PIKE COUNTY/CITY OF PETERSBURG
INDIANA

REVOLVING LOAN FUND PLAN

PROJECT NUMBER 06-39-02634-01

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PIKE COUNTY/PETERSBURG REVOLVING LOAN PLAN
TITLE IX RLF
PROJECT 06-39-02634-01

REVOLVING LOAN FUND STRATEGY

ECONOMIC ADJUSTMENT OVERVIEW

Pike County and the city of Petersburg, the county seat, are located in the Southwestern section of Indiana. As of the last census in 2010 the population was 12, 845. Petersburg contains the geographic point representing median center of population of the United States. Pike County was the first county formed after Indiana became a State. As a rural area, Pike County faces the problems most rural communities face – loss of jobs, loss of private-sector investments, loss of population, limited financial resources, loss of tax base and out dated infrastructure.

The reduction and closing of coal mines in Pike County has increased the unemployment. This also affects the sale of houses and small businesses. In 1980 35.8% of all those employed in Pike County were employed in the mining industry. In 1990 only 26% of the population found work in the mining industry and today the percentage is in the single digits.

A comprehensive plan was created for Pike County in 2009. The plan creates a vision for the county to move forward in areas of land use, transportation and economic development. The recently completed I69 corridor has the potential to increase traffic, population and business needs in the area. In recent years the Pike County EDC created an annual plan of work that is continually updated to help guide economic development in the area. Through private and public partnerships, as well as support from local governments, they are working hard to promote business development in the county.

The city of Petersburg faces issues with run down and vacant buildings. They have been working hard to clean up the area to create available lots or buildings for future homes & businesses to help revitalize the area.

The city of Petersburg also created a comprehensive economic development plan in 2009. The plan is used to guide them to their vision of economic prosperity.

BUSINESS DEVELOPMENT STRATEGY

Eligibility for participation in this loan program is based upon location in the boundaries of Pike County Indiana.

Objectives: The primary purpose of the RLF is to maintain and increase economic opportunities by providing for retention and expansion of business in Pike County. This comports with the EDA-Approved objectives of attracting new and maintaining existing businesses that improve economic growth and stability. The primary goals of the RLF are the creation or retention of jobs, business start-ups, business creation, business retention, and capital formation that agrees with objectives. To meet these goals, the RLF is developing a financial assistance network for new and expanding businesses, we assist in loan packaging strategies to partner both private and public sector resources, leverage capital from local lending institutions, and encourage employment opportunities. The RLF assists with the financial "gap" problems identified in the area. The RLF compliments local resources rather than attempting to replace or compete with traditional lending resources.

Targeted Businesses: Priority will be given to those businesses (manufacturing, tourism, mineral extractions and sources beyond the Pike County Area. Industries targeted by the State of Indiana for Southwest Indiana will be included, such as woodworking, plastics manufacturers and food processors. Also communications and electronic products, car manufacturers etc are possible targets.

Business Needs: Local lending institutions are often reluctant to assist high-risk business ventures that lack previous credit history. The private financial institutions reluctance may result from general conservative lending policies, insufficient funds for business loans, or lack of information and experience with the type of business proposed. Additional problems are identified as traditional loan programs are unable to meet the needs of the smaller businesses.

Other Programs & Activities: The banking community and the Pike County Economic Development Corporation both promote the Pike County Revolving Loan Fund and use the fund as a tool to assist with financing of businesses that might otherwise not be able to start up in Pike County.

FINANCING STRATEGY

Financing Needs: The targeting business criteria determines the Revolving Loan Fund's effectiveness as an economic development tool and distinguishes the Revolving Loan Fund from conventional lending sources. Access to reasonably priced capital for near bankable businesses continues to be a problem in the Target Area. Businesses are often unable to access financing due to the following:

- The cost of private financing may be too high for many smaller businesses;
- Many businesses are unable to provide the required collateral for conventional and SBA loans;
- Business owners in the area are often unaware of financing options that are available to them and need assistance identifying the best financing options for their businesses.

Business owners with viable operations are constrained if they lack sufficient time in business or do not have assets that can provide an easily liquidated source of secondary repayment. Banks often require a stronger business and credit history than is available for many businesses in the Target Area. Conventional business loans frequently require higher interest rates and fees and quicker amortizations.

Low-cost financing can be a significant incentive for businesses to locate in vacant or under-utilized sites, thus achieving the dual goals of business attraction and blight elimination.

Important items that will be considered for each new loan are:

-A cost per job ratio. A cost per job ratio shall be maintained, as nearly as possible, which reflects an average of $5,000.00-$20,000.00 worth of revolving loan fund principal for every net new (or retained) permanent full-time job created by the overall impact of incentive loan projects. As recaptured funds are received, the estimated job cost rates will not exceed $10,000.00 for every job. A minimum of one (1) job must be created; however, the RLF board desires to have a maximum number of jobs created by each project.

-The types of jobs to be created or saved shall emphasize the skills of the target labor force by providing jobs and training opportunities for unskilled and semi-skilled in the industrial, commercial and other sectors.
At a minimum the ratio of two private dollars to one revolving loan fund dollar will be maintained in each loan package. This ratio may include private financing from other lenders (bank, investment companies, etc.) or private investment on the part of the borrower or other firms as a result of the RLF loan.

-The latitude of activities to be funded by the RLF is intended to be wide. This could include; reuse of abandoned facilities, modernization of plants and equipment, potential startup capital, and other uses for new and expanding industry and commercial projects. The RLF capital may be used to finance the following;

(a) Fixed asset loans for the acquisition and /or improvement of land, buildings, plants and equipment including new construction or renovation of existing facilities, demolition, and site preparation.
(b) Working capital loans for the start-up of new businesses or conduct of current business (limit to 50 percent of total RLF portfolio)
(c) Other purposes which result in private sector job creation or retention and contribute to the economic development of stabilization of the Petersburg/Pike County area, as long as that purpose is not an ineligible loan activity as defined by EDA.

RLF Financing Niche: In setting standards and priorities, the Revolving Loan Fund Board may consider other economic benefits and objectives for the area, such as;

- Linkages with the area's existing economy
- Growth potential of borrower companies
- Generation of tax revenues
- Minority enterprise development
- Others which reflect local conditions and priorities

Loan recipients commonly include start-ups, expansions, commercial, service & retail. The size of business is generally smaller in scale, ranging from 1 employee to 25 employees at the local level. Types of financing include working capital, inventory, machinery, equipment and renovation of commercial development that intends to increase permanent jobs in the region. Terms of financing varies depending upon the type of project but include required monthly payments; collateral to reflect financing needs with a subordinated position utilized when needed; flexible interest rates with minimum EDA requirements and reflective of current economic climate.

FINANCING POLICIES

Eligible Lending Area: Business operating must exist or be locating within the boundaries of Pike County Indiana, and be creating or retaining jobs at or above the average compensation for comparable jobs.

Allowable Borrowers: Eligible applicants for financial assistance from the RLF include businesses that are for-profit and owned by any person, partnership, cooperative, or corporation that will promote job creation or job retention in all business sectors. No applicant will be denied a loan on the basis of race, national origin, religion, age disability, or sex.

Allowable Lending Activities: RLF financing may also be used as an incentive, through favorable loan terms, to attract a new business or a business expansion into an eligible area. The business may be credit worthy but would otherwise not locate in the area without RLF financing as an incentive. The RLF must sufficiently document the need for assistance and should obtain certification from the company stating that it would not locate the proposed project at the intended location without RLF assistance. In order to meet the credit needs of the borrowers, the following special financing techniques may be utilized:

(1) Moratoria on principal repayment for up to the first two years of the loan
(2) Subordination of loans
(3) Balloon payments
(4) Any other creative financing technique acceptable to the Board not prohibited by EDA

These techniques may be used with one of the following reasons which is acceptable to the board, but not limited to the following;

(1) Availability of start-up funds
(2) Projects involving new companies (as opposed to expansion by existing companies) may require a longer repayment term
(3) Projects involving leasing as opposed to purchasing real estate or buildings may require longer terms.
(4) Any other reason acceptable to the Board

Prohibited Lending Activities: Ineligible for RLF financing are projects that are located outside of Pike County, loans which assist with the relocation of jobs from one commuting area to another, loans for the purpose of investing in interest bearing accounts, certificates of deposit, or investments not related to job creation/retention, speculative activities, or equity contributions required from borrowers in other Federal loan programs. In addition, loans that may be considered or present the appearance of being a conflict of interest for an officer or an employee of the grantee or any member of the Loan Review Committee that participates in the decision making on RLF loans shall also be prohibited.

(a) *Restrictions on use of RLF Cash Available for Lending.* RLF Cash Available for Lending shall not be used to:

1. Acquire an equity position in a private business;

2. Subsidize interest payments on an existing RLF loan;

3. Provide a loan to a borrower for the purpose of meeting the requirements of equity contributions under another Federal Agency's loan programs;

4. 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;

5. 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

6. Refinance existing debt, unless:

   i. 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

   ii. RLF Cash Available for Lending will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF funds may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient enough to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within a reasonable time frame approved by EDA following the date of refinancing.

7. Serve as collateral to obtain credit or any other type of financing without EDA's prior written approval;

8. Support operations or administration of the RLF Recipient; or

9. Undertake any activity that would violate the requirements found in part 314 of this chapter, including §314.3 ("Authorized Use of Property") and §314.4 ("Unauthorized Use of Property").

Loan Size: The range of the RLF loans is estimated to be $5,000.00 up to $150,000.00. The minimum loan will be $5,000.00 and the maximum will not exceed $150,000.00 without concurrence and written approval from EDA. It is preferred that loans be no more than one quarter (1/4) of the total RLF Capital Base.

Interest Rates: The minimum interest rate an RLF recipient may charge is four (4) percentage points below the lesser of the current money center prime rate quoted in the Wall Street Journal, or the maximum interest rate allowed under State Law. Example, if the WSJ rate is 3.25% - 75% of 3.25 is 2.4375%.

Terms: It is anticipated that, in most instances, the schedule of loan repayments will be a part of a total financial package. Terms of repayment will coincide with terms of the packages as established by the banks, financial institutions and others involved. The following terms will be considered:

-The maximum term of a loan shall be Twenty (20) years for the real estate or real estate improvements secured by a mortgage on real estate (including projects with land purchase, building construction, or renovation or site improvements.)

-The maximum term of a loan shall normally be ten (10) years for projects for equipment, fixtures, furnishings, and should relate to the useful life of the asset being financed.

-The maximum term of a working capital loan shall be seven (7) years. The normal term is five (5) years.

These standard terms may be deviated from with the reasons acceptable to the Board and may include but not be limited to the following;

1. Availability of start-up funds
2. Projects involving new companies (as opposed to expansion by existing companies) may require a longer repayment term.
3. Projects involving leasing as opposed to purchasing real estate or buildings may require longer terms.
4. Any other reason acceptable to the Board.

Fees: An application fee of $100.00 is collected when the application is initially submitted. If no fees are incurred and a loan is not approved by the board, the application fee will be returned to the client. If a loan closing has a fee or any other charges such as title search, these fees will be payable by the applicant.

Equity & Collateral: When appropriate and practical, RLF financing may be secured by liens or assignment of rights in assets of the assisted firms. The lien position of the RLF may be subordinate and made inferior to the lien or liens securing other loans made in connection with the project. The RLF will normally obtain collateral such as liens of record, receivables, fixed assets and /or other available assets of borrowers. Such liens may be subordinate only to existing liens of record and other loans involved in the project.

In the determination of collateral requirements, the Board may consider the merits and potential economic benefits of each request. When appropriate and practical, RLF financing may be secured by liens or assignments of rights in assets of the assisted firms as follows;

(1) In order to encourage financial participation in a direct fixed asset loan project by other lenders and investors, the term of the RLF loan may be for a longer period than that of the other lender(s). The lien position of the RLF may be subordinate and made inferior to the lien or liens securing other loans made in connections with the project.

(2) In projects involving direct working capital loans, the RLF will obtain collateral such as liens on inventories, receivables, fixed assets, and/or other available assets of Borrowers. Such liens may be subordinate only to existing liens of record.

(3) In projects involving fixed asset loans, the RLF will obtain collateral on the asset(s) to be financed as well as other assets of the company as appropriate.

(4) In addition to the above types of security, the RLF may also require security in the form of assignments of patents and licenses, leases or stock certificates, and such other additional security as the grantee determines is necessary to support the RLF exposure.

(5) Applicant shall have at least ten percent equity in the project which is not borrowed funds. Any form of equity financing may be utilized to meet this requirement at the discretion of the Board.

(6) The borrower must obtain adequate hazard and other forms of insurance as appropriate. The borrower must also obtain a lender's lost payable endorsement on the insurance.

(7) Modification of the terms under which RLF financing has been extended may be approved by the Board to enhance capability of the RLF in achieving program objectives.

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

Moratoria: The RLF Board may choose the option of delayed payments or moratoria of payments on principal for a maximum of two (2) years, subordination of loans, and other measures to assist the borrower as the need and determination is made within each project. Any measures are taken will likely be temporary and exceptional or emergency in nature.

Start-ups: New business startups will have to prove the credit worthiness of the individual requesting the loan as well as presenting an appropriate business plan.

Working Capital: The portion of RLF used as fixed asset and working capital loans are limited by the fact that no more than 50% of RLF portfolio may be used for working capital. Each project should follow these guidelines to the extent that the 50% ratio should be maintained throughout the portfolio.

Credit Not Otherwise Available: The Pike County RLF cannot be used to substitute for available private capital and potential borrowers must demonstrate that credit is not otherwise available. The borrower must demonstrate that financing for a project is not otherwise available on terms and conditions that would permit completion and/or successful operation or accomplishment of the project. Pike County RLF funds will not be disbursed until written evidence to this effect has been received. This would typically be in the form of a bank "turn-down" letter or indicating that the bank can only finance a portion of the money the borrower needs.

PORTIFOLIO STANDARDS AND TARGETS

Target Percentages: The portion of the RLF used for commercial/retail projects will normally be limited to 30% of the RLF portfolio. Temporary waiver of this limitation may be approved by the RLF board for projects with unusually significant employment and long-term economic benefits. However, the limitation on percentage of the portfolio in commercial/retail loans shall remain a long-term management criterion. The most important area will be new industry which creates jobs. The second area is industry that provides expansion or retention. This should comprise approximately 50% of RLF portfolio.

Private Sector Leverage: RLF loans must be leveraged by a private investment of at least two (2) dollars for every one (1)dollar of RLF investment. This leveraging requirement will apply to the portfolio as a whole rather than individual loans and is effective while grant funds are being disbursed, and subsequently. Private investment, to be classified as leveraged, must be made concurrently with an RLF loan as part of the same business development project.

Job Cost Ratio: A cost per job ratio will be maintained, as nearly as possible, which reflects average of $5,000.00 - $10,000.00 worth of revolving loan fund principal for every net new or retained permanent full time job created. A minimum of one (1) job must be created, however, the RLF Board desires to have a maximum number of jobs created by each project.

RLF LOAN SELECTION CRITERIA

Applications for financial assistance shall be made to the Board on a Preliminary Loan Application;

- Applicant's name, address, and phone number
- Names of all involved, partners and corporate officers
- Number of existing employees and number of new jobs that will be created
- Amount of loan requested
- Other funding sources, private or lending institution
- Percentage for capital, equipment, construction, operating
- Brief history of business and plans
- Signature of the applicant

Upon approval of the Preliminary Loan App, a full application will be requested for the following;

- Current personal financial statement-Current business financial statement
- Two (2) year financial projections (balance sheets, profit loss statements and debt structuring
- Detailed/itemized list of projected use of funds
- Bank commitment letters or another form of guarantee for financing
- Bank turn down letter or equivalent proving credit I not otherwise available
- Information about company's products and services
- Copy of site ownership (deed) or lease/purchase agreement. A legal opinion will be required at closing of ownership or site control
- Summary company history
- Resumes of principals in company
- Site plan/sketch, to scale, of project site, including existing buildings, proposed demolition (if any) proposed new construction etc
- Narrative description of existing facility, including approximate age of various building improvements or expansion, current state of repair, type of construction etc
- Letter from Chief executive officer of company which specifies the total investment to be made, the number of long-term permanent jobs to be created during a specified time period, and the significance of the public sector low-interest loan funds to the investment
- Name, addresses, telephone numbers and contact person for each funding source
- Application fee - $100.00

The board may hear a proposal informally prior to submission by the applicant of all documentation, on a preliminary basis, but shall not formulate any recommendation until full, documentation has been received and reviewed. During the preparation of an applicant, and during the processing and review of an application by the board, all terms and policies of the RLF program plan shall be strictly followed. Each loan shall be reviewed, with appropriate credit analysis utilized, by the board. Credit analysis reviews shall include any or all of the following criteria:

- Debt to equity ratio
- Cash flow projections for two (2) years
- Long term and current liabilities
- Other analysis deemed useful by the board

The time period between the board's receipt of a full application with full documentation and the acceptance or rejection of application shall not exceed sixty (60) days.

The Pike County Loan Administration Board has final approval authority for all loans. In the case of rejection, the decision is final, and the same project shall not be accepted for review again during the subsequent twelve (12) month period after the date of rejection.

The "economic impact" criteria are spread throughout the application process. The one important factor is job creation and the ability to repay on a short term so the funds can be used for their intended purpose. The other is long-term employment.

PERFORMANCE ASSESSMENT PROCESS

The overall performance of the RLF will be evaluated by the RLF Board a minimum of quarterly each year. The RLF administrator will prepare financial reports to the Board via email or regular mail prior to all meetings of the Board or at the beginning of each quarter when a meeting is not scheduled. The results of the performance monitoring discussion will assist with the direction of marketing the RKF and for future updates of the RLF plan.

Revolving Loan Fund Plan must be updated once every five years or sooner if necessary to adapt to changing economic conditions. EDA may require Recipient to update the RLF Plan at any time to incorporate new approaches, align with an updated CEDS, or as otherwise required by EDA. It must be submitted to EDA for approval.

REVOLVING LOAN FUND OPERATIONAL PROCEDURES

ORGANIZATION STRUCTURE

Critical Operational Functions: The Pike/Petersburg loan administrator & board is responsible for the implementation and administration of the RLF. They are responsible for developing, completing, coordinating and servicing the loans generated by the RLF.

Administrative Records;

A. Maintain adequate accounting records and source documentation to substantiate the amount and percent of RLF Income expended for eligible RLF administrative costs.
B. Retain records of administrative costs 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 or annual report that covers the period that such costs were claimed, or for five years from the date the costs were claimed, whichever is more.
C. Make available for inspection any retained records, including those retained for longer than the required period.

Marketing;
The Board will publish a newspaper and web article following a grant award, or at least annually, and should keep the articles. Article should notify potential borrowers of the availability of the RLF and the procedure for obtaining a loan application. The support and participation of local financial institutions will be achieved not only through Board representation, but also by notifying the local financial institutions directly of the availability of the RLF program funds. The Pike County EDC will market the revolving loan fund on the Petersburg City and Pike County websites.

Loan Selection and Approval;
Application for financial assistance shall be made to the board on forms provided by the Board. In addition to the application form, the applicant shall submit other supportive documentation;

1. Description of business
2. Description of property
3. Financial condition of business
4. Description of security for loans
5. Economic impact and other comments
6. Public services required or made necessary by the project
7. State of IN environmental impacts, if any, associated with the project.

In addition to the above referenced information, the following may be requested by the Board;

a. Past three years annual financial statements
b. Copies of past three years tax returns
c. Recent financial statements
d. Articles of incorporation and bylaws and certificate of good standing
e. Tow year financial projections
f. Concise summary of existing debts
g. Concise summary of debt after project is complete
h. Resumes of principals or officers
i. Written equipment appraisals, existing equipment
j. Written supplier or vendor estimates of new equipment
k. Written appraisal of existing real estate
l. Written estimate of construction or renovation by contractor
m. Any additional information or date specifically requested by the Board

The time period between the Board's receipt of the application with full documentation and the acceptance or rejection of the application shall not exceed sixty (60) days. The applicant shall be notified in writing of the progress of the application, including a time estimate for the complete approval process.

Loan Servicing

1. The Board's office will be responsible for monitoring and serving the Revolving Loan Fund program loans. A loan file will be established for each loan administered under the program to indicate the due dates for principal and interest payments as well as other relevant information including due dates for insurance coverage, UCC file dates, or any other data as indicated by the Board.
2. Any payment not received within ten days of the due date is considered delinquent. The loan Coordinator shall mail a reminder notice to the borrower advising him/her of said delinquency. If payment is not received within 30 days of the due date, the loan Coordinator shall engage legal counsel to initiate a personal contact to determine the reason for the delinquency. Any payment not received within 30 days of the due date is considered an event of default.

Loan Administration Board: The Pike County/Petersburg Revolving Loan Board reviews each fully initiated application and makes a funding decision based on applicant eligibility, RLF standards, financial soundness, and economic impact. The Board shall be responsible for approving loans in accordance with the approved financing policies, targeting criteria, and loan selection criteria of the RLF Plan. A majority vote of the RLF Board shall constitute an approval. Approvals shall be documented in the loan file by including the minutes from the meeting in which the loan was approved.

The Pike County Loan Administration Board shall consist of seven (7) members, four (4) of whom shall be appointed by and shall be residents of the City of Petersburg and three (3) whom shall be appointed by and be residents of Pike County outside the city limits of the City of Petersburg.

The Mayor of the City of Petersburg shall appoint two (2) members to the Board.
The County Commissioners of Pike County, Indiana, shall appoint three (3) members to the Board.
The Petersburg City Council shall appoint (2) members to the Board.
The board shall be composed of at least two (2) members with financial or lending experience & one (1) member with knowledge of and reasonable experience with retail or commercial business.

The members of the Board shall have staggered terms. Initial terms shall be one member having a term of one year, two members having terms of two years, two members having terms of three years and two members having terms of four years. Thereafter, terms are for four years, beginning January 1st, and ending December 31st. After a member begins his/her term on the Board, he/she shall not be removed until his/her respective term expires, except for good and sufficient cause.

Quorum requirements of the Board shall consist of a majority of the members. At least one member with financing experience (similar to the type of loans to be made under the RLF program) must be present for each loan decision. A majority would constitute four (4) members a majority vote would be used in evaluating and approving all loans.

BOARD AUTHORITY: The Pike County Loan Administration Board shall have the authority to interview applicants. They shall review, select and approve loan applications. They shall set policy, and make final decisions concerning loans from RLF.

MINUTES: the Board shall maintain minutes of its meetings and other records as necessary to document all of its business.

BOARD RULES AND POLICES: The Board may, as necessary to carry out its s business, adopt such forms, rules, and policies as are in compliance with this "Plan" and any applicable grant agreements, and which are not contrary to the law or this "Plan".
Any member of the Board having a personal financial interest in a project shall be disqualified from participation of the Board in that project. The Board minutes shall reflect the disqualification and state the reasons for the disqualification.

Conflict of Interest: The Board shall not make RLF 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 Board, or any member of the 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. No officer, employee, or member of the Board, 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 member affected first discloses to the Board on the public record the proposed or potential benefit and receives the Board's written determination that the benefit involved is not so substantial as to affect the integrity of the Board's decision process and of the services of the officer, employee or board member. Former board members and/or officers are ineligible to apply for or receive loan or grant funds for a period of one year from the date of termination of his/her services.
RLF's Conflict of Interest policy complies with EDA federal regulations 13 CFR 302.17.

In order to eliminate any real or perceived conflict of interest, any transaction involving an employee, officer or board member of Impact Seven will require that the employee, officer or board member remove him or herself from any position of influence or authority as it pertains to the transaction. This includes abstaining from voting on loan approval and re-assignment of duties (such as Loan Summary preparation and Loan Monitoring) as they pertain to the transaction. In no case shall Impact Seven's relationship with an employee, officer or director provide a basis for deviating from the credit standards or repayment expectations identified in this policy. In addition, EDA requires inclusion of the following:

1) Definitions.

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 effected 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.

2) 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.

3) Duty to Disclose.

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

4) 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

LOAN PROCESSING PROCEDURES

Standard Loan Application Requirements: The loan packaging process will be as follows:

1. The proposed project will be determined if eligible under RLF Guidelines, and The applicant will be given specific information concerning the program and the Goals of the RLF.
2. Required information will be obtained from the applicant through financial statements, income statements, cash flow statements, pro forma balance sheets, and/or other financial information as deemed necessary in order to determine the applicant's capability to be successful in the project proposed for financial assistance.
3. Completed RLF application package along with required information are submitted and reviewed for approval.

Credit and Financial Analysis: The Board will utilize credit reports, appraisal of property reports, available collateral for security of the loan, and a bank rejection letter for analysis of the merit of each loan and applicant.

Environmental Review: The RLF Board with the assistance of the Borrower, Facilitator and Administrator and 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 required per the Assurances (SF 424D as revised) Executed with the EDA. No activity shall be financed which 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. Consistent with E.O. 11988, the RLF Board will weigh the appropriateness of any project which would result in new aboveground development in a 100-year floodplain. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps or Floodway Maps. The RLF Board shall review each loan project to ensure that the project will not have a detrimental impact on wetlands and historical and archaeological sites. If after reviewing the loan project, the RLF Board determines that a negative impact on wetlands or historical or archaeological sites may occur, the RLF Board shall, as appropriate, consult the US Department of the Interior and Wildlife Service, the Army Corps of Engineers, and/or the State Historic Preservation Officer. All loan applicants shall be requested to provide information indicating whether or not there is hazardous materials such as EPA listed (see CFR 300) hazardous substances, leaking underground storage tanks, asbestos, polychlorinated biphenyl (PCB), or other hazardous materials present on or adjacent to affected property that have been improperly handled and have the potential of endangering public health. If deemed necessary, applicants 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 Recommendation involving mitigation of applicable contaminants.

Loan Write-Up: A business plan containing information on the management of the company, an analysis of the marketing, competition, internal and external financing options, and financial projections shall be part of the information provided by the applicant. Assistance in business plan preparation shall be made available if necessary. An outline of the specific use of funds and how that project will contribute to the success of the business shall also be presented. Reliable financial statements are vital in helping a lender or investor make an investment decision; an existing business will be required to supply copies of at least two years of financial history. New business startups will have to prove the credit worthiness of the individual requesting the loan as well as presenting an appropriate business plan. The loan write-up shall include a written analysis in each loan file documenting basis for the determination, which may include the following; a commitment letter from a participating bank stating the loan terms, the maximum amount to be extended by the bank, and the need for the RLF's participation; and/or bank rejection letter (s), if obtainable, listing the proposed loan terms.

Procedures for Loan Approvals: The RLF Board shall, in its review and deliberation of any application, adhere strictly to any requirements of EDA. Specific attention, and adherence, must be given any provisions of grant agreements regulating the source of funds. EDA requirements shall not be modified or waived without prior authorization from EDA.
The Board may hear a proposal informally prior to submission by the applicant of all documentation, on a preliminary basis, but shall not formulate any recommendation until full documentation has been received and reviewed. During the preparation of an applicant, and during the processing and review of an application by the Board, all terms and policies of the RLF program plan shall be strictly followed.

Each loan shall be reviewed, with appropriate credit and analysis utilized, by the Board. Credit analysis reviews shall include any or all of the following criteria;

- Debt to equity ratio
- Cash flow projections for two (2) years
- Long term and current liabilities
- Other analysis deemed useful by the Board

The time period between the Board's receipt of the application with full documentation, and the acceptance, or rejection of said application shall not exceed sixty (60) days, the applicant shall be notified in writing of the progress of the application, including a time estimate for the complete approval process.
Complete and separate records shall be kept on the history of all projects from the inception of the application through the complete repayment of the loan.
Complete and separate records shall be kept for EDA funds that the Board utilizes in the program.

LOAN CLOSING AND DISBURSEMENT PROCEDURES

Loan Closing Documents: RLF uses the same information, and documentation, that the local financial institutions are requiring, which has been reviewed by their attorneys and loan departments. All required documents are to be completed and presented to RLF loan Administrator prior to closing.
All approved loan (s) will be closed within ninety (90) days of the RLF approval. All loan documents will be prepared and fully executed by the closing attorney at the time of closing. Required loan documents for any loan made under the RLF shall include the following;

1. Original, signed loan application
2. Loan agreement clearly stating the purpose of the loan

3. Board meeting minutes approving the RLF loan
4. Promissory note
5. Security agreement
6. Deed of trust or mortgage
7. Title opinion and /or title insurance
8. Agreement of prior lien holder
9. Signed bank rejection letter demonstrating that credit is not otherwise available

Loan Agreement Provisions:

- The Loan Agreement shall contain covenants that require the borrower to comply with the Federal statutory and regulatory requirements to apply to activities carried out with RLF loans.
- The Loan Agreement will clearly state the purpose of said loan.
- The Loan Agreement shall contain a provision to protect and hold the Federal government harmless from and against all liabilities that the Government may incur as a result of providing an award to assist (directly or indirectly) in site preparation or construction as well as the renovation or repair of any facility or site. This applies to the extent that such liabilities are incurred because of ground water, surface, soil or other conditions caused by operations of the RLF Recipient or any of its predecessors on the property.
- Prospective borrowers will be made aware of and comply with the Federal statutory and regulatory requirements that apply to activities carried out with RLF loans. All RLF loans will include loan call stipulations for instances of non-compliance

Loan Disbursement: The RLF Board relies on the expertise of the board members, who are bankers, to provide individual guidelines on disbursing our RLF funds to borrowers. Documentation is required for capital loans from invoices and serial numbers of equipment.
A line of credit note can be used for large capital loans, and construction loans.
A line of credit note must be converted to conventional notes within six (6) months. Additional funds, for a line of credit, can be disbursed upon proper documentation to RLF Loan Administrator and RLF Secretary.

LOAN SERVICING PROCEDURES

Repayment: The RLF provides each borrower a schedule of payments. All payments are adjusted to be due the first (1st) or the ninth (9th) of the month. Loan payments can be made by two (2) methods: direct mail to Post Office Box #162 or directly to the RLF Administrator. The loan administrator checks the post office box in a timely manner for receipt of payments and makes timely deposits, in a Federally insured financial institution. Any payment not received within ten (10) days of the due date is considered, delinquent and a twelve (12) dollar late fee is assessed. The RLF shall mail a reminder notice to the borrower advising him/her of said delinquency. If payment is not received within THIRTY (30) days of the due date, the loan administrator shall engage legal counsel to initiate a personal contact to determine the reason for the delinquency. Any payment not received within thirty (30) days of the due date is considered an event of default. (This is in compliance with the standard procedures stated on the backside of the bank note.)

Monitoring: Annual financial statements shall be required on all loans. RLF staff shall monitor these and other dated requirements such as insurance renewals, UCC renewals, etc. If documents are not received on a timely basis, staff will be responsible for correcting the deficiency.

RLF staff will schedule annual updates from each borrower. 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 shall be provided to the Loan Administration Board.

Loan Files: Complete and separate records shall be kept on the history of all projects from the inception of the application through the complete repayment of the loan. In case of application approval the RLF Loan Administrator and RLF Board Secretary is authorized to execute all documents necessary to close the loan, and is authorized to administer the loan disbursement and repayments. The Loan Administrator is responsible for ensuring that all loan documentation is received, and that the loan documents are properly executed. Documentation included in a loan file includes:

- Signed Loan Application
- Promissory note
- Loan commitment letters
- Copy of private lender loan agreement
- Financial statements
- Insurance certificates
- Annual site visit report
- General correspondence
- Job reports and any other loan documents required
- Meeting minutes approving loan
- Credit not otherwise available documentation

All personal and/or financial documents of a sensitive nature that are a part of the loan procedures for application and review are to be considered and maintained by the administrative staff for the loan as confidential loan documents. Such documents shall be made available to the RLF Board only by prior request by the RLF Board President. The RLF Board and any of its members shall only receive, review and discuss such documents during a formal board meeting while in executive session. Such documents shall not be photocopied or otherwise reproduced by any means by the RLF Board, its staff, administrators or agents for any purpose without direct written approval of the RLF President prior to such action. Otherwise, all actions and records of the RLF Board including loan approvals, denials, loan amount, minutes, agendas, and financials of the RLF account, loan recipients and loan beneficiaries are public information. All said documents shall be kept at the office of the administrator.

Job Creation: A jobs saved/created report will be compiled by RLF staff and supplied to the EDA as part of the required annual reports. All required loan documentation will be monitored.

Defaulted Loans: Regular contact shall be made with the borrower when servicing the loan. This will allow the RLF to identify problems early to afford an opportunity to correct any problem or, if necessary, terminate the relationship o protect the loan portfolio.
A payment ten (10) days or more past due will be considered in default. In the event of default, the borrower shall pay a penalty in the amount that is stated in their loan agreement.
The following past due policy shall be implemented to ensure a pro-active management of the portfolio and minimize possible losses;

1. **Thirty (30) days past due** – Standard letter to principals requesting payment within Fifteen (15) days.

2. **Sixty (60) days past due –** Standard letter informing principals that payment must be Received within fifteen (15) days and requesting principals to schedule a meeting With the Loan Review Committee by set deadline.
3. **Ninety (90) days past due –** Certified letter informing principals that payment must Be received within fifteen (15) days or the matter will be referred to counsel.
4. **One hundred twenty (120) days past due –** Will confer with legal counsel and issue right to cure. Through discussions with counsel and the principals, it will be determined if additional legal steps are required to protect the portfolio. This could include foreclosure and auction of assets.

In the event of a sale, collection, or liquidation of loans, any proceeds net repaid principal and reasonable administrative cost incurred, up to the amount of the outstanding loan principal must be returned to the RLF for relending. Any net profit, from net sales above the outstanding loan principal, must either be returned to the RLF for relending or used to cover the cost of administering the RLF.

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.

Early repayment of loans will be considered by the RLF Board, depending on the structure of the financial packaging arrangements and the interest rates involved. Early repayment may be desirable to both the borrower and the RLF Board; the RLF Board should have the discretionary power to restructure the repayment schedule to accomplish an early repayment of each loan. The primary goal of the RLF will be to provide the greatest possible turnover of funds to assist the maximum number of eligible borrowers for the best utilization of the RLF capital base.

Allowable Cash Percentage: Effective January 2, 2018, EDA replaced the Capital Utilization Rate of 25 percent with a region-specific Allowable Cash Percentage (ACP) that is updated annually. The ACP is the average cash available for RLF's in the Chicago EDA region and is used for risk rating RLF's according to the Risk Analysis System.

Lending activity will be managed so that the cash available for lending is led that the current ACP in effect for the Chicago region. However, if the Cash Available for Lending is greater than 50% of the RLF Capital Base for 24 consecutive months, EDA may take action to disallow the persistent excess cash.

While every effort will be made to prevent capital losses through defaults, it is acknowledged that this possibility exists. A one percent (1%) annual loss rate through loan defaults will be considered an acceptable standard for the administration of this fund.

Write-Offs: Default loans will be finalized by the RLF Board at the annual meeting in January. This action will only be taken after all legal proceedings have been completed by RLF legal counsel, in accordance with legal rights of the EDA, the RKF Board, the other lenders, and the RLF borrower. The RLF semiannual report will show to EDA any default loans and actions taken.

ADMINISTRATIVE PROCEDURES

The RLF administrator manages the accounting for the RLF fund under the supervision of the Board and will operate in accordance with Generally Accepted Accounting Principles (GAAP). Separate bank accounts are established for both the capital base fund, so repayments and interest income are easily identifiable. The RLF portfolio and funds are clearly distinguishable from any other county or city funds.

Administrative Costs: Interest generated from RLF loans will be used to cover administrative costs. The anticipated maximum percentage of income to be used for eligible and reasonable administrative costs is 10%. If expenses exceed RLF income either the Pike County or Petersburg City general fund will be used to cover remaining costs.

Administrative records: RLF staff will maintain adequate accounting records and source documentation to substantiate the amount and percent of RLF income expended for eligible RLF administrative cost. RLF staff will retain records of administrative costs 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 or annual report which covers the period that such costs were claimed, or for five years from the date the costs were claimed, whichever is less.

EDA Reporting: The Pike Revolving Loan Fund will comply with all EDA reporting requirements.

Audits: The RLF is subject to an annual audit by the State of Indiana Board of Accounts in accordance with 2 CFR Part 200 Subpart F.

Addendum to the <u>Pike County/City of Petersburg</u> Revolving Loan Fund Plan ("Plan") dated <u>3/9/2022</u>.

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 the following regulations through June 30, 2022 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 Pike County/City of Petersburg Revolving Loan Fund Board the following flexibilities may be implemented through <u>June 30, 2022</u>:

- The minimum interest rate as specified in the **Financing Options** section, page 7, of the Plan may be waived, and the interest rate may be set at the discretion of <u>Pike/Petersburg RLF Board</u>.
- The requirement to leverage capital as specified in the **Portfolio Standards and Targets** section, page 9, of the Plan may be waived or reduced.
- The requirement to demonstrate that credit is not otherwise available as specified in the **Financing Options** section, page 9, may be waived.

At the discretion and approval of Pike County/City of Petersburg Revolving Loan Fund Board, the following flexibilities may be implemented. These flexibilities will be permanent changes to the policy and include:

- <u>The Pike County/City of Petersburg Revolving Loan Fund Board</u> may loan to not-for-profit organizations, see **Financing Policies** section, page 5.

- At no time may principal or interest be forgiven.

- The Maximum loan amount shall be $175,000, see **Financing Policies** section, page 7.