

RLF MANAGEMENT

RYAN RICHARDSON, LOAN PROGRAM MANAGER

WE HELP ENTREPRENEURS ...



CREATE JOBS IN OUR COMMUNITY



RLF MANAGEMENT – KEY SUCCESS FACTORS

- Make quality loans that pay you back
- Turn a profit with your RLF
- Staff are stewards of the RLF



RLF MANAGEMENT – PROFITABILITY

- Profits create sustainability
 - Salaries
 - Overhead
 - Grows RLF
 - Covers loan losses

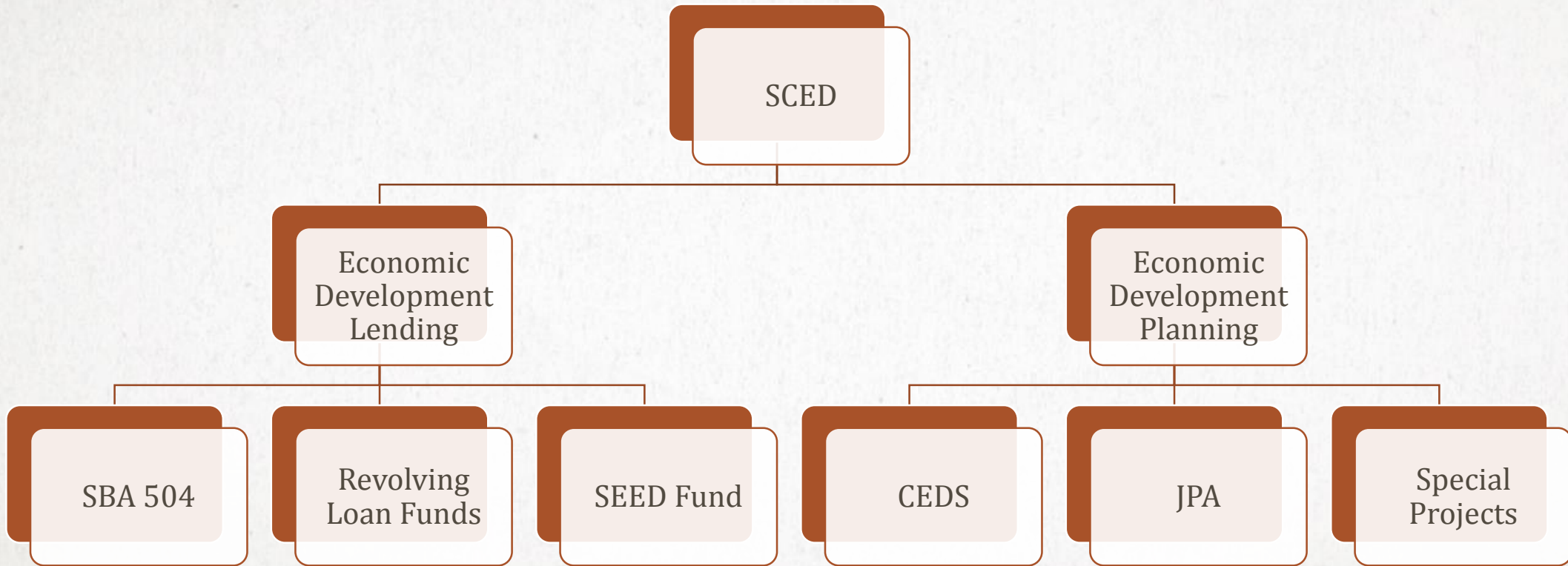


SCED FACTS

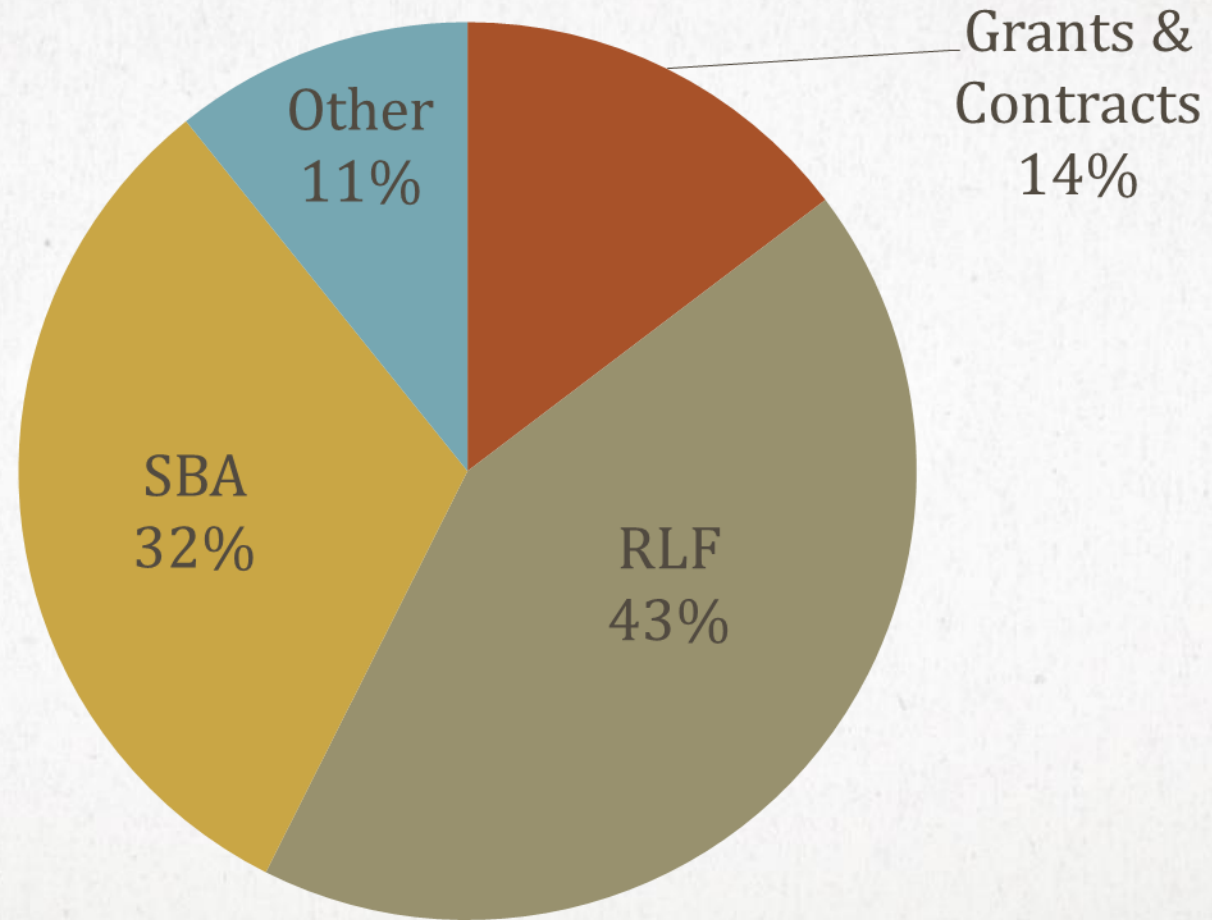
- Based in Redding, California
- 4-County Economic Development District population of 245,100
- Started 1980
- 6 Employees
- RLF Portfolio - \$6.2 million – 60 loans
- SBA Portfolio - \$33.5 million – 74 loans



SCED OVERVIEW



SCED REVENUE

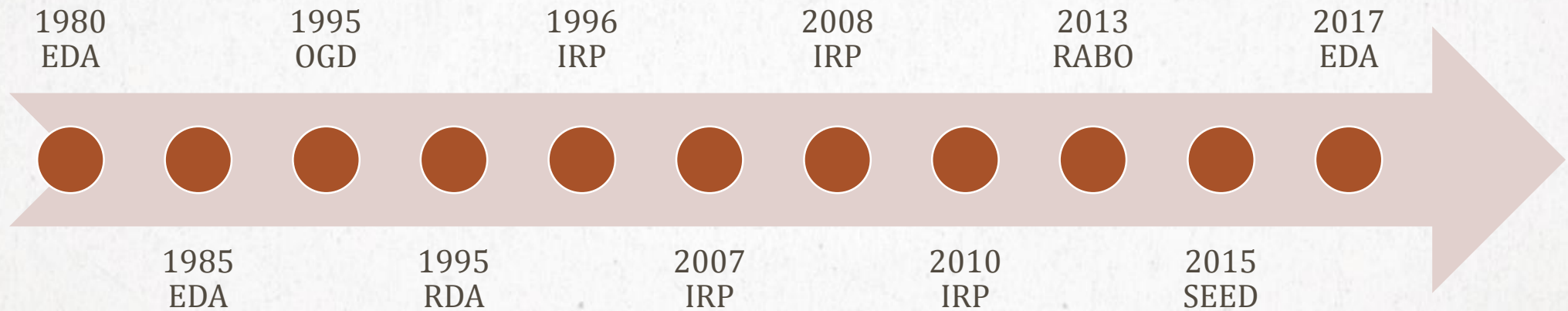


RLF FUNDING SOURCES

- Capitalized Loan Funds
 - Economic Development Administration (EDA)
 - U.S. Forest Service – Old Growth Diversification (OGD)
 - U.S. Department of Agriculture – Rural Development (RDA)
- Borrowed Loan Funds
 - U.S. Department of Agriculture – Intermediary Relending Program (IRP)
 - Rabobank
- SEED Fund
 - Scott Valley Bank, Wells Fargo, Tri Counties, Bank of Commerce Redding, Banner Bank

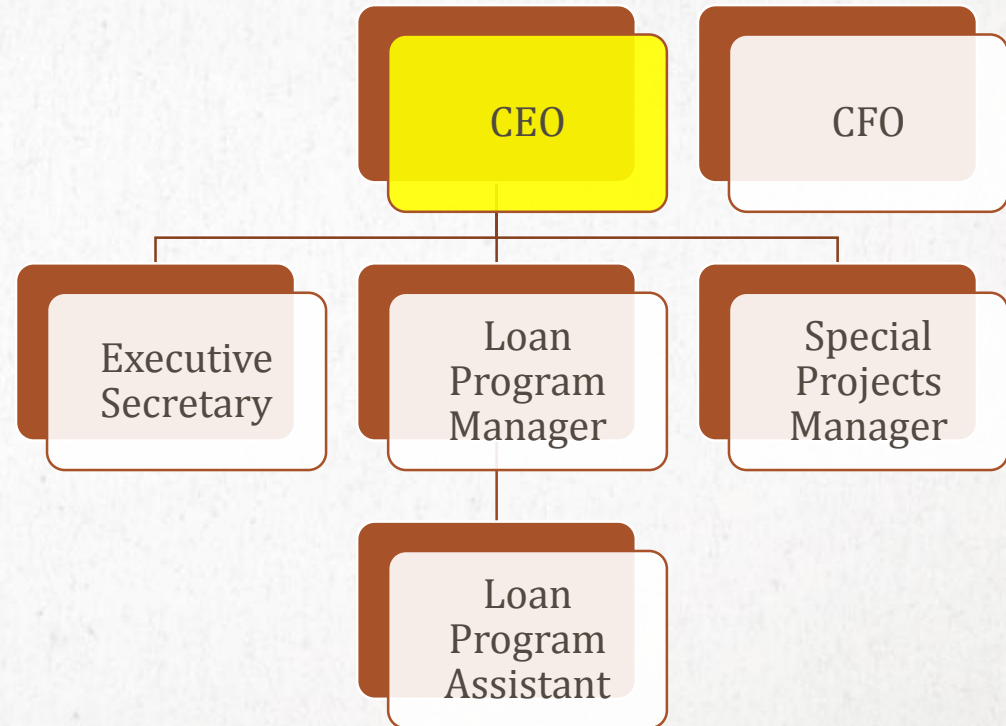


SCED LOAN FUND TIMELINE



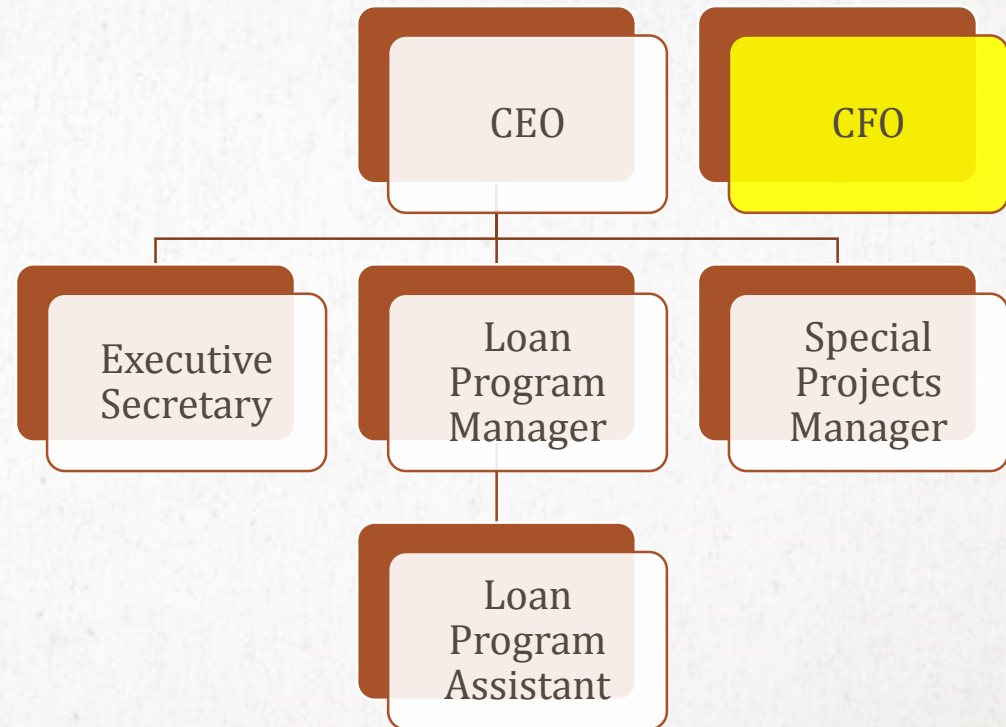
SCED STAFF

- **Name:** Bob Nash
- **Title:** CEO
- **Time at SCED:** 29 years
- **Lending Background:** Bank
- **RLF Role:** Microloan underwriting, outsourced underwriting, searches for additional funding
- **Certifications:** EDFP



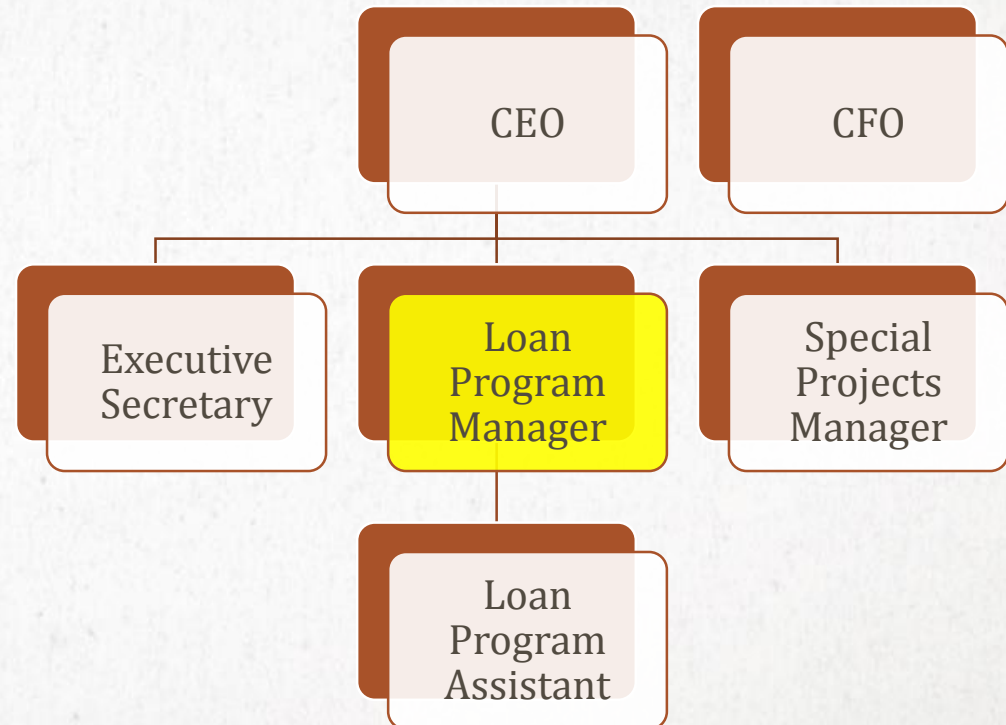
SCED STAFF

- **Name:** Sue Tofflemire
- **Title:** CFO
- **Time at SCED:** 18 years
- **Lending Background:** None
- **RLF Role:** Non-profit accounting expert, audits, reporting, payment processing
- **Certifications:** CMA, MBA, SPHR & SHRM-SCP



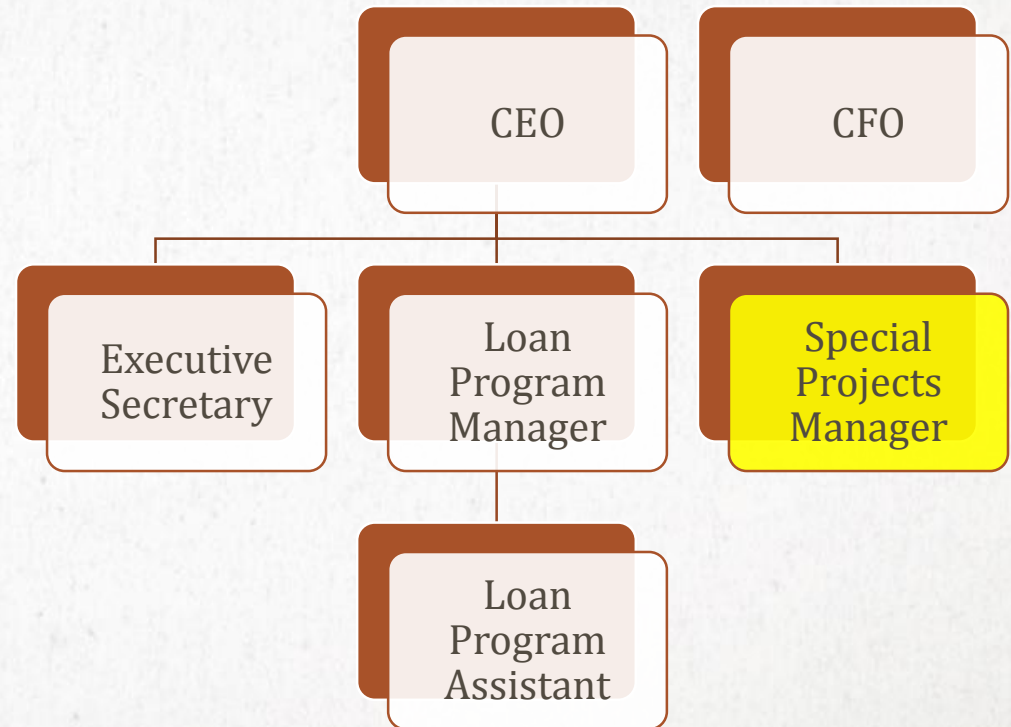
SCED STAFF

- **Name:** Ryan Richardson
- **Title:** Loan Program Manager
- **Time at SCED:** 13 years
- **Lending Background:** None
- **RLF Role:** Marketing, underwriting, servicing, portfolio management
- **Certifications:** MBA , EDFP & NADCO



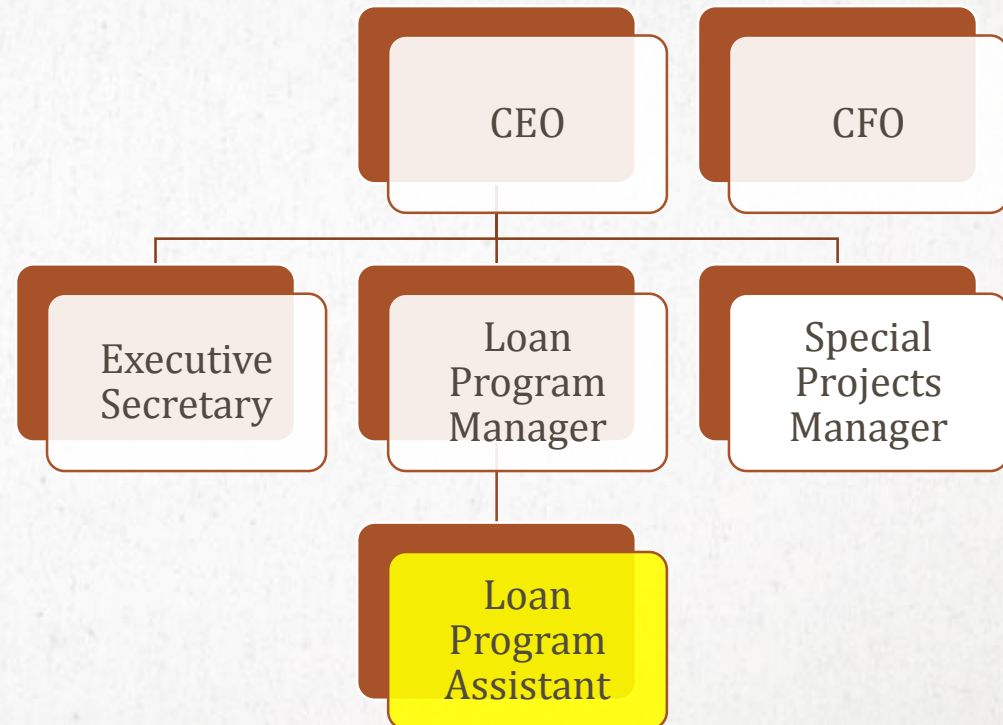
SCED STAFF

- **Name:** Loree Byzick
- **Title:** Special Projects Manager
- **Time at SCED:** 16 years
- **Lending Background:** None
- **RLF Role:** Internal reviews, file organizational guru and sounding board



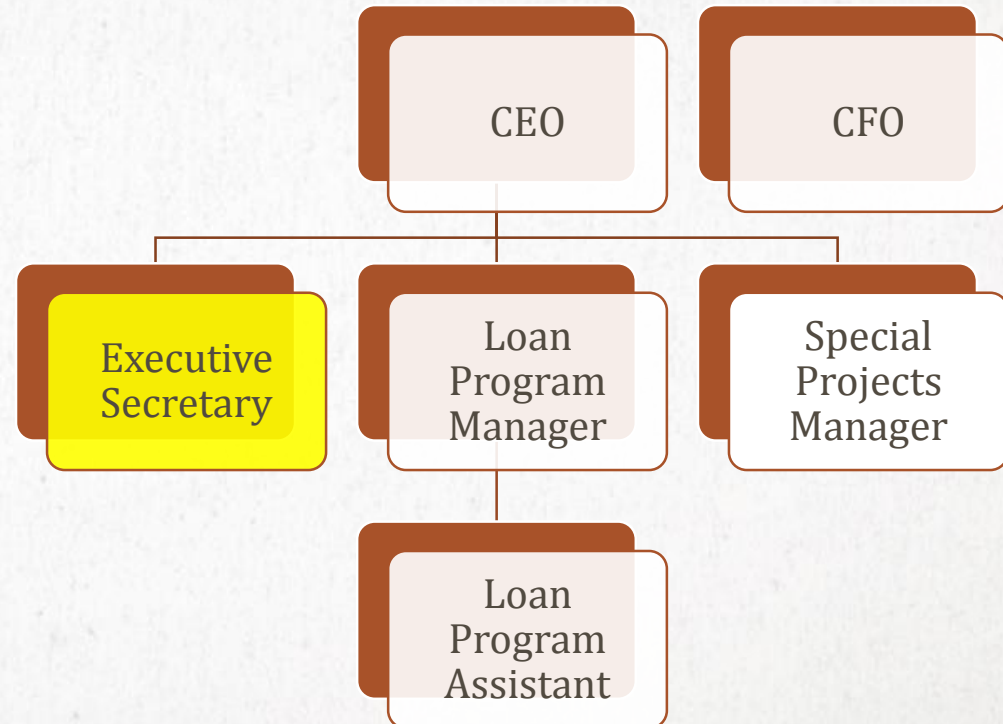
SCED STAFF

- **Name:** Jamie Campbell
- **Title:** Loan Program Assistant
- **Time at SCED:** less than 1 year
- **Lending Background:** Bank
- **RLF Role:** Close and fund loans, pulls credit reports, sets up files, servicing of loan portfolio



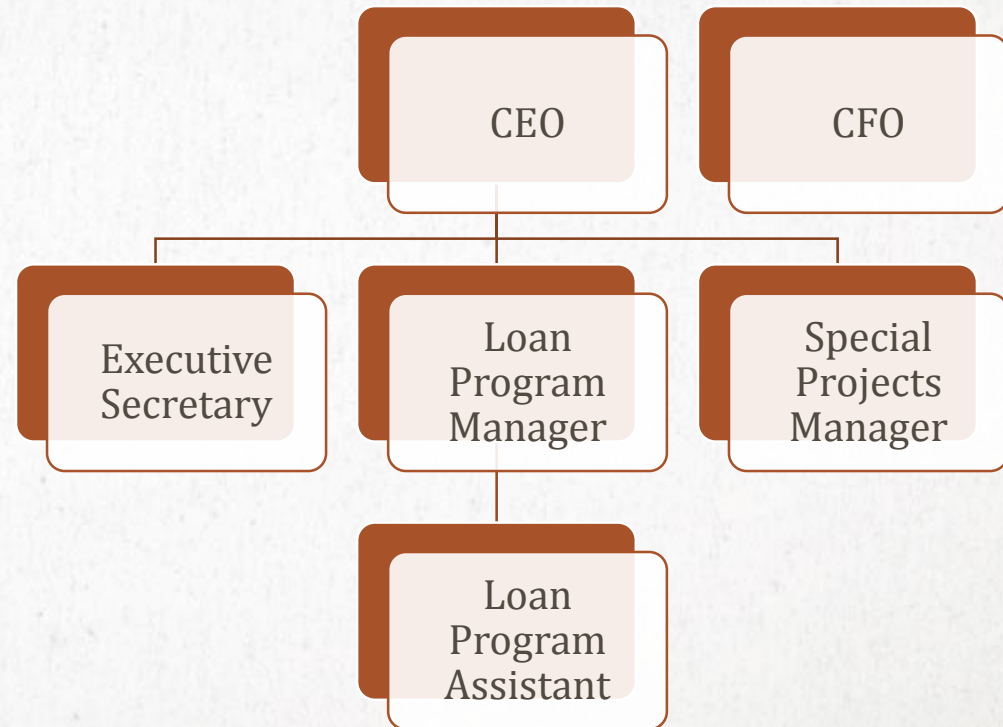
SCED STAFF

- **Name:** Cheryl McKannay
- **Title:** Executive Secretary
- **Time at SCED:** 6
- **Lending Background:** None
- **RLF Role:** Loan assistant backup, credit reports, file set up



SCED STAFF

- Hybrid staffing and willingness to grow
- You must pay your staff
- Cross training of functions
- Outsourcing of skill sets
- **Takeaway #1 – Small staffs are susceptible to burnout**
- **Takeaway #2 - Easy to overwork at a position and skew production**
- **Takeaway #3 - Backup plans for what to do it an employee leaves**



RLF LOAN PROCESS



MARKETING - HOW TO GET LENDER PARTNER REFERRALS

- Provide value to the lender
- Articulate your ideal project
- Sell solutions not specific RLF funds
- Marketing is a key to RLF success
- Proven track record of success of helps
- **Takeaway #1 – If you don't have a track record start, with small balance CMRE transactions.**
- **Takeaway #2 – Avoid spending time on projects that will never fund**



**Action Sports Rentals:
A Success Story**

Project Details

- Action Sports Rentals
- Redding, California
- (530) 440-2216
- www.actionsportsrentals.org
- Business Start-Up
- Funded through SCED's SEED Fund

It sounds simple: find a need and fill it.

Demand, meet supply, and boom: you're in business. Somehow it's never that simple, as Chris Knight learned when he was trying to get Action Sports Rentals off the ground.

It didn't make sense to him that a city like Redding – which relies heavily on outdoor recreation – which locals and tourists happy – wouldn't have a single way to rent jet skis, ATVs, and other sports equipment.

The nearest rental outlet was hours away in Sacramento, so Chris saw the opportunity and began to put it all together. He was going to start with just jet skis, but soon realized quads, kayaks, and snowmobiles should round out the inventory.

"I was going to try to float the bill on my own, but once I added the extra units, that didn't work," Chris recalls.



APPLICATION PROCESS

- Standardized application checklist
- Manage borrower and lender partner expectations
- **Takeaway #1 – Does your application need updating?**
- **Takeaway #2 - Don't have one? Borrow from another agency – samples online**
- **Takeaway #3 – Discuss fees and what you are able to finance and what is out of pocket**

SCED - Application Checklist

This checklist is provided to assist you in gathering the information necessary to evaluate your loan request. In order to complete our analysis of your loan request we will need to review certain information, as itemized below. For each box checked below, please provide the requested information.

Business Information

- Business financial statements (balance sheet and P&L) for 12/31/16 & 12/31/17
- Month-by-month projections for the next two years
- Interim financial statement – (balance sheet and P&L) year to date
- Business debt schedule (form attached)
- Federal tax returns for the past three years
- If 2016 Federal tax returns are on extension, please submit a copy of the extension
- Aging of Accounts Payable and Accounts Receivable
- SBA 504 application signature page – SBA Form 1244 (form attached)
- Federal tax returns for the last three years of related businesses that are 50% or more owned by the borrowers and/or guarantors
- Certificate of Secretary – if the borrower or business is a corporation
- Certificate of Limited Liability Company – if the borrower or business is a LLC

Personal Information (for each individual with 20% or greater ownership, officer and director regardless of ownership)

- Personal federal tax returns for the last three years with ALL K-1 statements
- If 2017 federal tax returns are on extension, please submit a copy of the extension
- Résumé (form attached or use your own)
- Credit check authorization (form attached)
- Copy of driver's license or government issued ID
- Personal financial statement – SBA Form 413 (form attached) – signed by both spouses if assets and/or liabilities are held jointly (even if the spouse is not signing on the loan)
- Statement of personal history – SBA Form 912 (form attached) – Tips for completion:
 - * Complete sections 1-9 and sign, by hand.
 - * Add your complete middle name in section 1.
 - * Initials, by hand, are needed in sections 5, 7-9.

Other Information

- Copy of purchase and sale agreement _____
- _____
- _____
- _____
- _____
- _____

RLF Application – January 2018

UNDERWRITING

- Will we get paid back?
- Used to cull bad prospects
- Projects with historical information are the easiest to underwrite
- **Takeaway #1 – Underwriting doesn't guarantee future results**
- **Takeaway #2 – Might as well get key person life insurance**
- **Takeaway #3 – SCORE & SBDC can assist borrowers with projections**



UNDERWRITING - GREEN LIGHTS

- Down payment (and remain liquid)
- Existing business cash flow
- Outside income
- Collateral
- **Takeaway – There are other C's of credit but these are my favorite**



UNDERWRITING - RED FLAGS

- Credit train wrecks
- New business owners
- Unwilling to use their home as collateral
- Lack of personal assets
- Start-ups requesting over \$50,000
- Unique collateral
- “I guarantee I’ll pay you back”
- **Takeaway - Bad loans can kill a RLF**



UNDERWRITING – MITIGATING RED FLAGS, GETTING TO GREEN

- Collateral enhancements
- Additional collateral
- Outside income
- Guarantor strength
- More cash into the project



APPROVAL – LOAN COMMITTEE

- Loan memo consistency
- Consistent meeting dates and times
- Bankers on loan committee
 - “This isn’t bankable”
 - Might not know as much as you do about your program
- **Takeaway – Bankers on the loan committee should know your credit polices**

SLPC ETRANS CREDIT MEMORANDUM

1. CDC Office Information

CDC Name: Superior California Economic Development, Inc. CDC #: 09-703
CDC Contact: Ryan Richardson Tel #: (530) 225-2760 x206
E-mail: rrichardson@scedd.org Tel #: (530) 225-2769

2. Project Information

Borrower:		Tax ID:	***	
Small Business Concern:	F	Tax ID:	***	
Trade Name (if different):	C	SBC is co-borrower?:	No	

Project Address	City	County	State	Zip
	Citrus Heights	Sacramento	CA	95610-0314

2.1. Loan Purpose and Benefit to Operating Company

three new locations over the next 18 months. With roughly 100 employees and looking to hire another 150 more, their current warehouse does not provide enough room for employee meetings, store dry product, train new hires, house off-site event equipment, or have a maintenance room for fixing machines and office space. The OC has been renting a warehouse and subject financing will replace a leased location with an owned location.

OC Start Date: March 2014

OC Product & Services: [REDACTED]

Collateral: 1 [REDACTED]

Occupancy: Borrower will occupy 51.5% of the subject property

Existing Tenants

Tenant: [REDACTED]
Business Type: Smog Testing
Lease Started: January 1, 2017
Lease Expires: December 31, 2012
Lease Amount: 2017 - \$5,000 per month with yearly escalators
SMDA Required (Y/N): YES

SMDA Agreement Explanation: CDCs are required to get a subordination, non-disturbance and attornment (SMDA) agreement for tenants who are NOT on a month-to-month lease. The "subordination" portion permits a lender of the property whose lien is junior or subordinated to the tenant's (usually because the lease was recorded before recording the lien of the mortgage), to become superior to the lien of the lease. Lenders also need another agreement along with subordination, to ensure that tenants can't walk away from their leases in the event of a foreclosure called an "attornment." The attornment agreement creates a contractual bond between tenant-third-party mortgagee, pursuant to which the tenant agrees it will recognize the mortgagee as landlord. The agreement that protects the tenant is called a "non-disturbance." A non-disturbance agreement permits the lease to stay in force so long as the tenant is not in default. Tenants looking toward a long-term lease with expensive improvements are advised to add a non-disturbance clause to any subordination agreement.

Previous SBA Funding

Lender: SBA 7(a)
Current Loan Amount: \$612,805
Status of Loan: Current

Dutch Bros-2017101801 Page 1 of 19

APPROVAL – LOAN COMMITTEE

- Best loan committee members
- Worst loan committee members
- Respect their time with quality loan prospects and professional loan memo
- Great questions & irrelevant questions
- **Takeaway #1 – Figure out loan committee idiosyncrasies and address in loan memo**
- **Takeaway #2 – Standardize loan committee discussion**

Loan Committee Summary Sheet

Who is the EPC/Borrower? _____

Who is the DC? _____

Who are the people involved? _____

What do they do? _____

Time in Business? _____

Why do they want to do the project? _____

Who referred the project? _____

Discuss project structure use of funds & discuss variances _____

What is our collateral? _____

Discuss land & building collateral (age, condition, etc.) _____

Anything special that wasn't mentioned in the write up? _____

DSCR Discussion _____

Liquidity _____

Credit _____

Personal Cash Flow _____

Concerns about the loan _____

Economic Development _____

Positives about the loan _____

Recommendation _____


APPROVAL – LOAN COMMITTEE

- Rubber stamp approvals - Bad
- Need to take their job seriously
- Need understanding of cash flow and balance sheet ratios – be able to speak our language
- **Takeaway #1 – Add cash flow and ratio analysis review in loan memos**
- **Takeaway #2 – Provide loan committee basic training for new members**



APPROVAL – COMMITMENT LETTER

- Takeaway #1 – Third time the borrower will see the rate, terms, fees, conditions, etc.
- Takeaway #2 – Over communication on who is responsible for paying fees is best.
- Takeaway #3 – Borrowers will still not have enough budgeted for closing costs.



Superior California Economic Development
350 Hartnell Drive, Suite A • Redding, CA 96002
Phone (530) 225-2760 • Fax (530) 225-2769

March 15, 2018

Mr. [redacted] [redacted] [redacted]
18 [redacted] [redacted] [redacted]
Redding, CA 96003

Dear Mr. and Mrs. [redacted]:

In response to your application for a business loan, Superior California Economic Development (SCED) is delighted to offer you the following loan commitment subject to the terms and conditions included in our loan documents, key points of which are summarized below.

Borrower: [redacted]

Guaranto: [redacted] ces

Amount and Purpose of the Loan: \$130,000 allocated to the purchase of a commercial condominium located at [redacted]

Interest Rate: Fixed rate of 7.00% for the term of the loan.

Prepayment Penalty: None

Term: Five years

Amortization: Twenty-five Years

Repayment Terms: Fifty-nine (59) payments of principal and interest payments of approximately \$827 and one (1) balloon payment of all remaining principal and interest.

Collateral:

(1) First deed of trust on commercial real estate located at [redacted] CA.

ACH Requirement: Borrower must make payments automatically from their bank account through Automated Clearinghouse (ACH) on approximately the 1st of every month.

Loan Fees and Costs: Borrower is responsible for paying SCED's 2% origination fee of \$2,340 and tax service cost of \$55 out-of-pocket at escrow. *NOTE: Borrower is responsible for paying all title & escrow fees and prorated county property tax at the time of closing. These fees are paid out-of-pocket. Please contact your escrow officer for an estimation of fees.*

CLOSING & FUNDING

- A loan isn't a loan until it funds
- LaserPro loan docs
- Takeaway #1 – Ask bank for a copy of their docs to check against yours
- Takeaway #2 – Discuss fees multiple times
- Takeaway #3 – Attorney can assist with loan docs preparation

PROMISSORY NOTE							
Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$60,000.00	07-12-2011	02-01-2012				04	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							
Borrower: David Black 2460 Bladrock Road Redding, CA 96001			Lender: Superior California Economic Development, Inc. 350 Hartnell Avenue, Suite A Redding, CA 96002				
Principal Amount: \$60,000.00				Date of Note: April 12, 2018			
<p>PROMISE TO PAY. David Black ("Borrower") promises to pay to Superior California Economic Development, Inc. ("Lender"), or order, in lawful money of the United States of America, the principal amount of Sixty Thousand & 00/100 Dollars (\$60,000.00), together with interest on the unpaid principal balance from July 12, 2011, until paid in full.</p> <p>PAYMENT. Borrower will pay this loan in accordance with the following payment schedule, which calculates interest on the unpaid principal balances as described in the "INTEREST CALCULATION METHOD" paragraph using the interest rates described in this paragraph: 6 monthly consecutive interest payments, beginning September 1, 2011, with interest calculated on the unpaid principal balances using an interest rate of 8.000%. Borrower's final payment of \$130,347.74 will be due on February 1, 2012. This estimated final payment is based on the assumption that all payments will be made exactly as scheduled; the actual final payment will be for all principal and accrued interest not yet paid, together with any other unpaid amounts under this Note. Unless otherwise agreed or required by applicable law, payments will be applied first to any unpaid collection costs; then to any late charges; then to any accrued unpaid interest; and then to principal. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.</p> <p>INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/365 simple interest basis; that is, by applying the ratio of the interest rate over the number of days in a year (365 for all years, including leap years), multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.</p> <p>PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Superior California Economic Development, Inc.; 350 Hartnell Avenue, Suite A; Redding, CA 96002.</p> <p>LATE CHARGE. If a payment is 15 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment or \$5.00, whichever is greater.</p> <p>INTEREST AFTER DEFAULT. Upon default, the total sum due under this Note will continue to accrue interest at the interest rate under this Note, with the final interest rate described in this Note applying after maturity, or after maturity would have occurred had there been no default.</p> <p>DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:</p> <p>Payment Default. Borrower fails to make any payment when due under this Note.</p> <p>Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.</p> <p>False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.</p> <p>Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.</p> <p>Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.</p> <p>Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.</p> <p>Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.</p> <p>Insecurity. Lender in good faith believes itself insecure.</p> <p>LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.</p>							

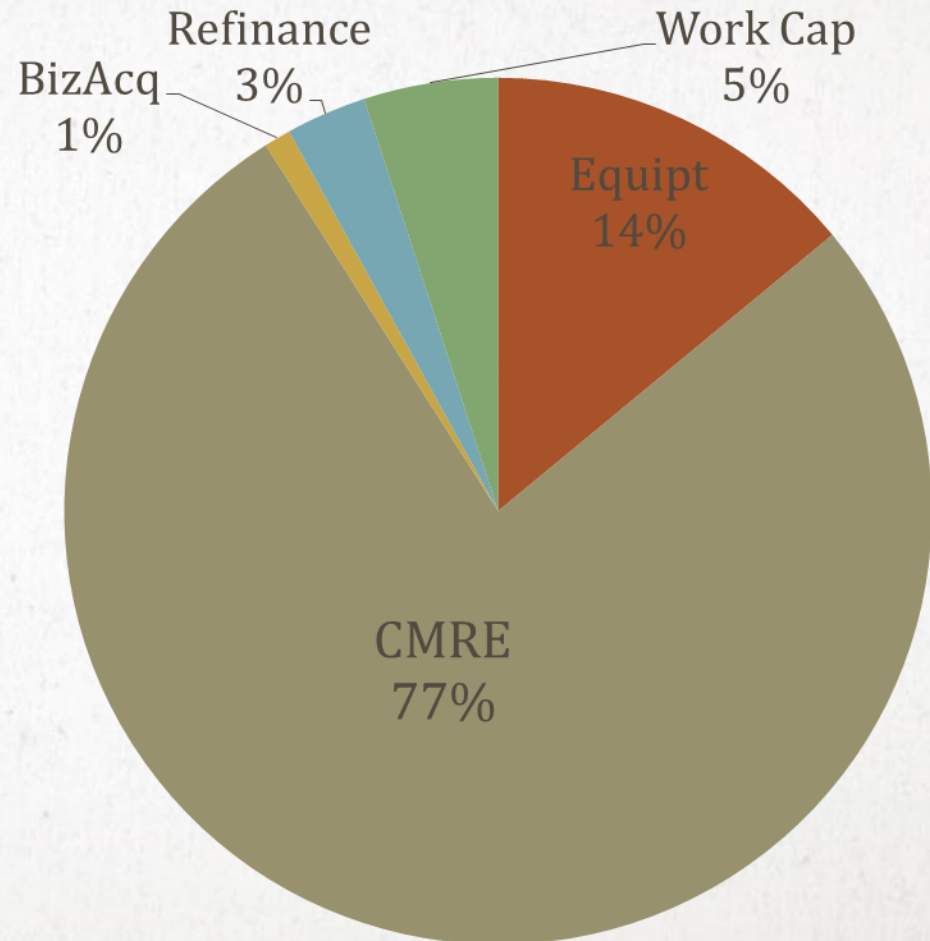
LOAN SERVICING

- Payments / Late payments
- Financial requests
- Employments counts
- Loan risk ratings
- UCC filing updates / Tax Service
- **Takeaway #1 – You need to have a tickler system in place**
- **Takeaway #2 – As a steward of the RLF you must protect the collateral**



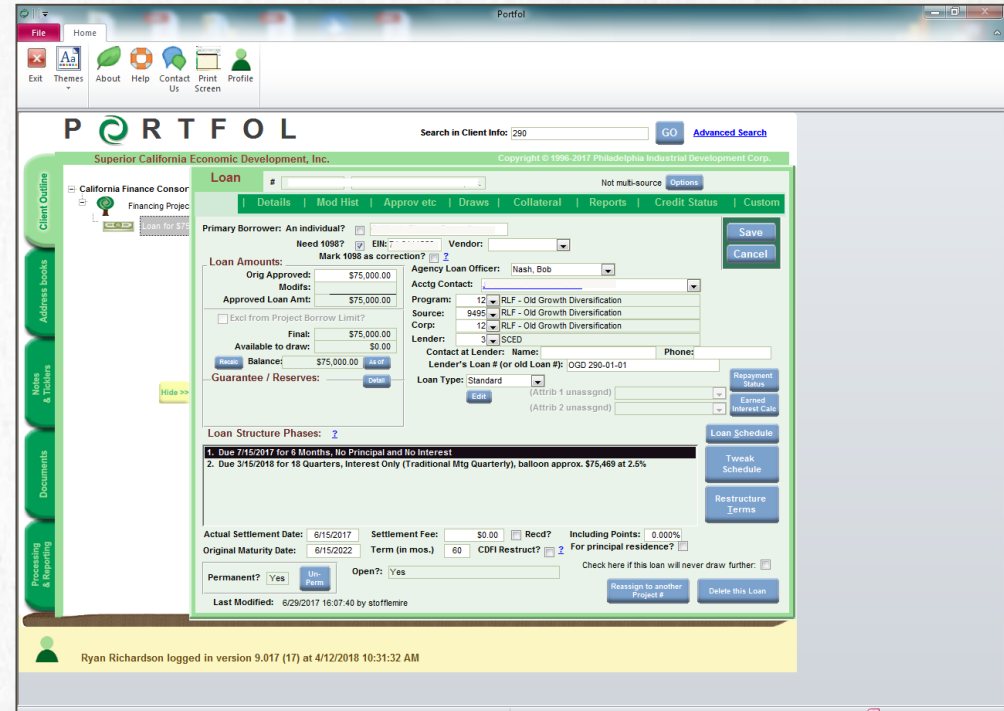
PORTFOLIO MANAGEMENT

- Project Financing
 - 70% Gap
 - 30% SCED Only
- Age of Business
 - 77% Existing
 - 23% Start-up
- **Takeaway #1 – Each fund has a different risk tolerance**
- **Takeaway #2 – CMRE is the easiest and most secure RLF for us to make**
- **Takeaway #3 – Need to establish a LLR**



PORTFOLIO MANAGEMENT

- Software
 - Ventures+
 - RLF Underwriting hybrid
 - PORTFOL
 - MIP Fund Accounting
- **Takeaway #1 – The right software will make your life easier**
- **Takeaway #2 – Fund accounting is a necessity to know which programs are generating a profit**



RLF MANAGEMENT POLICY & PROCEDURES

- What happens when someone leaves?
- How much goes into your LLR?
- How do you pull a credit report?
- When are projections require?
- What happens when someone makes a late payment?
- How do we set up a loan file?
- Where do the original loan docs go?



RLF MANAGEMENT POLICY & PROCEDURES

- Underwriting / Credit Policy
- Servicing Policy
- Liquidation Policy
- SCED Informational Notices
- **Takeaway #1 – Transfer institutional knowledge to paper**
- **Takeaway #2 – Credit Policy - Are you charging enough interest to sustain your RLF?**



RLF MANAGEMENT POLICY & PROCEDURES

- What happens if you don't have one or if it needs refreshing?
 - Borrower sample from a sister agency
 - Hire a consultant
 - Self review
- Have board review and approve
- **Takeaway #1– Update on an annual basis and get board approval**
- **Takeaway #2 – It is important to be able to pull a credit report when you've replaced a person and the other is on vacation**



FINAL THOUGHTS

- Make quality loans
- Hire the right people and pay them what they're worth
- RLF must generate a profit
- Don't work so much that you skew productivity
- Borrow or hire the necessary skills
- Fund accounting
- Loan out your money

