



LaPorte County Revolving Loan Fund Management Plan

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PART I: REVOLVING LOAN FUND STRATEGY

Introduction

The Northwestern Indiana Regional Planning Commission (NIRPC) is a multi-purpose, sub-state, area-wide planning agency. NIRPC was originally established as the Lake-Porter County Regional Transportation and Planning Commission in 1965, pursuant to State-enabling legislation. An amendment to this legislation in 1973 provided the Commission with its current name and allowed for the addition of new member counties. Under this provision, LaPorte County joined NIRPC in 1979. In 1996 the legislation was again amended to provide a seat on the Commission for all mayors in the three county region. The legislation was again amended in 2003 to provide for representation of all 41 cities and towns in the Tri-County area, and to specify that representatives must be elected officials, making NIRPC the metropolitan planning organization and council of government for the three county region. The most current legislative change was in 2007 adding trustees of a township with a population over 8,000. This amendment added two more voting Board members, bringing the total number of Commissioners to 53.

Revolving Loan Fund Program Established

High unemployment rates in the region in the mid 1980's initiated LaPorte County to search to spark economic development. The revolving loan grant was pursued from the Economic Development Administration and NIRPC was chosen to administer the revolving loan fund given its neutrality in the Region and its capacity to run the program. In 1987, the Commission established the LaPorte Revolving Loan fund to account for the financial resources used for the revolving loan fund program in LaPorte County. The principal participants in the LaPorte County Revolving Loan Fund are the City of LaPorte, the City of Michigan City, and the Economic Development Administration.

The Revolving Loan Fund program is one of several tools of the U.S. Department of Commerce, Economic Development Administration (EDA), available to assist areas of high unemployment. A Revolving Loan Fund (RLF) is a pool of money used by an eligible recipient for the purpose of making loans to achieve certain economic benefits. As the loans are repaid by borrowers, the money is returned to the Fund to make other loans. In that manner, the Fund becomes an ongoing or "revolving" financial tool.

The goal of the RLF is private-sector job creation and capital formation. RLF's are not substitutes for conventional lending sources. Given the small size of the RLF program and the limited resources of each project, Revolving Loan Funds are not intended to match or replace the capacity of lending organizations. RLF's are designed to fill gaps in existing local financial markets and provide or attract capital which otherwise would not be available for economic development.

Comprehensive Economic Development Strategy (CEDS)

In 2009 NIRPC and the Northwest Indiana Forum (Forum) came together to create the Northwest Indiana Economic Development District (NWIEDD) as a Not-For-Profit Corporation. In 2014, the NWIEDD changed bylaws to become an autonomous self-appointing board. Currently the NWIEDD maintains and implements the CEDS plan for the Lake, Porter, and LaPorte County areas. The CEDS represents the confluence of local public and private interests and is intended to be a roadmap to a bright future in Northwest Indiana. The deliberation and forethought incorporated in the CEDS is designed to help create jobs, foster a more stable and diversified economy, and improve quality of life. It provides a mechanism to coordinate the efforts of individuals, organizations, local governments, and private industry concerned with economic development.

The overall goal of the CEDS is to create a pro-growth business climate that fosters economic development in harmony with the environment. In order to achieve this goal the CEDS calls for Northwest Indiana work toward these goals:

- Maximize technology, productivity, and efficiency of existing core industries
- Create diverse, emerging, and sustainable industries
- Strengthen public/private partnerships resulting in increased Regional investment
- Redevelop urban core areas
- Utilize and expand transportation and other infrastructure advantages
- Promote growth that protects and enhances the environmental assets such as Lake Michigan, recreational lakes and streams, nature preserves, and the high quality moraine forest
- Improve the workforce of the Region to accommodate growth in emerging industries
- Create a region that is desirable for businesses and families to live and work

The NWIEDD CEDS identifies twelve major traded industry clusters for LaPorte County. These clusters include:

- Automotive
- Downstream Chemicals
- Downstream Metals
- Hospitality
- Medical Devices
- Metalworking
- Paper and Packaging
- Plastics
- Production Technology
- Upstream Chemicals
- Upstream Metals
- Vulcanized Materials

The RLF financing in the LaPorte County area will be used to foster growth in employment levels while working towards reaching the goals as identified within the CEDS. The LaPorte County Revolving Loan Fund Management Plan includes the current EDA Regulations for RLF's approved as of December 19, 2014.

A. ECONOMIC ADJUSTMENT OVERVIEW

CEDS and the Region

The 2013 CEDS reflects the priorities of the Region including the areas within Lake, Porter, and LaPorte Counties. The CEDS acts as a guide to improve the overall economic condition. The implementation of economic development resides with the public and private entities within Northwest Indiana. With the local CEDS and RLF's in mind local government is encouraged to consider the regional efforts and funding mechanisms available when working with private partnerships in recruitment, retention, and expansion efforts within the region.

The CEDS identifies twelve traded clusters for LaPorte County as Automotive, Downstream Chemicals, Downstream Metals, Hospitality, Medical Devices, Metalworking, Paper and Packaging, Plastics, Production Technology, Upstream Chemicals, Upstream Metals, and Vulcanized Materials. Of these clusters 55% of LaPorte County's employment is in Hospitality and Tourism, Production Technology and Heavy Machinery, Distribution and Electric Commerce, Automotive, and Business Services. LaPorte County has experienced some newly emerging clusters in Downstream Chemical Products, Metalworking Technology, and Upstream Chemical Products.

Regional Economic Adjustment Problems and Economic Distress

The LaPorte County area has been dependent upon durable goods manufacturing and within the past decade has suffered from the effects of the recession. A lack of any corporate headquarters has resulted in some manufacturers closing operations causing unemployment rates higher than the national rate. There is a decline in jobs of the core clusters due to foreign competition globalization and the workforce is not skilled in the new emerging industry clusters. In addition, the population in LaPorte County is slowing largely due to an aging population. The diminishing number of younger individuals could have serious implications for the provision of services required by ever increasing older populations. Since 2010 the population age group zero through four decreased 0.91%, five through seventeen decreased 3.94%, eighteen through twenty four increased 2.48%, twenty five through forty four decreased 1.49%, and sixty five plus increased 10.51% according to information reported by STATS Indiana (www.stats.indiana.edu).

LaPorte County had a large automotive manufacturer close in the early 2000's that increased unemployment throughout the County. The economic recession of 2008 took its toll on LaPorte County as well. Within the County some of the older, urban areas experienced decay, vacant lots, empty stores, and closed businesses. As expected this

neighborhood blight results in depressed property values, low per-capita income, high unemployment, and poor infrastructure. There is no uniform inventory of underutilized properties within the County. Thus far there has not been a centralized group responsible for the development. Governmental units compete for new business and attracting existing companies to relocate.

As a result, lenders are reluctant to participate in long-term fixed-asset financing for commercial and industrial purposes. This is especially true in the case of small and start-up businesses with little or no historical track record showing profits or potential of sustainability. The LaPorte County RLF will provide another source of funds, which will occupy second position, in order to leverage more commercial banks to provide loans. This will enable start-up businesses or job creating development and expansion projects to receive loans with reasonable interest rates and terms. Loans will act as an incentive for the banks to participate in various projects, and attract private lenders that would otherwise not participate.

Plan to Deal with the Regional Economic Adjustment Problems and Economic Distress

The intended purpose of the LaPorte County RLF is job retention and creation, particularly in the low and moderate income sector. The goal is to achieve this through loans for new or start-up businesses, business expansion, or to circumvent business closure. The LaPorte County RLF funding is most desired to assist in leveraging private investment back into the County. The LaPorte County RLF is a tool used to help support the overall goals of the CEDS within LaPorte County.

The two major cities in LaPorte County, the City of Michigan City and the City of LaPorte, have focused on downtown revitalization to help attract both families and businesses to the area. While downtown businesses may not boast the highest employment numbers it does add to the revitalization goals of the two largest cities in the County. This will be taken into account with LaPorte County RLF applications.

RLF: Supporting Economic Adjustment Activities/Strategies

In order to assure that the LaPorte County RLF will be used to support specific economic adjustment activities identified in the CEDS, NIRPC staff and any support service rendered will ensure that as applicant reviews are underway the lending is in line with the regional efforts and strategies identified in the CEDS.

B. BUSINESS DEVELOPMENT STRATEGY

Objectives

The purpose of the business development strategy is to increase the capacity of the local economy by providing local businesses and private entities a financing source to grow, maintain and/or sustain their operations locally that will add value to the overall region.

Specific objectives include:

- To provide gap financing for businesses that intend to relocate or expand within the County, and to create or retain a variety of jobs in various industries.
- To expand business employment and ownership opportunities for County residents through economic development that is compatible with and will enhance the areas existing regional strategies and physical and social environment.
- To promote the economic well-being of the County by helping to finance projects which maximize private sector investment, offer benefit to low and moderate income individuals, and continually add value to the economic base of the region.
- To work with the commercial lenders in the County to ensure that there are alternatives and support if small businesses aren't qualified for lending programs.

Targeted Businesses

The LaPorte Revolving Loans will be targeted to those geographic areas within the County which have concentrations of low and moderate income families and, in addition, will be targeted toward low and moderate income individuals. Priority will be given to those firms which provide/retain local jobs and export a product outside of the area. Those firms which provide for the sale of existing products which will be involved with sales outside of the area, but which will accrue back to the area, will be given the next level of consideration. Those firms which are involved strictly within the area with no potential for export of product will be given the lowest priority.

Business Needs

The business needs mentioned below have been identified from previous loan application meetings. The types of assistance needed by targeted businesses for the area typically are:

- Access to knowledge/services available through other community members
- Access to potential partners for their projects
- Access to a variety of financing (startup financing, inventory, working capital, equipment, real estate, construction, community/local match, etc.)
- Access to affordable real estate in ideal locations to benefit the target markets

Other Programs and Activities

There are many other agencies that assist in economic development within the LaPorte County area. Along with working with lenders in the area to identify financing needs the local Chambers of Commerce are a great resource. Several entities described below are also very active in economic development within LaPorte County as well as a good source of information.

Greater LaPorte Economic Development Corporation

The Greater LaPorte Economic Development Corporation (GLEDC) was formed in 2001 to provide LaPorte with a "One Stop Shop" for all business needs. GLEDC provides prospect development, project development, project coordination, and retention & expansion services. Focuses include:

- New business attraction efforts
- Incentive information and assistance
- Small business assistance
- Available property information and listings
- Project coordination
- Contact for SBA 504 programs and the LaPorte County Revolving Loan
- Marketing and promotion efforts for development opportunities and growth
- Retention and expansion efforts in conjunction with the Chamber of Commerce
- Professionalism and knowledge of the area

Economic Development Corporation of Michigan City

The Economic Development Corporation of Michigan City's mission is to develop and implement seamless policies, procedures and programs for economic and community development that drive systemic and long-term viability through collaboration and consensus with stakeholders and community resources. In line with that the Economic Development Corporation of Michigan City strives to assure the long-term viability of Michigan City with a healthy and robust business environment, modern public infrastructure, a stable tax base, outstanding customer service and quality human, technical and financial resources so that local leaders are able to sustain needed change.

LaPorte County Office of Economic Development

The LaPorte County Office of Economic Development aims to develop innovative strategies to create an environment of success for their county's employers and employees. Their approach to workforce development includes bringing in diverse and long-term job opportunities. They hope to take a more aggressive approach to furthering employment opportunities within the incorporated areas of the county. The office strives to be the one-stop-shop for both current and prospective businesses looking to expand or relocate within LaPorte County.

Northwest Indiana Forum

The Northwest Indiana Forum is the regional voice for the business community and the premier source of a full package of services that promote economic development and retention of quality jobs. With more than 130 member organizations, the Forum's mission is to increase the broad-based wealth in Northwest Indiana through economic development. Funded by membership contributions and grants, Forum membership translates into a direct investment in the Region to support growth and economic innovation. The Forum works to create a positive business climate promoting investment and job creation. Two critical components of a sustainable regional economy. Enabling this growth includes stable tax policies, reasonable operations and

living costs and a workable regulatory environment that protects the quality of life and does not inhibit growth and opportunities.

Indiana Small Business Development Center

The Indiana Small Business Development Center (ISBDC) was created to have a positive and measurable impact on the formation, growth, and sustainability of small businesses in Indiana, and to help Hoosier Entrepreneurs start stronger, grow faster, and work smarter. The ISBDC Network aims to accomplish this through a continuous focus on impact, realizing it is not enough to hold training events and meet with clients, but that tangible value needs to be provided to clients as a result of outcome-focused ISBDC engagement.

Indiana Economic Development Corporation

The Indiana Economic Development Corporation (IEDC) is the State of Indiana's lead economic development agency. The IEDC was officially established in February 2005 to replace the former Department of Commerce. In order to respond quickly to the needs of businesses, the IEDC operates like a business. The IEDC is committed to attracting and supporting new business investment, creating new jobs for Hoosiers, and furthering Indiana's legacy as one of the top states in the nation for business. The IEDC aggressively pursues every opportunity that represents a promise for Hoosier jobs, and will compete locally and at a state level to win these opportunities. The IEDC also continues to seek opportunities to attract new business and grow local companies at home, and continue to improve the economy for the state of Indiana.

Regional Development Company

The Regional Development Company (RDC) is a Certified Development Company within the State of Indiana. The RDC makes loans under the SBA 504 loan program to assist small business. The RDC processes, approves, closes and services all loans. Funding is arranged by the RDC through the Central Servicing Agent whom issues a bond. In all ways, the RDC is the direct lender for the SBA 504 loan program. The RDC has funded over 400 loans, representing more than \$135 million of 504 financing and \$350 million in total leveraged investment, creating or retaining over 4,500 jobs in Indiana.

C. FINANCING STRATEGY

The LaPorte County RLF financing strategy is based on the sources of financing, both public and private, available to support the business development objectives discussed earlier in this plan and the differing needs of the types of business targeted for investment.

Financing Needs

The type of financing needs and opportunities for target businesses identified in the business development strategy include:

- Access to knowledge/services available through other community members regarding financing options

- Access to potential financial partners for projects
- Access to a variety of financing types (startup financing, inventory, working capital, equipment, real estate, construction, community/local match, etc.)
- Access to reasonable real estate/development financing for real estate

Local Capital Market

As LaPorte County recovers from the effects of the recession, the lending opportunities available have seen an increase. Within the past decade the County has also seen an increase in entities taking an interest in economic development. In 2013 LaPorte County created a new office, the office of Economic Development. Other entities taking an interest in economic development in LaPorte County include the Greater LaPorte Economic Development Corporation, Michigan City Economic Development Corporation, Purdue University Extension, Northwest Indiana Forum, Northwest Indiana Economic Development District, the Greater LaPorte Chamber of Commerce, Center for Workforce Innovations, Elevated Ventures, Indiana Economic Development Corporation (Northwest Region), Northwestern Indiana Regional Planning Commission, Northwest Indiana Small Business Development Corporation, and the Regional Development Company. This has increased the recognition of additional funding sources both public and private. With the additional resources businesses are capable of putting more pressure on lending institutes for reasonable interest rates. This is more likely effective when working with the smaller localized banks over the national banks' lending criteria which is not adjusted for the various local environments. National bank criteria has not changed much over the years.

RLF Financing Niche

The LaPorte County RLF loans are intended to be small or supplemental loans and quite often are used when no other sources of lending are available. Borrowers are first referred to other programs, such as SBA 504, that they may better qualify for. In any regard, the LaPorte County RLF strives to maintain a diverse portfolio and is open to fixed asset or working capital loans made to start-up, expansion, or retention businesses. Historically speaking, loans have been made with five year terms, however in certain situations longer loans may be necessary.

D. FINANCING POLICIES

This section discusses the specific policies designed to guide RLF financing, taking into consideration the need to manage and protect the RLF capital while accomplishing the objectives of the Business Development Strategy. The standard lending terms and any special financing techniques that the RLF may utilize are discussed below in detail. The financing policies below are consistent with EDA policies and requirements.

Eligible Lending Area

The eligible applicants proposed location of business must be within LaPorte County but is preferred to be within the city limits of Michigan City or LaPorte. The major goals of stabilizing the economy, diversifying the economy, and reducing unemployment will be taking place primarily in the two cities.

Allowable Borrowers

In order to be eligible, an applicant must meet the following eligibility requirements. The business can be either a private for-profit or non-profit firm, industry, corporation, partnership or sole proprietorship. The LaPorte County RLF does not limit the allowable sector that the business operates. All applicants will be required to certify that neither themselves, the business, nor any affiliated business have been suspended or debarred or voluntarily excluded from receiving funds of this program pursuant to 15 CFR 26.215, 26.220 and/or 26.625.

Allowable Lending Activities

The allowable lending activities for the LaPorte County RLF program include:

- Land costs, including engineering, legal, grading, testing, and site mapping; and related costs associated with acquisition and preparation of land.
- Building costs, including real estate, engineering, architectural, and legal; and related costs associated with acquisition, construction, and rehabilitation of buildings.
- Machinery and equipment costs, including delivery, installation, and engineering; architectural, legal, and insurance; and related costs.
- Other costs contributing directly to the value of project fixed assets, such as sales and use taxes, and interest on interim construction financing.
- Working and start-up capital.
- Infrastructure costs. In a situation where infrastructure development is being included in the loan application, those costs must be identified.
- Purchase of a business or equity in a business if the need for RLF financing is sufficiently justified and documented in the loan write-up. Acceptable justification could include acquiring a business to substantially save it from imminent closure or acquiring it to expand it with increased investment.
- Refinancing of loans by other lenders if there is sound economic justification and there is sufficient documentation in the loan write-up that the RLF is not replacing private capital solely for the purpose of reducing the risk of loss to an existing lender(s) or to lower the cost of financing to the borrower.

The foregoing list is intended as a general guide and does not necessarily include all categories of eligible costs. In any case, all proposed uses of revolving loan funds will be subject to approval on the basis of the information contained in individual loan applications. All lending activities shall be pursuant to 13 CFR 307

Prohibited Lending Activities

The following list of uses will not be allowed with the LaPorte County RLF program:

- Projects which would cause unemployment resulting from relocation of a business.
- Projects which include facilities for generation, transmission, or distribution of electrical energy.
- Projects located outside of LaPorte County.
- Projects for which funds are otherwise available from private lenders or other public agencies on terms which will permit the accomplishment of the project.
- Projects on which there is not reasonable assurance of repayment of the proposed loan(s).
- Partially completed construction.
- Relocation of a local business to gain competitive advantage over another area.
- Costs incurred prior to the approval of a loan application
- Subsidy of interest payment on loans.
- The equity contribution required of borrowers participating in other federal loan programs.

Loan Size

Loans will not ordinarily be made in amounts less than \$10,000 or more than \$200,000 to any one company or organization, with the average loan expected to be between \$50,000 and \$150,000. In addition, the fund shall not usually have more than \$200,000 in credit outstanding to any individual borrower at one time. Active loan(s) to a single borrower will not exceed 25% of the LaPorte County RLF lendable capital.

Interest Rates

The minimum interest rate the LaPorte County RLF can charge is 4 percentage points below the current money market center prime rate quoted in the Wall Street Journal for loans of similar size, maturity, and purpose; or the maximum interest rate allowed under State law, whichever is lower, but in no event shall the interest rate be less than 4%. However, should the prime interest rate exceed 14%, the minimum LaPorte County RLF interest rate is not required to be raised above 10% if doing so would compromise the ability of the loan recipient to implement its financing strategy. The interest rate for each loan will, among other things, depend upon a job/cost ratio, be determined by the amount of equity in the project, and consider the fulfilling of the area's goals. Loans will have fixed interest rates to be set once the complete application packet is prepared and ready for board approval.

Terms

The standard term for working capital and fixed asset loans will be five to ten years. Real estate loans will be ten years. Loan payments will be monthly, to commence on the first of the month to begin after one full month from the loan disbursement, but may

be scheduled in accordance with the needs of the individual borrowers. In extenuating situations, in order to encourage financial participation in a direct fixed asset loan project by other lenders and investors, the LaPorte County RLF may be repaid after other loans made in connection with the project have been paid in part or in full. Deferral of repayment of principal may be scheduled as is determined necessary for this purpose, but in no case shall commencement of principal repayment be deferred beyond six months after total disbursement of project funds. Priority of payments on defaulted LaPorte County RLF loans will first compensate any costs of collections, then credit the outstanding penalties and fees, then pay any accrued interest to the extent due and payable before finally paying the outstanding principal balance. Prepayment of principal may be made by applicant at any time without penalty. Interest that has accrued will be paid at the time of prepayment of principal.

Fees

Loan Application Fee: A non-refundable loan application fee of two hundred dollars (\$200) will be charged to all loan applicants. If the loan is approved, the fee will be applied to the loan processing fee.

Closing Fee: Borrowers will pay NIRPC one thousand dollars (\$1,000) at the time of closing to provide for certain administrative and legal fees associated with loan preparation and closing.

Late Payment Penalty: A late payment fee will be construed as any payment which is not postmarked by the 15th day of each month. The penalty charge will be 5% of the current scheduled payment.

Equity and Collateral

When appropriate and practical, RLF financing may be secured by liens or assignments of rights in assets of the assisted firms. The lien position of the RLF may be subordinated 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 subordinated only to existing liens of record and other loans involved in the project.

Moratoria

The LaPorte County RLF managing board has the authority to negotiate special financing, such as approval of a temporary moratorium on principal payments because of temporary difficulty or extenuating circumstances which a project may be experiencing. Loan recipients must make all requests for loan moratoria in writing to NIRPC with detailed reasoning as to why the request is necessary, and a plan as to how the business will be able to make payments after the moratorium period is over. All requests should include the desired length of moratoria not to exceed nine months. All

requests will be forwarded to the LaPorte County RLF managing board for review and approval.

Start-ups

The LaPorte County RLF Managing Board will more cautiously look at financing of start-ups applying for a loan. Financing information provided with the loan application will be different seeing as how the borrower most likely will not have business financial statements to provide. NIRPC, as well as any designated contractor of NIRPC's, will work with the start-up to supply financial supporting documents that will satisfy the financial obligation of the application packet. A business will be considered a start-up if it has been operational for 24 months or less.

Working Capital

The LaPorte County RLF does permit working capital loans.

Prudent Lending Standards and Operating Procedures

As the majority of the RLF proceeds have been received from the U.S. Economic Development Administration NIRPC follows the loan and accounting principles as identified in 13 CFR 307.15. RLFs shall operate in accordance with generally accepted accounting principles ("GAAP") as in effect from time to time in the United States and the provisions outlined in OMB Circular A-133 and the Compliance Supplement, as applicable. In accordance with GAAP, a loan loss reserve may be recorded in the RLF Recipient's financial statements to show the fair market value of an RLF's loan portfolio, provided this loan loss reserve is non-funded and represents non-cash entries. Prior to the disbursement of any EDA funds, NIRPC shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The LaPorte County RLF holds the Federal Government harmless from liabilities in regards to the LaPorte County RLF.

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

- Loan application;
- Loan agreement;
- Board of directors' meeting minutes approving the RLF loan;
- Promissory note;
- Security agreement(s);
- Deed of trust or mortgage (as applicable);
- Agreement of prior lien holder (as applicable); and
- Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the

activity to be financed. EDA will permit NIRPC to accept alternate documentation only if such documentation is equivalent to the bank turn-down letter.

Credit Not Otherwise Available

The LaPorte 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. LaPorte 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 letter indicating that the bank can only finance a portion of the money the borrower needs.

E. PORTFOLIO STANDARDS AND TARGETS

Target Percentages

The following is the targeted percentage breakdown of borrowers for the LaPorte County RLF program. It is anticipated that the breakdown of borrowers by percentage of dollar amount is as follows:

- Public/Private (Ownership): 0/100
- Fixed Asset/Working Capital: 70/30
- Start-Up/Expansion/Retention: 40/50/10
- Locally owned/Outside owned: 70/30
- Industrial/Commercial/Service: 60/15/25

Private Sector Leverage

The LaPorte County RLF will follow the EDA required minimum ratio of two dollars in private investment for every one dollar of RLF loans as identified in 13 CFR 307.15(d). Private investment may include (1) capital invested by the borrower or others; (2) financing from private entities; and (3) 90% of the guaranteed portions of SBA 7(a) and SBA 504 debenture loans. Projects that provide higher private investment will receive consideration over those providing lower investment, all other factors (such as job creation) being equal.

Job Cost Ratio

The LaPorte County RLF's target job/cost ratio is one job created or retained per every \$25,000 of proceeds used. Applicants with a lower investment per job will be given priority over larger investments per job. The LaPorte County RLF will concentrate on creating family-wage employment, primarily for low and moderate income families. Skilled and semi-skilled jobs in light manufacturing will be viewed as those most desirable for long-term employment.

F. RLF LOAN SELECTION CRITERIA

The LaPorte County RLF loan selection will be based on the financing policies and portfolio standards discussed earlier in this document. However, proposed projects that can demonstrate the following criteria will take higher/priority when awarding loans:

- Businesses locally owned and operated
- Businesses which show women and minority enterprise development to be actively sought
- Projects that show strong potential future growth
- Projects which complement other firms in the area
- Borrowers willing to retrain and upgrade unskilled, semi-skilled, or displaced workers.

G. PERFORMANCE ASSESSMENT PROCESS

Loan Portfolio Review

The LaPorte County RLF will be evaluated on a semi-annual basis in conjunction with the reporting to the Economic Development District by the NIRPC staff. The only time changes in the plan will occur will be when a loan is made and or closes. A review of the loan portfolio will also be made available to the Loan Management Board at each meeting in which a loan is being discussed or issued.

Updates to the Management Plan

The LaPorte County RLF will update its management plan in accordance with 13 CFR 307.9. At a minimum the plan will be updated every five years. Notification will be given to the Economic Development Administration of any changes made to the plan as well as any changes that affect the RLF. NIRPC can choose to update the LaPorte County RLF management plan sooner than every five years as they see fit.

Part II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES

This section serves as the LaPorte County RLF's internal operating manual and will identify the administrative procedures for operating the RLF. All operating procedures will be consistent with the "Prudent Lending Practices," as defined in 13 CFR 307.8. As NIRPC is the administer of the RLF funds, NIRPC will be responsible with complying, and ensuring that potential borrowers comply, with applicable laws and regulations including but not limited to 13 CFR Part 307.

A. ORGANIZATIONAL STRUCTURE

NIRPC

The LaPorte County RLF Program will be administered through NIRPC, a multi-county planning commission established under state law. NIRPC will administer the program in

conjunction with LaPorte and Michigan City Economic Development Corporations. NIRPC does not employ loan processing staff so some services will be contracted.

NIRPC is responsible for the following tasks either through staff or contracted services:

- Developing the publicity about the availability of the RLF
- Provides business assistance and advisory services to prospective and actual borrowers to identify the types and sources of services available
- Regulatory compliance assurance
- Loan Processing; including reviewing applications, conducting credit analysis, preparing loan write-ups and recommendations to the LaPorte County RLF Managing Board
- Loan closings
- Loan Servicing (administrating loan collections, handling defaulted loans and foreclosures)
- Organizational administration (financial record keeping, ensuring compliance with EDA requirements)
- Federal grant reporting
- Loan portfolio reviews
- Update the Management Plan for recommendation by the LaPorte County RLF Managing Board and approval to submit to EDA from the NIRPC Finance and Personnel Committee

NIRPC Finance and Personnel Committee

NIRPC has established a Finance and Personnel Committee composed exclusively of Commission members appointed by the Chair of the Board of Commissioners. This Committee exercises financial oversight, procurement, budget development, and personnel policies over Commission operations and establishes more detailed accounts. Meetings typically take place prior to Commission and Executive Board meetings where the Finance and Personnel Chair reports and presents any actions taken by the Committee.

The NIRPC Finance and Personnel Committee is responsible for setting the budget for NIRPC on an annual basis. Since the LaPorte County RLF money is held by NIRPC the annual budget for those funds is approved by the Finance and Personnel Committee. In addition the Finance and Personnel Committee is the final approval for submission of any LaPorte County RLF Management Plan updates to the Economic Development Administration.

LaPorte County RLF Managing Board

The LaPorte County RLF Managing Board will be responsible for the following:

- Accepts and applies for RLF grants and sub-grants.
- Reviews, amends, and recommends the Management Plan to NIRPC's Finance and Personnel Committee.
- Provides overall policy guidance.

- Appoints and/or replaces members of the Managing Board.
- Makes final decisions on all loans, including loan approvals, modifications, and foreclosure actions.

The board will be comprised of a maximum of eleven members:

- 6 bankers from financial institutions in LaPorte County
- 2 appointee from the LaPorte Chamber
- 1 appointee from the Mayor of the City of LaPorte
- 1 appointee from the Mayor of the City of Michigan City
- 1 LaPorte county resident appointed by NIRPC

A Loan Committee member who misses two consecutive meetings without reasonable cause may be relieved of this responsibility. Appointments may be changed at any time by the responsible appointing party. Meetings will be called on an as needed basis but not more frequently than twice a month. A quorum for a meeting will consist of a majority of the current Board Members present.

Conflicts of Interest

In the event a LaPorte County RLF Managing Board member or government agency representative has a separate financial interest in an applicant for a LaPorte County RLF loan, the representative/board member shall so notify NIRPC and be excused from its review function with respect to the proposed loan for that applicant.

No loans shall be made to a business entity if the owner of such entity or any owner of an interest in such entity is related by blood, marriage, law, or business arrangement to any officer or employee of the NIRPC staff, NIRPC Commissioners, LaPorte County RLF Management Board, or any other person or entity which advises, approves, recommends, or otherwise participates in decisions concerning loans or the use of LaPorte County RLF funds.

No person or entity referred to above shall receive any benefits resulting from the use of loan funds, unless that person or entity first discloses, in writing, the proposed or potential benefit and receives written determination that the benefit involved is not so substantial as to affect the integrity of the application decision process and the services of said person or entity.

Former board members and others involved in the decision process are ineligible to apply for or receive loan funds for a period of one year from the date of termination of his or her services.

B. LOAN PROCESSING PROCEDURES

Application Process

Anyone desiring to participate in the program will be referred to contact NIRPC, or the designated contractor, to request assistance. An initial interview will be scheduled and the program will be explained along with the eligibility standards. An application will be given to the potential borrower as well as a contact person to work with. Multiple meetings may be required with any potential applicant in addition to on-site visits or field research.

Eligibility Establishment

As soon as the potential project is considered ineligible, then: (1) the potential applicant will be informed of the decision (via email, phone call or letter) and the reasons why: and/or (2) the potential applicant will be provided with information and changes needed in order to qualify for the program. In either case, the applicant is invited to resubmit a proposal if the revised proposal appears to meet requirements.

Submittal Requirements from Each Applicant

If the potential project is considered eligible, then the following information must be submitted to create the loan application package:

- Application with \$200 application fee
- Balance Sheet and Profit and Loss Statement
- A current Balance Sheet and a current Operating Statement (not over 90 days' old).
- A pro forma Balance Sheet and projected Operating Statement for two years.
- Copies of the applicant's last three years' income tax statements.
- A brief narrative description of the proposed project, including:
 - The number of long-term jobs to be created (not including construction jobs).
 - Total project Cost.
 - Amount of loan requested.
 - Source of other required funds.
 - Purpose of loan (use of proceeds).
 - Term requested.
 - A history and description of the business.
 - The names of affiliates or subsidiary firms.
 - Complete outline of current debts.
 - Statement/description of the collateral for the project including terms.
 - Franchise agreement(s), if applicable.
- Environmental review (construction projects)
 - Applicants must ensure that they are in compliance with 13 CFR 302; 13 CFR 314, the National Environmental Policy Act of 1969 and all other federal environmental mandates.

- Current personal financial statement of each proprietor, partner, and officer, and each stockholder with 50% or more ownership.
- Documentation of credit not otherwise available (bank letter).
- Signed release to check credit.
- Any other pertinent information requested by the Board of Directors pertaining to the loan package.

Application Review and Credit/Financial Analysis

NIRPC staff will analyze the application and accompanying information. Staff will also ensure that the LaPorte County RLF Managing Board reviews and approves loans in accordance with the approved financing policies, targeting criteria, and loan selection criteria of the RLF Plan. A credit analysis will be completed and included in with the application package for the Board. The complete package along with loan documents is submitted to legal counsel for review for reporting to the Board.

Recommendations to the LaPorte County RLF Managing Board

Once the complete application package is gathered and all eligibility requirements and Economic Development Administration regulations are met then a meeting of the LaPorte County RLF Managing Board will be scheduled. The complete application package along with the credit analysis and any additional information will be sent to the board for review prior to the meeting. The material will be discussed and the final decision for funding will be made. The board will determine the frequency and reporting requirements of financials and job creation. If the application is denied by the Board, a letter will be sent to the applicant stating the reasons for the denial and, where appropriate, suggestions will be made to the applicant on how to make it acceptable and an invitation will be issued to submit a revised application. If the application is approved then staff will proceed to the loan closing stage. Minutes of all Board meetings will be retained to document the approval/denial of loans. A quorum for a meeting will consist of a majority of the current Board Members present.

Loan Closing Schedule, Fund and Close of Loan

The loan documents that have been reviewed by legal counsel and approved by the Board are collected and a signing with the applicant(s) is scheduled, a check is disbursed and the loan is closed. The applicant, prior to receiving the loan check, is required to pay in full the \$1,000 loan closing fee less the application fee of \$200.

Confidentiality

Confidentiality regarding financial information will be guarded at all times. No LaPorte County RLF Management Board member, NIRPC staff member or NIRPC contractor will use his or her official position or office to obtain financial gain for themselves other than salary and/or reimbursement of expenses, or for any member of his household or for any business with which he or a member of his household is associated. Further, no

LaPorte County RLF Management Board member, NIRPC staff member or NIRPC contractor will further his personal interests through the use of confidential information gained in the course of, or by reason of, his official position or activities in any way. (Code of Ethics, RCW 42.123).

Other Compliance Requirements

Assurances of regulatory compliance will be obtained before any loan is disbursed. Compliance will be monitored during the payback period and, in a case of confirmed non-compliance, the loan may be called. Provisions will be made in the loan agreement to call the loan for non-compliance of any of the following items.

Civil Rights: The LaPorte County RLF program will be marketed to reach as broad a spectrum of potential borrowers as possible. Staff will monitor borrower compliance, both pre- and post-loan, through discussion, requiring written assurances, reports on equal employment opportunity, and observation during periodic site visits.

Flood Hazard Insurance: Loans are not made for project activity located in a flood plain unless proof of flood hazard insurance is provided.

Davis-Bacon Requirements: Construction activity financed in whole or in part by the LaPorte County RLF must comply with the requirements of the Davis-Bacon Act, as amended.

Access for the Handicapped: All LaPorte County RLF financed construction projects, to which the public will have access, will provide access to the handicapped in compliance with Public Law 90-480, as amended (42 U.S.C. 4151, et seq.) and the regulations issued thereunder, or those loans will not be approved.

Contract Work Hours and Safety Standards and Anti-Kickback Act: Where applicable, LaPorte County RLF borrowers shall be required to comply with the Contract Work Hours and Safety Standards Act, as amended (40 U.S.C. 327-333) and with the anti-Kickback Acts, as amended (40 U.S.C. 276 (c); 18 U.S.C. 874).

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

Commitment Letter (Credit Agreement): The applicant is advised of the loan approval including the terms and conditions set forth. A commitment letter shall indicate all reporting requirements necessary on behalf of the loan recipient.

Loan Closing Documents

Below is a minimum list of documents that will be required for the types of loans made under the RLF and any special timing requirements. Per 13 CFR 307.15(b) (2), the required documents should at a minimum include:

- Loan application

- Loan agreement
- Board meeting minutes approving the RLF loan
- Promissory note
- Security agreement(s)
- Loan amortization schedule
- Deed of trust or mortgage (as applicable),
- Agreement of prior lien holder (as applicable)
- A signed bank "turn-down" letter demonstrating that credit is not otherwise available.
- Board meeting minutes, resolutions, etc. confirming the approval of the LaPorte County RLF Managing Board

Loan Agreement Provisions

NIRPC will ensure that the LaPorte County RLF funds will be used as intended by following up with the applicant on a semi-annual basis in addition to reviewing any required reports from the applicant. Each loan agreement will clearly state the purpose of each loan. See 13 CFR 307.17(a). Staff will review all loan documents to ensure that the procedures in place 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. See 13 CFR 307.10(c). Staff will review and go over all loan agreement provisions during the initial intake of application requirements and during the signing of documents for ensuring 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 the RLF loans. These loan agreement provisions will also be reviewed at closing of the loan. All EDA RLF loans must include loan call stipulations for instances of non-compliance. See 13 CFR 307.10(b).

Loan Disbursement

Once all loan documents and agreements are mutually accepted by all parties, a signing with the applicant(s) is scheduled, and check is issued. After the applicant signs all necessary paperwork then the loan check is remitted. The applicant must pay in full the \$1,000 closing fee prior to the disbursement of any funds.

D. LOAN SERVICING PROCEDURES

Loan Servicing

NIRPC will closely monitor the performance of all loans within the loan portfolio in order to improve opportunities for both the repayment of loans and for the success of the borrower. Loan servicing will be performed by NIRPC or NIRPC's hired contractor(s), with recommendations from the LaPorte County RLF Managing Board. All contracting and procurement completed by NIRPC is conducted pursuant to Federal procurement

regulations. Staff will provide accounting and loan collection services and provide a financial report to the Board at meetings, including a statement of individual account status. A commercial bank will be selected as the depository of the loan funds. Included in the loan servicing and accounting are the following:

- Late payment notices to borrowers.
- Monthly accounting to the NIRPC Finance and Personnel Committee of principal and interest received on all loan accounts, as well as monthly bank account reconciliations.
- Delinquent account listing.
- Annual ledger listing for each account.
- Site visits may be conducted on a regular basis.

Repayment

Repayment is to be made directly to NIRPC and typically begins thirty (30) to forty-five (45) days after a loan is closed and funds are disbursed. Loan payments will be made monthly, to commence on the first of the month to begin after one full month from the loan disbursement, but may be scheduled in accordance with the needs of the individual borrowers. The standard method of loan payment by RLF borrowers is check. NIRPC will deposit the checks in the chosen depository bank within twenty four (24) hours of receipt (excluding holidays or the weekends). A designated staff member will be in charge of receiving the payments, documenting the payments and depositing the payments. Repayment is considered late if it is received after the 15th day of each month. A late fee will be assessed.

Since no notices of regularly scheduled payments are sent to borrowers all borrowers will receive a copy of the loan amortization schedule which will serve as the repayment schedule. The amortization schedule will be provided with the check. Late payment notices will be mailed to the borrower and give the borrower several opportunities to pay or respond in some other manner to the default. The series will include two or more written requests (via email and/or mail) and may begin with a telephone call. A meeting with the borrower will be called if the delinquency is more than 45-60 days. A demand letter prepared by an attorney may be used as an effective collection procedure. Specific cases will be discussed with legal counsel to determine the best course of action.

Monitoring

The standard procedures for monitoring loan conditions may include required procedures for financial statements, annual insurance renewals, borrower site visiting and any other EDA requirements. All monitoring will be conducted by NIRPC staff or contractors hired by NIRPC.

The collection of financial statements, as required by the loan agreement, will be handled in a manner similar to the collection of payments. Quarterly financials may be requested or required per the loan agreement. These will be reviewed for the results of

the most recently completed period as well as year to date results. This review will compare the reports to the projections or budgets previously submitted. Changes in the balance sheet or financials will be sought and examined for indications of deterioration in financial strength. Early warning signs will include:

- Losses that were not anticipated
- Lower gross and net margins
- Reduction in net working capital
- Lower current ratio
- Additional long term liabilities

Serious changes will warrant a phone call and/or meeting with the borrower to discuss progress and assess existing or potential problems. Site visits may occur periodically as deemed necessary.

Job Creation

The initial job creation claims will be reviewed and jobs will be tracked after loan approval through regular communication with the borrower. At a minimum this information will be requested on a semi-annual basis. This information will be used in reporting to the Board as well as the semi-annual reports to the Economic Development Administration.

Delinquency Management

If defaults have occurred and are not cured in a reasonable amount of time, actions can be taken prior to restructuring loan agreements and pursuing legal action to recover the investment. NIRPC staff will stay in close contact with the business to monitor activity and be immediately aware of further deterioration. Possible activities include:

- Increasing financial reporting
- Require monthly cash flow reconciliation
- Hold monthly meetings with management
- Attend meetings of the board of directors

Default Loans: Any loan that is in arrears up to 90 days is considered to be a defaulted loan. Late penalty requirements will follow what is stated in the promissory note and/or loan agreement. Under default all loan proceeds must be immediately repaid or default proceedings will be initiated. Security items will be sold, and proceeds used to recover loan amounts outstanding, legal fees, and other costs of recovery.

If a loan should become delinquent, the following procedures will occur:

- Telephone contact will be made 10 days after due date.
- First notice of delinquent payment will be sent 15 days after due date.
- Second notice will be sent 30 days after due date.
- Third notice will be sent 60 days after due date.
- Fourth notice will be sent 75 days after due date. A certified, return receipt notice will be sent. During the first 75 days of delinquency, written and oral

communication, as well as site visits, will be utilized to resolve the delinquency. Every effort will be made through personal contact to resolve the delinquency.

- After 90 days of delinquency, a loan due demand notice will be sent by legal counsel. If after 90 days a delinquency still exists, and the loan has not been renegotiated or brought current, the loan may be declared in default. NIRPC may immediately commence procedures to recover on borrower's security. No loan modification will be approved unless it can be demonstrated that modification will improve the borrower's ability to repay the loan.

Any recipient proven guilty of discrimination in employment practices or determined to have used discriminatory practices in hiring shall be in default and subject to repay all loan funds immediately. Illegal business transactions or illegal business practices by the recipient may be cause for immediate recall of loan funds.

Restructuring of Loans: If the cash flow of the business is inadequate to make the scheduled payments, it may be necessary to alter the terms of the note in order to cure defaults. If there is no need to formally cure defaults, payment terms may be reached without amending the notes. Restructuring of loans include but are not limited to interest rate amendments, maturity date extensions, or added balloon payment. However, all loan modifications must be reviewed and approved by the LaPorte County RLF Managing Board. Terms and repayment schedules will be defined and agreed upon by the Board.

Write-Offs: A percentage of the loans made through the LaPorte County RLF will be lost due to business failure and inadequate collateral coverage. The anticipated percentage of these losses will be approximately 25% of total funds loaned. Loans will be written off when all actions to recover funds as described above have been exhausted or when pursuit of further recovery is no longer considered cost effective. Through monitoring and tracking of the loan portfolio regularly, the NIRPC staff will work to minimize risk through necessary changes in policies and procedures within the quality control process. NIRPC will report loans in default and if staff recommends that a loan should be charged off, it will be presented to the LaPorte County RLF Managing Board for recommendation and will require the board to approve the write-off. When the board deems a loan to be a loss, the charged off loan must be in compliance with full and fair disclosure requirements of any relevant rules and regulations pertaining to the funding of the loan.

Loan Files

NIRPC maintains an office open for business currently located at 6100 Southport Road, Portage, IN 46368. The telephone number is (219) 763-6060. Professional staff services are available at the office during regular business hours to administer and provide loan servicing. Records of all loans shall be kept at the office, as well as the Management Plan, procedures, and other records. For the safekeeping of all active loan documents particularly loan closing documents and at a minimum, all original notes, loan agreements, personal guarantees and security agreements will be placed in a

fireproof facility or container. NIRPC will always maintain the minimum required loan documentation as set by the Economic Development Administration.

For closed loan files and related documents, NIRPC shall maintain closed loan files and all related documents, books of account, computer data files and other records over the term of the closed loan and for a three-year (3) period from the date of final disposition of such closed loan. The date of final disposition of a closed loan is the date principal, interest, fees, penalties and all other costs associated with the closed loan have been paid in full; or the final settlement or discharge and cessation of collection efforts of any unpaid amounts associated with the closed loan have occurred.

E. ADMINISTRATIVE PROCEDURES

New RLF's

NIRPC received the LaPorte County RLF grant in 1987 at which time the local share commitment from the City of Michigan City and the City of LaPorte were receipted into the account. Since then the local share and federal Economic Development Administration funds have been held in one separate fund by NIRPC. This has made it possible for NIRPC to ensure that the local share proportion to the federal funds is adequate for the grant.

Accounting and Audits

Since the LaPorte County RLF program is administered by NIRPC its existing policies and procedures apply to this program. The financial statements of NIRPC are prepared annually in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Every year NIRPC receives a federal audit in compliance with the federal regulations annually by the Indiana State Board of Accounts. As the LaPorte County RLF funds are part of NIRPC's financials they are included in the audit and are reported in compliance with the RLF Standard Terms and Conditions Part I.F.

The LaPorte County RLF has its own separate fund, and bank account, within the NIRPC accounting system and all loans are tracked separately within that fund. If more than fifty percent (50%) of revolving loan funds income, or \$100,000, is used to cover costs of administering the LaPorte County RLF program, a Revenue and Expense Statement must be submitted to EDA. Program income is defined as interest earned on outstanding loan principal, interest earned on accounts holding RLF funds not needed for immediate lending, all loan fees and loan-related charges received from borrowers.

Administrative Costs

NIRPC intends to use the LaPorte County RLF income to cover eligible administrative costs associated with the grant. The anticipated maximum percentage of income to be used for expenses will be in compliance with EDA's allowed percentage. NIRPC will submit form ED-209I for administrative costs that are either 50% or \$100,000 of the LaPorte County RLF income in a six-month Reporting Period. NIRPC will apply, track, and report the administrative costs in compliance with 13 CFR 307.

Capital Utilization and Sequestration

The LaPorte County RLF portfolio is constantly watched. On a semiannual basis, in conjunction with reporting, the capital utilization will be reviewed. NIRPC will strive to maintain, at a minimum, 75% of the capital to be in use. If at any point NIRPC is required to sequester funds then such funds will be deposited into an interest bearing account and interest shall be remitted to EDA as instructed. NIRPC will maintain compliance of 13 CFR 307.16 with regards to capital utilization and sequestered funds.

Economic Development Administration Reporting

NIRPC will complete and submit Revolving Loan Fund semi-annual report and Income and Expense Statements to the Economic Development Administration (EDA) as required. As part of this reporting NIRPC will certify to EDA that the LaPorte County RLF is operating in accordance with the applicable LaPorte County RLF Management Plan.