Loan Structure Modifications

On a case by case basis and in accordance with prudent lending standards, loan structure decisions will be based on adequate protection of the RLF asset and the needs of the applicant.

8. Deviations To Standard Terms

Deviations to standard terms will be reviewed and approved by the Loan Administrative Committee on a case by case basis depending on the needs of the applicant and the appropriate protection of RLF assets.

9. Collateral Requirements

- Security will be required, as necessary, to adequately collateralize RLF loans. In the case of fixed asset loans, security will usually be liens on the assets financed, plus other collateral as appropriate.
- Working capital loans will normally be secured by receivables, inventory and fixed assets.
- Assignments of lease will also be taken when appropriate.
- Personal guarantees will normally be required of all principals who hold more than a 20% ownership interest.
- Loans will be collateralized to the maximum extent possible to ensure an adequate secondary source of repayment.

10. Loan Limits

- The loan size will be \$25,000 to \$150,000.
- No more than \$150,000 will be lent to any single borrower.

11. Proposed Fees and Other Charges

LCOG proposes to assess ultimate loan recipients some fees and charges that will allow the recovery of its administrative costs, and generate some additional capital for re-lending, including sufficient cash to cover loan losses. These proposed fees and charges are as follows:

- **Loan Application Fee: \$500.** This is a non-refundable fee charged to loan applicants at the time they submit a completed loan application package, but before the loan is reviewed by the Loan Administration Committee. The purpose of this fee is to recover some of the costs of processing an application. Although the application fee is non-refundable, it will be credited to the 1.5 percent loan fee that is collected at closing.
- **Closing Fee:** A loan fee of 1.5 percent, minimum \$500, of the loan amount is assessed at closing. This fee is designed to recover the costs of processing the application. Those costs typically include, clerical/secretarial time, professional staff time spent counseling the applicant and assisting them with the loan application package, staff time spent making the presentation to the Loan Administration Committee (LAC), staff time spent preparing environmental and other documentation.
- **Other external costs of the loan** will be paid by the borrower at the time of closing. These costs may include but are not limited to appraisals, environmental reports, lien searches, auto titles, filings, and other costs associated with the loan.
- **Late Fees.** The program will charge a late fee of 5 percent of the payment due for payments fifteen days past due. This income will be used for administrative costs connected with collection and counseling.

E. Portfolio Standards and Targets

1. Industry Segment Target

- The RLF will be marketed primarily to companies in the following target industry clusters (or other new clusters as they are identified):
 - Recreational vehicles and equipment
 - Applied technologies (health care / bioscience)
 - Natural resources (secondary wood products / natural foods)
 - Back office / customer service centers
- The program will be available to all eligible businesses and industries.
- The RLF will target projects which are anticipated to have the highest potential impact on economic development in Lane County. This means that the highest priority will be given to businesses and industries which offer high skill / high wage employment opportunities.
- The RLF will target “Traded Sector” industries, those industries which generate cash from outside of the local area.

2. Loan Type Target

Working capital loans will be limited to 50% of the portfolio.

3. Private Investment Target

RLF funds will be used to leverage private investment of at least two dollars for each dollar of RLF investment. This leveraging requirement will apply to the portfolio as a whole, rather than to individual loans. Private investment will include private financing, borrower equity and other non-federal sources.

4. Cost per Job Target

- Individual projects will be expected to create at least one job for each \$50,000 of RLF loan proceeds within two years of loan closing.
- The portfolio goal will be expected to achieve a ratio of one job for each \$25,000 or less of RLF loan proceeds.

F. RLF Loan Selection Criteria

The following general economic impact criteria will be used to evaluate proposed loans:

- LCOG will use the RLF funds to encourage business growth and job creation in Lane County, following the aforementioned hierarchy of high wage / high skill jobs with the greatest economic impact.
- RLF funds will be used to provide gap financing and leverage private sources of financing.
- The loan must not be available from conventional bank financing sources on terms which would allow successful completion of the project.
- The loan is consistent with prudent lending practices regarding a diversified loan portfolio.
- Although the RLF loan program will target applicants who are otherwise unable to obtain financing from more conventional sources, the results of LCOG's thorough due diligence and credit analysis must indicate a high likelihood of full repayment from the borrower's operating cash flow.
- The loan will help to attract new jobs and investment in Lane County.
- The loan will diversify the economic base of Lane County.
- The loan will support the creation and expansion of business enterprises that provide employment for people from families below the poverty line.
- The loan will stimulate private lending.
- The loan will help to strengthen communities by supporting projects that address critical community needs.
- Projects which advance innovation and increase productivity will be given priority over others, all other factors being equal.

G. Performance Assessment Process

The portfolio goals will be monitored at the time of reporting to EDA. If targets are out of line or a negative trend is noted, more frequent monitoring will be done.

The RLF plan will be reviewed annually. Changes will be made to the plan as deemed appropriate to ensure that 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

Part II: Revolving Loan Fund Operational Procedures

A. Organizational Structure

1. Overview

LCOG will authorize its Program Manager for Economic Development to implement the RLF. Additional staff includes a Senior Loan Officer and an Assistant Loan Officer. These three LCOG employees will manage the loan process including applications, processing, approval, closing and servicing. LCOG will be guided by a volunteer Loan Administrative Committee as outlined below.

2. RLF Loan Board

- Direct oversight of the RLF program will be performed by a Loan Administration Committee (LAC) consisting of eight members appointed by the LCOG Board of Directors upon nomination from the Lane Economic Committee. The LAC will represent a cross section of community leadership with the following composition:
 - at least one commercial lender
 - an elected official
 - at least two business and industry leaders
 - at least one at-large position
 - at least one LCOG employee who is not part of the loan group staff.
- Appointees may represent more than one category.
- The LAC will meet on an as-needed basis.
- A quorum shall consist of three members.
- The chairperson will be elected from those members with commercial lending experience.
- A Committee member with commercial lending background must be present for final loan approval or for any major collection actions or major loan modifications.
- The LAC shall have the following responsibilities:
 - Serve as the “Loan Committee” with authority to approve loans and establish terms, rates and other conditions of loans.
 - Provide oversight of the RLF program.
 - Make policy recommendations affecting the RLF to the Lane Economic Committee.
 - Make final decisions regarding loan collection or administration issues.
- On an exception basis, and when needed for timely approval actions, and/or to protect the interests of the RLF, the chair of the LAC or his/her designee may approve minor amendments to previously approved loans as well as loan collection actions.

3. Conflict of Interest Situations

- Neither LCOG nor any of its principal officers may hold any legal or financial interest in the borrower.
- Neither the borrower nor any of its principal officers may hold any legal or financial interest in LCOG.
- Any LAC member that has other professional relationships with a loan applicant that may present a conflict of interest shall not participate in approval or other related deliberations but may be invited to respond to questions from other LAC members.
- The RLF will also comply with all Conflict of Interest provisions of the EDA RLF Standard Terms and Conditions Part II.F.4.
- The following certifications are required from the applicant on the initial loan application:
 - Applicant certifies that he or she is not an officer of LCOG, employee of LCOG, or other member of LCOG’s Board of Directors, or other Board (hereinafter referred to as “other board”)

that advises, approves, recommends or otherwise participates in decisions concerning loans or the use of RLF funds, or person related to the LCOG officer, another LCOG employee, or any member of the Board by immediate family, law, or business arrangement. Immediate family is defined as parents, grandparents, siblings, children and grandchildren, but does not include more distant relatives, including cousins, unless they live in the same household.

- Applicant certifies that no officer, employee or board member of LCOG has solicited or accepted, directly or indirectly, any gift, gratuity, favor, entertainment or any other thing of monetary value, for himself or for any other person, from the applicant.
- Applicant certifies that he or she has not been employed as an officer or board member of LCOG for at least one year.
- All meetings of the Loan Administration Committee (LAC) to approve or modify any loan will include an agenda item wherein board members will be asked to certify that they have no real or potential conflict of interest with the prospective borrower in accordance with EDA conflict of interest requirements at CFR 308.15(e). An exception would be where the board member works for a bank which has a loan to the prospective borrower; in this situation, the board member will be informed by the chairperson that they may not participate in approval or other related deliberations, but may be invited to respond to questions from other LAC members.

B. Loan Processing Procedures

1. Standard Loan Application Requirements

The following list represents possible items which will be required of applicants:

- History and description of the business
- Use and source of proceeds form
- Personal financial statement
- Personal tax returns for last two to three years
- Resumes of management
- Business tax returns for the last two to three years
- Current financial statements within 90 days, certified by a company officer
- Projected monthly cash flow and / or Projected annual income statement including assumptions, depending on how much reliance will be placed on projected versus historical cash flow.
- List of collateral and its value
- Bank letter turning down project or participating in the project

2. Credit Reports

Credit Reports will normally be required for all individuals. Personal credit history will weigh heavily in the final credit decision.

3. Appraisal Reports

- Appraisals will normally be required for any real estate project where the total project costs exceed \$250,000.
- Equipment Appraisals may be required for loans secured primarily by equipment

4. Environmental Reviews

- LCOG has developed and will implement an environmental review process in accordance with the intent of the National Environmental Policy Act of 1969 (NEPA), Pub. L. 91-190, as amended, 42 U.S.C. 4321 et seq. as implemented under 40 CFR parts 1500 et seq. The review process will include the following:
 - a. Borrowers will complete an environmental / hazardous waste questionnaire.
 - b. Depending on the initial assessment of environmental risk associated with the project, LCOG may require one or more of the following methods of environmental review:
 - Environmental records search
 - Phase I environmental site assessment
 - Phase 2 environmental site assessment
 - c. Any project which will adversely (without mitigation) impact flood plains, wetlands, significant historic or cultural properties, drinking water resources, or nonrenewable natural resources will not be approved.
- Borrowers will be required to comply with applicable laws and statutes including, but not limited to:
 - a. Clean Air Act, Pub. L. 88-206 as amended, 42 U.S.C. 7401 et seq.
 - b. Clean Water Act (Federal Water Pollution Control Act), c. 758, 62 Stat. 1152 as amended, 33 U.S.C. 1251 et seq.
 - c. Comprehensive Environmental Response, compensation, and Liability Act of 1980 (CERCLA), Pub. L. 96-510, as amended, 42 U.S.C. 9601 et seq. and the Superfund Amendments and Reauthorization Act of 1986 (SARA), Pub. L. 99-499, as amended.
 - d. Floodplain Management Executive Order 11988 (May 24, 1977).
 - e. Protection of Wetlands Executive Order 11990 (May 24, 1977).
 - f. Resource Conservation and Recovery Act of 1976, Pub. L. 94-580 as amended, 42 U.S.C. 6901 et seq.
 - g. Historical and Archeological Data Preservation Act, Pub. L. 86-523, as amended, 16 U.S. C. Sec. 469a-1 et seq.
 - h. National Historic Preservation Act of 1966, Pub. L. 89-665, as amended, 16 U.S.C. Sec. 470 et seq.
 - i. Endangered Species Act of 1973, Pub. L. 93-205, as amended, 16 U.S.C. Sec. 1531 et seq.
 - j. Coastal Zone Management Act of 1972, Pub. L. 92-583, as amended, 16 U.S.C. Sec. 1451 et seq.
 - k. Flood Disaster Protection Act of 1973, Pub. L. 93-234, as amended, 42 U.S.C. Sec. 4002 et seq.
 - l. Safe Drinking Water Act of 1974, Pub. L. 92-523, as amended, 42 U.S.C. Sec. 300f-j26.
 - m. Wild and Scenic Rivers Act, Pub. L. 90-542, as amended, 16 U.S.C. Sec.1271 et seq.
 - n. Environmental Justice in Minority Populations and Low-Income Populations Executive Order 12898 (February 11, 1994).
 - o. Farmland Protection Policy Act, Pub. L. 97-98, as amended, 7 U.S.C. Sec. 4201 et seq.
 - p. Other Federal Environmental Statutes and Executive Orders as applicable.

5. Standard Collateral Requirements

- Personal guaranties will be required from anyone holding greater than 20% ownership in the borrower.

- Hazard insurance with LCOG named as an additional loss payee will be required on all collateral
- Key man life insurance will be required when one person is deemed critical to repayment of LCOG's loan.
- Flood insurance will be required if real property collateral is in a flood zone
- Title insurance will be required whenever our primary collateral consists of real property.
 - a) A Standard title insurance policy will generally be acceptable.
 - b) Title insurance may not be required if real property collateral is taken as an abundance of caution.
 - c) Title insurance may not be required if our collateral consists of a 3rd or lower lien against real property.

6. Standard Equity Requirements

- Borrowers will normally be expected to contribute equity in the minimum amount of 10%.
- This will normally be a cash equity contribution but in-kind equity contributions may be considered.

7. Loan Write-Up

The credit memorandum will include the following sections

- Loan terms
- Loan conditions
- Discussion of jobs created and other public benefits
- Discussion of circumstances requiring RLF participation including a finding that credit is not otherwise available pursuant to 13 CFR 308.18(c)
- History and description of the business
- Explanation of the transaction
- Primary source of repayment
- Business and management evaluation
- Secondary source of repayment including collateral loan to value, other liens and guarantor analysis including review of credit reports
- Environmental analysis

8. Loan Approval Procedure

- Preliminary discussion with LCOG staff to determine eligibility and discuss initial credit criteria and type of information that will be needed to make credit decision.
- If applicant or project is ineligible, or if credit appears to have too many weaknesses, LCOG staff will explain what would be required to make the project creditworthy and/or suggest other possible financing sources.
- Applicant submits formal Application and all supporting documents.
- Applicant principals authorize credit check and pay application fee.
- Review by Staff for completeness and regulatory compliance; submission of additional information by Applicant, as appropriate.
- Acceptance of formal Application by staff representative.

- Detailed review and final recommendation to Loan Administration Committee by staff, based on loan criteria, strength of business and principals and all other factors. Recommendation will include what the terms and conditions should be.
- Submission of complete package, along with staff recommendations (i.e., credit memo), to the Loan Administration Committee.
- Loan Administration Committee decides whether to approve or decline the loan request and what terms and conditions shall apply.
- Notify Applicant in writing. If declined, include reasons for denial. If approved, send Applicant a letter of intent to commit funds, subject to any other conditions for approval as determined by the Loan Administration Committee.

C. Loan Closing and Disbursement Procedures

1. General Closing Requirements

LCOG must receive the following items, in form and content acceptable to LCOG, before it is required to extend credit to the Borrower.

- Authorizations: Evidence that the execution, delivery and performance by the Borrower and each guarantor and any instrument or agreement required have been duly authorized.
- Security Agreements: Signed original security agreements, financing statements, and fixture filings.
- Evidence of Priority: Evidence that security interests and liens in favor of LCOG are valid, enforceable, and prior to all others rights and interests, except those LCOG consents to in writing.
- Consent of Senior Lienholders: Consent of each holder of a senior lien or security interest on any collateral granted to Lender pursuant to the terms hereof and a copy of all documents granting such senior liens or security interests.
- Consent to Removal: For any personal property located on real property which is subject to a mortgage or deed of trust or which is not owned by the Borrower, a Consent to Removal from the owner of the real property and the holder of any mortgage or deed of trust.
- Financial Statement: Copies of financial statements of both Borrower and any guarantor which are less than ninety days old.
- Title Insurance
- Hazard Insurance with LCOG listed as Loss Payee
- Flood Insurance, if necessary
- Guaranties
- Deed of trust: Executed by the Borrower granting Lender a lien on any real property collateral
- Life Insurance: Assignment of life insurance policy, if required
- Promissory Note: Borrower's executed promissory note evidencing each loan
- Evidence of equity injection by the borrower
- Evidence of private lender matching funds or decline letter

2. Loan Closing Documentation Requirements

The following is a list of the primary documents to be utilized at loan closing:

- Promissory note
- Loan agreement

- Security agreement
- Guaranty
- Trust deed
- UCC-1
- Corporate resolution
- Inter-creditor agreement, as applicable
- Consent of Landlord, as applicable

3. Loan Disbursement Requirements

- Loans whose primary purpose is related to real estate acquisition or construction will generally be closed through a title and escrow company.
- Loans for the purchase of equipment will require evidence of equipment invoices and will be paid jointly to the vendor and the borrower. Loans for equipment may be paid directly to the borrower upon receipt of paid invoice.
- Loans for working capital will have the following specific requirements:
 - a) Evidence of satisfactory net working capital equity contribution from the borrower based on current financial statements, or other documentation acceptable to LCOG.
 - b) Cash flow projections or other documentation will be required to determine the loan amount and the schedule for loan disbursement.
- Legal counsel will be consulted if a loan requires critical or unusual documentation.
- UCC searches will be performed before and after loan closing.

D. Loan Servicing Procedures

1. Loan Payment and Collection Procedures

LCOG will use a third party escrow collection company to collect monthly payments from borrowers. The escrow company will issue payment coupon books to borrowers. Monthly payments are then deposited directly into LCOG's deposit account, which will be collateralized whenever possible.

2. Loan Monitoring Procedures

All loans will be entered into LCOG loan management system database. This database provides a convenient system for all loan monitoring requirements including tax returns, hazard insurance and UCC renewals, site visits and other tickler items. The following items will be monitored for all loans:

- Annual business and guarantor tax returns within 30 days of submission. Loan officer to review, analyze, footnote and sign all tax returns. Financial statements may be required on a more frequent basis if required by the LAC.
- Employment reports on a semi-annual basis for the first two years.
- Annual site visits and other contact, as necessary.
- Hazard, Flood and Life insurance

- UCC renewals

3. Delinquent Loan Procedures

- If any monthly payment is delinquent more than fifteen (15) days, Borrower shall pay a late charge of five percent (5%) of the delinquent installment in addition to the installment due.
- Upon the occurrence and during the continuation of any default, the principal amount outstanding will at the option of Lender bear interest at a rate per annum which is five percentage points higher than the rate of interest otherwise provided under the Note. This will not constitute a waiver of any default. The default rate is a standard provision of our Business Loan Agreement.
- LCOG will verbally notify all borrowers that are over 15 days delinquent to determine plans to bring loan payments current.
- LCOG will typically issue a written default notice to all borrowers in excess of 30 days past due.
- LCOG will coordinate collection efforts with other lender whenever possible.
- Loan workouts will be attempted for loans over 90 days in arrears. Workouts may include extension of loan maturity or reduction of interest rate subject to the approval of the Loan Administrative Committee. These workouts will usually be negotiated in cooperation with the other lenders in the transaction.
- Loans deemed uncollectible will be written off and charged to expense. Amounts collected after a loan is written off will be credited to recoveries.
- Collection activity will be pursued until it is no longer cost-efficient to do so, based upon LCOG staff review of collateral liquidation values, collection costs and legal costs.

E. Administrative Procedures

1. Loan File Organization

All loans will have three loan files:

- Application File will contain all relevant application documents
- Closing File will contain the original loan closing documents.
- Servicing File will contain current insurance information, annual tax returns, employment information, site visit reports, correspondence and file comments.
- All original loan documents will be stored in a fire proof cabinet.

2. EDA Reporting Requirements

The EDA RLF will be set up and maintained as a separate subfund under LCOG's fiscal system. This will allow accurate and detailed review of all revenues and expenses.

3. Grantee Control Procedures

LCOG loan programs are audited annually by LCOG's outside CPA firm as part of the agency's annual financial statement audit.

