Green River Area Development District

Revolving Loan Fund Plan

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U.S. ECONOMIC DEVELOPMENT ADMINISTRATION

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GREEN RIVER AREA DEVELOPMENT DISTRICT
REVOLVING LOAN FUND PLAN

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Section I: Revolving Loan Fund Strategy

Name of Organization: Green River Area Development District (GRADD)

List of Counties Comprising GRADD's Lending Territory:

- Daviess
- Hancock
- Henderson
- McLean
- Ohio
- Union
- Webster

A. Description of Comprehensive Economic Development Strategy

The Green River Area Development District (GRADD) underscores the importance of cities and counties as the cornerstone of all planning efforts. When one entity performs well, it increases the presence of the region. Inasmuch, when the region performs well, cities and counties reap the benefits of the modern economy. The GRADD region prepares cities and counties for the future by addressing the needs of community, economic, workforce, and infrastructure development issues through the Comprehensive Economic Development Strategy (CEDS). The CEDS document serves as an opportunity to address these issues in an analysis of both strengths and weaknesses.

For the GRADD region, the CEDS embraces four core principles, which empower the goals and objectives outlined for the region: Social and Economic Well-being, Managed, Balanced Growth, Livable Communities, and Responsible Resource Conservation. The CEDS sequence is strategic, in that strong economic analysis cannot begin without a preliminary understanding of existing conditions. From overviews of all segments of the regional economy, the CEDS traverses the realm of priority projects for the future before concluding with the goals, objectives, and strategies prescribed for the well-being and vitality of the regional economy.

Today, the region as a whole is quite diverse with large manufacturing firms in the fields of coal, aluminum, paper, automotive materials, and plastics, as well as smaller service industries in the fields of banking, healthcare, and life sciences. Agriculture continues as a key component in regional economic stability as well.

The GRADD region's workforce is strengthened in having multiple industry clusters, as well as a solid regional broadband Internet infrastructure. The cohesiveness of the seven-county district resounds loudly of the GRADD region becoming the first in the Commonwealth of Kentucky to attain the “Work Ready Community” status. With two established regional industrial parks (one becoming the first Build-Ready Certified site in Kentucky) located within the eastern and western portions of the region, GRADD possesses a suitable foundation for fostering economic development opportunities.

The GRADD CEDS strives to develop and implement strategies that are achievable using already-existing regional resources. Additionally, the region as a whole continually monitors the progress of goal attainment and explores methods to expand the availability of resources. For all of the projects captured within the CEDS document, the region will continue to pursue research and consider all funding opportunities.

The creation of a CEDS document is without merit or cause unless the cooperation of all sectors forming the GRADD region are not only heard, but listen as well. To ensure a living and practical document, input must be assembled from the diversity of voices hailing throughout the GRADD populace, coalescing around a core vision for priority action planning. While much of the planning commences at the GRADD staff level; it is not before vital information is derived from local elected officials, public and private entities, GRADD Board members, and GRADD Committee members. This multi-layered approach delivers a fusion of viewpoints and offers wide varieties of visions, critiques, and goals for consideration at the county and regional levels.

B. Business Development Objectives

The goal of GRADD’s Revolving Loan Fund is to strengthen the economic base of the seven-county region.

The objectives of the GRADD RLF follow:

- Small business development, including the start-up or expansion of locally owned businesses;
- Retention of existing commercial, manufacturing, agriculture and service industry jobs;
- Re-development of blighted land and vacant facilities for productive use;
- Revitalization of downtown business districts;
- Modernization and rehabilitation of existing industrial or manufacturing facilities;
- Support for the use of new technologies, growth industries, high-tech firms; and/or
- Development of businesses owned and operated by minorities, women, and members of other disadvantaged groups.

C. RLF Financing Strategy

Accounting Principles

GRADD’s RLF shall operate in accordance with generally accepted accounting principles (“GAPP”) as in effect from time to time in the United States and the provisions outlined in OMB Circular A-133 and the Compliance Supplement, as applicable.

Loan and Accounting System Documents

In accordance with GAAP, a loan loss reserve may be recorded in financial statements to show the fair market value of the loan portfolio, provided this loan loss reserve is non-funded and represents non-cash entries.

Within 60 days prior to the initial disbursement of EDA funds, an independent accountant familiar with the RLF accounting system shall certify to EDA and GRADD that such system is adequate to identify, safeguard, and account for all RLF Capital, outstanding RLF loans and other RLF operations.

Prior to the disbursement of any EDA funds, GRADD shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the grant and applicable state and local law.

The standard loan documents must include, at a minimum, the following:

- Loan application;
- Loan agreement;
- Board of directors' meeting minutes approving the RLF loan;
- Promissory note;
- Security agreement;
- Deed of trust or mortgage (as applicable);
- Agreement of prior lienholder (as applicable); and
- 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 GRADD's EDA-approved RLF Plan. GRADD has included language in its loan agreement that borrowers must certify they were unable to obtain credit elsewhere.

D. RLF Financing Policies

Pre-loan requirements:

- GRADD must adopt procedures to review the impacts of prospective loan proposals on the physical environment. The plan must provide for compliance with applicable environmental laws and other regulations, including but not limited to parts 302 and 314 of EDA regulations. GRADD must also adopt procedures to comply, and ensure that potential borrowers comply, with applicable environmental laws and regulations.
- GRADD must ensure that prospective borrowers, consultants, or contractors are aware of and comply with the federal statutory and regulatory requirements that apply to activities carried out with RLF loans. RLF loan agreements shall include applicable Federal requirements to ensure compliance and RLF recipients must adopt procedures to diligently correct instances of non-compliance, including loan call stipulations.

- All RLF loan documents and procedures must protect and hold the Federal government harmless from and against all liabilities that the Federal government may incur as a result of providing an RLF grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site. These protections apply to the extent that the Federal government m ay become potentially liable as a result of ground water, surface, soil or other natural or man-made conditions on the property caused by operations of GRADD or any of its borrowers, predecessors or successors.

E. Uses of Capital

RLF Capital shall be used for the purpose of making RLF loans that are consistent with an RLF Plan or such other purposes approved by EDA. To ensure that RLF funds are used as intended, each loan agreement must clearly state the purpose of each loan.

RLF Capital shall not be used to:

- Acquire an equity position in a private business;
- Subsidize interest payments on an existing RLF loan;
- Provide for borrowers' required equity contributions under other Federal Agencies' loan programs;
- Enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF;
- Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit or any investment unrelated to the RLF; or
- Refinance existing debt, unless:
  - The RLF recipient sufficiently demonstrates in the loan documentation a "sound economic justification" for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia, constitute a sound economic justification; or
  - RLF Capital will finance the purchase of the rights of a prior lienholder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF Capital may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within a reasonable period of time as approved by EDA.

F. RLF Loan Selection Criteria

GRADD staff will include the following criteria in making its recommendations to the Green River Economic Development Corporation (EDC) and GRADD Board of Directors:

For Economic Development Projects/Loans to Finance Small Businesses

- Projects must be located within Daviess, Hancock, Henderson, McLean, Ohio, Union, and/or Webster Counties.
- Project must be in the industrial, commercial, and/or service sectors.
- The GRADD RLF may participate up to 50 percent of a project. The maximum loan is $250,000 for fixed assets. The maximum loan for working capital is $50,000. In no case shall the total loan amount exceed $250,000 per borrower.
- The project owner(s) must inject a minimum of 10 percent of the total project cost.
- The RLF requires other lender participation in the project.
- Maximum RLF terms:
  - Working Capital 5 years
  - Equipment 7 years
  - Land & Building 15 years
- Applicants are required to have existing net working capital of at least 20 percent of its total working capital needs.
- Projects must create new jobs, retain jobs, or have a significant impact on the economic growth of a community.
- As appropriate and practical, financing will be secured with mortgages, liens, or assignments of rights to assets of borrower. Personal guarantees are required by all owners of the business.
- At least annually, all borrowers will submit company and/or personal financial statements as required by the Green River EDC.

For Infrastructure Projects/Loans to Local Governments

- Use of loan funds will be consistent with the chosen objectives of the GRADD Comprehensive Economic Development Strategy and other related plans.
- The proposed project must be located within Daviess, Hancock, Henderson, McLean, Ohio, Union, and/or Webster Counties.
- No RLF proceeds will be used to assist a business in relocating from one labor market (commuting) area to another.
- The project will provide more than a temporary alleviation of unemployment or underemployment within the area of the project impact.
- All projects involving construction will be in compliance with the provisions of the Davis-Bacon Act.
- Prior to disbursement of funds, flood hazard insurance must be obtained for those projects located in areas eligible for flood hazard insurance and subject to flood damage.
- If a loan is to be used directly or indirectly for a sewer project, or other waste disposal facility, the borrower must present documentation that the project is appropriate for certification by the government.

- Projects involving construction shall be in compliance with standards prescribed by the General Services Administration in accordance with P.L. 90-480, as it relates to the design and construction of buildings to accommodate the physically handicapped.
- RLF proceeds will not be extended to any project which directly increases the production of goods, materials, or other commodities or the availability of services and facilities when there is not a sufficient demand for such to employ the efficient capacity of existing competitive commercial or industrial enterprises, as required by Section 702 of the Public Works and Economic Development Act of 1965, as amended.
- Compliance with the Civil Rights Act of 1965 and Section 112 of P.L. 92-65, amending the Public Works and Economic Development Act of 1965, must be met. In addition, there shall be no discrimination in connection with services provided by the project involving the construction of water, sewer, and waste disposal or like facilities.
- All projects and loans made must take environmental considerations into account.

RLF Financing Characteristics

The primary borrowers of the RLF funds will be small business owners, entrepreneurs, local governments, and quasi-governmental entities. The RLF will fill gaps for the financing of economic development and infrastructure projects and leverage other public and private monies through the use of lower interest loans. Loans will be made for a period, not to exceed:

- Fifteen years for economic development land and building projects;
- Seven years for economic development machinery and equipment projects;
- Five years for economic development permanent working capital project; and
- Ten years for infrastructure projects.

However, it is anticipated that the average loan terms for infrastructure projects will be between five and ten years.

Equity Requirements – Economic development projects and loans to businesses will require a minimum equity investment of ten percent of the total project. For infrastructure projects and loans to city and county governments, no equity will be required.

Repayment Terms – Generally, loans shall be repaid in equal monthly installments, including interest and principal. Loans, including extensions or renewals, thereof, may be made for a period not exceeding ten years. Loan terms for various projects are established as follows:

- Economic Development/Land and Building Purchases – 15 years
- Economic Development/Machinery and Equipment – 7 years
- Economic Development/Permanent Working Capital – 5 years
- Infrastructure Projects terms will average between five (5) and ten (10) years

Repayment terms for business/economic development loans will be established by considering the project scope. Terms for infrastructure projects will be based upon the size, maturity, and purpose of each project and the terms and conditions of other participating parties.

The borrower may repay all or part of the RLF loan at any time without prepayment penalty.

Special Financing Techniques – Modification of the terms or conditions of the RLF financing may be approved by the GRADD Board of Directors and Green River EDC when it is demonstrated that substantial economic development benefits will result and/or the project will enhance private or public sector job creation and the capability of the RLF to achieve program objectives.

Since the RLF is designed to promote economic development and enhance economic opportunities, the GRADD Board of Directors shall have the authority, for good cause, to grant a moratorium on the repayment of principal and/or initial interest for a period of time, but such a moratorium shall never exceed one-tenth of the life of the loan. During the moratorium period, interest will be accrued and be capitalized.

In a direct fixed asset loan, the GRADD Board of Directors may authorize that the lien positions of the RLF be made subordinate and inferior to a lien or liens securing other loans made in connection with the project. However, such subordination shall apply only in regard to such indebtedness or contractual obligations as are incurred by the borrower specifically to acquire tangible assets, upon which the lender shall have a lien. In no case will RLF proceeds subordinate to borrow equity.

Restructuring RLF Loans – Upon authorization by the GRADD Board of Directors, the rates, terms, and other conditions of an outstanding RLF loan may be restructured or modified to maintain operations and retain jobs. Each case will be evaluated on an individual basis, weighted upon the negative impact the loss would create to employees and the community.

In the event that GRADD determines it is necessary or desirable to take actions to protect the interest of the RLF, GRADD may take action to sell, collect, liquidate, or otherwise recover on loans or guarantees extended by the RLF in accordance with legal rights of GRADD, other participating lenders, and the RLF borrower.

<u>Collateral Requirements</u>

In the determination of collateral requirements, the GRADD Board of Directors will consider the merits and potential economic benefits of each project. Acceptable collateral options for economic development loans to small businesses or entrepreneurs may include, but not be limited to, one or more of the following:

- Mortgage to secure debt on real estate and building facility. The GRADD RLF may hold first mortgage or take subordinate positions as appropriate;
- Liens on equipment, machinery, fixtures, etc.;
- Assignment of warehouse receipts for marketable merchandise;
- Assignments of certain types of contracts;
- Security interests in personal property or chattel;
- Assignments of current accounts receivables and inventories;

- Letters of credit; and
- Beneficiary assignment in life insurance policy of business principals.

For infrastructure projects, and in the case of revenue producing entities, such as water, sewer, and gas systems, collateral will consist of a pledge of revenue from the borrower. If revenues are not sufficient to cover the debt repayment, guarantees by a governmental entity will be acceptable.

Loan Sizes

GRADD will entertain minimum loans of $10,000. The maximum loan will be $250,000. The GRADD Board of Directors can increase the maximum loan amount if a project is determined to have a substantial economic impact on the community.

G. Loan Processing Procedures

Standard Loan Application Requirements

Information required in applications for economic development/business loans include:

- A history and description of the business, an analysis of management ability, and a description of the project.
- Detail the use of proceeds of this project (cost of land, building, and equipment).
- Personal financial statement, current within 30 days, for each proprietor or stockholder with 20 percent or more ownership of the SBC, and, if different, each owner with 20 percent or more ownership of the alter-ego. Personal guarantees are required of any owner with over 20 percent ownership of the company. Make sure the date at the top of the statement and the date they are signed are the same and the information is current as of that date. The personal financials must be signed by both husband and wife if the personal financial statement includes joint assets.
- Resumes of principals involved in the day-to-day management.
- Balance sheet with current pro-forma (within 30 days). Please provide assumptions that support the financial information.
- For a new or existing business, a monthly cash flow analysis for the first 12 months of operation or for three months beyond the breakeven point (whichever is longer) together with a description of assumptions.
- Estimated projection and forecast of three years' earnings.
- A schedule of debts that includes current debts and debts planned for the next 12 months (other than the Green River EDC loan).
- The names of affiliated (through ownership or management control) or subsidiary business, as well as the last two fiscal year-end financial statements and a current financial statement for each of these firms.
- If the business is a franchise, include a copy of the Franchise Agreement and the Franchiser's Disclosure Statement that is required by the Federal Trade Commission.
- A copy of key cost documents, such as real estate purchase agreements, contractor cost estimates, vendor quotes for machinery and equipment, etc. If the equipment is being

purchased, give a list of the equipment and a letter from a vendor or appraiser that states the equipment has a life of at least ten years.
- If applicable, a copy of the existing or proposed lease agreement.
- An independent appraisal for construction projects on an "as completed basis," or an architect's certified cost estimate, or a contractor's contract based on completed plans and specification.
- Environmental analysis, if applicable. Please complete the enclosed form and sign and date. If a Phase I Environmental Study has been done by the bank, please provide a copy. If a study will be done, please note.
- A commitment letter from the private lender outlining the amount of the loan, term, interest rate, and collateral.
- Tax Returns – Provide the previous three years' business tax returns, which must be signed by the borrower.
- List of major customers and potential new customers.
- List of major competitors.
- Letter of support from the local community (development authority, chamber of commerce, etc.).

Information required for infrastructure/local government loans includes:

- Purpose of the loan.
- Copies of preliminary engineering or construction reports, if any.
- Most current audited financial statements and most recent interim financial statements of the applicant, where applicable.
- Resolution from the governing body.
- Depending on the borrower, pro-forma balance sheet and operating statement and/or budgets; income statements and cash flow projections.
- Supporting statements of the applicant from the date of its latest interim financial statements to the date of the commencement of the project operation.
- Rate analysis.
- Statement of project benefit(s) and potential impact on the community.
- Assurances of Compliance.
- Projected employee data.
- Pledge of revenues.

Such statements and balance sheet should reflect the applicant's ability to repay the debt principal out of earnings. When applicable, other non-financial information requested may include estimates, firm quotations, receipts, contracts, orders, invoices, leases, or equivalent documentation from architects, engineers, contractors, sub-contractors, material suppliers, and others involved in the sale or lease or construction of fixed assets. The applicant will be requested to detail the schedule for implementation of the project and provide back-up information regarding operating costs including projected employment by job category and applicable wage rates and costs.

Credit Reports

For economic development projects and loans to small businesses or entrepreneurs, GRADD staff will make credit and performance checks regarding the borrower, as necessary.

Appraisal Reports

Appraisal reports will be required to document the value of any real estate that may be acquired and/or taken as additional collateral with RLF funds.

Environmental Review

GRADD will take steps to ensure that no project will induce irrevocable damage to the environment as a result of assistance from the RLF. The application process will include submittal under the Kentucky Intergovernmental Review Process (KIRP), which includes review by the GRADD Board of Directors for consistency with appropriate regional plans and policies. Through the KIRP process, notification is automatically made to all appropriate environmental offices at the state level, including the State Historic Preservation Office. Applications may also be required to sign documents assuring the environmental safety of their projects and property.

The GRADD Board of Directors, with the assistance of appropriate staff, shall assess the significance of all environmental impacts of activities to be financed in compliance with the National Environmental Policy Act of 1969 and other Federal environmental mandates, as per the Assurances (SF 424D as revised) executed with EDA. No activity shall be financed which would result in a significant adverse environmental impact unless the impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.

No project shall be approved which would result in the alteration of, or have an adverse impact on, any wetland or jurisdictional water without prior consultation with the U.S. Army Corps of Engineers, and, if applicable, obtaining a Section 404 permit and completing applicable mitigation requirements set forth in the Section 404 permit.

No project shall be approved which would result in potential loss of federally protected species or their critical habitat. The determination regarding potential loss of federally protected species will be made by reviewing the list of federally protected species in the county of the project (available at the U.S. Fish and Wildlife Service (FWS) website) and comparing the preferred habitat of each species with the existing habitat(s) at the project site. If any potential to affect the habitat of federally protected species exists, consultation shall be initiated with the FWS. Determination for critical habitat shall be made by viewing the Critical Habitat Mapper at the FWS website. If any potential habitat or critical habitat exists on the proposed project site, no activity shall be financed without prior concurrence from FWS and completion of any and all mitigation recommended by FWS.

Generally, no project shall be approved which would result in new above-ground development in a 100-year flood plain. This determination will be made by reviewing FEMA Flood Insurance

Rate Maps. If a detailed, written analysis of alternatives performed by the recipient clearly demonstrates that no practicable alternative to above-ground development in the 100-year floodplain exists, the project may proceed. Flood insurance is required for federally-assisted construction or acquisition in flood-prone areas for all insurable structures.

The State Historic Preservation Officer (SHPO) shall be notified of each loan proposal that involves new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. The recipient shall work with SHPO and EDA in cases where SHPO has recommended actions or has been determined an adverse impact. No construction activity shall be initiated or financed prior to concurrence from SHPO and completion of any and all mitigation recommended by SHPO.

Recipients must comply with the provisions of the Clean Air Act (42 U.S.C. §7401 et seq.), Clean Water Act (42 U.S.C. §1251 et seq.) and Executive Order 11738, and shall not use a facility on the Environmental Protection Agency's (EPA) List of Violating Facilities (this list is incorporated into the Excluded Parties List System located at https://www.sam.gov/portal/public/SAM/) in performing any award that is nonexempt under 2 C.F.R. §1532, and shall notify the Federal Project Officer in writing if it intends to use a facility that is on EPA's List of Violating Facilities or knows that the facility has been recommended to be placed on the list.

All loan applicants shall be requested to provide information indicating whether or not there was hazardous materials such as EPA-listed (see 40 CFR 300) hazardous substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials on site that have been improperly handled and have the potential of endangering public health. If deemed necessary, loan applicants may be required to perform or provide evidence of a Phase I Site Assessment to identify possible sources of contamination, a Phase II Site Assessment to test soil and/or groundwater samples, and a Phase III Site Remediation involving mitigation of applicable contaminants. In cases where there are unresolved site contamination issues, the recipient shall work with the loan applicant and the appropriate state environmental agency to resolve these outstanding issues.

No project shall be funded for actions within a Coastal Barrier System or the National Wild and Scenic Rivers system without written permission from EDA.

No project shall be funded if it will result in disproportionally high and adverse human health or environmental effects on low-income and minority populations.

Written records of the determinations and consultations described above shall be maintained in the loan file.

Standard Equity Requirements

Economic development projects and loans to businesses will require a minimum equity investment of ten percent of the total project. For infrastructure projects and loans to city and county governments, no equity will be required.

Loan Write-Up

Upon receipt of a completed application, staff will perform an analysis for consideration by the Green River EDC and GRADD Board of Directors. Staff will provide a loan write-up which at a minimum consists of the following items:

- Documentation that the funds are necessary and not available elsewhere;
- Summary of the project description, management capabilities, and any other pertinent information;
- Sources and uses of funds;
- Analysis of financial condition and repayment ability;
- Collateral availability;
- Consistency with the RLF goals and objectives; and
- Description of environmental conditions.

Procedures for Loan Processing

During the initial consultation with potential applicants, GRADD staff will work with the applicant to screen projects and determine what programs or services are available to provide the most assistance. The staff will discuss in detail with the applicant the requirements of the RLF program and check to see if the applicant is capable and/or willing to meet the requirements of the RLF Plan.

At this time, the applicant must provide information to the RLF staff of their efforts/inability to obtain adequate or total financing from commercial banks. If the applicant is seeking financing for a community development project, staff will advise them of procedures to make an application and provide assistance as needed.

It will be the borrowers' responsibility to complete the application. However, GRADD staff will assist the borrower in packaging RLF proposals and work in cooperation with other participating funding agencies and organizations.

Once staff receives a full application, it will be reviewed to ensure all information is included. Applications needing more information will be returned to the applicant for completion or modification. Complete applications, along with staff recommendations for approval or rejection, will be brought before the Green River EDC which will meet as needed to review the applications.

The Green River EDC action will be in the form of a recommendation for approval, disapproval, or approval with special conditions. Those applications that are approved with special conditions will be returned to GRADD staff for additional work with the applicant. Recommendations by the Green River EDC will be presented at the following GRADD Board of Director's meeting. The GRADD Board meets on the second Wednesday of each month, and will either approve, reject, or make modification recommendations. Those recommendations from the GRADD Board to modify a loan will be returned to staff for further work with the applicant. Notification of the GRADD Board decision will be provided to the applicant within the next five working days. Upon approval by the GRADD Board, arrangements will be made with the applicant for the loan closing and other management requirements. If the GRADD Board rejects the application, staff will forward a denial to the applicant.

H. Loan Closing and Disbursement Procedures

Loan Closing Documentation Requirements

Loan closing documentation will at a minimum consist of the following items:

- RLF loan agreement;
- Promissory Note;
- Mortgage and/or Security Agreement (with financing statement and list of collateral);
- Guaranty agreement;
- Amortization schedule; and
- The loan agreement shall provide that all applicable laws and regulations will be complied with completely.

Loan Disbursement Requirements

Upon submission of all required documentation and evidence that all other financing is committed, a loan closing date will be established. The purpose of the RLF is to stimulate economic development and infrastructure projects. At closing, 100 percent of funds will be distributed to the borrower. Interest will be charged on funds drawn. At the closing, the borrower will receive a settlement statement reflecting the loan amount, loan fees, and closing costs incurred. All fees are the responsibility of the borrower. If the project is for a capital purchase, funds will be disbursed upon the presentation of documentation in support of the lien request.

I. Loan Servicing Procedures

Loan Payment

GRADD receives and deposits loan and interest payments into an interest bearing RLF bank account, and, upon request, advises RLF staff when funds are received. Additionally, upon request, the finance department will provide monthly reports of disbursements, receipts of interest and principal, and any past due accounts. Timely notification of any payment due and not paid will be provided. Late fees (which will be incorporated in the body of the Promissory Note) will be $25.00. If the loan is past due more than 15 business days, late fees will commence.

Loan Monitoring Procedures

GRADD staff will administer the RLF program and will service all RLF loans. This includes the coordination of loan closings, disbursement of RLF funds, and servicing to ensure proper fund management and timely payment of principal and interest. Staff will also be responsible for ensuring compliance with all applicable laws and regulations. Periodically, but no less than annually, staff will evaluate the RLF program and the loans using criteria obtained from goals and objectives of the RLF Plan.

- Annual financial statements (defined to include a balance sheet and profit and loss statement, compiled by an independent accountant or certified by the chief financial officer and president) may be required on all loans. RLF staff shall monitor these and other dated requirements such as insurance renewals, and UCC renewals. If documents are not received on a timely basis as stipulated by the loan agreement, designated staff will be responsible for correcting the deficiency. Provisions will be made in the loan agreement that audited statements may be required.
- GRADD may elect to visit each borrower quarterly for the first 12 months and determine whether the business is in line with its business plan, if necessary.

GRADD staff will then schedule quarterly visits with each borrower, as needed. Each visit will be documented by memorandum, and will contain a summary of the progress the business is making from a marketing and financial perspective, as well as an assessment of the business' future. This report will be provided to the Green River EDC. Annually, jobs saved/created data will be compiled by GRADD staff and supplied to EDA as part of the required semi-annual reports. All jobs will be reported in full-time equivalents. All required loan documentation and special provisions will be monitored.

<u>Late Payment Follow-up Procedures</u>

- All payments are due on or before the first day of the month.
- Any payment that is not received by the 15th day of each month will result in the loan being considered delinquent.
- Upon being advised that a payment due was not made, RLF staff will contact the borrower promptly to determine the problem, if any exists.
- The loan servicer will send a written notice of delinquent payment five working days after due date with notification of late penalty, and will notify the RLF staff in writing.
- RLF staff will send a second written notice 30 days after the due date.
- RLF staff will send a third written notice 60 days after the due date.
- RLF staff will send a fourth written notice 90 days after the due date.
- During the first 30 days of delinquency, written and oral communication, as well as site visits by RLF staff will be utilized to resolve the delinquency.
- If, after 90 days, a delinquency still exists and the loan has not been renegotiated or brought current, the loan will generally be determined to be in default and recovery of the security will commence.
- Any renegotiation of loan terms to remedy a default must be approved the Green River EDC.
- If at any time during this 90-day period, the economic development manager believes the borrower cannot, or will not, bring the loan current, with Green River EDC approval, RLF staff can declare the loan in default and begin recovery against collateral, if deemed appropriate.

Collection Procedures

The RLF staff will work to exercise all rights and privileges of a lender in order to collect the proceeds on delinquent loans. To ensure the delinquent loan is collected in an appropriate, efficient, and timely manner, staff will:

- Prepare a plan of action with guidance by the EDC for collecting the loan and taking action against the collateral;
- Make sure all required loan documentation is in order;
- Consult with GRADD's attorney on all default notices and collection efforts and to ensure that no laws or regulations will be violated by the collection effort and that all legally required actions are taken;
- Contact all other co-lenders as appropriate;
- List defaulted or chronically delinquent loans with credit bureaus;
- Notify the guarantors of the default and put them on notice that they are expected to make payment, in full, upon demand; and
- Begin collection procedures and/or asset liquidation process.

Loan Write-off Policy and Procedures

GRADD shall exhaust all remedies available to ensure that the entire debt is collected. Upon final disposition of the loan, if a portion of the loan is deemed uncollectable, it will be written off in accordance with general accounting procedures and the most current EDA specifications.

Loans with an outstanding balance that have been placed in default and remain outstanding after 180 days will generally be written off. However, collection efforts will continue until determined not to be cost effective or prospects for recovery no longer exist. A reasonable loss through defaults will be considered without establishing a loan loss reserve. All write-offs must be directed to the Green River EDC for approval by the GRADD Board of Directors. Additionally, in a year of loan write-off, a 1099C will be submitted to the defaulting party and Internal Revenue Service.

J. RLF Portfolio Standards

Percentage of RLF Investment

The RLF is established to serve the financing needs of the area's business and local government's infrastructure needs. Because there is substantial need and interest for both types of projects, there is no formula or percentage to reserve funds for specific or particular types of projects.

Section II: Operational Procedures

A. Organizational Structure

The RLF will be administered by GRADD staff who will be available to provide technical and managerial assistance to the borrower. GRADD staff has extensive experience in all phases of financial packaging, including business plan development, financial statement analysis, loan packaging, servicing, and processing.

Final approval of all loans will be granted by the GRADD Board of Directors. The Board presently consists of 34 members representing business and industry, local government, education and healthcare. The Board functions with the assistance of its officers: chairman, vice-chairman, secretary, and treasurer, and such advisory committees as it deems necessary and appropriate. The chairman serves as the Board's executive officer and is responsible for seeing that all policies and directives of the Board are implemented. The GRADD Bylaws are structured on a one-person/one-vote system.

Prior to approval by the GRADD Board of Directors, the initial loan application will be reviewed by GRADD staff, the Loan Review Committee and the Green River EDC. The EDC shall be comprised of three representatives from each member county including a banking representative, an economic development representative, and a private sector representative. Additionally, a minority representative will also serve as a member of the EDC.

The EDC will be responsible for approving loans, all major loan modifications/waivers and foreclosure actions. It will also be responsible for recommending RLF loan policy. Per the Green River EDC Bylaws, a quorum shall be achieved when eight members are present.

The GRADD Board of Directors is the final decision making authority on all loans and will periodically review the investment portfolio for compatibility with RLF strategy and goals.

B. Conflict of Interest

It is EDA's and GRADD's policy to maintain the highest standards of conduct to prevent conflicts of interest in connection with the award of investment assistance or its use for reimbursement or payment of costs (e.g., procurement of goods or services) by or to GRADD. A conflict of interest generally exists when an interested party participates in a matter that has a direct and predictable effect on the interested party's personal or financial interests. A conflict may also exist where there is an appearance that an interested party's objectivity in performing his or her responsibilities under the project is impaired.

For example, an appearance of impairment of objectivity may result from an organizational conflict where, because of other activities or relationships with other persons or entities, an interested party is unable to render impartial assistance, services, or advice to GRADD, a participant in the project or to the Federal government. Additionally, a conflict of interest may result from non-financial gain to an interested party, such as benefit to reputation or prestige in a professional field.

Interested party is defined as any officer, employee or member of the GRADD Board of Directors or other governing board of GRADD, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of GRADD, such as agents, advisors, consultants, attorneys, accountants or shareholders. An interested party also includes the interested party's immediate family and other persons directly connected to the interested party by law or through a business arrangement.

No members of the GRADD Board of Directors may serve on the Green River EDC. Conversely, Green River EDC members are prohibited from serving on the GRADD Board and exercising voting privileges. The Green River EDC chairperson, however, may serve on the GRADD Board of Directors but not possess voting privileges.

Prohibition on direct or indirect financial or personal benefits:

- An interested party of a recipient of an RLF grant shall not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of RLF loans;
- GRADD shall also not lend RLF funds to an interested party;
- Former GRADD Board members, or members of his or her immediate family, shall not receive a loan from the RLF for a period of two years from the date the Board member last served on the RLF's Board of Directors;
- An interested party shall also not, directly or indirectly, solicit or accept any gift, gratuity, favor, entertainment or other benefit having monetary value, for himself or herself or for another person or entity, from any person or organization which has obtained or seeks to obtain Investment Assistance from EDA; and
- Costs incurred in violation of any conflicts of interest rules contained in this chapter or in violation of any assurances by the Recipient may be denied reimbursement.

C. Interest Rate

GRADD may make loans to eligible borrowers at interest rates and under conditions determined by GRADD to be appropriate in achieving the goals of the RLF. The minimum interest rate GRADD may charge is four percentage points below the lesser of the current money center prime interest rate quoted in the *Wall Street Journal*, or the maximum interest rate allowed under state law. In no event shall the interest rate be less than the lower of four percent or 75 percent of the prime interest rate listed in the *Wall Street Journal*. This rate, adjusted on the first business day of each year, will be set on the date of closing.

Exception – Should the prime interest rate listed in the *Wall Street Journal* exceed 14 percent, the minimum RLF interest rate is not required to be raised above ten percent if doing so compromises the ability of GRADD to implement its financing strategy.

Interest will be charged on the unpaid balance of the principal for the actual time the money is outstanding on the loan. Interest will be compounded monthly.

A participating lender may set the rate of interest on that portion of the loan advanced from its own funds.

The GRADD Board of Directors shall have the authority to adjust the interest rate on any RLF loan as the economy dictates.

D. Revolving Loan Income

General requirements

RLF income must be placed into the RLF Capital base for the purpose of making loans or paying for eligible and reasonable administrative costs associated with the RLF's operations. RLF income may fund administrative costs, provided:

- Such RLF income and the administrative costs are incurred in the same six-month reporting period;
- RLF income that is not used for administrative costs during the six-month reporting period is made available for lending activities;
- RLF income shall not be withdrawn from the RLF Capital base in a subsequent reporting period for any purpose other than lending without the prior written consent of EDA; and
- The RLF recipient completes an RLF Income and Expense Statement (the "*Income and Expense Statement*") as required under §307.14(c).

E. Compliance Guidance

When charging costs against RLF income, RLF recipients must comply with applicable Federal cost principles and audit requirements as found in:

- 2 CFR part 225 (OMB Circular A-87 for state, local, and Indian tribal governments), 2 CFR part 230 (OMB Circular A-122 for nonprofit organizations other than institutions of higher education, hospitals or organizations named in OMB Circular A-122 as not subject to such Circular), and 2 CFR part 220 (OMB Circular A-21 for educational institutions); and
- OMB Circular A-133 for Single Audit Act requirements for states, local governments, and nonprofit organizations and the Compliance Supplement, as appropriate.

F. Priority of Payments on Default RLF Loans

When an RLF recipient receives proceeds on a defaulted RLF loan that is not subject to liquidation pursuant to §307.20, such proceeds shall be applied in the following order of priority:

- ***First,*** toward any costs of collection;
- ***Second,*** toward outstanding penalties and fees;
- ***Third***, toward any accrued interest to the extent due and payable; and
- ***Fourth***, toward any outstanding principal balance.

Revolving Loan Fund Semi-annual Report and Income and Expense Statement

GRADD must complete and submit a semi-annual report (Form ED-209 or any successor form) in electronic format, unless EDA approves a paper submission.

GRADD must certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan. GRADD must also describe (and propose) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool.

An RLF recipient using either 50 percent or more (or more than $100,000) of RLF income for administrative costs in a six-month reporting period must submit to EDA a completed Income and Expense Statement (Form ED-2091 or any successor form) for that reporting period in electronic format, unless EDA approves a paper submission.

G. Records and Retention

GRADD shall maintain closed loan files and all related documents, books of account, computer data files and other records over the term of the closed loan and for a three-year period from the date of final disposition of such closed loan. The date of final disposition of a closed loan is the date: principal, interest, fees, penalties, and all other costs associated with the closed loan have been paid in full; or final settlement or discharge and cessation of collection efforts of any unpaid amounts associated with the closed loan have occurred.

GRADD must at all times: maintain adequate accounting records and source documentation to substantiate the amount and percent of RLF income expended for eligible RLF administrative costs; retain records of administrative expenses incurred for activities and equipment relating to the operation of the RLF for three years from the actual submission date of the last semi-annual report that covers the reporting period in which such costs were claimed; and make available for inspection retained records, including those retained for longer than the required period. The record retention periods described in this section are minimum periods and such prescription does not limit any other record retention requirement of law or agreement. In no event will EDA question claimed administrative costs that are more than three years old, unless fraud is an issue.

H. Procedures for Complying with EDA Reporting Requirements

GRADD will establish a separate account for their receipt, disbursement, and account of the RLF funds. It will abide by all disbursement procedures as established by EDA. GRADD will have their cash match in place prior to the first EDA disbursement.

Records will include an accurate account of any principal repayments, interest, loan fees, or other proceeds generated by the RLF and will document how these funds are used. Administrative expenses paid for with interest, loan fees and other proceeds generated by the RLF will be charged based upon actual expenditures and will be documented with time sheets, logs, or other supporting documentation. All RLF records, including loan documentation, shall be stored in a fireproof file cabinet within the accounting division of GRADD.

Reports shall be submitted to the EDA Regional Office every six months for a minimum of one year after disbursement of all grant funds, after which it may be requested in writing for a shorter annual reporting format.

I. Procedures to Ensure Compliance with Grant Requirements and Monitoring of the RLF Portfolio

The RLF will be audited in accordance with the EDA RLF Administrative Manual dated June 27, 2010. Independent audits of financial operations, including compliance with all grant requirements, will be conducted at least every two years throughout the five-year reporting period, or for a period of time as determined by EDA.

GRADD will maintain financial management systems and retain financial records in accordance with standards prescribed in OMB Uniform Guidance and in accordance with the General and Special Terms and Conditions of the grant.

Borrowers will present documentation to RLF staff supporting their request for payment. Following review and approval of the documentation by the RLF staff, it will be forwarded to the accounting department for processing. Following their review, a check will be issued in the appropriate amount. The executive director and chairman of the GRADD Board of Directors sign all checks. They will then be disbursed for payment.

J. Performance Assessment Factors

The performance of the RLF will be assessed annually in conjunction with the report provided to EDA. The report, as well as additional information pertaining to the loans that have been made, will be provided to the GRADD Board of Directors for their review and action. The performance assessment will examine each of the objectives of the RLF in terms of the portfolio. The RLF Plan will be modified if the performance assessment indicates it is necessary in terms of changes in the economic condition, activities, or other conditions that may warrant the alteration.

The following performance metrics will be used to evaluate the success of the revolving loan program:

- Cost per job ratio equal to $10,000; and
- Loans must leverage private investment of at least two dollars for every one dollar of RLF monies injected.

<u>Cost Per Job Ratio</u>

For economic development projects, the cost per job ration is expected to be $10,000. However, some infrastructure projects may have no direct cost per job ratio; due to the nature of the project objectives some may not be accurately assumed.

Private Leveraging

RLF loans must leverage private investment of at least two dollars for every one dollar of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF's operation. To be classified as leveraged, private investment must be made within 12 months prior to approval of an RLF loan, as part of the same business development project, and may include:

- Capital invested by the borrower or others;
- Financing from private entities; and
- Any Federal loan.

Private investments shall not include accrued equity in a borrower's assets.