Souris Basin Planning Council

Revolving Loan Fund Plan

Revised August, 2016

PART I: STRATEGY

The Souris Basin Planning Council (SBPC) is located in north-central North Dakota and shares a border with Canada. The region, also known as North Dakota Planning Region 2, consists of seven counties that include Bottineau, Burke, McHenry, Mountrail, Pierce, Renville and Ward. The Souris Basin Planning Council has been a designated Economic Development District with the Economic Development Administration since 1979. In addition the Planning Council has had extensive experience in administering a variety of Federal, State and local programs since 1972.

This region's goals and objectives have been previously identified in a Comprehensive Economic Development Strategy (CEDS). In a broad perspective, these goals are to:

1. Create and retain jobs;
2. Increase the state's per capita income;
3. Curb outmigration and stabilize the population; and
4. Increase the area's economic diversity.

A. ECONOMIC ADJUSTMENT OVERVIEW:

The SBPC region's total population estimate for 2014 is 101,040. The area consists of over 10,300 acres with 37 cities and 265 townships. The region primarily boasts a rural atmosphere including cropland, woods parks, lakes, rivers, wildlife refuges, and wetlands.

In addition to general purpose local governments, there are numerous special purpose local governments, including an Indian Reservation, a U.S. Air Force Base, school districts, community college districts and a university district. The Minot Air Force Base in Ward County, and the Fort Berthold Indian Reservation, lying in portions of Mountrail and Ward Counties are under federal jurisdiction. The region supports two community colleges and one university. Some special districts and authorities such as downtown development authorities, job development authorities, and economic and workforce development authorities overlap the general purpose geopolitical boundaries.

Geological features of the region include the Turtle Mountains in Bottineau County, the flat plain of Glacial Lake Souris in Bottineau, McHenry and Pierce Counties, and the White Earth Valley in western Mountrail County.

The primary economic driver is agriculture and energy development. Energy is concentrated in the western area of the region. Rural areas not impacted by development have numerous small communities with a declining population and limited resources for development. The communities that are impacted by energy development are experiencing a tremendous boom.

Although this development brings jobs and opportunities, it also puts pressure on the communities' infrastructure, housing, education, health and other resources.

There are two major factors affecting the population change in the Souris Basin Region. The first factor is energy development. The demand for employment could result in the number of people aged 25 to 44 increasing by 63 percent by 2025.

The second major factor affecting the population change for the region includes flood recovery efforts. The 2011 Mouse River flood affected three of the seven counties within the region. More than 4,500 homes in the region were flooded, as the flood waters spanned 30 linear miles across the region (Source: Minot Recovery Information). More than 4,900 structures in the region were impacted by flood waters.

The North Dakota Statewide Housing Assessment Resource Project estimates a 35.0 percent increase in population for the EDD. The total population is projected to increase to 121,443 for the region. Population increases continue to be a leading issue, both positively and negatively for economic and community planning in the region. Growth rates and demographic changes in population continue to have uncertain implications for the region's labor force. A steady population growth can produce the continued labor force expansion that is necessary to meet the labor demands of area employers. However, the demand for housing, schools, infrastructure, utilities and water will be a struggle for each community to maintain. Responding to each trend individually will be a vital element in any economic development strategy.

Being in a rural area has some distinct disadvantages. Minot is the regional growth center for the EDD and is the largest city in the area. The closest major city outside the region is Bismarck, the state capitol, which is 110 miles south. Fargo and Grand Forks are two Metropolitan Statistical Areas ("MSA") in the state and are 264 miles and 210 miles away, respectively. The region is heavily reliant on the agricultural economy and often suffers from a lack of economic diversification.

When trying to attract manufacturing companies to the area, the distance has a negative effect on economic development. The cost of transporting raw products in and finished products out becomes cost prohibitive when moving large manufactured goods. Because of this limitation, communities in the EDD target manufacturing operations, such as value added agriculture or goods that can be manufactured and shipped economically.

The region's proximity to the oil and gas development in the Bakken Formation allows for additional recruitment opportunities. The region's western-most cities, small and large, are successfully attracting businesses in oil activity in addition to those businesses supporting oil and gas development. One disadvantage that can come from this proximity to the oil development is a lack of economic diversity in the event of a boom and bust cycle.

SBPC envisions a region having a strong, diversified economy which provides a living wage for all people who are willing, capable and want to live in an area with excellent educational facilities, medical services and with a quality of life based on traditional family values.

SBPC Strategies to broaden a stable and diverse economy:

1. Cooperate with local development corporations and job development authorities in their efforts to attract non-agriculture and no-oil related ventures.

2. Assist research activities that enhance or create new uses and products from local agriculture production through the use of state and federal grant resources.

3. Work with state and local officials to promote in-state projects that will add value.

4. Use all available resources to assist local communities in their efforts to obtain the most advanced technology infrastructure available and the trained workforce in order to attract or develop “high technology” businesses.

SBPC Strategies to create, attract and retain quality jobs and workforce:

1. Encourage emerging and existing businesses to utilize the North Dakota Workforce Training Programs and Job Service of North Dakota to further the skills and education of the workforce.

2. Work with local development corporations, educational institutions and existing businesses to identify special work force training needs.

3. Target investments of public financing programs to existing locally based businesses for the creation and retention of jobs.

4. Support and encourage privately funded seed stage or early venture capital funds.

SBPC strategies to enhance economic development capital:

1. Maintain and develop new access to capital resources that are responsive to the region’s needs and are intelligently utilized.

2. Maintain and efficiently manage the region’s capital resources available through SBPC.
3. Utilize all available private and public capital resources that are applicable when developing financial packaging for economic development projects.

In order to successfully accomplish these economic development goals, public and private partnerships must be created and sustained to constantly evaluate and compare the economic competitiveness of the region to other areas. The region must also seek economic diversity, entrepreneurship and niche markets in order to accomplish the identified long-term goals.

B. BUSINESS DEVELOPMENT STRATEGY:

Created in 1992, the purpose of the SBRLF is to provide gap financing to create and save permanent, private sector jobs. The funds are designated to finance industrial activities, commercial activities, start-ups, and expanding businesses. Targeted businesses include those in the retail, service, manufacturing, telecommunications, technology or tourism sector. Depending on need, SBPC also refers businesses seeking assistance to the SBA Small Business Development Center for business plan assistance, business consulting, training services, market research assistance, financial packaging and lending assistance.

C. FINANCING STRATEGY:

Financing needs for target businesses in the region include land acquisition or improvement, real estate purchases, new equipment, fixtures, inventory, and working capital. The SBRLF is a tool to assist local businesses with financing they may not otherwise have access to on their own. The funds must be borrowed in conjunction with a traditional bank loan. SBPC staff work together with lending institutions to package loans in order to best suit the customers’ needs. The public and private lenders in the region are supportive of the SBRLF and assist with financial packaging.

Start-up projects in rural areas and small communities have difficulty securing fixed asset financing. Typically, these locations have a realistic resalable market value substantially below the properties actual value. Financial institutions are hesitant to take on all of the risk of owning property in remote or semi-remote locations where liquidation efforts would result in high losses. The SBRLF will be utilized to fill financing gaps in capital availability for new and expanding business by acting as a leveraging tool for financial institutions.

SBRLF funds will be used to address the following business needs:

- business acquisition
- business expansion

- land purchase and development
- equipment purchases
- machinery
- start-up operating costs
- working capital

D. FINANCING POLICIES:

The following policies will guide the SBRLF to achieve its overall goals:

1. Eligible Lending Area: Funds are lent to private sector borrowers located in Bottineau, Burke, McHenry, Mountrail, Pierce, Renville and Ward County.

2. Allowable Borrowers: Businesses located and operating in ND Region. Businesses must be involved in industrial or commercial activities or be a startup or expansion.

3. Allowable Lending Activities: Funds must be used for start-ups, expanding businesses, industrial activities, or commercial activities.

   SBRLF funds may be used for:
   - business acquisition
   - business expansion
   - land purchase and development
   - equipment purchases
   - machinery
   - start-up operating costs
   - working capital

   Ineligible uses outlined in EDA regulations 13 CFR 307.17(b) are ineligible in this plan.

4. Loan Size: Loans will be made for amounts between $5,000 and $127,500. The maximum loan amount will be limited by the amount of funds available in the fund at the time of the application. The maximum loan size will not exceed 25 percent of the RLF capital base. Adjustments may be made to lending limits, as appropriate.

5. Interest Rates: The minimum interest rate is 4 percent. The interest rate charged to each project will be analyzed and determined on a project-by-project basis.

   The interest rate is calculated using the following criteria:
   - Wall Street Journal Prime Rate
   - Amount of funds borrowed from the SBRLF in comparison to the total project costs
   - Amount of equity provided by the borrower in comparison to the total projects costs
   - Numbers of jobs created or saved

- The cost per job
- Length of the loan
- A Community Benefit rating is assigned to each project at the discretion of SBPC
- A Risk Rating is assigned to each project at the discretion of SBPC

The minimum interest rate is 4 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 4 percent or 75 percent of the prime interest rate listed in the *Wall Street Journal*.

6. Terms: Repayment terms will be based upon the ability of the borrower to repay the loan and the risk rating of the project. Standard terms for loan repayment are:
    a. Fixed Assets – maximum ten (10) years;
    b. Equipment and machinery – maximum seven (7) years; and
    c. Inventory and other working capital – maximum five (5) years.

    In the event of prepayment, in whole, a prepayment penalty rate shall be assessed as follows:
    1. If the prepayment occurs on or before the first anniversary date of the loan, the prepayment penalty will equal five percent (5%) of the principal amount prepaid.
    2. If the prepayment occurs after the first anniversary date, but on or before the second anniversary date, the prepayment penalty will equal four percent (4%) of the principal amount prepaid.
    3. If the prepayment occurs after the second anniversary date, but on or before the third anniversary date, the prepayment penalty will equal three percent (3%) of the principal amount prepaid.
    4. If the prepayment occurs after the third anniversary date, but on or before the fourth anniversary date, the prepayment penalty will equal two percent (2%) of the principal amount prepaid.
    5. If the prepayment occurs after the fourth anniversary date, but on or before the fifth anniversary date, the prepayment penalty will equal one percent (1%) of the principal amount prepaid.
    6. Prepayment penalty shall not apply if the prepayment occurs after the fifth anniversary date

7. Fees: The standard loan fees are:
    - $200 loan application fee (due upon submission of applicant)
    - 1.5 percent origination fee (due at closing)
    - any additional incurred costs (due at closing)

8. Equity and Collateral: Borrowers must provide a minimum equity investment of 10 percent of the total project costs.

   All loans will be secured with a first lien position, shared first lien position, second lien position or a shared second on the assets or other forms of collateral of the project. Personal guarantees will be required. Loan security may include:
   - Lien positions on real estate, machinery, equipment, inventory, receivables or marketable securities. Such liens may be subordinated only to existing liens of record and other loans made in connection with the project. This includes Deeds of Trust and mortgage title insurance.
   - Assignment of patents and/or license rights; and
   - Life insurance on key individuals needed for the business to realize continued success. The acquisition of hazard and other insurance when deemed necessary.

   The SBRLF may offer any one or a combination of the following options to leverage financing from conventional borrowers:
   - direct, reduced interest loans;
   - subordinated position on a pledged collateral when appropriate; or
   - defer principal payments for up to one year.

The SBRLF cannot be used as a substitute for available private capital. Potential borrowers must demonstrate that financial assistance is not otherwise available.

E. PORTFOLIO STANDARDS AND TARGETS:

Based on past performance, the SBRLF is estimating the following investment percentages for the portfolio:

- Industrial: 10-30%
- Commercial: 40-60%
- Service: 30-50%

- Business Start-ups: 20-40%
- Business Expansions: 40-60%
- Business Retention: 10-30%

- Fixed Assets: 60-80%
- Working Capital: 20-40%

SBPC recognizes the importance of leveraging private investment funds with the SBRLF funds. The minimum leverage requested is two private sector dollars for each SBRLF dollar. Private sector dollars include, but are not limited to:

- capital invested by the borrower or others;
- financing from private entities;
- or 90 percent of the guaranteed portions of SBA 7(a) and SBA 504 debenture loans.

Private investments do not include equity buildup in a borrower's assets or prior capital investments by the borrower unless made within nine months of the SBRLF loan and the concurrence of the Loan Review Committee. Projects proposing less than a 2:1 ratio may be considered and allowed only if the overall SBRLF portfolio maintains or exceeds this ratio.

The SBRLF attempts to maintain a $10,000 per job cost in the overall portfolio.

F. SELECTION CRITERIA:

SBPC staff will work with project developers to package the most appropriate blend of available funds to see the project is capitalized with the utmost benefit to the business and all other parties involved.

Other economic benefits taken into consideration are projects that:

- emphasize the interaction and utilization of the area's raw product;
- export activities;
- add value to farm products;
- diversify the local economy; and/or
- maintain existing services or provide supplemental off-season income for individuals living in rural areas.

G. PERFORMANCE ASSESSMENT PROCESS:

SBPC staff prepares semi-annual reports and reviews and updates the plan as necessary. An updated plan will be submitted to the U.S. Department of Commerce Economic Development Administration every 5 years.

PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. ORGANIZATION STRUCTURE:

The SBPC Board of Directors functions as the SBRLF Administrative Board. The Administrative Board is responsible for final approval or rejection of all applications. Project analysis and financing expertise is provided by the SBPC Loan Review Committee. The Committee first analyzes the project and makes funding recommendations to the Administrative Board. For SBPC Board and Committee structure and terms, please see the SBPC Bylaws.

The SBPC Board of Directors carries full authority to approve loans and make program policy changes. SBPC staff and Committee act in an advisory capacity, while implementing the SBRLF and performing loan review and processing functions. The Committee may seek outside legal advice and credit analysis services on a case-by-case basis. The Board of Directors will not rely on local banks or financial institutions to review loan requests.

All Loan Review Committee Members and Board of Directors are required to sign a conflict of interest statement agreeing to the following:

1. The Grantee shall not make loan or grant funds available to a business entity if the owner of such entity or any owner of an interest in such entity is related by blood, marriage, law, or business arrangement to any officer or employee of the Grantee or any member of the Grantee's Board of Directors, or a member of any other Board which advises, approves, recommends or otherwise participates in decisions concerning loans or the use of grant funds hereinafter referred to a s "Other Board).
2. No officer, employee, or member of the Grantee's Board of Directors, or other Board, or person related to the officer, employee, or member of the Board 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 proposed or potential benefit and receives the Grantee's written determination that the benefit involved is not so substantial as to affect the integrity of the Grantee's decision process and of the services of the officer, employee or Board member.
3. An officer, employee or Board member of the Grantee shall not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment or any other thing of monetary value for himself or for any person, from any person or organization seeking to obtain a loan or any portion of the grant funds.
4. Former Board member and/or officers are ineligible to apply for or receive loan or grant funds for a period of two years from the date of termination of his/her services.

B. <u>LOAN PROCESSING PROCEDURES:</u>

Projects determined to meet the goals and objectives of the SBRLF are asked to submit a Financial Assistance Application. SBPC staff contacts the lead bank to discuss the project and requirements the bank may be considering for the project. Credit reports are ordered on all principals and SBPC staff work closely with the lead bank on obtaining appraisal and financial information. Principals are informed of the requirement to sign personal guarantees.

All required information is reviewed by SBPC staff and a credit memo is prepared for the Committee. The memo includes the:

- project's history
- management analysis
- financial analysis
- collateral valuation
- guarantor/owner analysis
- SWOT analysis
- public benefit and staff recommendation

The committee receives the credit memo prior to the meeting. At the meeting, the Committee reviews the credit memo and all required documents. The Committee makes a recommendation for approval or denial to the SBPC Board of Directors. Upon approval or denial by the SBPC Board of Directors, a letter is sent to the principals advising them of the decision. A majority vote constitutes an approval.

Projects will not be eligible for final SBRLF funding approval until an environmental review has been completed. The Development Specialist is responsible for sending written notices of the proposed project to the following agencies: North Dakota Health Department, State Historical Society, North Dakota Water Commission, North Dakota State Game and Fish Department, Soil Conservation Districts and other agencies who may have concerns in the specific environmental area. These written notices include a request for a 2 response from each agency within 30 days.

The following guidelines will be used to ensure that the project is in compliance with applicable environmental laws and regulations:

- No activity will be financed which would result in a significant adverse environmental impact, unless that impact is mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation will be made part of the loan conditions.

- No activity will be financed which would result in new above-ground development in a 100-year floodplain, per E.O. 11988.

- No activity will be financed which would result in alternation of any wetland or in an adverse impact on any wetland without consultation with the U.S. Department of the Interior Fish and Wildlife Service.

- The State Historic Preservation Officer (SHPO) will be notified of each approved loan that involves significant expansion. SBPC staff request and receive comments on the effect of the proposed activity on historic and archaeological resources prior to the loan closing. In cases where SHPO has recommended actions or has determined an adverse impact, SBPC staff and loan applicant will work with SHPO and EDA to address any issues identified before the loan closing.

- The Borrower shall insure that the facilities under its ownership, lease, or supervision which shall be utilized in the accomplishment of the project are not listed on the Environmental Protection Agency's (EPA) list of Violating Facilities and that will notify SBPC of the receipt of any communication from the Director of the EPA Office of Federal Activities indicating that a facility to be utilized in the project is under consideration for listing by the EPA.

- Those projects which may disturb the environment and reveal adverse environmental impacts will need to adhere to mitigation requirements placed on the borrower by the appropriate governing agency. The borrower must then provide proof of adherence to the requirements. An inability to comply with agency suggestions will make the borrower ineligible for assistance.

- If the nature of the project does not require state agency clearance, the SBPC staff will make such a determination and provide documentation which addresses each environmental factor.
- In special circumstances, and Environmental Impact Statement (EIS) may be necessary to satisfy and address governing agency concerns. The Development Specialist will assist in such activities, however, the burden of conducting the EIS will be placed upon the borrower.
- All expenses associated with these environmental requirements will be the borrower's responsibility.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES:

SBPC staff contact the principals to set up a loan closing date. Standard SBRLF documents are:

- Loan Application
- Loan Agreement
- Promissory Note
- Indemnification Agreement
- Personal Guaranty
- UCC-1 (if applicable)
- Security Agreement
- Mortgage (if applicable)
- Agreement Between Creditors

Additional documents (included in a loan file) required for the file at time of closing:

- meeting minutes
- financial statements
- proof of insurance
- site visit reports
- general correspondence
- commitment letter from lender

SBPC staff conducts the loan closing and disburses a check to the borrower.

D. LOAN SERVICING PROCEDURES:

SBPC staff is responsible for the administration, monitoring and servicing of all SBRLF loans. Loan servicing responsibilities end three years after the date upon which the final payment was issued.

SBRLF borrowers are required to submit information on a semi-annual basis or as requested. This information may include:

- job counts
- financial statements
- workforce safety and insurance
- proof of insurance
- and other relevant information needed to service the loan

SBPC staff conducts annual site visits to all borrowers. SBPC staff completes a site visit checklist to obtain the following information:

- number of employees
- employee demographics (part time, full time, seasonal, sex, race and ethnicity)
- any business needs, successes or concerns
- confirm “And Justice For All” and “Equal Employment Opportunity is the Law” posters are properly displayed
- collect any missing information or documents

Additional site visits are conducted as necessary. Staff will file and update UCC filings as necessary.

Monthly invoices are sent to all borrowers before payment is due. Payments are due the first day of each month. If the borrower fails to pay any installment of principal or interest due on the loan within ten days after it is due, the payment is considered late. A late fee of twenty-five dollars

($25.00) or five percent (5%) of the total payment due, whichever is greater, will be assessed to the payment. New loan recipients are required to make payment via ACH draft.

In the event that an SBRLF loan becomes delinquent (more than 30 days late), a phone call is made to the borrower. Information is gathered to implement action steps that will bring the loan current. If payment is not received after the phone call, a letter requesting payment is mailed to the borrower and another phone call is made to the borrower. A site visit may also be conducted. The committee is informed of the delinquency at the regular monthly meeting.

A site visit is conducted when an SBRLF loan is in default (more than 90 days late). A face to face meeting is set with the borrower to review financials and discuss possible alternatives or modifications necessary for the business to succeed. A recommendation, based on the attempt of the business to come current with their loan and the cooperation extended, is presented to the committee.

Borrowers who are not cooperative and not willing to work with SBPC to bring the loan current will be recommended for collection procedures. This may include selling collateral, enforcing personal guarantee or legal action. The SBPC Board of Directors will make the decision if collection procedures are to be commenced. Loans may be written off only by the SBPC Board of Directors. Determining factors will include the cost of attempting to collect the loan and whether all legal recourse for collection has been pursued.

The status of the loan is discussed at the Committee meetings. The Committee may make suggestions or request to meet with the borrowers. Options available to the borrower include:

- deferral of principal payment for up to one year;
- re-amortization; or
- setting up a payment schedule which meets the specific needs of the business.

E. ADMINISTRATIVE PROCEDURES:

SBPC's Finance Manager will be responsible for the following:

- locking all loan documents and files in fire proof cabinet
- submitting and reviewing all required reports
- monitoring loans
- monitoring separate bank accounts established for the SBRLF

The Board of Directors reviews monthly loan and financial reports to ensure accuracy. The Executive Director and board members review all SBPC bank statements for reporting accuracy.

An external annual audit will ensure that the SBRLF is operating in accordance with Generally Accepted Accounting Principles (GAAP).

SBPC intends to use the following to cover administrative costs:

- 100% of loan application fees
- 100% of origination fees
- 100% of late fees
- between 50-100% of interest earned

Administrative costs that exceed the SBRLF income will be paid from the SBPC general fund.