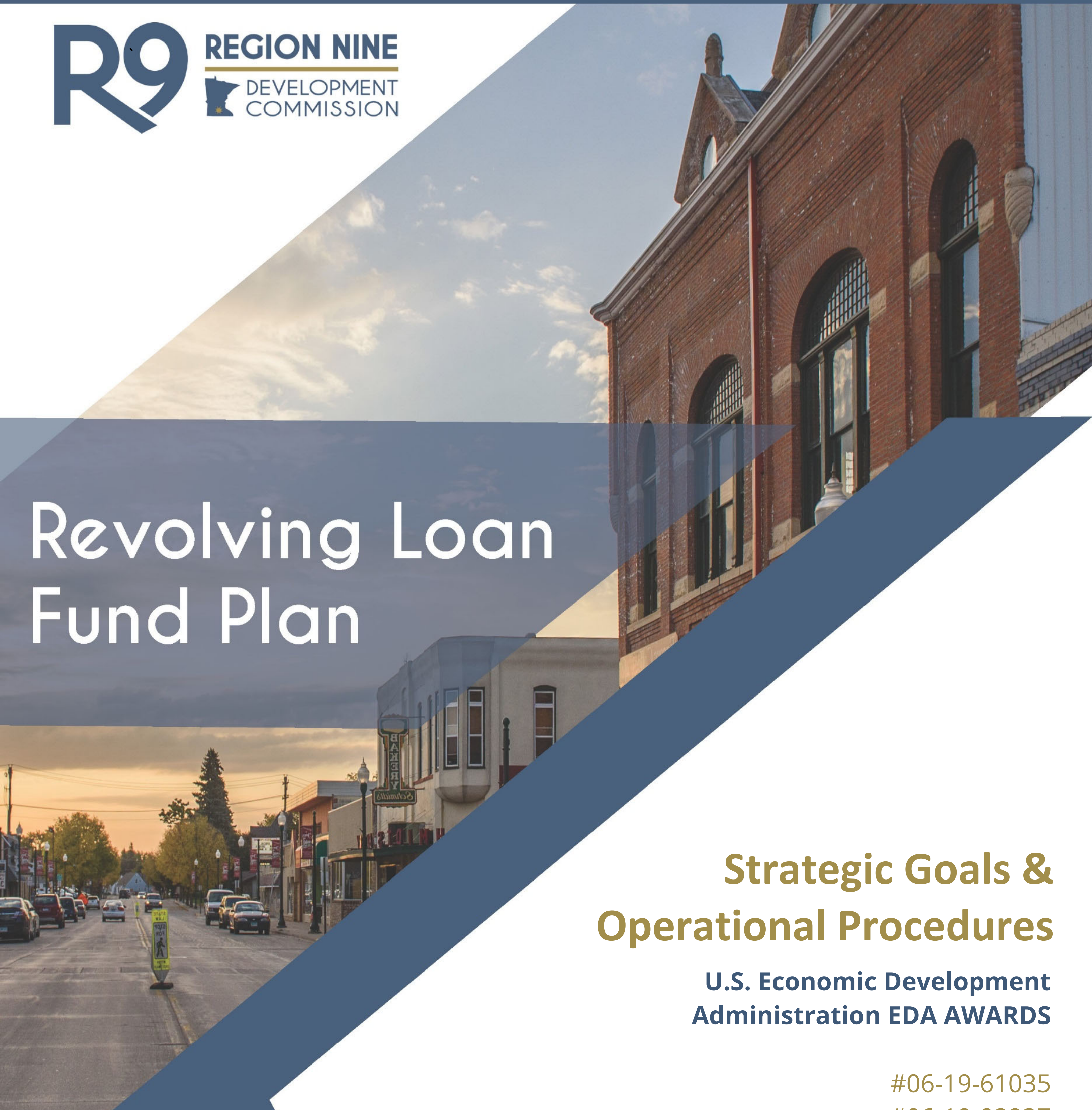
REGION NINE DEVELOPMENT COMMISSION



Revolving Loan Fund Plan

Strategic Goals & Operational Procedures

U.S. Economic Development Administration EDA AWARDS

#06-19-61035
#06-19-02937
#06-19-02396

September 9. 2020

I. INTRODUCTION

Region Nine Development Commission (RNDC) has three separate loan funds that it administers:

06-39-02396 – (1989) Funding was applied after a group of leaders in the five-county area determined that there was a need for an area-wide revolving loan fund. At the time, the counties were considered economically distressed. Originally serving the counties of Faribault, Le Sueur, Martin, Sibley, and Watonwan, it later added Waseca County when it met the criteria for economic distress.

06-19-61035 – (1993) Funding was originally applied for as relief from flooding due to heavy rains in south central Minnesota during the summer of 1993. The floods created immediate physical and long-term economic problems for individuals, businesses, and local government. All nine counties of Region Nine contributed matching funds, along with the South East Initiative Foundation. (The South East Initiative Foundation has since been renamed the Southern Minnesota Initiative Foundation.)

06-19-02937 – (1998) Funding was requested to provide assistance in the wake of the March 1998 tornado. Counties eligible for these funds are Brown, Nicollet, Le Sueur, and Blue Earth.

While there are three separate funds, all funds are administered under the same guidelines.

The RNDC serves the Region Nine counties of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan, located in South Central Minnesota. This region encompasses 72 cities and 147 townships.

II. REVOLVING LOAN FUND STRATEGY

The uses and goals of the Revolving Loan Fund (RLF) are part of the broader business development strategy developed to support achievement of the SMART goals and strategies, which were established through the regional Comprehensive Economic Development Strategy (CEDS) process, specifically within the Economic Competitiveness cornerstone. The CEDS is the result of a locally based, regionally driven economic development planning process designed to enhance economic growth in the region. The CEDS builds capacity and serves as a guide to economic prosperity and resiliency.

Economic development planning, as implemented through the CEDS, is not only a cornerstone of the U.S. Economic Development Administration's (EDA) programs, but successfully serves to engage community leaders, leverage the involvement of the private sector, and establish a strategic blueprint for regional collaboration. The CEDS provides the capacity-building foundation by which the public sector, working in conjunction with other economic partners (individuals, firms, industries, financial institutions), helps create an environment for regional economic prosperity.

RNDC is the organization that maintains the region's CEDS and fulfills the requirements of being a federally designated Economic Development District (EDD). As a result, RNDC is the grant recipient of federal EDA funds used to capitalize the RLFs. The RLFs are a program of RNDC. The RLF committee consists of RNDC commissioners (local elected officials) and commercial lenders in the region. RLF administration and staffing are provided by RNDC.

The RNDC 2017-2021 CEDS was submitted on December 21, 2016 and reflects the current economic conditions in the region.

A. ECONOMIC ADJUSTMENT OVERVIEW

1. Nature and scale of the economic adjustment problem(s) and economic distress to be addressed by the RLF:

The RLF will assist in relieving economic adjustment problems and economic distress through business lending. The RLF will be used as a business development financing tool. The RLF will be used to assist with new or expanding business development with a focus on creating and/or retaining jobs. The RLF will also leverage private sector capital in creating an environment for growth and expansion. A CEDS strategy is to maintain a regional revolving loan fund for businesses. In case of a natural disaster, RLF funds can be used to mitigate damage to businesses in all industry sectors. After a natural disaster, the RLF can be used to increase economic resiliency for all types of local businesses.

2. Issues identified in the CEDS that impact development in the region include, but are not limited to:

Human capital, educational attainment, retention of talent, broadband access, transportation, water and wastewater infrastructure, and housing availability. Most of Region Nine does not fall under traditional economic distress criteria. This poses a unique challenge to the region to align with traditional economic development funding for projects and planning contingent on that criteria. Ultimately, the challenges posed by an economy that is performing well include workforce shortages, new employee recruitment, and access to funding streams for projects in which workforce benchmarks are critical. New benchmarks for analysis, such as increase and decrease of civilian labor force are new opportunities to assess the economic climate of the region. Economic development activities, including business lending, therefore, are critical to bringing opportunities to the region.

3. The Region:

RNDC is designated by the U.S. Department of Commerce's Economic Development Administration (EDA) as South Central Minnesota's Economic Development District (EDD). The organizational structure focuses on regionalism, which creates a unique perspective of the area's economy. Being designated as the area EDD, RNDC is responsible for the development and oversight of the regional CEDS. RNDC takes great pride in working with and on behalf of the counties within Region Nine and their cities, townships, and schools. Since 1972, being a partner for progress has led to the development of programs in the areas of economic development, business development, healthy communities, transportation, community development, and leveraging regional resources.

4. Regional economy:

As of 2016, which is the most current data available with industry specific figures, there were 105,739 people employed in the region at 6,361 firms. Employment has increased by about 5,995 people since 2010 when the national recession recovery was beginning. However, the number of firms has decreased slightly, down from 6,507 in 2010. Overall, employment in the region has grown by six percent since the end of the recession, compared to 14% growth nationally.

The largest growth in employment has been in the trade, transportation, and utilities sector with close to 1,700 added workers since 2010, followed by manufacturing with 1,166 added workers, and construction with just over 900 added workers. The increase in employment for manufacturing demonstrates the strength of this sector in the region and represents a combination of gains in industries such as stone products, electronics, motors, and generators. There was modest growth in the natural resources, mining, education, and health services sectors, while the financial and information sectors sustained net job losses between 2010 and 2016.

The largest growth in terms of absolute number of jobs has been in services with close to 1,700 new jobs over six years, followed by construction with 980 new jobs and agriculture with 850 new jobs. The manufacturing sector, which is particularly strong in the region, added close to 750 jobs. However, this represented a combination of gains in industries such as stone products, electronics, motors, generators and current-carrying wiring devices, offset by significant losses in animal slaughtering, wireless communication equipment, and commercial printing.

5. **Plans and strategies to deal with the economic adjustment problem(s) and economic distress in the CEDS:**

The Business Development Strategy and Financing Strategy contained in the RLF plan outline the scope of work to be followed to deal with economic adjustments in the region. The region is known for its natural amenities, lakes, and farm land. What is not commonly known is that there are unique and amazing partnerships that collaborate with talent, knowledge and skills toward common goals, identifying problems, promoting, and sharing business development within the nine-county region. The CEDS offers a regional strategy for increasing labor, expanding educational opportunities, broadening access to capital, and investing in value-added agricultural products as well as supportive services such as broadband infrastructure, transportation planning, water and wastewater infrastructure, and housing availability.

6. **How the RLF will be used to support economic adjustment activities identified in the CEDS:**

The RLF plan outlines goals, objectives, and processes for delivering business and loan assistance to the region. It provides a clear path and vision that will enable projects to be completed successfully. The CEDS identifies the areas targeted and the plan provides fiscal capabilities to invest in the region. By uniting with local and regional gap lenders and by leveraging resources of other partner agencies, projects of regional importance will be achieved, and efforts will not be duplicated, thus maximizing the return on investment for our region. The RLF is a key component of the regional strategy.

B. BUSINESS DEVELOPMENT STRATEGIES

RNDC developed a business development strategy for targeting RLF resources in pursuit of the economic adjustment goals and objectives identified in the CEDS. The business development strategy outlines how financial institutions, revolving loan funds, and other financing programs, as well as technical assistance, will be targeted to particular businesses or economic sectors. The strategy is based on knowledge of the staff at the RNDC, as well as through discussions with economic development professionals and organizations, lenders, business owners, community leaders, and elected officials. The strategy is not intended to limit investments in other businesses or activities that would further diversify the regional economy.

1. **Objectives:**

   a. Create or retain permanent employment
   b. Encourage growth of the region’s existing businesses and industries
   c. Encourage the creation of jobs that create a living wage and improve income levels

d. Stimulate increased tax base
e. Leverage other public and private sector investment
f. Support new and emerging businesses and industries that add value to existing local businesses, including but not limited to, renewable energy or value-added activities
g. Encourage entrepreneurship
h. Increase minority enterprise development in the region
i. Encourage the development of vacant land and the rehabilitation of dilapidated or vacant buildings
j. Develop a diversified base of businesses and industries to insulate the region's economy from changing markets and business cycles
k. Assist in loan packaging and business planning

The region has an existing manufacturing cluster that the RLF will attempt to build on. Renewable energy and value-added food industries are potential growth industries in which the RLF will also attempt to encourage growth. Supporting successors for retention purposes will be necessary. Commercial, retail, and nonprofit activities that provide an essential service or help to diversify the local economy will also be encouraged.

Furthermore, a primary objective of the RLF is to participate in projects which attract private capital and that create livable wage employment opportunities. It is not the intent of the RLF to replace private sector financing or merely refinance debt.

2. Targeted Sectors:

Although large industry exists within the region, many businesses in the region are small employers. It is realistic to expect this trend will continue. Targeted businesses can be either start-up or expansion, with no more weight given to either application for funding.

Following are the targeted sectors:

a. Manufacturing, including food processing
b. Value-added agriculture
c. Healthcare, including pharmaceuticals, medical devices, biotechnology, and healthcare services
d. Environmental, including environmental technology, and environmental services
e. Alternative and renewable energy companies
f. Technology-based companies and ventures
g. Distribution businesses
h. Commercial, service, and essential retail

3. Sector Needs:

The RLF cannot fill the capital needs for all of the economic development projects in the region, it is necessary to put a priority on applications that meets CEDS's objectives. The primary focus will be to achieve the RLF objectives and to advance the goals and strategies of the CEDS.

Therefore, the RLF will focus on the following sector needs:

a. Creating jobs for the unemployed
b. Financing women and minority-owned businesses
c. Increasing income levels
d. Diversifying regional economy
e. Improving the tax base
f. Stimulating private investment
g. Advancing innovation
h. Working capital loans: Up to 50% of the RLF portfolio may finance working capital
i. Promoting economic self: Sufficiency by providing the resources for building safe, healthy, and attractive communities as well as minimizing poverty

4. Other programs and activities:

a. Leverage other resources: Staff will seek out additional sources of financing and coordinate with state, federal, local, and other financing programs
b. Mentors:
    i. RNDC has business relationships with a number of private and public sector organizations that support business development, retention, and expansion
    ii. Examples include: Small Business Development Center (SBDC), Southcentral Workforce Council, Minnesota Department of Employment and Economic Development, Southern Minnesota Initiative Foundation (SMIF), area colleges and university, and county and city economic development entities

C. FINANCING STRATEGY

The counties eligible to receive lending from the RNDC RLF must be within the Region Nine's statutory boundaries.

1. Financing Needs:

Both existing businesses and entrepreneurs often have a difficult time obtaining sufficient financing from local financial institutions in the region. Many of the financial institutions, particularly in rural areas, are small with limited assets. Agriculture lending has historically been the focus of the region's financial institutions because of the area's large agriculture base. As a result, business lending has been, and continues to be, a small part of the portfolios for the region's financial institutions. The borrower must demonstrate a need for gap financing. As a resource for gap financing, the RLF is intended to augment, not supplant and/or compete with, existing sources of local and private capital.

2. Local Capital Market:

Due to limiting factors for accessing private financing, public financing is a vital tool for business development in the region. RLF financing will be used to fill financing gaps and be accessed when credit is otherwise not available. The RLF will try to partner with other public sources of funds whenever possible to fill financing gaps.

Other gap financing sources that may be accessible include, but are not limited to:

a. Public and Private funding sources
b. MN Department of Employment and Economic Development (public funding)
c. USDA Rural Development (federal funding)
d. County and City RLFs (public funding)
e. Prairieland EDC (SBA Lender)

3. RLF Financing Niche:

The RLF financing niche will be to provide gap financing to businesses that fulfil one or more objectives of the RLF's business development strategy.

To fulfil the RLF's goals and objectives stated herein, the RLF may take guidance from the following financing impact factors:

a. Market based: capitalize on the region's unique assets and strengths and build comparative advantages for future business investment
b. Proactive in nature and scope: support and advance innovation and increased productivity when possible. The RLF should attempt to enhance the region's success in achieving a high and rising standard of living
c. Looks beyond the immediate economic horizon, anticipates economic changes, and diversifies the local and regional economy:

    i. The RLF investments should attempt to be part of an overarching, long-term regional strategy that includes expanding existing industry, and developing emerging industry, and creating conditions for sustained productivity
    ii. This includes maximizing attraction of private sector investments that would not otherwise come to fruition absent RLF investment, focusing on projects with a high probability of success, and contributing to an environment where higher skill, higher wage jobs are created

D. FINANCING POLICIES

RLF loans may be made to qualifying businesses for fixed assets and inventory, real estate, and working capital. It is RNDC's RLF policy to weigh start-up and expansion funding requests on an equal basis. The only factor that limits the number of loans that can be made is the availability of funds.

The RLF committee shall take guidance from the following points in its implementation of the RLF:

1. Eligible Lending Area:

RNDC consists of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan counties.

2. Allowable borrowers:

For-profit businesses are eligible to apply. Businesses can be start-up, expansions, or those seeking to retain employees. However, preference is given to those sectors identified in the CEDS.

3. Allowable lending activities:

a. Working capital
b. Fixed assets and inventory

4. Prohibited lending activities:

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

RLF capital shall not be used to:

a. Acquire an equity position in a private business
b. Subsidize interest payments on an existing RLF loan
c. Provide for borrowers' required equity contributions under other federal agencies' loan programs
d. Loan guarantees
e. 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, 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
f. 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
g. Refinance existing debt

5. Loan Size:

The RLF will consider loans between $10,000 and $200,000. At no time shall a single loan be more than 20% of the portfolio's capital base.

6. Interest Rates:

The RLF may make loans to eligible borrowers at interest rates and under conditions determined by the RLF to be appropriate in achieving the goals of the RLF. The minimum interest rate an RLF 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% of the prime interest rate listed in the Wall Street Journal. However, should the prime interest rate listed in the Wall Street Journal exceed 14%, the minimum RLF interest rate is not required to be raised above 10% if doing so compromises the ability of the RLF to implement its financing strategy.

Within the parameters outlined above, the RLF will operate with fixed interest rate schedules which shall be negotiated between the RLF committee and the borrower after taking into account interest rates prevailing in the local commercial market, the term of the loan request, collateral and the financial projections for the project. Interest rates will generally be below local financial institutions' rates, but no less than four percent.

7. **Repayment Terms:**

The term selected will take into consideration the value and depreciable life of the assets to be financed. The RLF committee has the discretion regarding terms and balloon payments. When a balloon payment comes due, the borrower shall pay the remaining principal and interest balance in full, or borrower may request the RLF committee to consider extension of the loan through the full amortization period. Prepayments are accepted at any time without penalty.

A general guide for repayment:

a. Fixed assets and inventory: 5-to-15 year term
b. Real estate: up to 25-year term
c. Working capital: 5-year term

8. **Fees:**

The borrower will pay to RNDC 1.5% of proceeds at closing plus an $800 processing fee. The borrower will also pay all closing fees, legal costs, filing fees, etc.

9. **Equity and Collateral:**

a. Equity: the strongest possible equity commitment from borrowers shall be determined by the RLF committee through an analysis of the borrower’s net worth and financial condition. As a general guide, a minimum borrower equity contribution of 10% of the total project cost will be sought when possible. In-kind equity may be allowed to permit greater flexibility
b. Collateral: the RLF committee shall make no unsecured loans. The RLF may take a security interest in real estate, equipment, fixtures, accounts receivable and all other business assets. Equity may be in the form of a business asset that is not leveraged to provide greater flexibility. Personal guarantees, corporate guarantees, assignment of life insurance, assignment of leases and rents, subordinate positions to other financing, etc. may be required

10. **Moratoria:**

General policies for restructuring or modifying terms of the loan:

a. The RLF committee may extend the terms of the loan through a moratorium on principal payments up to six months, and upon review for another moratorium, upon borrower request, if circumstances warrant such actions

b. Terms may also be restructured with a loan-extension agreement approved by the RLF committee, if circumstances warrant such action
c. The borrower must provide personal and business information as requested by the RLF committee, of which this information will be used by the RLF committee to evaluate the need for a moratorium or extension on payments

11. Start-ups:

Loans for start-ups (new businesses), versus loans for retention or expansion of an established business, are weighted equally and the policies remain the same.

12. Working Capital:

Loans are limited to no more than 30% of the RLF portfolio.

13. Credit Not Otherwise Available:

The RLF cannot be used to substitute for otherwise available private capital. Any potential borrower must demonstrate that credit is not otherwise available.

E. PORTFOLIO STANDARDS AND TARGETS

1. Target Percentages:

No more than 30% of the total RLF will go towards working capital. Otherwise, there are no targeted percentages for RLF investments based on the categories of land use (industrial, commercial, service, etc.), business status (start-up, expansion, retention) or loan type (fixed asset loans vs. working capital loans). The loans awarded depend on the quality of the loan application and the degree to which they create or retain jobs within the targeted sectors.

2. Private Sector Leverage:

The portfolio as a whole will have a required ratio of two dollars in private sector investment for every one dollar of RLF dollars committed.

3. **Job Cost Ratio:**

A goal of one job created or retained per $30,000 in RLF loan proceeds, for the loan portfolio overall, when possible.

F. RLF LOAN SELECTION CRITERIA

All loans will be in compliance and will be consistent with the RLF Plan. Loans that capitalize on existing regional assets and sectors targeted in the CEDS will have preference. Loan applications that are a part of an existing industry cluster, support and advance innovation and/or increase productivity in a particular industry or emerging sector of the economy will also have preference. Minority and women-owned businesses will be encouraged. Loans will be vetted to ensure that the project leverages the maximum private investment. All loans should have the emphasis of creating and/or retaining higher skill, higher wage employment opportunities for workers.

G. PERFORMANCE ASSESSMENT PROCESS

Performance of the RLF will be assessed based on:

1. Number of jobs created and/or retained
2. Amount of private sector dollars leveraged
3. Cost per job

RNDC staff will prepare reports with the above information on an annual basis. The reports will be compiled based on information received from the loan clients as well as information obtained during the client visits.

The RLF committee will report to the RNDC Board of Directors as requested regarding progress of the RLF program. Information learned from performance assessments will be integrated into the RLF plan, as appropriate. The RLF plan will be reviewed annually, at a minimum, and will be updated at least every five years.

III. REVOLVING LOAN FUND OPERATIONAL PROCEDURES

This section serves as the internal operating manual and will inform staff of the approved set of administrative procedures for operating the RLF. All operating procedures will conform to the most current “Prudent Lending Practices”, as defined in 13 CFR 307.8. In administering the RLF, the RNDC adopted these procedures to comply with and ensure that potential borrowers comply with the applicable federal, state, and local laws and regulations including, but not limited to, 13 CFR Part 307.

A. ORGANIZATIONAL STRUCTURE

RNDC is the grant recipient and entity responsible for RLF funds

1. Functions critical to the RLF's lending activities:

FUNCTION	RESPONSIBLE PARTY
Marketing the RLF	RNDC Staff
Business assistance/advisory services	RNDC Staff Small Business Development Center
Environmental review	RNDC Staff
Loan preparation/packaging	RNDC Staff Legal Counsel
Loan approvals/denials	RLF Loan Committee
Loan closings	RNDC Staff/Legal Counsel
Loan servicing	RNDC Staff
Organizational administration	RNDC Staff

2. RLF Committee:

The RLF committee is a sub-committee of the RNDC Board of Directors. There may be are up to nine members on the committee; and no less than five at any time. The committee will be made up of a combination of RNDC commissioners and commercial lenders from banks in the region. The existing committee approves new members by vote after a review of their work history or other relevant experience. A quorum will be a simple majority of the current RLF committee. Committee members serve a four-year term. A member may serve two consecutive terms if they desire, but then must go off the committee for at least one year before applying to serve again.

3. Conflicts of Interest:

It is RNDC's policy to maintain the highest standards of conduct to prevent conflicts of interest in connection with the RLF funds. RNDC utilizes a conflict of interest policy for RLF committee members. Signed copies of the statement are maintained. An annual review of the policy is provided. (See attachment A.)

RNDC will also comply with the following EDA Conflicts of Interest Regulations (13 CFR § 300.3; 13 CFR § 302.17)

a. An "interested party" is any officer, employee or member of the board of directors or other governing board of recipient; including any other parties that advise, approve, recommend, or otherwise participate in the business decisions of recipient such as agents, advisors, consultants, attorneys, accountants, or shareholders. An interested party also includes the interested party's "immediate family" (defined as a person's spouse or partner in a domestic relationship, parents, grandparents, siblings, children, and grandchildren, but not distant relatives such as cousins unless the distant relative lives in the same household as the person) and other persons directly connected to the interested party by law or through a business arrangement

b. 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 or there is an appearance that an interested party's objectivity in performing his or her responsibilities under the project is impaired
c. An appearance of impairment of objectivity could result from an organizational conflict where, because of other activities or relationships with other persons or entities, a person is unable or potentially unable to render impartial assistance, services, or advice. It also could result from non-financial gain to the individual, such as benefit to reputation or prestige in a professional field

4. Conflicts of Interest Rules:

Recipient must adhere to EDA conflicts of interest rules set forth at 13 CFR § 302.17, including the following rules specific to RLFs:

a. An interested party of recipient shall not receive, directly or indirectly, any personal or financial benefit resulting from the disbursement of RLF loans. A financial interest or benefit may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a subaward
b. Recipient shall not lend RLF funds to an interested party
c. Former board members of recipient and members of their immediate family shall not receive a loan from the RLF for a period of two years from the date that the board member last served on the board of directors

5. Duty to Disclose:

Recipient must, in a timely fashion, disclose to EDA in writing any actual or potential conflict of interest.

6. Written Standard of Conduct:

a. Recipient must maintain written standards of conduct to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of a personal or organizational conflict of interest or personal gain in the administration of this RLF Award
b. Recipient must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts. See Section K, other EDA requirements, Subsection 4, Codes of Conduct and Sub-Award, Contract and Subcontract Provisions, Subsection (b), Competition and Codes of Conduct for Subawards

7. DOC Standard Terms and Conditions:

Recipient must also adhere to the requirements for conflicts of interest set forth at Part III of these RLF Standard Terms and Conditions, DOC Standard Terms and Conditions, Section F, Conflict of Interest, Code of Conduct and other requirements pertaining to DOC Financial Assistance Awards, including Subawards and Procurements Actions, Subsection .01, Conflict of Interest and Code of Conduct.

B. LOAN PROCESSING PROCEDURES

1. Standard Loan Application Requirements:

The following is a list of items that may be required for RLF applicants. Not all items will apply for each loan applicant and certain situations may require additional items not on the list.

a. Bank refusal letter: signed bank rejection letter demonstrating that credit is not otherwise available and/or a commitment letter from a participating bank stating that financing is not available in excess of that which the bank will lend, the maximum amount to be extended by the bank, the loan terms, and the need for the RLF's participation. Or an equivalent such as a documented referral made by phone
b. Loan application
c. Credit report(s)
d. Past tax returns and/or financial relationships
e. Pro-forma financial statements
f. Personal financial statements
g. Resumes

h. Appraisal reports
i. Projections
j. Schedule of Debts
k. Certificate of Incorporation and/or Corporate Resolution
l. Lease
m. Business plan

2. **Credit and Financial Analysis:**

The RLF committee is provided with an analysis of tax statements, financial statements, credit reports, available collateral (e.g. personal guarantees, mortgages, life insurance), available equity, appraisal reports, and whether credit is not otherwise available.

Collateral requirements and equity requirements will be dealt with on a case by case basis, as all applications have unique circumstances.

3. **Environmental Reviews:**

RNDC will ensure compliance with applicable environmental laws and regulations including, but not limited to, 13 CFR Parts 302 and 314, the National Environmental Policy Act of 1969, and other federal environmental mandates. The RLF committee will be responsible for ensuring compliance.

These procedures will be followed regarding environmental review of loan applications for construction projects:

RNDC staff will determine whether the project will result in a significant adverse environmental impact. The applicant may be asked to submit additional information, as necessary, to make the determination. No activity shall be financed that would result in a significant adverse environmental impact unless that 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.

RNDC staff shall determine whether the project involves new above-ground development within a floodplain map, based on a review of the proposed development against Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps. No activity will be financed which would result in a new above-ground development in a 100-year floodplain, per E.O. 11988. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.

RNDC staff will determine whether the proposed project will be located within or adjacent to any wetland area. The applicant may be required to provide wetland delineation information as necessary. No activity shall be financed that would result in alteration of any wetland or in any wetland or have any adverse impact on any wetland without consultation with the U.S. Department of the Interior Fish and Wildlife Service, and if applicable, a Section 404 Permit with the Army Corp of Engineers shall be obtained.

RNDC shall notify the State Historic Preservation Office (SHPO) of each loan application that involves significant new construction and expansion, and they shall request and receive comments on the effect of the proposed activity on historic and archaeological resources prior to closing the loan. In cases where SHPO has recommended actions or has determined an adverse impact, the recipient and loan applicant must work with the SHPO and EDA to address any issues identified before the loan is closed.

All loan applicants may be required to provide information regarding whether or not there are hazardous material, such as Environment Protection Agency (EPA) listed hazardous substances (see 40CFR 300), leaking underground storage tanks, asbestos, polychlorinated bi-phenols (PCB), or any other hazardous materials present on or adjacent to the affected property that have been improperly handled and have the potential of endangering public health. If deemed necessary, the loan applicant may be required to perform or provide evidence of performance 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 contaminates. No activity shall be financed which involves unresolved site contamination issues. The loan applicant shall be responsible for working with the appropriate state environmental agency office to resolve any outstanding issues before any loan can be approved for the affected site.

4. **Loan Write-up:**

A project summary will be provided to the RLF committee and may summarize the key aspects of the loan, including history, management, market conditions, project financing, collateral, repayment ability, etc. The summary may also contain consistency with the RLF financing policy and whether there are environmental issues.

5. **Procedures for Loan Approval:**

The loan applications will be presented to the RLF committee in package format with all required submittals. The RLF committee will provide due diligence and financial analysis of the application. The RLF committee will vote on the application either approving the loan or denying it.

The RLF committee shall review and approve loans in accordance with the approved financing policies, targeting criteria, and loan selection criteria of the RLF plan. Approval will be based on a majority vote. A quorum must be present at the meeting.

RLF committee minutes will be placed in the loan folder.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. Loan Closing Documents:

The following documents will be required for the types of loans made under the RLF:

a. Loan application
b. Authorization agreement
c. Loan agreement
d. Board meeting minutes
e. Promissory note
f. Collateral assignment of life insurance
g. Security agreement(s)
h. Mortgage or financing statement (as applicable)
i. Correspondence from primary lender stating the need for gap financing including a signed bank rejection letter demonstrating that credit is not otherwise available and/or a commitment letter from a participating bank stating that financing is not available in excess of that which the bank will lend, the maximum amount to be extended by the bank, the loan terms, and the need for the RLF's participation

2. Loan Agreement Provisions:

The loan agreement will state the purpose of the loan and ensure that the RLF funds are used as intended. All RLF loan documents and procedures will protect and hold the federal government harmless from and against all liabilities that the federal government 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.

RNDC staff will 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. The closing documents include a loan call stipulation for instances of non-compliance.

3. Loan Disbursement:

After all compliance issues and closing requirements have been assessed and met, documentation will be provided to the RNDC finance department to have a check cut. Legal counsel will review all draft loan closing documents. The loan closing will be scheduled. A check will be the disbursement vehicle. All necessary procedures will be performed to protect RLF assets. These may include, but are not limited to, invoices, purchase orders, or receipts.

D. LOAN SERVICING PROCEDURES

1. Repayment:

Collections of loan repayments will be done through Automated Clearing House (ACH) preferably, or check payments. Loans will be repaid monthly unless there are special circumstances. Once the check is received it will be safeguarded and a timely deposit will be made.

2. Monitoring:

Loans will be monitored for all approved loan conditions including annual financial statements, annual insurance renewals, Uniform Commercial Code (UCC) refiling, balloon payments, and borrower site visiting. Borrowers will be asked about job creation and retention at annual site visits.

3. Loan Files:

Loan files are maintained in a secure file cabinet.

Loan file contents include but are not limited to:

a. Financial statements
b. Insurance documentation
c. Annual site visit reports
d. Copies of loan closing documents
e. General correspondences
f. EDA required forms
g. UCC filings/extensions
h. Title cards/lien information

Original loan closing documents are kept in a fireproof safe for safe-keeping.

4. **Job Creation:**

The borrower is asked how many jobs will be created and retained at the time of application. Borrowers are asked how many jobs are created and retained during annual site visits. Clients are interviewed, and payroll records are viewed to verify how many people the business is paying.

5. **Defaulted Loans:**

Loans over 90 days in arrears will be handled in a firm yet flexible manner with provisions for modifying or restructuring consistent with program objectives and proper management of funds. Any terms or conditions for the loan that are modified must be requested through a Servicing Request Form by the borrower and approved by the RLF committee.

Most of the payments are secured via ACH payments initiated by RNDC staff. If a payment fails, or if a mailed payment does not reach us by the due date, the following process is followed:

10 days – an email is sent, or phone call made to determine cause of nonpayment
30 days – a second contact is initiated to follow-up on call made at 10 days
45 days – a letter is sent regarding the status of payment
60 days – a follow-up letter is sent informing borrower of legal action if not paid
90 days – Attorney sends letter stating the specific legal actions client is facing if payment not received

If a default occurs under a promissory note and is not cured within 15 days after written notice to the loan client or if default occurs under the loan agreement and other loan documents and is not cured within any applicable grace period, then RNDC may, as its right and option, declare immediately due and payable the principal balance of the promissory note and interest accrued thereon.

The loan client shall pay a late charge of five percent of the payment due of principal or interest if payment for any of the installments are not received within 15 calendar days following the due date. The late charge shall be considered unpaid if not received within 30 calendar days of the missed due date for which it was imposed. Any unpaid late charge shall be added to principal and bear interest at the same rate as noted for the principal. Acceptance of a late charge by RNDC does not constitute a waiver of default.

6. **Write-offs:**

The standard procedure for a loan write-off will be a determination that the loan is not collectible. RNDC staff, legal counsel, auditor, and member(s) of the RLF committee will determine the best way of handling the work-out. All necessary collection practices shall be used including sale of secured property, equipment, inventory, and the like. After liquidation, having no further alternative, the loan is written off.

Payments on defaulted RLF loans shall be applied in the following order of priority per 13 CFR 307.12:

1. First, towards any costs of collection;
2. Second, towards outstanding penalties and fees;
3. Third, towards any accrued interest to the extent due and payable; and
4. Fourth, towards any outstanding principal balance.

E. ADMINISTRATIVE PROCEDURES

1. Accounting:

Management of the RLF capital includes tracking the RLF program and administrative funds separately within the commission general ledger for the RLF so that repayments and interest income are clearly identifiable and auditable. The EDA RLF portfolio and cash are clearly distinguishable from any other recipient loan program. Additionally, a software is utilized to track loans by loan client. The recipient will ensure that the RLF is operating in accordance with Generally Accepted Accounting Principles (GAAP).

2. Administrative Costs:

RNDC intends to use RLF income to cover administrative costs with funding for these services to be provided by the RLF income received, not to exceed 100% of the RLF income received in the given year. Staff time, training, and all associated expenses will be accounted for using generally accepted accounting principles as prescribed in RNDC's Accounting Policies and Procedures Manual. RNDC acknowledges that if administrative fees exceed 100% of the annual RLF income, the overage will be paid by the RNDC general fund. Funds not used to offset administration of the RLF shall be returned to the RLF capital base.

RNDC will maintain adequate accounting and source documentation to substantiate the amount and percent of RLF income expended to the RLF.

RNDC acknowledges that it will generally be allowed a reasonable period of time to lend excess funds and achieve the capital utilization standard. However, if RNDC fails to achieve the capital utilization standard after a reasonable period of time, as determined by EDA, it may be subject to sanctions such as suspension or termination. RNDC also realizes that a chronic retention of excess cash may be considered a performance issue.

3. EDA Reporting:

RNDC acknowledges that EDA requires submission of an ED 209 report and portfolio loan list at a frequency and date as directed by EDA. RNDC will comply with all EDA RLF reporting requirements.

4. Audits:

RNDC acknowledges that the EDA RLF funds are subject to an annual audit requirement and the RLFs must be shown every year in the Recipients Schedule of Expenditures of Federal Awards ("SEFA"). Annual audits will be in compliance with 2 CFR Part 200 Subpart F.

ATTACHMENT A

REGION NINE DEVELOPMENT COMMISSION
REVOLVING LOAN FUND CONFLICT OF INTEREST POLICY

The Region Nine Development Commission (RNDC) is a special purpose unit of government whose board members, Revolving Loan Fund (RLF) committee members, and professional staff are selected to provide public benefit. These persons have a duty to conduct the affairs of the organization in a manner consistent with the mission of RNDC and not to advance their personal interests. This conflict of interest policy is intended to permit RNDC, its Board of Directors members, RLF committee members, and professional staff to identify, evaluate, and address any real, potential, or apparent conflict of interest that might, in fact or in appearance, call into question their duty to put the interests of RNDC ahead of their personal interests.

This policy applies to RNDC's Board of Directors members, RLF committee members, and professional staff. Each covered person shall be required to acknowledge that they have read and are in compliance with this policy.

This policy applies to transactions between RNDC and a covered person, or between RNDC and another party with which the covered person has a significant relationship. A covered person is considered to have a significant relationship with another party if: a) the other party is a family member, including a spouse (or domestic partner or significant other), parent, sibling, child, stepchild, grandparent, or grandchild. This does not include distant relatives, such as cousins, unless the distant relative lives in the same household as the person; b) the other party is an entity in which the covered person has a material financial interest; or c) the covered person is an officer, director, trustee, partner, consultant, or employee of the other party.

A covered transaction also includes any other transaction in which there may be an actual or perceived conflict of interest, including any transaction in which the interests of the covered person may be competing or at odds with the interests of RNDC.

When a covered person becomes aware of a covered transaction, the individual has a duty to take the following actions: a) immediately disclose the existence and circumstances of such covered transaction to the finance director or executive director of the organization;

b) refrain from using their personal influence to encourage RNDC to enter into the covered transaction; and c) physically excuse themselves from any discussions regarding the covered transaction except to answer questions, including Board of Director discussions and decisions on the subject.

RNDC may enter into a covered transaction where: a) such transaction does not constitute an act of self-dealing and b) the Board of Directors determines, acting without the participation or influence of the covered person and based on comparable market data, that such transaction is fair and reasonable to the organization. The Board of Directors shall document the basis for this determination in the minutes of the meeting at which the covered transaction is considered and shall consult with RNDC's legal advisor as necessary to ensure that the transaction does not constitute an act of self-dealing.

No personal or private loans may be made by RNDC to its Board of Directors members or their immediate families as provided in 13 CFR 302.3. No member of the Board of Directors or their immediate families may be an officer, director, or owner of a small business concern receiving financial assistance from RNDC. Former Board of Directors members, RLF committee members, and staff are ineligible to apply for or receive loan funds for a period of two years from the date of termination of their services.

Date Printed or Typed Name

Signature

Addendum to the Region Nine Development Commission Revolving Loan Fund Plan ("Plan") Dated 9-18-2020

EDA has provided certain flexibilities to recipients of EDA-funded RLF awards in light of the impact of COVID-19 on small businesses, the increasing demand for RLF loans, and the need for RLFs to provide credit quickly and efficiently to their communities.

These flexibilities include waiving for one year, from <u>May 7, 2020 to May 6, 2021</u>, the following regulations that:

- Establish a minimum interest rate for RLF loans (13 CFR 307.15(b)(1))
- Require RLF loans to leverage additional capital (13 CFR 307.15(c))
- Require evidence demonstrating credit is not otherwise available (13 CFR 307.11(a)(1)(ii)(H))

At the discretion and approval of the Region Nine Development Commission Loan Committee and/or Board of Directors, the following flexibilities may be implemented through May 6, 2021:

- The minimum interest rate, as specified in section II.D.6., page 9 of the Plan, may be waived, and the interest rate may be set at the discretion of the Loan Committee and/or Board of Directors;
- The requirement to leverage capital, as specified in section II.E.2., page 11, of the Plan may be waived or reduced to accommodate special situations in which the 50% requirement
- The requirement to demonstrate that credit is not otherwise available, as specified in section II.B.1.a., page 15, may be waived if the situation

At the discretion and approval of the Region Nine Development Commission Loan Committee and/or Board of Directors, the following flexibilities may be implemented:

- Deferral of payments may be granted for both principal and interest for a period from May 7, 2020 to May 6, 2021 to provide relief of financial burdens caused by pandemic.
- At no time may principal or interest be forgiven; this is unchanged from current plan.
- The borrower equity and collateral requirements may be adjusted when individual circumstances and other project information provide sufficient risk management to justify doing so.

- The loan maximum amount, as specified in section II.D.5., page 9 of the Plan, may be adjusted with the approval of the loan committee if the individual circumstances of the project justify doing so.

Addendum to the Region Nine Development Commission EDA CARES ACT RECOVERY ASSISTANCE Revolving Loan Fund Plan (“Plan”) dated 9-18-20.

EDA has provided certain flexibilities to recipients of EDA-funded RLF awards in light of the impact of COVID-19 on small businesses, the increasing demand for RLF loans, and the need for RLFs to provide credit quickly and efficiently to their communities.

These flexibilities include waiving for the Disbursement Phase* of the RLF, the following regulations that:

- Establish a minimum interest rate for RLF loans (13 CFR 307.15(b)(1));
- Require RLF loans to leverage additional capital (13 CFR 307.15(c));
- Require evidence demonstrating credit is not otherwise available (13 CFR 307.11(a)(1)(ii)(H)).

The Disbursement Phase of this Award is the period of lending activity during which award funds have not been fully disbursed to the EDA Recipient. During the Revolving Phase when RLF funds are re-lent to new borrowers the three above-listed regulations will apply to the RLF.

At the discretion and approval of the Region Nine Development Commission Loan Committee and/or Board of Directors, the following flexibilities may be implemented through the Disbursement Phase of the RLF:

- The minimum interest rate, as specified in section II.D.6., page 9 of the Plan, may be waived, and the interest rate may be set at the discretion of the Loan Committee and/or Board of Directors.
    1. For loans made during the disbursement phase, clients will be charged 0% interest for the first two years of the loan and 2% for the remainder of the loan.
- The requirement to leverage capital, as specified in section II.E.2., page 11 of The Plan may be waived.
    1. RNDC will make loans up to the maximum amount of $100,000 without the requirement that 50% of the project must be financed through other sources.
    2. Clients may provide additional capital if they choose.
- The requirement to demonstrate that credit is not otherwise available, as specified in section II.B.1.a., page 15, may be waived.
    1. RNDC will not require proof of bank refusal to proceed with loan.

At the discretion and approval of the Region Nine Development Commission Loan Committee and/or Board of Directors, the following flexibilities may be implemented:

- Deferrals of payments may be granted for both principal and interest for a period from August 1, 2020 to end of disbursement phase;
    1. Under certain circumstances, applicants may choose to defer loan payments for the first three months,
    2. RNDC staff will make this offer when a review of the financial statements and other application information demonstrate that it would be beneficial to the client's success to delay repayment.
- At no time may principal or interest be forgiven; this is unchanged.
- The borrower equity and collateral requirements may be adjusted.
    1. RNDC staff and loan committee will work together to determine the appropriate amount of equity and collateral necessary to manage risk on an individual basis.
- Loan origination and processing fees may be adjusted.
- Loan underwriting and approval procedures may be simplified to expedite disbursement;
    1. Loans of $40,000 or less that do not involve real estate may be underwritten and closed by RNDC staff.
    2. Loans greater than $40,000 or that involve real estate will be underwritten and closed by an attorney.
- The loan maximum amount, as specified in section II.D.5., page 9 of The Plan, may be adjusted.
    1. The maximum loan amount will be $100,000.
    2. If the maximum amount does not meet the needs of the project the applicant will be allowed to apply for additional funds from the existing loan funds.
        i. The terms of the existing loans funds will apply to those funds.