IOWA NORTHLAND REGIONAL ECONOMIC DEVELOPMENT COMMISSION

REVOLVING LOAN FUND

Administrative and Operational Plan

Iowa Northland Regional
Economic Development Commission
Revolving Loan Fund

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I. REVOLVING LOAN FUND STRATEGY

Description of Region

The Iowa Northland Regional Economic Development Region (INREDC) consists of the Iowa counties of Black Hawk, Bremer, Buchanan, Butler, Chickasaw and Grundy. The Revolving Loan Fund (RLF) will assist businesses in all of those counties except Black Hawk, which is covered by another EDA funded revolving loan fund. The five (5) counties covered by the RLF, namely Bremer, Buchanan, Butler, Chickasaw and Grundy counties, will hereafter collectively be referred to as the "RLF Region."

Purpose of RLF

The initial targeted businesses of the RLF will be those businesses affected by the tornado and floods of 2008, to the extent appropriate under the rules and regulations governing this RLF, and prudent lending practices. Notwithstanding the targeting of such businesses, the RLF will seek to promote business development and job creation within the RLF Region. As the initial loans are repaid, the repayments will be advanced within the RLF Region to promote the development of businesses and job creation consistent with the INREDC Comprehensive Economic Development Strategy (CEDS). The CEDS is currently being updated, with submission to EDA by June 30, 2009. It is anticipated that the CEDS will place emphasis on advanced manufacturing sector jobs, the transportation assets of the region (including the Avenue of the Saints) and the attendant advantages for logistics companies, alternative energy and biomass related companies, and increasing opportunities for entrepreneurship.

Need for RLF Financing Tool

The extent of damage to businesses and manufacturing, residential property, and public infrastructure caused by the disasters of 2008 are significant. Considerable time, effort and dollars will be required to return the RLF Region to its pre-disaster state. Much has already been accomplished and started, however, additional dollars, especially in the business area will be needed. The creation of an RLF will provide a new financing option for the Region as it commences the long-term task of recovery and revitalization. RLFs have traditionally been an effective tool to create jobs and stimulate the economy.

Financing Strategy

It is anticipated that the RLF will provide loans in the following areas:

a) Fixed assets: including land acquisition, building construction and renovation, equipment;

b) Inventory and working capital (subject to EDA percentage limits);

c) Other purposes consistent with EDA rules;

RLF loans will be provided after applicants have exhausted the existing federal, state, local and commercials financing options available, it being the intent of the RLF to provide the gap financing needed to encourage the traditional lenders to participate with businesses. The other resources expected to be utilized include:

a) University of Northern Iowa Small Business Development Center;
b) Iowa State University - Center for Industrial Research and Service (CIRAS);
c) Iowa State University Extension Service;
d) USDA programs;
e) Utility Company RLF funds and other lending programs;
f) Iowa Department of Economic Development programs, including CDBG, EDSA, PFSA, CEBA, State of Iowa Values Fund, State of Iowa Energy Fund;
g) Community Resources, including Enterprise Zones, TIF programs, General Obligation financing;
h) Local Economic Development groups.

Financing Policy

The following policies are adopted to facilitate the operation of the RLF within EDA guidelines:

a) The RLF loan committee envisions approximately 10-15 loans will be processed.

b) Average loan will approximate $50,000-$75,000, however, a loan limit of $125,000 or 25% of capital base, whichever is less, can be extended to a single RLF participant. Loan terms may extend from 4 years to 15 years for fixed asset loans and 3 years to 7 years for working capital loans, including inventory. It is anticipated that working capital loans will normally be amortized within 3 to five years and fixed asset loans will normally be amortized within 5 to 10 years. The Board may set a minimum loan level to maximize efficiencies of the approval process and RLF resources.

c) Up to 100% of the RLF capital base may be used for fixed asset financing; notwithstanding the foregoing, an amount not exceeding 50% of the capital base may be used for working capital or inventory loans.

d) All loans will carry fixed, simple interest rates for the term of the loan. Deviation from these standards may be allowed if conditions would not permit completion and/or successful operation or accomplishment of a project at typical RLF rates.

e) The minimum interest rate the RLF will charge is four percentage points below the current money center prime rate quoted in the Wall Street Journal but no less than 4%, or the maximum interest rate allowed under state law. The RLF may adopt a dual interest rate floor of 75% of the prime rate quoted in the Wall Street Journal, as permitted by EDA.

f) Loan extensions will be considered only in extreme circumstances.

g) Amortization of the loan will generally provide for equal monthly installments.

h) The RLF program is designed to assist industrial/commercial borrowers that because of one reason or another have been excluded from conventional financing techniques. The RLF will assist credit worthy applicants in "creative" financing techniques to assist them in their effort to bring their respective projects to fruition by utilizing the following: moratorium on principal repayments not to exceed one year.

i) Loan processing fees of 1.5% of the approved loan amount will be charged to borrowers participating in the RLF. After operation of the RLF for a period, the processing fee may be reduced by the RLF. In addition, a non-refundable application fee, not to exceed $100, may be charged, and RLF income may be used to pay reasonable administrative fees. Borrowers will be billed for the costs of securing an RLF loan, such as title opinion fees, abstract updating, filing fees, credit checks, recording, etc.

j) Borrowers will be required to provide evidence verifying their inability to obtain credit from conventional lending sources. This verification can be in the form of credit rejection letters and/or conditional credit approval letters, or other documentation, as appropriate.

k) RLF funded loan portions of the total project will be allowed to restructure debt on an individual case basis and provided a detailed restructuring plan is presented and is found acceptable by the Board. In restructuring of the debt, if it is determined that refinancing would only prolong inevitable foreclosure or weaken the position of the original RLF portion, refunding of debt will be declined. Refinancing will only be allowed if there is sound economic justification.

l) Borrowers will normally be required to have or contribute a minimum of between 10 and 25 percent personal or business equity to any funded project, based upon the length of loan and borrower's experience in the business.

m) In order to preserve limited loan funds, other economic development avenues will be explored in conjunction with the RLF request. These sources will include: USDA-RD Business and Industrial Loan funds, SBA and 7a loan program, industrial revenue bonds, CDBG, EDSA, PFSA and CEBA funds. Because the RLF financing policies have been drafted to be compatible to these other programs, there will be very little affect on the policies when using RLF funds in conjunction with other programs.

Other borrower and lending restrictions include:

a) Project must be in the eligible lending area.

b) Borrower is not eligible for RLF Financing if credit is otherwise available on terms and conditions, which would permit completion and/or successful operations.

c) Exception to Credit Test: RLF financing may also be used as an incentive, through favorable loan terms, to attract a new business or a business expansion into an eligible area.

d) No loans shall be approved for purposes not consistent with the RLF and the RLF Region's CEDS. The purpose of each RLF loan shall be clearly disclosed in writing in the loan agreement.

e) Loans may not be made to enable a borrower to acquire an equity position in a business, to subsidize interest payments on existing loans, to provide equity contributions required under other Federal Loan Programs, or refinance existing debt, unless there is sound economic justification that the loan will result in saving jobs.

The above policies and restrictions will be reviewed regularly, at least annually, and will be updated as needed in connection with annual plan certification.

<u>Portfolio Standards</u>

In order to achieve the economic objectives of the RLF, the following standards are adopted:

a) Maintain a portfolio average of $5,000 RLF investment for each job created or saved.

b) Create or retain approximately 250-450 jobs from the initial RLF funding.

c) Direct funds to businesses creating long term growth.

d) Direct funds to businesses creating positions with higher paying wages.

e) Encourage RLF funding of businesses owned by minorities, women or other economically disadvantaged groups.

f) Prohibit lending of RLF funds for use in purely speculative activities like land banking, speculative building, and construction.

g) Maintain RLF flexibility to ensure its viability as an economic development tool.

II. OPERATIONAL PROCEDURES

RLF Loan Committee

The RLF Loan Committee will consist of up to ten members drawn from the five participating counties, with at least one member from each county. At least one-half of the loan committee will be employed, or have prior experience in the financial lending/banking community. It is anticipated that the administrative services needed by the RLF will be provided by the Iowa Northland Regional Council of Governments (INRCOG). All appointments to the RLF Loan Committee shall be for a period of three years, which may be staggered initially to provide for a continuity of membership. Appointments shall be made by the INREDC Board, or its designee, subject to Board approval.

Staff Capacity

INRCOG will perform staff services for the RLF and Loan Committee on a contractual basis. These functions will include loan packaging, loan monitoring and reporting, bookkeeping, program and policy recommendations, using program criteria to analyze loans, determining potential economic benefits, RLF marketing, required project reports to EDA, and any board-directed research.

The staff and the RLF Loan Committee will represent combined skills in business, finance, marketing, credit analysis, loan packaging, processing, and servicing. The RLF will contract for legal services.

Marketing Strategy

The addition of RLF funding will be communicated to the RLF Region by contacting lenders, economic development groups, governmental units and other interested parties within the Region. Considerable contact with such entities is occurring on a regular and ongoing basis and it is anticipated that additional publicity can be arranged with a minimum of cost.

Loan Selection and Approval

Potential applicants will contact INRCOG staff directly or through a local bank or development group. INRCOG staff will be responsible for reviewing and basic loan packaging for submission to the RLF Loan Committee. The loan packaging process is as follows:

a) Meetings and interviews with applicant to gain an understanding of the proposed project. Initial contacts shall include explanation of the RLF program and an initial determination of qualification.

b) Applicants that are determined eligible for RLF assistance are required to submit financial statements and other information necessary to complete the application process.

c) Completed RLF applications shall be submitted to the RLF Loan Committee. The Loan Committee shall recommend approval or disapproval, and recommended loan amounts, terms, security and interest rates to the INRCOG Executive Committee (or other entity designated by the INREDC Board of Directors.) The Executive Committee (or other designated group) shall have final authority to approve or disapprove loans and set the terms.

INRCOG staff shall perform all loan packaging, servicing, reporting, accounting, initial loan analysis and recommendations as to credit worthiness, but shall not act as the loan approval agency.

Loan File

The loan file for each borrower shall contain, at a minimum, the following items:

(a) Loan application;

(b) Loan agreement;

(c) Board of directors' meeting minutes approving the RLF loan;

(d) Promissory note;

(e) Security agreement(s);

(f) Deed of trust or mortgage (as applicable);

(g) Agreement of prior lien holder (as applicable); and

(h) Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. EDA will accept alternate documentation only if such documentation is allowed in the RLF Recipient's EDA-approved RLF Plan.

(i) Any other documents required by EDA or by the Board of Directors.

Loan Servicing

The staff of INRCOG shall be responsible for monitoring and servicing RLF loans and providing or referring technical assistance to help assure the success of the borrower and the RLF. As the administrative agent, INRCOG will maintain all fiscal records for the RLF following acceptable accounting procedures. Amortization schedules will be kept on all loans concerning payments of principal and interest.

At the RLF Loan Committee's request, or at the request of INREDC (or its designee), borrowers will be required to submit annual or semiannual reports, during the life of the loan, indicating how all assurances agreed upon during the application process are being followed and that statements made in the application are true. Violations will be brought to the attention of the Loan Committee and INREDC. Failure to follow the assurances or falsehoods will constitute grounds for recall of the loan. This report will also include profit and loss statements, balance sheets, modifications in operating procedures or projections, and the number of people employed. INRCOG staff will also maintain contact with the borrower as it deems necessary to assure compliance with the RLF Plan.

A borrower who becomes delinquent in repayment of the loan must issue a statement, in writing, or arrange a personal appointment with INRCOG monitoring staff to explain the delay and develop an appropriate repayment strategy. If the staff feels it is necessary for the borrower to speak to the Loan Committee or the Executive Committee about the matter, a meeting will be arranged. Repeated failure by the borrower to explain repayment delays will constitute grounds to call the loan. If the borrower becomes delinquent on repayment of the loan and anticipates recurrence of delays, the borrower shall be contacted to examine the possibility of restructuring the loan and whether such restructuring is a viable solution, consistent with EDA regulations and the RLF policy.

Upon default of a loan, the Loan Committee shall review the collateral securing the loan and other assets that may be available to it for satisfaction of the loan balance. The matter may be referred to legal counsel for collection efforts.

<u>Specific Delinquency, Default and Collection Processes</u>

Loan payments are due as prescribed in the RLF loan agreement. Borrowers shall be informed of the procedures used for delinquent payments at the time of closing. The information shall also included in the contract and note which the borrower receives. The Executive Committee shall be advised at least quarterly, or more often if requested, of all loans that are delinquent.

The following shall be the regular collection procedures for the RLF Program:

a) After a delinquency of ten (10) days, the borrower shall be contacted by telephone to notify them of the delinquency and encourage immediate payment.

b) After twenty (20) days, the borrower shall be contacted by phone again and a written "late payment notice" shall be sent.

c) After thirty (30) days, the borrower will again be contacted by phone and a certified letter shall be sent notifying the borrower that the loan is delinquent. The borrower shall also be notified that the interest rate will be raised per the terms of the note to 18% if the loan remains delinquent.

d) After thirty (45) days, a "notice to cure" letter notifying the borrower that the loan is delinquent and must be brought current or legal proceeding will begin. This step may be referred to legal counsel.

The RLF shall make every effort to assist the delinquent borrower to meet their loan obligations. If no resolution is reached, the Executive Committee will be presented with the staff recommendation(s) for action. The Executive Committee shall take such action as it deems reasonable and prudent, including approval of restructuring of the loan or suspension of principal payments, with interest only payments, for a specified time period not to exceed one (1) year and at terms consistent with previously stated Financing Policies.

Procedures for Handling Loans Over Ninety (90) Days Delinquent

Borrowers that continue to be delinquent on loan payments, even following consideration by the Executive Committee and staff, shall be considered in default of the terms of the loan. The Executive Committee must approve the initiation of default proceedings against the borrower. Borrowers shall be given ten (10) days written notice of default. Legal counsel shall prepare the necessary legal documents and commence the collection process, unless the Executive Committee determines staff can handle the collection, i.e. Small Claims cases. The borrower shall be responsible to pay for all attorney fees and expenses to enforce collection. In all cases, INREDC retains the right to initiate civil litigation collection proceedings to obtain a judgment against a borrower and/or initiate foreclosure proceedings in accordance with applicable state laws.

Write Off Procedures

If a loan is in default and all appropriate and prudent legal efforts have been taken to collect but have been unsuccessful, the Executive Committee may direct its auditor to write-off the loan. The loan will become a Bad Debt Expense in the year formal action is taken to write-off the loan.

Bankruptcy

In the case of bankruptcy by the borrower, INREDC will file a Proof of Claim, and any additional required documentation, with the appropriate Bankruptcy Court.

Recapture of Administrative Costs

Loan processing fees of 1.5% of the approved loan amount will be charged to borrowers participating in the RLF. After operation of the RLF for a period of time, the processing fee may be reduced by the RLF. In addition, a non-refundable application fee, not to exceed $100, may be charged, and RLF income may be used to pay reasonable administrative fees. Borrowers will be billed for the costs of securing an RLF loan, such as title opinion fees, abstract updating, filing fees, credit checks, recording, etc.

Recapitalization Strategy

Recaptured and repaid funds shall be deposited in interest bearing accounts meeting the EDA requirements, including that such accounts be fully insurable by FSLIC or FDIC. It shall be the intent of the RLF that all funds shall be available for re-lending within an average range of one to seven years.

Conflict of Interest

Conflicts of interest will be avoided through disclosure of such interests and abstention from any actions involving such interests. INRCOG, INREDC and the RLF Loan Committee must comply with the following Department of Commerce/Economic Development Administration conflict-of-interest prohibitions:

a) No loan funds will be made available to a business that is owned in whole or in part by anyone related by blood, marriage, law or business arrangement to any officer or employee of INRCOG or INREDC. This restriction shall also apply to any member of the RLF Loan Committee who advises, approves, recommends or otherwise participates in decisions concerning loans.

b) No officer, employee, or member of the INRCOG or INREDC Board of Directors, or RLF Loan Committee, or person related to the any of them 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 board member affected first discloses to INREDC on the public record the proposed or potential benefit and receives INREDC's (or the Executive Committee's) written determination that the benefit involved is not so substantial as to affect the integrity of the decision process and of the services of the officer, employee or board member.

c) No officer, employee or board member of INRCOG, INREDC or the RLF Loan Committee shall solicit or accept, directly or indirectly, any gift, gratuity, favor entertainment or any other thing of monetary value, for himself/herself or for another person, from any person or organization seeking to obtain a loan or any portion of the grant funds.

d) Former board members and/or officers are ineligible to apply for or receive loan funds for a period of one year from the date of termination of his/her services.

e) Each RLF Loan Committee member shall sign an affidavit affirming their compliance with the preceding conflict-of-interest regulations.

Civil Rights

INRCOG and INREDC and other parties benefiting from the RLF program and creating fifteen or more permanent jobs will provide assurances of compliance with the US Department of Commerce and EDA regulations (13 CFR. § 302.20) under Section 601 of Title VI of the Civil Rights Act of 1964, Section 112 of Public Law 92-65, Title IX of the Education Amendments of 1972, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, the Americans with Disabilities Act of 1990, and any other applicable non-discrimination law(s), all as amended.

INRCOG and INREDC shall have the responsibility of compliance with Civil Rights Assurances and no applicant will be denied credit solely on the basis of race, color, national origin, religion, sex or handicap.

Environmental Considerations

The RLF Loan Committee will be apprised of the state and federal statutes concerning environmental impact of the proposed projects, and the loan reviews will be conducted with statutory compliance as a part of the consideration. No project will be approved which produces an insurmountable, harmful alteration of the national environment. All loan requests accepted for processing will be subject to environmental review and where appropriate, a cultural resources assessment to ensure compliance with all local, state, and federal requirements prior to loan disbursement. Other parties benefiting from the RLF program will provide assurances of compliance with the National Environmental Policy Act of 1969; Floodplain Management, EO 11988; Protection of Wetlands, EO 11990, May 24,1977; Clean Air Act, Clean Water Act, and EO 11738; the Flood Disaster Protection Act of 1973, and all other applicable Environmental Requirements as provided in the prevailing Department of Commerce Financial Assistance Standards and/or Special Terms and Conditions. An Environmental Checklist (copy attached) shall be provided to Applicants to be completed and submitted prior to RLF Loan Committee review.

Flood Hazard Insurance

Borrowers shall be required to obtain flood hazard insurance, when applicable. Insurance must be applied for prior to the loan closing or disbursement.

Access for the Physically Disabled

If the borrower finances a construction project through the RLF, he/she must provide assurances for accessibility to the physically disabled.

Audit

The RLF shall be audited annually. The audit will be completed in accordance with OMB Circular A-133 and the Compliance Supplement. The RLF will be listed as a major program.

Other Federal Requirements

INRCOG/INREDC will ensure that other parties benefiting from the RLF are aware of all other federal statutory and regulatory requirements, and Executive Orders, including Davis-Bacon wage rates pertaining to construction projects.

ENVIRONMENTAL QUESTIONNAIRE & CHECKLIST

I. Project name and location.

II. Brief description of proposed activity/project.

III. National Register of Historic Places

a) Are there properties listed on, nominated to or eligible for nomination to, the National Register of Historic Places on the site, or in the vicinity of the proposed activity?

Yes ___ No ___

b) If yes, does the proposed action have an effect on the properties?

Yes ___ No ___ If yes, briefly describe effect.

c) How has this determination been made and by whom?

IV. Environmental Checklist:

Please complete the Environmental Checklist . This must be submitted with your Application. Your Application will not be processed unless this Checklist is completed. The rating scale is located at the bottom of the Checklist.

ENVIRONMENTAL CHECKLIST

1.	Unique geologic features on site or in vicinity			Junior high/senior high	
2.	Valuable geologic resources within 1 mile of site			other (specify)	
3.	Slope Stability		34.	Employment	
4.	Depth of impermeable layers		35.	Commercial facilities	
5.	Subsidence		36.	Health care/social services	
6.	Consolidation (geologic)		37.	Water supply system	
7.	Seismic risk		38.	Sanitary sewer system	
8.	Foundation support		39.	Storm sewer system	
9.	Soil plasticity		40.	Solid waste disposal	
10.	Frost susceptibility		41.	Police and fire protection	
11.	Liquefaction		42.	Parks/playgrounds/open space use	
12.	Erosion/sedimentation		43.	Other recreation facilities	
13.	Soil permeability		44.	Public transportation	
14.	Abandoned, active or planned sanitary landfill		45.	Cultural facilities	
15.	Wetlands		46.	Site hazards	
16.	Coastal/zones/shorelines		47.	Structural safety	
17.	Mine dumps/spoil areas		48.	Safety (materials)	
18.	Hydrologic balance		49.	Cultural patterns	
19.	Aquifer yield		50.	Road safety and design	
20.	Drainage		51.	Noise:	
21.	Flooding			Airports (within 15 miles)	
22.	Water quality			Railroads (within 3,000 feet)	
23.	Ground water			Major roads (within 1,000 feet)	
24.	Surface water		52.	Vibration	
25.	Unique or endangered animal species		53.	Odor	
26.	Vegetative community		54.	Light	
27.	Plant/animal diversity		55.	Temperature	
28.	Nutrient cycling		56.	Socio-economic character of the neighborhood	
29.	Special climatic conditions		57.	Physical character of the neighborhood	
30.	Forest/range fires		58.	Crime levels	
31.	Energy resources		59.	Nuisances	
32.	Air quality		60.	Compatibility of land uses	
33.	Education facilities:		61.	Aesthetic compatibility	
	Elementary				

Use the following rating scale for the above checklist.

0 = no impacts.

1 = minor impacts (i.e., those impacts which can be easily mitigated with minimal extra expense and/or minimal delay in project implementation).

2 = major adverse impacts (i.e., those impacts which cannot be mitigated or which would require extensive mitigation and may involve long delays ofproject implementation).

N/A = not applicable to the type of activity proposed.