WASHINGTON COUNTY LOCAL DEVELOPMENT CORPORATION

INTERMEDIARY RELENDING LOAN FUND

POLICY GUIDELINES & OPERATING PLAN

Adopted Revisions: 3/17/17

Intermediary Relending Program

Section I. GENERAL

1.1 Policy Guidelines and Operating Plan

The Policy Guidelines and Operating Plan (the "Plan") is adopted by the Board of Directors of the Washington County Local Development Corporation (the "LDC") and tended to serve as the primary Administrative document for the Intermediary Relending Program (the "Program"). Any changes to the Plan must also be adopted by the Board of Directors.

1.2 Objectives

The primary objectives of the Program are to facilitate the expansion of business activity within the County, create employment opportunities and expand the County's industrial and commercial tax base.

1.3 Form of Assistance

The Program will provide assistance only in the form of secured loans.

Section 2. ELIGIBILITY REQUIREMENTS

2.1 Eligible Activities

(a) The principal business activity which will be primarily impacted by the Program financing must be located within Washington County.

(b) The business activity to be undertaken with assistance from the Program must primarily involve at least one of the following:

- (i) A manufacturing endeavor to be defined as manufacturing, fabrication, assembly, processing, growing, packaging or other enterprise that directly involves the production of an end product;
- (ii) Warehousing - where such activity is an integral part of a manufacturing endeavor;
- (iii) Wholesale distribution; or
- (iv) A service, not listed as specifically ineligible pursuant to Section 2.2 herein

(c) The business activity to be undertaken with LDC financing must be consistent with the Federal regulations governing the Intermediary Lending Program (IRP).

2.2 Ineligible Activities

The Program will not provide financing for any business activity which primarily involves agricultural production, transportation services, utilities, communications, construction trades, professional services (e.g., legal, accounting, architectural, engineering, medical, financial, insurance, real estate, etc.), purchase of over-the-road vehicles, investing, speculation, or realty ownership held primarily for sale or investment, or any activity which is illegal.

Exceptions to the above mentioned ineligible activities will be made at the discretion of the LDC Board of Directors and only in such instances where the activity will produce an extraordinary degree of public benefit and will conform to all Federal regulations governing the IRP.

2.3 Eligible Borrowers

Eligible borrowers include for-profit businesses in the form of sole proprietorships, partnerships, and corporations. Loans may also be provided to individuals acting as principals of an eligible entity and who will rent or lease assets to an otherwise eligible borrower.

A borrower is eligible for EDLF financing when credit is not otherwise available on terms and conditions that would permit completion of the borrower's project. A borrower eligibility determination must be supported by either:

(a) A Loan commitment letter from the commercial lender participating in the project showing that the necessary funds are not wholly available through said partnering entity.

(b) A commercial lender letter declining participation.

2.4 Eligible Uses of Program Funds

Program funds may be used for any justifiable business purpose including, but not limited to, fixed assets, current assets including inventory and receivables, and permanent working capital. The use of Program funds must also be eligible pursuant to the Federal regulations governing the IRP.

Section 3. <u>PROGRAM STANDARDS</u>

3.1 Employment

The borrower shall agree to employ at least 20% of its workforce from members of families with income below the poverty line. For the purposes of calculating employment opportunities, the following will apply:

(a) Only permanent jobs will be counted; temporary and construction jobs will not be counted

(b) Jobs of 35 or more hours per week will be considered as one full-time job. Part-time permanent jobs of less than 35 hours per week will be converted to full-time equivalent jobs by dividing the number of part-time hours by 40.

(c) Seasonal jobs will be considered to be permanent jobs if the duration of the working period is long enough to classify the job as the employee's principal occupation.

(d) Projected employment must be reasonably expected to occur as a direct result of the expanded business activity and such projection may in no instance extend beyond 36 months from the completion of the expansion.

3.2 Program Financing Amount

Consistent with the Federal regulations governing the IRP, Program assistance must be no greater than the minimum amount necessary to affect the business activity. Applicants must therefore demonstrate that all other private and public sources of debt and equity have either been maximized or are inappropriate, unaffordable or otherwise unavailable. Program assistance may cover no more than 75% of the project cost per loan, and must cover no more than 50% of the project cost portfolio wide.

3.3 Minimum Amount of Program Assistance

Program assistance will not be considered where the amount of such required assistance is less than $25,000.

3.4 Maximum Amount of Program Assistance

The maximum Program assistance shall be $150,000 per loan for the initial portfolio, and $250,000 per loan thereafter.

3.5 Other Requirements

It is the responsibility of the LDC Board and staff to assume all Federal IRP requirements are met, which include, but are not limited to, environmental review, evidence of appropriate insurance, compliance with Equal Opportunity requirements, and eligibility.

Section 4. <u>LENDING POLICIES</u>

4.1 Term of Loans

For fixed asset loans the Program loan term will generally be consistent with the life of the assets being financed, with such periods being consistent with standard commercial lending policies and in no instance exceeding fifteen (15) years. For term working capital loans, the loan term may not exceed seven (7) years. For all loans, the term will be determined by the LDC based upon such factors as the structure of other related loans, the nature of the collateralized assets and the borrower's ability to repay the loan.

4.2 Interest Rate

The interest rate charged for the use of Program funds will be determined by the LDC as follows: 75% of Wall Street Prime at the time of closing, fixed, with a floor of 5% and a ceiling of 9%. IRP loans *may* have an initial deferral of principal and interest payments for up to six (6) months. No interest will be charged or accrued during this period. After the expiration of this period, loan repayment will commence according to the terms established in the loan documentation. Under no circumstance will a variable interest rate be used.

4.3 Repayment Terms

The LDC will determine the schedule of loan repayments on a case-by-case basis based on the applicant's projected ability to repay the loan, the projected value of the collateral and other security and the overall risk assumed by the Program. Repayment terms may involve standard forms of loan amortization, periods of accruing interest or interest only payments, extended amortization schedules with balloon payments of principal and/or such other terms as may be determined by the LDC to be appropriate.

4.4 Security

The LDC will determine the required security for each loan on a case-by-case basis based on such factors as the risk of default, the nature and value of the security and the position of the Program in relation to other lenders. In determining the appropriate security, the following will apply:

(a) The LDC will require a security interest in all assets financed with Program funds. Collateralization of additional assets of the borrower may be required at the LDC's option.

(b) For loans to corporations the LDC shall require the personal guarantee of all owners of at least 20% of the voting stock of the company.

(c) For loans to closely-held corporations, the LDC may require collateralization of selected personal assets of one or more of the owners.

(d) For loans to individuals, partnerships or corporations which have affiliated interests and/or identities of ownership with other business entities, the LDC may require additional guarantees.

(e) For loans to businesses which have a dependence upon specific individuals for their continuing viability, the LDC may require an assignment of insurance on the lives of those persons.

4.5 Subordination

(a) The LDC will generally allow a subordination of Program debt and collateral to private institutional lenders where necessary to facilitate the maximum financial participation by the private lenders.

(b) The standing of the LDC's financing relative to other public or quasi-public lenders will be negotiated on a case-by-case basis.

(c) The LDC will generally require subordination to Program financing of notes payable to any officer, owner or similarly affiliated party to the borrower where such subordination is appropriate and feasible.

(d) The LDC will generally require the execution of inter-creditor agreements in instances where multiple lenders exist. The use and form of such agreements shall be the responsibility of the LDC Attorney**.**

Section 5. APPLICATION PROCESSING

5.1 Loan Applications

Applications for Program financing must include all of the information required by the Application for financing (attached hereto as Appendix A) and any additional information as may be requested by the LDC**.**

5.2 Application Fee

A non-refundable application fee of $150 is due at the time of submission of the application for financing.

5.3 Application Processing

The processing of loan applications will be the responsibility of the LDC staff and will generally consist of the following**:**

(a) Review of applications for completeness and procurement of appropriate additional information.

(b) Review for Program eligibility criteria and eligibility pursuant to IRP regulations

(c) Determine economic feasibility, perform credit analysis and assess risk.

(d) If it is determined that the loan application will be sent out for professional risk analysis, the applicant pays this fee up front and if approved, this cost will then be deducted from the 2% closing costs. This cost is forfeited if the loan application is denied based on the risk report.

(e) Determine amount and terms of Program financing, including appropriate security.

(f) Perform appropriateness review in conformance with USDA IRP guidelines.

5.4 Loan Review Committee
The LDC Board has established a Loan Review Committee to review loan applications.

5.5 Loan Approval
The Loan Review Committee shall have the authority to approve loans up to $150,000. The LDC Board of Directors shall have authority to approve loans in excess of $150,000. Such authority shall include the commitment to lend Program funds, the repayment terms and the requisite security for the loan. The application of other appropriate conditions of lending and covenants of the borrower shall be the responsibility of the LDC Attorney with input from the LDC staff and the Loan Committee.

5.6 Loan Disapproval

(a) Loan applications may be disapproved by the LDC's President or Executive Director based on a lack of funding, lack of application completeness or a failure to meet the eligibility criteria pursuant to Sections 5.3 of this Plan respectively. In such instances the applicant will be notified in writing of the reason(s) for disapproval.

(b) Loan applications may be disapproved at the direction of the Loan Review Committee if the Committee determines that Program financing is clearly inappropriate based on the reviews conducted in accordance with Sections 5.3 of this Management Plan. In such instances the applicant will be notified in writing of the reason(s) for disapproval.

(c) Loan applications may be disapproved by the Loan Review Committee or the LDC Board of Directors for any reason(s) which represent a reasonable determination that the approval of the Program application would not meet the objectives of the Program and/or would not represent an appropriate or prudent use of Program funds. In such instances the applicant will be notified in writing of the reason(s) for disapproval.

Section 6. POST-APPROVAL PROCESS

6.1 Commitment Letter
Within ten calendar days from the date of the LDC Board's or Loan Review Committee's approval of a Program loan, a commitment letter shall be sent to the applicant. The commitment will include, at a minimum, the following information:

(a) The amount of the loan approved, applicable interest rate, term of the loan, terms of repayment and the expiration date of the commitment.

(b) The required use of the loan funds.

(c) The LDC's requirements for collateral and additional security - including any guarantees, pledges of assets, assignment of life insurance, etc.

(d) Summary information regarding employment requirements.

(e) Any other conditions of lending.

(f) A listing and explanation of any fees to be charged and other closing costs which will be the responsibility of the borrower.

(g) A listing of those conditions and requirements of the borrower which must be fulfilled precedent to a loan closing.

(h) Any other information that could reasonably be expected to influence the borrower's decision to accept the terms of the loan commitment.

6.2 Commitment Fees

To secure the availability of Program funds and to partially defray the cost of loan application processing, the borrower shall be required to pay a commitment fee equal to two percent (2%) of the approved Program loan amount. One percent (1%) of the fee shall be paid to the LDC concurrent with the borrower's acceptance of the terms and conditions of the Lender's Memorandum and one percent (1%) shall be paid at the time of closing.

6.3 Loan Closings

The LDC Attorney shall have the responsibility to prepare and/or require the preparation of all appropriate closing documents. The LDC Attorney shall determine the appropriate closing documents to be executed based upon the terms and conditions of the loan approval and standard commercial lending policies. Such documents shall generally include the following:

(a) A loan agreement that includes a description of the loan terms and security, appropriate representations and warranties, the conditions of lending, affirmative and negative covenants -including compliance with applicable federal laws and regulations, requirements regarding employment creation and reporting, default provisions and any other provisions that may be appropriate.

(b) A note or notes to evidence the indebtedness and the terms of repayment.

(c) The appropriate documents to evidence and record mortgages, liens, guarantees and such other security as may be required by the terms of the loan.

(d) Other appropriate documents as determined by the LDC Attorney.

6.4 Security

The LDC Attorney will be responsible for perfecting all of the LDC's security interests including, where appropriate, the execution of security agreements, the filing of financing statements, the execution and filing of mortgage documents, the execution of guarantees and any other appropriate actions to adequately protect the LDC's security interests. Inter-creditor agreements should be executed where appropriate to further protect the LDC's interests and to facilitate the processing of defaults and foreclosures.

6.5 Loan Disbursement

The disbursement of loan proceeds shall be the responsibility of the LDC staff. For such disbursement, the following guidelines shall generally apply:

(a) Subject to the borrower's compliance with the terms and conditions of the loan agreement, all documents evidencing and securing the loan, and other guidelines for disbursement as described in this Section (6.5), the LDC may disburse loan proceeds upon the borrower's presentation of vouchers and other such evidence satisfactory to the LDC that represent paid or accrued expenses of the borrower and which are eligible costs as determined by the LDC.

(b) Where other debts or equity financing is to be used in conjunction with the Program financing, such debt or equity must, in the opinion of the LDC staff, be firmly committed for such use. Evidence of the commitment(s) must be submitted by the borrower.

(c) Where other debt or equity financing is to be used in conjunction with the Program financing, the LDC will, at its discretion, determine an appropriate draw schedule for Program funding based on such factors as the magnitude of risk assumed by the LDC, the nature of the activities being financed, the draw schedule for the other financing, and applicable federal regulations for the use of IRP funds. The manner and terms of the disbursement of the Program financing shall be prescribed by LDC staff.

Section 7. <u>LOAN MANAGEMENT</u>

7.1 Delinquencies

The LDC staff will contact the borrower within 14 days of any delinquency of payment to inform the borrower of the delinquency and to determine if there is a need to procure additional information or to provide technical assistance. Delinquencies that continue for 90 days will be referred to the LDC Attorney for further action.

7.2 Annual Financial Review

The LDC staff will be responsible for conducting an annual financial review for all borrowers based primarily on the annual financial statements submitted by the borrower. Additional information may be procured as appropriate. The reviews will be presented to the Loan Review Committee for further action or recommendations as appropriate.

7.3 Adjustment of Terms and Conditions

Requests by the borrower for adjustment of any of the terms and conditions of the loan will be reviewed by the LDC staff to determine whether the adjustment is in the best interests of the LDC. A non-refundable fee of $100 is due at time of submission of a modification request. Requests will be processed in accordance with the following:

(a) Requests to adjust the interest rate, term of the loan or security for the loan will be reviewed by the LDC staff, presented to the Loan Review Committee for review and action. Any such adjustments will require approval of the Loan Review Committee.

(b) Requests to accrue interest or to pay interest only may be approved by the President or Executive Director of the LDC for a period not to exceed 60 days. The Loan Review Committee will have the authority to extend the period at its discretion.

(c) Requests for changes respecting any covenants or conditions of a financial nature must be approved by the Loan Review Committee as to content and the LDC Attorney as to form.

(d) Requests for any other changes to the covenants or conditions of the loan including, but not limited to, such areas as reporting requirements, cost documentation and maintenance of records may be approved by the President or Executive Director of the LDC or referred to the Loan Review Committee at the President's or Executive Director's discretion.