Revolving Loan Fund Plan

For

Lane Council of Governments

859 Willamette Street, Suite 500
Eugene, OR 97401

US Economic Development Administration RLF

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DRAFT

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PART I.   THE REVOLVING LOAN FUND STRATEGY

A. ECONOMIC ADJUSTMENT PROGRAM OVERVIEW

1. Economic Adjustment Problem

Lane County businesses continue to struggle with the aftermath of the great recession. The problem is particularly acute in rural areas as the economic recovery there is lagging behind the progress being made in the Eugene/Springfield metropolitan area. This project will improve access to capital for small businesses with a targeted emphasis on businesses in the rural area.

For decades the lumber and wood products industry was the single largest industry in Lane County and practically the only manufacturing industry of any size. But drastic reductions of timber harvests off federal lands in the early 1990s resulted in a sharp and long-term drop in industry production and employment. By 1999, employment in the lumber and wood products industry in Lane County dropped to 7,200, compared to 11,400 in 1989. Lane County experienced a disproportionately high ratio of losses in the lumber and wood products industry from 1989 through 1999. During that time period, about one in every 4.5 workers who lost employment in this industry resided in Lane County, higher than any other county in Oregon.

Rural communities have a higher incidence of the population not in the labor force than either the State or within Lane County. Laid off mill workers are particularly impacted. The Western Council of Industrial Workers has reported that it will take the average laid off mill worker between 10 and 12 years to regain their prior rate of pay. State employment economists say almost half of the timber workers who lost their jobs in the 1990s fell off employment rolls for good. They moved to other states or retired or became part of "a cadre of chronically underemployed rural residents," labor expert Art Ayre wrote (June 2009, Journal of Forestry). The lack of rural job opportunities force many household income earners to travel significant distances to work, with resulting impacts to family incomes, as more money is devoted to commute costs, as well as the resulting environmental and social impacts.

The Oregon Business Development Department calculates an index of economic stress for counties and cities in Oregon as a mechanism for prioritizing assistance. Their method uses an average of eight measures to gauge economic distress – unemployment, per capita personal income, average pay per worker, population change, percent of population receiving unemployment insurance, industrial diversity, percent of families in poverty, and employment change. Lane County is one of nineteen counties that exceed the threshold and is considered a “distressed area.”

2. Development of Economic Adjustment Strategy

The proposed Recapitalization of Revolving Loan Fund directly contributes to a number of economic development needs in the region and toward the achievement of objectives outlined in the Cascades West Economic Development District 2010-2015 Comprehensive Economic Development Strategy (CEDS) in Lane County. The CEDS articulated vision is: The District’s preferred future includes a diversified economy with a range of employment opportunities that provide stable family wage jobs, lifelong learning and training opportunities, sustainable natural resources, and an integrated infrastructure.

The EDA RLF satisfies the following EDA Investment Policy Guidelines; economic development needs of the affected region, capability of proponent, strong organizational leadership, looks beyond immediate economic horizon, anticipated economic changes and diversifies the local and Regional economy; and demonstrates a high level of commitment. The aforementioned are satisfied by matching the visions, goals and objectives of the CEDS; by the duration and relevancy of the proponents' experience; with strong organizational leadership from the proponents both having served the region for decades; looks beyond the immediate economic horizon by focusing on future diversified economic efforts; and brings a solid 1:1 cash match plus substantial in-kind contributions.

The EDA RLF also satisfies three EDA funding priorities; Collaborative Regional Innovation, Environmentally-Sustainable Development, and Economically Distressed and Underserved Communities. The proposal aligns with Collaborative Regional Innovation by providing improved access to capital to support the expansion of existing competitive strengths such as value added food and beverage industries; strengthening the economic relationships between the rural and urban areas; and providing funds to specifically invest in developing rural industries. Improved access to capital in the metro area will enhance economic competitiveness, support existing communities and leverage investment while at the same time supporting rural areas by helping urban businesses which are the market for many rural goods and which employ a number of rural residents who work in the urban area to supplement and support their rural businesses. Furthermore, the metro area through its HUD Sustainable Communities grant has identified a food and beverage industry cluster which is closely tied and dependent on Lane County's rural areas (e.g., wine and microbrew industries).

Above all other satisfactions delineated, the recapitalization of the revolving loan fund will provide capital to an economically distressed and underserved community at a time when a foundational federal support (Secure Rural Schools Act) has been eliminated. The proposal holds potential for further outreach to Veteran business owners (an even more severely underserved community as witnessed by the unemployment rate of Veterans) via Lane Community College's small business development program for Veterans, only the second such program offered in the State.

3. Area Resources

Our Economy continues to rest on a fairly diverse base. Emerging businesses in health care, bioscience, advanced manufacturing, clean technology and food and beverages are expected to provide further diversification and employment opportunities in the near term.

Our Natural Systems support a variety of marine fisheries, wood product, and agricultural businesses. The marine ecosystem offers several new opportunities to restructure the regional economy through location of NOAA's Pacific research fleet, wave energy R&D, direct-to-market seafood, and marine reserve pilots.

Our People have good basic job skills and access to a strong workforce training network. Significant enrollment increases at higher education institutions are expected to lead to an even stronger local workforce.

Our Community Resources include multiple world-class research institutions and innovation centers that are working to transfer R&D into products and businesses. A variety of alternative energy options and emerging energy technology will help diversity the region's economy. Planned broadband investments will increase the competitiveness of the region. Announced medical facilities and health care investments will provide a base for growth in bioscience fields. Our communities and economic development entities work collaboratively.

4. Strategic Adjustment Goals

The Cascades West Economic Development District 2010-2015 Comprehensive Economic Development Strategy (CEDS) identifies six broad goals:

1. Advance economic activities that provide a range of employment opportunities.
2. Build on the region's entrepreneurial culture and assets.
3. Support infrastructure assistance to communities.
4. Provide technical assistance to communities and support capacity building efforts.
5. Partner to improve workforce training and education.
6. Support the needs of rural areas.

The goals which are most relevant to the proposal are as follows:
Goal 1-Advance economic activities that provide a range of employment opportunities;
Goal 2-Build on the region's entrepreneurial culture and assets; and
Goal 6- Support the needs of rural areas.

Activities listed in pursuit of Goal 1 and which are included in the RLF are: enhance access to capital, both private and public; enhance value-added production and niche marketing; reach out to special populations (previously defined). Efforts in pursuit of Goal 2 included in the CEDS and this project are: form start-up capital, micro-enterprise financing and venture capital funds; identify and promote emerging business sectors; and support potential entrepreneurs as they are displaced in workforce reductions. Shared Goal 6 and project components are: provide outreach to existing and emerging entrepreneurs in smaller communities; and identify and assist in developing business niches that would be attracted to the environment of smaller communities. The foundational goal of LCOG's project is to improve access to capital for small businesses with a targeted emphasis on rural businesses. The foundational project goal furthers all of the above mentioned vision, goals, and objectives/activities.

5. **Implementation Programs and Activities**

LCOG will implement the RLF as part of its broad usage of various federal, state and local loan programs for small businesses. Other programs include those of the US Small Business Administration, US Department of Agriculture and State of Oregon.

LCOG will coordinate the implementation of the RLF with its 29 member organizations. LCOG expects to maintain a strong partnership with Lane County throughout this effort given that Lane County provided a significant portion of the cash matching contribution to the initial round of RLF funding in 2004 and all of the match in the recent 2014 re-capitalization of the RLF.

In addition, LCOG will enlist support from numerous other economic development partners.

6. **Organizational Structure – Adjustment Strategy**
The RLF will be an integral component of the Cascades Economic Development District CEDS. The RLF can offer clear and measurable results to achieve the CEDS vision of a diversified economy with a range of employment opportunities that provide stable family wage jobs, lifelong learning and training opportunities, sustainable natural resources, and an integrated infrastructure.

B. BUSINESS DEVELOPMENT STRATEGY

1. Objectives
In addition to the CEDS planning process, Lane County put considerable planning effort into a process which resulted in the Regional Prosperity Economic Development Plan. This document was a joint effort of the cities of Eugene and Springfield and also Lane County. This document was first put together in 2010 and has received periodic updates. In response to the economic crisis the sponsors came forward with an ambitious set of goals: By 2020, create 20,000 net new jobs in the chosen economic opportunity areas; reduce the local unemployment rate to, or below the state average; and increase the average wage to or above the state average.

The Regional Prosperity Economic Development Plan includes six key strategies:
- Grow Local Opportunities
- Energize a Creative Economy
- Invest in Tomorrow's Talent
- Provide Basic Business Needs
- Identify as a Place to Thrive
- Strengthen Key Industries

2. Target Business Characteristics
The EDA RLF will be available to all eligible businesses and projects within Lane County.

The Regional Economic Development Plan identifies the following target industry clusters:
- Clean Tech / Renewable Energy
- Health/Wellness
- Advanced Manufacturing (technologically rich, innovative manufacturing)
- Software
- Biomedical

In addition, the Food and Beverage Manufacturing industries continue to be a high priority and growing industry clusters.

3. Types of Assistance
Small businesses within Lane County have access to numerous resources. These resources provide a variety of technical assistance. These resources complement the improved access to capital which will be available as a result of the EDA RLF. Such complementary resources include, but are not limited to the following:

- Lane County Economic Development

- Lane Community College Small Business Development Center
- University of Oregon
- Lane Workforce Partnership
- SCORE
- Various Chambers of Commerce
- Various City Community and Economic Development Departments

4. Programs and Activities

The following is a list of programs and activities which have been or are being undertaken by the public sector and/or economic development organizations to address the needs of businesses in Lane County:

- Train for professional and technical primary jobs
- Enhance value-added production and niche marketing
- Support the activities of business incubation centers, entrepreneurs, small business development centers
- Create new models to commercialize research
- Address barriers to business location and expansion
- Develop one-stop centers to link interested small businesses with various sources of economic development support
- Develop a regional economic identity and promote awareness and advocacy for the region's economic quality of life that continues to support and attract the investment and innovative and entrepreneurial talent and builds on our dynamic and diverse economic community
- Support and attract various target industries to continue the development of wealth-generating sectors that have built a strong economic foundation for our region and have complemented the region's quality of life including transportation manufacturing, wood manufacturing, healthcare, and construction
- Support development and growth in successful and emerging opportunity areas such as health/wellness, advanced manufacturing, software, clean tech, renewable energy, biomedical, research & development
- Establish networks of business clusters
- Create new models to transfer university research to entrepreneurs
- Expand the availability of business development assistance
- Identify and promote emerging business sectors
- Implement enterprise development efforts targeted at start-up businesses
- Support potential entrepreneurs as they are displaced in workforce reductions
- Develop fully-served industrial sites and business parks, including redevelopment of underutilized sites
- Develop transportation options, including rail, intermodal rail, and air service
- Streamline the regulatory processes to assist with site selection and development.
- Plan and implement downtown revitalization efforts
- Increase linkages between new and expanding businesses and workforce training entities and educational institutions
- Meet the needs of displaced workers with entrepreneurial interests
- Convene industry panels to design and evaluate curricula to ensure that local training programs meet industry needs

- Provide outreach to existing and emerging entrepreneurs in smaller communities

C. FINANCING STRATEGY

1. Financing Needs and Opportunities

Access to capital is an ongoing need in the Lane County small business community. This need exists with regards to real estate, equipment and working capital financing.

2. Current Availability of Financing

Lane County is well served by numerous local, regional and national banks. There are also several credit unions with a major market presence. These lenders have done a satisfactory job of meeting basic business financing needs for well-qualified applicants. However, loan underwriting criteria have unquestionably grown tighter since the Great Recession. Numerous borrowing needs are going unmet. Many loan applications from reasonably well-qualified applicants are being declined due to minor weaknesses in collateral or equity contribution. These unmet borrowing needs result in a loss of economic opportunity for Lane County.

LCOG partners with all commercial banks in the County to deliver these loan programs to eligible and needy borrowers. LCOG does not compete with private sector lenders but rather complements what the private sector is able to provide. In order to provide assurance that LCOG is not competing with the private sector banks, we will require a bank turn-down lender according to 13 CFR 307.15 as follows: "*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.*"

This presents an excellent opportunity for gap financing from government programs. LCOG has a broad background in successfully administering federal and state business loan programs. LCOG has an excellent reputation with the private sector in delivering the following programs:

- LCOG has had a successful record with the US Department of Agriculture's Intermediary Relending Program since October, 1995. It has made over 100 loans during that period. The total IRP loan portfolio is $4.9 million.
- LCOG acts as agent for the local Certified Development Company to make Small Business Administration loans in Lane County. The SBA loan portfolio is in excess of $35 million.
- LCOG packages business loans for the State of Oregon Economic and Community Development Department as well as several small city and local loan programs.

3. Financing Niche

Although LCOG already manages an active loan program for small businesses in Lane County, we have a sizable gap in loan services which is filled by an EDA RLF. This will allow LCOG to provide more comprehensive economic development services. Our biggest gap in loan services occurs when we encounter gap financing needs of $40,000 to $150,000. This size loan is typically too small to effectively and efficiently utilize the US Small Business Administration 504 loan program. Therefore, in these situations we are frequently unable to find the necessary gap financing for the loan applicant. Consequently, good loan applications often go unfunded. These are lost economic development opportunities which can be assisted by the RLF.

The program will be available to all eligible businesses and industries. The RLF will target projects which are anticipated to have the highest potential impact on economic development in Lane County.

The re-capitalized RLF will target 33% of funds to rural entrepreneurs and the remainder to the metropolitan area.

Both new and established businesses will be eligible for this program. New businesses will be given closer scrutiny with regards to cash flow, personal credit and collateral. New businesses may be required to provide a higher equity contribution.

The RLF will be used to assist a variety of loan purposes including real estate acquisition, equipment purchase and working capital.

4. RLF Impact

- Basic program impacts are anticipated as follows:
  - Increased employment.
  - Improved sustainability / viability of existing businesses.
  - Increased number and diversity of new businesses.
- The RLF will target projects which are anticipated to have the highest potential impact on economic development in Lane County. This means that the highest priority will be given to businesses and industries which offer high skill / high wage employment opportunities. These projects will have the highest local impact and will generate the highest return on taxpayer investment.
- This is a market based project which is in high demand by businesses in our county. Gap financing is often a critical component to completion of a small business expansion.
- This project will meet both current and future demand in Lane County for gap financing. The revolving loan fund will be sustainable on a long term basis as funds are repaid by borrowers and then relent.
- The RLF will only fund up to 75% of a single project and will therefore require the participation of private leverage in order to finance the full project.
- Based on LCOG's prior experience with management of other business loan programs, this project should have a high probability of success. We have a good track record of working successfully with other agencies, with private sector banks and with the small businesses in our county.
- This project will lead to specific and measurable results in terms of job creation and job savings.

D. FINANCING POLICIES

1. Loan Related Fee Policy

- Loan Application Fee: $500. This is a non-refundable fee charged to loan applicants at the time they submit a completed loan application package, but before the loan is reviewed by the Loan Administration Committee. The purpose of this fee is to recover some of the costs of processing an application. Although the application fee is non-refundable, it will be credited to the 1.5 percent loan fee that is collected at closing.

- Closing Fee: A loan fee of 1.5 percent, minimum $500, of the loan amount is assessed at closing. This fee is designed to recover the costs of processing the application. Those costs typically include, clerical/secretarial time, professional staff time spent counseling the applicant and assisting them with the loan application package, staff time spent making the presentation to the Loan Administration Committee (LAC), staff time spent preparing environmental and other documentation.
- Other external costs of the loan will be paid by the borrower at the time of closing. Theses cost may include but are not limited to appraisals, environmental reports, lien searches, auto titles, filings, and other costs associated with the loan.
- Late Fees. The program will charge a late fee of 5 percent of the payment due for payments fifteen days past due. This income will be used for administrative costs connected with collection and counseling.

2. Interest Rate Policy

- The interest rate charged to ultimate borrowers will likely vary from 400 basis points below to 300 over the prime rate.
- Interest rates will comply with 13 CFR 307.15(c) as follows: *"An RLF Recipient may make loans to eligible borrowers at interest rates and under conditions determined by the RLF Recipient to be appropriate in achieving the goals of the RLF. The minimum interest rate an RLF Recipient may charge is four (4) percentage points below the lesser of the current money center prime interest rate quoted in the Wall Street Journal, or the maximum interest rate allowed under State law. In no event shall the interest rate be less than the lower of four (4) percent or 75 percent of the prime interest rate listed in the Wall Street Journal. Should the prime interest rate listed in the Wall Street Journal exceed fourteen (14) percent, the minimum RLF interest rate is not required to be raised above ten (10) percent if doing so compromises the ability of the RLF Recipient to implement its financing strategy."*
- The loan rate will be fixed for the life of the loan at the time of funding.
- In determining the rates and terms for loans, LCOG staff will consider a number of factors including: the needs of the borrower, the particular risk components of each project, the private financial market conditions at the time the loan is made, terms and rates of other financing in the project, community impacts of the project, and LCOG's administrative costs.
- The Loan Administrative Committee has the authority to charge any appropriate rate in a loan workout situation.
- The Loan Administrative Committee may choose from time to time to amend rates for existing borrowers. This decision will be based on the current interest rate environment, the historical payment performance of the borrower, collateral position and other factors.

3. Equity Policy

- Borrowers will normally be expected to contribute cash equity in the minimum amount of 10%.
- This will normally be a cash equity contribution but in-kind equity contributions may be considered.
- For working capital loans, the equity injection may be in the form of net working capital in the business equal to 10 – 30%, depending on risk and other factors.

4. Standard Repayment Terms Policy

The term of a fixed asset loan will not exceed the average useful life of the fixed asset in the project, and in no case will it exceed fifteen years. The term of a working capital loan will not ordinarily exceed five years. Longer amortizations with balloon payments may be considered. Expected maturities are as follows:

- Working Capital 1 – 5 years
- Equipment 5 – 10 years
- Real estate 10 – 15 years

5. Collateral Policy

- Security will be required, as necessary, to adequately collateralize RLF loans. In the case of fixed asset loans, security will usually be liens on the assets financed, plus other collateral as appropriate.
- Working capital loans will normally be secured by receivables, inventory and fixed assets.
- Assignments of lease will also be taken when appropriate.
- Personal guarantees will normally be required of all principals who hold more than a 20% ownership interest.
- Loans will be collateralized to the maximum extent possible to ensure an adequate secondary source of repayment.

6. Loan Size Policy

- The loan size will be $40,000 to $200,000.
- No more than $200,000 will be lent to any single borrower.

E. PORTFOLIO STANDARDS AND TARGETS

1. Business Types

The recapitalized RLF will target 33% of available funding towards businesses in the rural portion of Lane County.

2. Loan Purpose

The RLF may be used for any purpose not deemed ineligible by EDA regulations.

3. Leveraging

The RLF will achieve the leveraging requirements as stipulated in 13 CFR 307.15(d) as follows: *"Private Leveraging. (1)RLF loans must leverage private investment of at least two dollars for every one dollar of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF's operation. To be classified as leveraged, private investment must be made within twelve (12) months of approval of an RLF loan, as part of the same business development project, and may include: (i) Capital invested by the borrower or others; (ii) Financing from private entities; or (iii) The non-guaranteed portions and ninety (90) percent of the guaranteed portions of the U.S. Small Business Administration's 7(A) loans and 504 debenture loans. (2) Private investments shall not include accrued equity in a borrower's assets".*

4. Cost Per Job

- Individual projects will be expected to create at least one job for each $50,000 of RLF loan proceeds within two years of loan closing.
- The portfolio will be expected to achieve a ratio of one job for each $25,000 or less of RLF loan proceeds.

F. LOAN SELECTION CRITERIA

1. Eligible Applicants

- The RLF will make loans which are consistent with its overall plan as stipulated by 13 CFR 307.17(a) as follows: *"General. RLF Capital shall be used for the purpose of making RLF loans that are consistent with an RLF Plan or such other purposes approved by EDA. To ensure that RLF funds are used as intended, each loan agreement must clearly state the purpose of each loan."*
- The RLF will not lend to businesses or individuals who are delinquent on local county property taxes.
- The RLF will target for profit businesses but may consider applications from non-profit entities.
- The RLF will consider applications from any small business located in Lane County but will prioritize projects based on the criteria in the following section.

2. Eligible Projects

The fundamental goal of the RLF is to encourage business growth and job creation in Lane County. In addition, the following general economic impact criteria will be used to evaluate and prioritize proposed loans:

- The proposed project is consistent with the RLF Plan.
- The proposed project capitalizes on existing regional assets.
- The proposed project supports and advances innovation and higher productivity.
- The proposed project is part of a target industry cluster.
- The proposed project will lead to growth of high-skill and high-wage jobs.
- RLF funds will be used to provide gap financing and leverage private sources of financing.
- The loan must not be available from conventional bank financing sources on terms which would allow successful completion of the project.
- The loan is consistent with prudent lending practices regarding a diversified loan portfolio.
- Although the RLF loan program will target applicants who are otherwise unable to obtain financing from more conventional sources, the results of LCOG's thorough due diligence and credit analysis must indicate a high likelihood of full repayment from the borrower's operating cash flow.
- The loan will help to attract new jobs and investment in Lane County.
- The loan will diversify the economic base of Lane County.

- The loan will support the creation and expansion of business enterprises that provide employment for people from families below the poverty line.
- The loan will stimulate private lending.
- The loan will help to strengthen communities by supporting projects that address critical community needs.
- Projects which advance innovation and increase productivity will be given priority over others, all other factors being equal.

3. Ineligible Loan Activities

The RLF will make no loans prohibited by 13 CFR 307.17(b) as follows:
"Restrictions on use of RLF Capital. RLF Capital 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 for borrowers' required equity contributions under other Federal Agencies' 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 Capital 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 Capital may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within eighteen (18) months following the date of refinancing.

Furthermore, the RLF will not finance any activity that serves to relocate jobs from one commuting area to another. Commuting area is that area defined by the distance people travel to work in the locality of the project receiving RLF financial assistance.) An RLF ' s standard loan agreement must include a provision for calling the loan if it is determined that: (i) The business used the RLF loan to relocate jobs from another commuting area. Or (ii) The activity financed was subsequently moved to a different commuting area to the detriment of local workers."

G. PERFORMANCE ASSESSMENT

- The performance of the RLF is evaluated during every meeting of the Loan Administrative Committee. The LAC reviews and discusses any delinquent loans. The LAC also discusses LCOG staff efforts to market the loan program to area banks and businesses.

- The performance of the RLF is also evaluated and monitored at the time of semi-annual reporting to EDA. If targets are out of line or a negative trend is noted, more frequent monitoring will be done.
- The RLF plan will be updated if and when revisions are recommended by the LAC in order to remain consistent with the area's current economic development strategy.
- At a minimum, the RLF plan will be updated every five years as required by in 13 CFR 307.19(c) as follows: *"(c) Revision and Modification of RLF Plans. (1) An RLF Recipient must update its Plan as necessary in accordance with changing economic conditions in the Region; however, at a minimum, an RLF Recipient must submit an updated Plan to EDA every five (5) years."*

PART II. REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. ORGANIZATIONAL STRUCTURE

1. **Administration**

The RLF will be managed by LCOG's Program Manager for Economic Development. Additional staff members will include the Senior Loan Officer and an Assistant Loan Officer. Financial support will be provided by members of LCOG's fiscal unit.

Key duties will be assigned as follows:

Task	Person Assigned
Marketing	Program Manager, Senior Loan Officer
Technical Assistance to applicants and borrowers	Senior Loan Officer
Environmental Review	Program Manager
Loan Processing	Senior Loan Officer
Loan Closing	Assistant Loan Officer
Loan Servicing	Senior Loan Officer, Assistant Loan Officer
Organizational Administration	Program Manager, Fiscal Unit

2. **RLF Loan Administration Board**

Direct oversight of the RLF program will be performed by a Loan Administration Committee (LAC) consisting of eight members appointed by the LCOG Board of Directors upon nomination from the Lane Economic Committee. The LAC will represent a cross section of community leadership with the following composition:

- At least one commercial lender
- At least two business and industry leaders
- At least one at-large position
- An LCOG employee who is not part of the loan group staff
- A representative of a regional economic development organization
- A Lane County representative
- Appointees may represent more than one category.
- The LAC will meet on an as-needed basis.
- A quorum shall consist of four members.
- The chairperson will be elected from those members with commercial lending experience.
- A Committee member with commercial lending background must be present for final loan approval or for any major collection actions or major loan modifications.
- LAC members shall serve for a term of four years.

The LAC shall have the following responsibilities:

- Serve as the "Loan Committee" with authority to approve loans and establish terms, rates and other conditions of loans.
- Provide oversight of the RLF program.
    - Make policy recommendations affecting the RLF to the Lane Economic Committee.

- Make final decisions regarding loan collection or administration issues.
- On an exception basis, and when needed for timely approval actions, and/or to protect the interests of the RLF, the chair of the LAC or his/her designee may approve minor amendments to previously approved loans as well as loan collection actions.

3. **Conflict of Interest Policy**

- Neither LCOG nor any of its principal officers may hold any legal or financial interest in the borrower.
- Neither the borrower nor any of its principal officers may hold any legal or financial interest in LCOG.
- Any LAC member that has other professional relationships with a loan applicant that may present a conflict of interest shall not participate in approval or other related deliberations but may be invited to respond to questions from other LAC members.
- The RLF will also comply with all Conflict of Interest provisions of the EDA RLF Standard Terms and Conditions Part II.D and also 13 CFR 302.17 “Conflicts of Interest”.
- The following certifications are required from the applicant on the initial loan application:
    - Applicant certifies that he or she is not an officer of LCOG, employee of LCOG, or other member of LCOG’s Board of Directors, or other Board (hereinafter referred to as “other board”) that advises, approves, recommends or otherwise participates in decisions concerning loans or the use of RLF funds, or person related to the LCOG officer, another LCOG employee, or any member of the Board by immediate family, law, or business arrangement. Immediate family is defined as parents, grandparents, siblings, children and grandchildren, but does not include more distant relatives, including cousins, unless they live in the same household.
    - Applicant certifies that no officer, employee or board member of LCOG has solicited or accepted, directly or indirectly, any gift, gratuity, favor, entertainment or any other thing of monetary value, for himself or for any other person, from the applicant.
    - Applicant certifies that he or she has not been employed as an officer or board member of LCOG for at least two years.
- All meetings of the Loan Administration Committee (LAC) to approve or modify any loan will include an agenda item wherein board members will be asked to certify that they have no real or potential conflict of interest with the prospective borrower in accordance with EDA conflict of interest requirements at CFR 308.15(e). An exception would be where the board member works for a bank which has a loan to the prospective borrower; in this situation, the board member will be informed by the chairperson that they may not participate in approval or other related deliberations, but may be invited to respond to questions from other LAC members.

B. LOAN PROCESSING PROCEDURES

1. Standard Loan Application Requirements

The following list represents possible items which will be required of applicants:

- History and description of the business
- Use and source of proceeds form
- Personal financial statement
- Personal tax returns for last two to three years
- Resumes of management
- Business tax returns for the last two to three years
- Current financial statements within 90 days, certified by a company officer
- Projected monthly cash flow and / or Projected annual income statement including assumptions, depending on how much reliance will be placed on projected versus historical cash flow.
- List of collateral and its value
- Bank letter turning down project or participating in the project
- Loan Application Fee of $500

2. Credit Reports

- Credit Reports will be required for all individuals. Personal credit history will weigh heavily in the final credit decision.

3. Appraisals

- Appraisals will normally be required for any real estate project where the total project costs exceed $250,000.
- Equipment appraisals may be required for loans secured primarily by existing or used equipment.

4. Environmental Review

LCOG has developed and will implement the following environmental review process. All environmental reviews will receive final concurrence from the LCOG program manager acting as the RLF administrator. The LCOG environmental review process will comply with 13 CFR 307.10(a): *"RLF Recipients must adopt procedures to review the impacts of prospective loan proposals on the physical environment. The Plan must provide for compliance with applicable environmental laws and other regulations, including but not limited to parts 302 and 314 of this chapter. The RLF Recipient must also adopt procedures to comply, and ensure that potential borrowers comply, with applicable environmental laws and regulations."*

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

Administrator shall work with the loan applicant and the appropriate state environmental agency office to resolve these outstanding issues.

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

No project shall be approved which would result in the alteration of or have an adverse impact on any wetland without prior consultation with the U.S. Department of the Interior, Fish and Wildlife Service, and, if applicable, obtaining a section 404 permit from the Army Corps of Engineers.

Consistent with E.O. 11988, no project shall be approved which would result in new above ground development in a 100 year flood plain. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.

Borrowers will be required to comply with applicable laws and statutes including, but not limited to:

- National Historic Preservation Act (16 U.S.C. Sec. 470 et seq.)
- Executive Order 11988 (Floodplain Management) and Executive Order 11990 (Protection of Wetlands, May 24, 1977)
- Clean Air Act, (42 U.S.C. Sec 7401 et seq) Federal Water Pollution Control Act (33 U.S.C. Sec 1251 et seq) (Clean Water Act) and Executive Order 11738 (:Providing for administration of the Clean Air Act and the Federal Water Pollution Control Act with tespect to Federal contracts, grants or loans.")
- The Flood Disaster Protection Act of 1973 (42 U.S.C. sec 4002 et seq).
- Endangered Species Act of 1973, Pub. L. 93-205, as amended, 16 U.S.C. Sec. 1531 et seq.
- Coastal Zone Management Act, as amended, (16 U.S.C. Sec. 1451 et seq.)
- Coastal Barriers Resources Act (16 U.S.C. 3501 et seq.)
- Wild and Scenic Rivers Act, (16 U.S.C. Sec.1271 et seq.)
- Safe Drinking Water Act, as amended, (42 U.S.C. Sec. 300f et seq.)
- Resource Conservation and Recovery Act, as amended, (42 U.S.C. 6901 et seq.)
- Comprehensive Environmental Response, Compensation, and Liability Act (Superfund) (U.S.C. 9601 et seq.) and the Community Environmental Response Facilitation Act (41 U.S.C. sec 11001 et seq,)
- Executive Order 12898 ("Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations").
- Other Federal Environmental Statutes and Executive Orders as applicable.

5. Historical Buildings Review

The State Historic Preservation Officer, (SHPO) shall be notified of each loan proposal that involves significant new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. The RLF Administrator shall work with the SHPO and EDA in cases where the SHPO has recommended actions or has been determined an adverse impact.

6. Collateral and Equity Requirements

- Borrowers will normally be expected to contribute equity in the minimum amount of 10%.
- Equity contributions will normally be made with cash but in-kind equity contributions may be considered.

7. Loan Proposals

Loan applications will be analyzed and summarized in a loan write-up. This credit memorandum will summarize aspects including the following:

- Loan terms
- Loan conditions
- Discussion of jobs created and other public benefits
- Discussion of circumstances requiring RLF participation including a finding that credit is not otherwise available pursuant to 13 CFR 308.18(c)
- History and description of the business
- Explanation of the transaction
- Primary source of repayment
- Business and management evaluation
- Personal credit
- Secondary source of repayment including collateral loan to value, other liens and guarantor analysis including review of credit reports
- Environmental analysis

8. **Procedures for Loan Decision**

The following process describes the typical path of all loan applications:

- LCOG staff holds preliminary discussion with potential applicant to determine eligibility and discuss initial credit criteria and type of information that will be needed to make credit decision.
- If applicant or project is ineligible, or if credit appears to have too many weaknesses, LCOG staff will explain what would be required to make the project creditworthy and/or suggest other possible financing sources.
- Applicant submits formal application and all supporting documents.
- Applicant principals authorize credit check and pay application fee.
- LCOG staff review materials for completeness and regulatory compliance.
- LCOG staff accepts borrower application.
- LCOG staff performs detailed review and analysis of application.
- LCOG staff submits its final detailed credit memorandum to Loan Administration Committee. Staff recommendation will include what the terms and conditions should be.

- Loan Administration Committee meets to decide whether to approve or decline the loan request and what terms and conditions shall apply. Approval requires a majority vote. This is the final loan decision.
- LCOG staff Notifies Applicant in writing. If declined, include reasons for denial. If approved, send Applicant a letter of intent to commit funds, subject to any other conditions for approval as determined by the Loan Administration Committee.
- LCOG staff places a copy of Loan Administration Committee minutes into the loan file in order to document the date of approval, and critical committee discussion and results of vote.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. General Closing Requirements

The borrower will agree in its Loan Agreement to only use loan proceeds for the specifically identified and approved loan purpose as required in 13 CFR 307.17(a).

The borrower will agree in its Loan Agreement that the Federal government is held harmless according to 13 CFR 307.10(c).

The borrower will agree in its Loan Agreement to comply with all Federal statutory and regulatory requirements that apply to activities carried out with RLF loans according to 13 CFR 307.10(b) "*RLF Recipients must ensure that prospective borrowers, consultants, or contractors are aware of and comply with the Federal statutory and regulatory requirements that apply to activities carried out with RLF loans. RLF loan agreements shall include applicable Federal requirements to ensure compliance and RLF Recipients must adopt procedures to diligently correct instances of non-compliance, including loan call stipulations."*

2. Loan Closing Documents

LCOG has prepared loan closing documents and has complied with 13 CFR 307.15(b)(2) regarding review of its loan documents:
"Prior to the disbursement of any EDA funds, the RLF Recipient shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The standard loan documents must include, at a minimum, the following:
(i) Loan application;
(ii) Loan agreement;
(iii) Board of directors' meeting minutes approving the RLF loan;
(iv) Promissory note;
(v) Security agreement(s);
(vi) Deed of trust or mortgage (as applicable);
(vii) Agreement of prior lien holder
(as applicable); and
(viii) 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 the RLF Recipient to accept alternate documentation only if such documentation is allowed in the Recipient's EDA-approved RLF Plan."

3. Loan Disbursements

- Loans whose primary purpose is related to real estate acquisition or construction will generally be closed through a title and escrow company.
- Loans for the purchase of equipment will require evidence of equipment invoices and will be paid jointly to the vendor and the borrower. Loans for equipment may be paid directly to the borrower upon receipt of paid invoice.
- Loans for working capital will require evidence of satisfactory net working capital equity contribution from the borrower based on current financial statements, or other documentation acceptable to LCOG.

D. LOAN SERVICING PROCEDURES

1. Loan Payment and Collection Procedures

LCOG will use a third party escrow collection company to collect monthly payments from borrowers. The escrow company will issue payment coupon books to borrowers. Monthly payments are then deposited directly into LCOG's deposit account by the escrow collection company.

2. Loan Monitoring Procedures

All loans will be entered into LCOG loan management system database. This database provides a convenient system for all loan monitoring requirements including tax returns, hazard insurance and UCC renewals, site visits and other tickler items. The following items will be monitored for all loans:

- Annual business tax returns within 30 days of submission. Loan officer to review, analyze, footnote and sign all tax returns.
- Employment reports for the first two years.
- Annual site visits for the first two years and other contact, as necessary.
- Hazard, Flood and Life insurance
- UCC renewals

Job creation will be verified at the end of the first two years. The borrower will certify in writing as to the number of current full-time and full-time-equivalent employees. This figure will be compared to initial job data at the time of loan application. The resulting change will be reported to EDA.

3. **Late Payment Follow-up Procedures**

- If any monthly payment is delinquent more than fifteen (15) days, Borrower shall pay a late charge of five percent (5%) of the delinquent installment in addition to the installment due.
- Upon the occurrence and during the continuation of any default, the principal amount outstanding will at the option of Lender bear interest at a rate per annum which is five percentage points higher than the rate of interest otherwise provided under the Note. This will not constitute a waiver of any default. The default rate is a standard provision of our Business Loan Agreement.
- LCOG will verbally notify all borrowers that are over 15 days delinquent to determine plans to bring loan payments current.

- LCOG will typically issue a written default notice to all borrowers in excess of 30 days past due.
- LCOG will coordinate collection efforts with other lender whenever possible.

4. **Procedures for Handling Loans Over 90 Days in Arrears**

In addition to the "Late Payment Follow-up Procedures" identified above, loan workouts will be attempted for loans over 90 days in arrears. Workouts may include extension of loan maturity or reduction of interest rate subject to the approval of the Loan Administrative Committee. These workouts will usually be negotiated in cooperation with the other lenders in the transaction.

5. **Restructures**

See comments above in "Procedures for Handling Loans Over 90 Days in Arrears."

6. **Write-off Procedures**

- Loans deemed uncollectible will be written off and charged to expense. Amounts collected after a loan is written off will be credited to recoveries.
- Collection activity will be pursued until it is no longer cost-efficient to do so, based upon LCOG staff review of collateral liquidation values, collection costs and legal costs.
- Loan payments on defaulted loans will be handled according to 13 CFR 307.12(c): *"Priority of payments on defaulted RLF loans. When an RLF Recipient receives proceeds on a defaulted RLF loan that is not subject to liquidation pursuant to § 307.20, such proceeds shall be applied in the following order of priority:*
  (1) First, towards any costs of collection;
  (2) Second, towards outstanding penalties and fees;
  (3) Third, towards any accrued interest to the extent due and payable; and
  (4) Fourth, towards any outstanding principal balance."

E. ADMINISTRATIVE PROCEDURES

1. **Procedures for Audits and Accounting**

- LCOG will operate the RLF in accordance with GAAP and prudent lending standards as per 13 CFR 307.15(a): *"(a) Accounting principles. (1) 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. (2) 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."*

- The EDA RLF will be set up and maintained as a separate sub-fund under LCOG's fiscal system. This will allow accurate and detailed review of all revenues and expenses.
- The EDA RLF will have its own unique bank account so that repayments and interest income are clearly identifiable and auditable.
- The RLF will pay administrative costs to include salary, fringe and indirect expenses for the program manager, senior loan officer and assistant loan officer. The RLF is expected to cover approximately 25% of the total budget for these staff members. The remainder of the budget for these staff members comes from other loan programs including the US Small Business Administration, USDA Intermediary Re-lending Program and State of Oregon Business Development Fund. LCOG expects that it will use approximately 50% of RLF income to cover administrative costs but that the percentage may hit 75% during certain periods depending on the volume of new applications and servicing requirements. LCOG's fiscal system will enable timely and accurate monthly reporting of RLF income and expenses.
- The RLF will also utilize some services from Lane County and compensate Lane County based on actual hourly costs incurred. Such services are expected to include the following:
    - Building awareness levels with various business and industry groups, particularly in the rural portions of the county.
    - Providing guidance and technical assistance to potential loan applicants.
    - Screening ineligible projects and loan applicants.
    - Assisting businesses with the loan application process.

  These services are expected to cost between $1,000 and $3,000 per year, with some anticipated increase based on inflation.
- LCOG loan programs are audited annually by LCOG's outside CPA firm as part of the agency's annual financial statement audit. The annual CPA audited financial statement is prepared in accordance with Generally Accepted Accounting Principles (GAAP). The RLF program is shown separately on the annual CPA audited financial statement.
- LCOG will use RLF income in accordance with 13 CFR 307.12(a) as follows: *"Revolving Loan Fund Income. (a) General requirements. RLF Income must be placed into the RLF Capital base for the purpose of making loans or paying for eligible and reasonable administrative costs associated with the RLF's operations. RLF Income may fund administrative costs, provided: (1) Such RLF Income and the administrative costs are incurred in the same six-month (6) Reporting Period; (2) RLF Income that is not used for administrative costs during the six-month (6) Reporting Period is made available for lending activities; (3) RLF Income shall not be withdrawn from the RLF Capital base in a subsequent Reporting Period for any purpose other than lending without the prior written consent of EDA; and (4) The RLF Recipient completes an RLF Income and Expense Statement (the''Income and Expense Statement' ') as required under § 307.14(c)."*

2. **Procedures for Loan Files and Loan Closing Documents**

- All loans will have three loan files:
    - Application File will contain all relevant application documents
    - Closing File will contain the original loan closing documents.
    - Servicing File will contain current insurance information, annual tax returns, employment information, site visit reports, written correspondence and file comments.
- All original loan documents will be stored in a fire proof cabinet.

3. **Hold Harmless Policy**

LCOG will ensure that the Federal government is held harmless according to 13 CFR 307.10(c): *"All RLF loan documents and procedures must protect and hold the Federal government harmless from and against all liabilities that the Federal government may incur as a result of providing an RLF Grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site. These protections apply to the extent that the Federal government may become potentially liable as a result of ground water, surface, soil or other natural or man-made conditions on the property caused by operations of the RLF Recipient or any of its borrowers, predecessors or successors."*

4. **Procedures for Complying with EDA Reporting Requirements**
LCOG will comply with EDA's semi-annual EDA-209 reporting requirement and EDA's semi-annual EDA-209I reporting requirement if 50% or more of RLF income is used for administrative costs in a six month period as stipulated in CFR 307.14 *"Revolving Loan Fund semi-annual report and Income and Expense Statement. (a) Frequency of reports. All RLF Recipients, including those receiving Recapitalization Grants for existing RLFs, must complete and submit semi-annual report in electronic format, unless EDA approves a paper submission. (b) Report contents. RLF Recipients must certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan. RLF Recipients also must describe (and propose pursuant to § 307.9) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool. (c) RLF Income and Expense Statement. An RLF Recipient using either fifty (50) percent or more (or more than $100,000) of RLF Income for administrative costs in a six-month (6) Reporting Period must submit to EDA a completed Income and Expense Statement (Form ED–209I or any successor form) for that Reporting Period in electronic format, unless EDA approves a paper submission."*

LCOG will comply with EDA's Records and Retention policy as outlined in CFR 307.13 "*Records and retention. (a) Closed Loan files and related documents. The RLF Recipient 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: (1) Principal, interest, fees, penalties and all other costs associated with the Closed Loan have been paid in full; or (2) Final settlement or discharge and cessation of collection efforts of any unpaid amounts associated with the Closed Loan have occurred. (b) Administrative records. RLF Recipients must at all times: (1) Maintain adequate accounting records and source umentation to substantiate the amount and percent of*
RLF Income expended for eligible RLF administrative costs. (2) Retain records of administrative expenses incurred for activities and
equipment relating to the operation of the RLF for three (3) years from the actual submission date of the last semi-annual report that covers the Reporting Period in which such costs were claimed. (3) Make available for inspection retained records, including those retained for longer than the required period. The record retention periods described in this section are minimum periods and such prescription does not limit any other record retention requirement of law or agreement. In no event will EDA question claimed administrative costs that are more than three (3) years old, unless fraud is at issue."

If LCOG holds excess cash which may be subject to sequestration, LCOG will comply with all EDA sequestration requirements.

5. **Procedures for Complying with other funding source agency Reporting Requirements**
Not Applicable

6. Grantee Control Procedures for Ensuring Compliance with

All Grant Requirements and for Monitoring the RLF Portfolio

LCOG has historically required and will continue to require a CPA audited year-end audit of its financial statements. This CPA audit also includes a compliance audit. The most recent audit report recently concluded: “In our opinion, Lane Council of Governments, complied, in all material respects, with the types of compliance requirements … that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.”

LCOG has a detailed timesheet system which is completed by the employee on a monthly basis to capture the time spent by each employee on various contracts and grants. This timesheet system allows us to keep close control over the hours and costs incurred for the benefit of each grant and / or contract, including the EDA RLF.