

Port of Bellingham

EDA Revolving Loan Fund

Guidelines



PORT OF BELLINGHAM
Washington State

1801 Roeder Avenue

P.O. Box 1677

Bellingham, WA. 98227

Ph: 360.676.2500

Fax: 360.671.6411

www.portofbellingham.com

Port of Bellingham – EDA Revolving Loan Fund

UNDERWRITING POLICY AND GUIDELINES

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Goals and Objectives

The major purpose of the Port of Bellingham EDA Revolving Loan Fund (RLF) is the development of permanent private sector employment. This goal is achieved through private and public investment in industries and businesses which are compatible with the area and which will help diversify the local economy. They may be startups or the expansion of existing firms. Major emphasis will be placed on existing manufacturing companies because of their high employment per dollar ratio and the economic diversification which they will provide to the County.

Targeting Criteria

Most loans made from the RLF will be used by private for-profit businesses for industrial and manufacturing activities such that the results of these activities diversify the County's employment base.

The Port of Bellingham EDA RLF policy is to emphasize loans to diverse projects which show the greatest long range economic impact to the community. These are expected to be:

1. Industries which provide a service or product not currently available in the area or tend to diversify the economic base of the County.
2. Industries which show the greatest opportunity for growth in employment and investment in technological or technologically dependent activities.
3. Industries which will have an important secondary effect on the community, e.g., processing of agricultural products grown in the area.
4. Industries utilizing existing vacant industrial land and/or structures in areas serviced by municipal services.
5. Expansion of existing small businesses or the establishment of startups, especially those under minorities' ownership.

Although certain target areas will be emphasized, all projects within the County will be reviewed objectively based upon the above criteria.

Standards for the RLF Portfolio

1. One job per \$35,000 will normally be the ratio allowed for the public sector capital infusion.
2. It is expected that a minimum of 50% of all new jobs will be given to the long-term unemployed. The employment of the "long-term unemployed" will be encouraged through coordination with the Northwest Workforce Council.
3. It is intended that 80% of all jobs created will be in manufacturing.
4. The ratio of private sector dollars to be leveraged by the RLF portfolio funds will be a minimum of 2 to 1. Individual projects will not normally be financed when the leverage is less than 1 to 1.

5. Generally, RLF financing will be available to support the startup and expansion of businesses that will help diversify the economy and that will create significant long-term permanent employment. The major emphasis will be as follows:
 - a. Equipment and/or real estate improvement loans to new or expanding businesses.
 - b. Working Capital
 - c. Remodeling of existing vacant buildings for owner occupancy.

Loans will generally be made to companies who meet the criteria established by SBA identifying them as “small business” in nature; however, loans may be made in special circumstances to larger companies in order to encourage them to expand and locate in Whatcom County.

Technological and/or technologically dependent firms will be sought which will find a resource in WWU technological programs as the most reasonable method of assisting with diversification. Financing of either industrial or commercial ventures, which will diversify the County’s economy, will also be pursued.

The RLF may be used as an incentive to encourage existing firms to expand or to attract outside firms. No assistance will be provided to U.S. firms as an inducement to relocating from outside the County labor markets.

6. The RLF program will be objective in looking at all loan applications. The creditworthiness of the loan applicant will always be a primary consideration. However, the creation of jobs will also be of major importance in considering applications. Small businessmen, especially minorities who have a history of success, will be encouraged to use the RLF.

An anticipated breakdown of borrowers by dollar amount is as follows:

Public/Private Borrowers	5/95
New Starts/Out of County Expansions/In County Expansions	5/30/65
Locally/Externally Owned	70/30
Small (SBA definition)/Large	95/5
Industrial/Commercial-Other	80/20
Traditional/New Technology	70/30

Typical public borrowers would be a municipality providing infrastructure to an industrial site which has a committed industrial tenant and whose characteristics meet the guidelines of the RLF Program.

Traditional borrowers are those industrial and/or manufacturing companies whose activities are already well established in Whatcom County. New Technology borrowers are those industrial and/or manufacturing companies whose activities bring either new technology to *existing* activities, or bring new technology in the form of *new* activities in Whatcom County.

Financing Policies

Loans will generally be available for fixed assets (especially equipment purchases and real estate improvements) and for working capital. Loans will generally be made at a below market and fixed interest rate, and will be secured by liens on fixed assets and by personal guarantees. Working capital loans will generally be secured by accounts receivable, raw and finished product inventories and outside collateral in addition to fixed assets. It is the RLF's policy to accept subordinated lien positions to encourage private lender participation.

RLF loans will normally be made for a term no greater than that of the participating lender.

Loans will not ordinarily be made in amounts less than \$30,000 or more than \$75,000 to any one entity in one year and on a single project. The average size loan is expected to be near \$65,000.

The term of working capital loans will not exceed five (5) years. The term of a fixed asset loan will not be greater than the weighted average useful life of the fixed assets of the project. In no case may a fixed asset loan be made for a term of more than twenty (20) years. RLF loans will be amortized in full during the term.

RLF loan interest rates will be set by the Loan Administration Board (LAB) and will be below the then prevailing rates in the area for loans of similar size, maturity and purpose. In no case will a rate be set lower than the EDA minimum requirement of four (4) percentage points below the then current U.S. Treasury rate for similar maturity obligations.

Repayment schedules may be adapted to fit the individual business's circumstances; interest only payments may be permitted under special circumstance, but for a period not to exceed six months. Note-this interest only period *will not* extend the final payment date as set forth in the Promissory Note. Subordination to other loans will be allowed.

The LAB will obtain sufficient and adequate collateral to secure all RLF loans. It will usually be in the form of liens on the assets financed, including fixed assets such as machinery and real estate, accounts receivable inventory and lease assignments. Liens upon other non-project assets of the borrower may also be used to secure the loan. It will also be the general policy of the LAB to require personal guarantees by the principal borrowers as deemed appropriate in the circumstances. Personal guarantees will normally be required of all persons/entities holding a 20% or more interest in a borrower. All fixed asset loans will have an equity participation of between 10% and 20% depending on risk and other factors. All working capital loans will have a 20% to 30% equity participation by the applicant. This participation may include the existing net worth of the building.

A loan may be restructured when the borrower is delinquent or is experiencing other short-term problems, but otherwise represents a good credit risk for the RLF. A loan will be restructured only when such restructuring increases the borrower's ability to repay the loan. Interest received from repayments of the loan shall be used for administrative costs when needed or placed in the RLF capital fund if they are deemed surplus by the LAB.

There shall be loan fees as approved by the LAB. These loan fees, or other similar charges, may be used for administrative costs, professional fees, or services of a loan packager/consultant who may not be on the RLF staff. Such fees shall not be excessive and shall be deemed reasonable when approved by the LAB. An origination fee of \$50 will normally be required when an application is accepted. After initial screening, if the loan package looks favorable, an application fee of \$200 will be required before staff proceeds with processing. A loan fee equaling 1% of the loan value will be payable at closing.

To ensure that the total package does not exceed 1.5% of the total loan, the application fee may, in the case of smaller loans, be somewhat less than \$200.

RLF funds will not be used to finance the following:

- a. Cost incurred prior to the LAB's approval of the application unless the costs are specifically allowed by the LAB or receive the RLF's consent prior to incurrence of the costs, e.g., cost incurred subsequent to application submittal, but prior to approval.
- b. Acquisition of equity in private business.
- c. Subsidy of interest payments.
- d. Refinancing of existing debt, with the exception of interim construction financing.
- e. The equity contribution required of borrowers participating in other federal loan programs.

Additional Financing Policies

- a. RLF funds will not be used to substitute for private capital. Loan packaging staff will be required to obtain from the private lending institution a letter stating that the project under consideration would not meet their credit and risk requirements for financing, including equity contributions by the applicant, and that assistance from the RLF is required in order for the private lending institution to participate in the loan.
- b. RLF funds will be used in conjunction with other publicly assisted financing programs available in Whatcom County, and will be used to augment and not supplant the existing programs.

RLF funds will be used in support of SBA programs, especially the SBA 504 programs administered on a statewide basis. As a general policy, projects that come to the attention of the staff will first be reviewed for appropriateness of SBA 504 financing. If found to be an eligible SBA 504 project, RLF financing will not be considered until it is found that SBA 504 financing will not work. This policy is adopted because SBA 504 resources are greater than the RLF and should be exhausted first before financing a project with more limited RLF funds. In the event SBA 504 financing is used in conjunction with the RLF on the same project, the RLF will not consider the SBA 504 debenture as private capital and will use on a pro-rata basis the private sector financing when calculating leverage.

Related Activities

1. Technical and Management Assistance

Technical and management assistance, if needed, will be provided by the members of SCORE, SBDC, business and technical advising from the staff and students at WWU, Whatcom Community College, and Bellingham Technical College.

2. Loan Packaging and Referral Services

Loan packaging and referral services will be provided primarily by Port of Bellingham staff, SBDC staff, and SBA 504 program staff operating statewide. In the event RLF financing is not appropriate for a particular project, referrals will be made to business development services listed above or to private business counseling services for further assistance. In those instances where the project is too large for RLF assistance, referrals will be made to other financing sources, such as banks and the Port of Bellingham Industrial Development Revenue Bond Program.

3. Linking Jobs to the Long-Term Unemployed, Low and Moderate-Income Persons

The Port of Bellingham works very closely with the Northwest Workforce Council to provide assistance to long-term unemployed and low/moderate-income persons. This organization will be used to assist RLF loan recipients with all their staffing needs.

Loan Administration Board

The Loan Administration Board (LAB) a.k.a. Revolving Loan Fund Committee (RLFC) will consist of seven individuals representing a cross section of the community's businesses, lenders, minorities, and elected officials.

The LAB shall be selected by the Port of Bellingham RLF Administrator, and confirmed by a majority of the Port of Bellingham Commissioners. Three (3) members of the LAB present shall constitute a quorum. All RLF loan applications must be submitted to the LAB and the LAB must approve all RLF loan applications. The LAB will also be responsible for setting RLF policy and making all major loan decisions. The composition of the LAB will consist of at least one representative from the minority community, at least one elected official, two members from the commercial lending community, and the Executive Director of the Port of Bellingham. Other members will include one from Whatcom County and the balance from the business community. At least one member with commercial lending experience will be present in the quorum for all major loan decisions.

Any LAB member, staff person, or professional associated with the RLF shall reveal to the LAB any business relationship (example: CPA) with a loan applicant in order to avoid any possible conflict of interest. No officer or employee of the Port of Bellingham or LAB member or person related to the officer, employee, or member of the LAB by blood, marriage, law or business arrangement shall receive any benefits resulting from the use of loan or grant funds, unless the officer, employee, or LAB member involved first discloses to the LAB on the public record that

proposed or potential benefit and receives the LAB's written determination that the benefit involved is not so substantial as to affect the integrity of the LAB, or staff.

In the event a representative from the financial community on the LAB has separate financial interest (excluding regular checking and savings accounts) in a loan applicant, such member will not participate in the loan deliberations.

Loan Selection and Approval Process

Standard, generic loan application forms and other documents that will be used in the RLF program are available upon request. A flowchart of the loan selection and approval process is included at the end of this document.

1. Borrowers shall be approved based upon a reasonable assurance and determination of repayment ability and potential economic benefits to the community, i.e., number of jobs they will create, amount of taxes to be paid, beneficial relationship to other businesses and services.
2. Port of Bellingham Loan Administration Staff will provide prospective applicants with preliminary information and after initial screening provide an application package. Staff will then review the application and, if necessary, the staff will advise the applicant to contact a banking institution, SBA or others to participate in the total loan package. After all required information has been assembled the LAB will review the application. Prior to that time, as part of the loan package, the borrower may be referred to consultants for evaluation of their proposed operations. This will be especially true of smaller firms. Consultants may be successful local businessmen, accountants, attorneys, SBA or SCORE representatives working in the area. The Board will review projects as objectively as possible, evaluating the expectations of success.
3. Upon written analysis and recommendation by the Port of Bellingham Loan Administration Staff to the LAB and contingent upon approval of other participating lenders, the LAB will give its final approval or disapproval. The staff will notify the applicant of the LAB's decision. Upon approval, an executive memo will be mailed to the applicant outlining the terms and conditions of the loan. A Promissory Note, Security Agreement and Loan Agreement will be prepared, along with other related documents prior to the closing of the loan. Legal assistance for closing and subsequent servicing (foreclosure) will be provided by local attorneys. Disbursement checks will then be given to the loan applicant based upon proper documentation by the borrower, such as invoices for fixed assets and approved pro forma cash-flow projections for working capital loans. All closing will occur in escrow.

4. Many borrowers will be capable of operating in a profitable manner with little or no assistance required of the LAB and staff. Others will need ongoing management assistance. All companies will be required to have a capable accountant and attorney identified on their loan application. Port of Bellingham Loan Administration Staff and local organizations (SCORE, SBDC etc.) may provide assistance to the borrower with permits, zoning, training programs, market studies, and raw material surveys.
5. Potential loan projects shall meet the general intent and purpose of the RLF. In evaluating applicants, the LAB shall consider:
 - a. Is there a reasonable assurance of repayment of the loan?
 - b. Will it meet the job/cost ratio of one job for each \$35,000 of public monies in the portfolio of the RLF?
 - c. Does it meet the leveraging ratio requirements, e.g., 2 private to 1 public for the overall portfolio and the minimum goal of 1 private to 1 public for individual projects?
 - d. Are new employees expected to come from Whatcom County, and will it benefit the long-term unemployed?
 - e. Would the loan be substituting for other financing available under similar terms? If yes, the RLF loan is not needed. Is there adequate documentation to substantiate that the RLF is not a substitute for private capital? See paragraph "a" under Additional Financing Policies for additional discussion on this issue.
 - f. Will it significantly improve the tax base?
 - g. Will it be an asset to the community by its relationship to the existing business community or by diversifying the employment base?
6. The RLF Program shall not make any loan to any business entity if the principal or any owner of an interest in such entity is related by blood, marriage, or law, to any officer or member of the LAB or the Port of Bellingham who has loan approval authority.

Port of Bellingham Loan Administration Staff will ascertain that the applicant has no conflict of interest relationship with staff or the LAB Board of Directors prior to processing the application. The procedure will become an element in the sequential evaluation of the application procedure.

Loan Servicing

1. Port of Bellingham Loan Administration Staff shall be responsible for monitoring all loans and shall report any delinquencies past 30 days to the Loan Administration Board. Staff has in-house capabilities to manage/administer, and service the RLF program. Participating banks will provide loan collection services and report to the RLF staff.
2. An amortization schedule will be provided to all borrowers.

3. A site visit/contact file will be kept on each borrower. Borrowers will be contacted at least once a year to gather information on current employment levels.
4. All required loan documentation and special provisions shall be monitored. A tickler file will be established to insure that special provisions of the loan are met.
5. Loan terms may be restructured or modified by the LAB if the action would increase the probability of the borrower's success and improve the borrower's repayment ability and is in the best interest of the RLF.
6. To assist in the monitoring of the RLF loans for delinquent payments, Port of Bellingham Loan Administration Staff will utilize a quarterly management report which will be submitted to the LAB. The quarterly management report will primarily incorporate an aging list reporting notes which are current, 30 days, 60 days, 90 days or older for each RLF client. Due dates and additional comments will also be incorporated.

If a loan should become delinquent, the following will occur:

First notice of delinquent payment will be sent to Borrower fifteen (15) days after due date followed by subsequent notices every fifteen (15) days thereafter. Late fees will also be charged on payments more than fifteen (15) days past due. These fees will equal either 5% of the payment due, or \$15.00, whichever is greater.

During the first ninety (90) days of delinquency, written and oral communication as well as site visits will be utilized to resolve the delinquency. Every effort will be made through personal contact by staff to remedy the delinquency.

If after ninety (90) days a delinquency still exists and the loan has not been renegotiated or brought current, the LAB will review all pertinent information and decide upon a course of action that could include: 1) declare the loan in default, 2) declaring a moratorium on payments for specified period of time, or 3) require the infusion of more equity capital. If the loan is declared in default, recovery of the RLF's security will commence immediately according to the terms of the Note, or by its attorney.

No loan modification will be approved unless it can be demonstrated that modification will improve borrower's ability to repay the loan.

Sources of Funding to Cover Administrative Costs

Administrative costs will be provided by fees levied on the Port of Bellingham RLF loan applicants and interest received from repayment of the loans.

Recapitalization Strategy

In order to maximize return of RLF funds for relending, it is the goal of the LAB to keep the terms of most loans under five years. Other possible sources for recapitalization funds are from sale to the secondary market, RLF refinancing, or other private sources.

Other Requirements

The RLF and LAB will assure that loans will be made on a non-discriminatory basis and that no applicant will be denied a loan on the basis of race, color, national origin, religion, handicap, sex, or sexual preference.

A violation of any of the federal requirements applicable to this RLF including but not limited to, civil rights, environment, historic preservation, relocation, flood hazard, access for the handicapped and labor wage laws will cause a default on the loan.

The applicant/borrower will be required to certify and assure compliance with all regulations, policies, guidelines, and requirements as they relate to the revolving loan fund (RLF) Program. The following are regulations, laws, executive orders, and acts, which must be complied with in order to qualify for Port of Bellingham RLF funding.

1. Title VI of the Civil Rights Act of 1964

All business receiving Port of Bellingham RLF funds must agree not to discriminate, per this act, in any business practices including employment practices and services to the public.

2. Equal Credit Opportunity Act

This act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program, or because the applicant has in good faith exercised any right under the Consumer Credit Protection act.

3. Environmental Protection Agency's List of Violating Facilities

Facilities under borrower's ownership, lease, or supervision, are not listed on the Environmental Protection Agency's list of Violating Facilities.

4. Executive Orders – Floodplain Management and Wetlands Protection

Port of Bellingham RLF loans are discouraged for development located in flood plains or wetlands.

5. Executive Order 11738 – Environmental Protection

Port of Bellingham will administer its RLF in a manner that will result in effective enforcement of the Clean Air Act, the Federal Water Pollution Act, Historical Properties, and all other environmental protection legislation. Business receiving Port of Bellingham RLF loans shall be in compliance with environmental protection legislation at all times for the term of the loan.

6. Occupational Safety and Health Act

Recipients of Port of Bellingham RLF loans acknowledge that they are, to the best of their knowledge, in compliance with OSHA regulations that apply to their business.

7. Freedom of Information Act

This law provides that, with some exceptions, Port of Bellingham must supply information, reflected in its files and records to a person requesting it. Statistics about approved loans will be provided including other information such as the names of the borrowers (and their officers, directors, stockholders or partners, the collateral pledged to secure the loan, the amount of the loan, its purpose in general terms and the maturity). Proprietary data on a borrower would not normally be made available to third parties. All requests under this Act are to be identified as a Freedom of Information requests.

8. Non-Relocation

The proceeds from a Port of Bellingham loan must be used in an eligible area. The loan will be recalled if the project is relocated outside the eligible area. Business relocating jobs from other labor areas are not eligible borrowers.

9. Flood Hazard Insurance

Port of Bellingham loans to businesses located in flood plains will be discouraged. Any loan made under such circumstances will require the borrower to purchase and maintain the required level of flood insurance for the term of the loan.

10. Davis-Bacon Act

Any Port of Bellingham RLF project that falls under the guidelines of Davis-Bacon (construction financed whole or in part by the RLF and when any related construction contract exceeds \$2,000); must comply with this act, and all reporting requirements stated in the Act.

11. Contract Work Hours and Safety Standards Act & Anti-Kickback Act

12. Access for the Handicapped