

IOSCO COUNTY ECONOMIC DEVELOPMENT COMMISSION



REVOLVING LOAN FUND (RLF) PLAN
As amended June 2014

A. ECONOMIC ADJUSTMENT OVERVIEW

The original purpose of the Iosco County Economic Development Commission (IEDC) Revolving Loan Fund (RLF) was to address serious economic challenges created by the closure of Wurtsmith Air Force Base in 1990. The IEDC RLF today enables Iosco and Alcona Counties to continue to deal with the region's high unemployment rate and other serious economic conditions across the region.

Iosco and Alcona Counties are members of The East Michigan Council of Governments (EMCOG) and are included in the EMCOG Comprehensive Economic Development Strategy (CEDs). The EMCOG CEDs is designed to provide economic information, development strategies, and local and regional projects for the Iosco County Economic Development Commission, ("ICEDC") Iosco County, the CEDs Committee, staff, local government officials, interest groups and citizens from throughout the region, while meeting the standards and requirements of the Economic Development Administration (EDA).

The Iosco County Revolving Loan Fund is designed to improve and expand the economic health of Iosco and Alcona Counties through a wide variety of flexible lending efforts that assist in the expansion of the economic base through increased employment, and the collateral economic improvements associated with job creation and growth.

The availability of public and private economic development financing in the two county area is limited. Currently the project area is served by seven (7) private sector financial institutions: Huron Community Bank, PNC Bank, Chemical Bank, Northland Area Federal Credit Union, Alpena Alcona Area Credit Union, Firstbank, and First Federal of Northern Michigan. The project area is not served by any public or private entity capable of supplying capital for potential expansion opportunities. Entrepreneurs, developers and investors within the project area have historically been undercapitalized.

Public entities capable of providing a measure of capital assistance include Industrial Development Corporations, a local revolving UDAG program, Downtown Development Authorities and Tax Increment Finance Authorities. Although very little actual direct financial assistance is available for private sector initiatives, some indirect benefits, primarily in the form of infrastructure enhancements, can be offered. Therefore, Alcona and Iosco Counties are challenged by a very limited pool of available capital. The ICEDC RLF provides a substantial assistance for capital availability and significantly benefits private sector activity.

The single most difficult issue currently facing the project area is developing a long-term initiative to address the economic stagnation in Northeast Michigan as demonstrated by a variety of troubling economic indicators.

Unemployment remains above the state and national average and has for a long period of time. The Comprehensive Economic Development Strategy (CEDS) through the Iosco County Economic Development Commission focuses on developing a strong workforce training program to fill potential jobs in a variety of industrial areas including air frame certification, CNC machine training along with other similar manufacturing skill set needs.

The closure of Wurtsmith Air Force Base (WAFB) in 1990 created a number of significant economic challenges in the region; the Iosco County EDC has noted Local Economic Consequences of closing Wurtsmith Air Force Base, and has detailed a significant challenge associated with base closure.

Iosco and Alcona Counties natural resource assets include: water, forest and rich agricultural soil. Even though Iosco and Alcona Counties are two of the most distressed areas of the state, experiencing a large job loss associated with the recent economic downturn, they remain determined that through creative thinking, these counties will economically succeed.

From a historical perspective, Oscoda Township under the auspices of the Wurtsmith Area Economic Adjustment Commission, along with the Iosco County Economic Development Commission, the Oscoda/AuSable and Tawas Area Industrial Development Corporations, initially implemented efforts to address the devastating economic impact due to the Wurtsmith Air Force Base closure. Initially, organizational responsibility to access opportunities for future economic development utilization of the Wurtsmith Air Force Base was given to Oscoda Charter Township through the Wurtsmith Area Economic Adjustment Commission. The responsibility of developing a regional response to the base closure that included goals and objectives not associated with the reuse of the Air Force Base was assigned to the Iosco County Economic Development Commission.

The primary objective of the Iosco County Economic Development Commission continues to be the securing and maintaining of jobs in Iosco and Alcona Counties, as well as the development and encouragement of economic diversification.

Located along the shoreline of Lake Huron, Iosco County's economic base has historically been based in tourism, 60 percent of the total land area in Iosco County is held in public ownership. This area includes large portions of the Huron National Forest in addition to several state forests. The AuSable River, which runs across the northern portion of the county, has been designated as a "Wild and Scenic River" by the State of Michigan. With highway US-23 running along the Lake Huron shoreline, Iosco County is part of the six-county, state-designated Sunrise Side Coastal Highway (Huron Shores Heritage Route), and one of 14 in the state. In 1994 the former site of the Wurtsmith Air Force Base has been successfully transformed into a large industrial park, housing one of the country's largest private air cargo companies, Kalitta Air. Kalitta Air is currently the largest employer in Iosco County.

Tourism remains to be a major industry cluster in Northeast Michigan. Michigan's Sunrise Side in Iosco County boasts 36 miles of beautiful shoreline, 23 inland lakes, 259 miles of streams, more than 118,000 acres open to snowmobiling and ORV use, 110 miles of cross country ski trails and six public golf courses.

Oscoda Area Schools, St. Joseph Hospital and Kalitta Air are all located in Iosco County and each have more than 300 employees. Several small auto parts manufacturers are located in Oscoda and the Tawas area and employ between 50 and 300 workers. Forestry, consumer retail, health care, or governmental sectors, though it accounts for few jobs, is a major industry. In 1980, commercial forests covered 65% of the County's land base. In 1989, Iosco County's labor force stood at just over 11,000, and included many military dependents. In 2012, Iosco County's labor force was 10,268. The historical unemployment rate during late 1980's averaged 8.8%, in contrast the December 2012 the unemployment rate for Iosco County was 19.0%. Alcona County's unemployment rate in the late 1980's was 11.8% and in December of 2012 it was 9.2%. The population before the closure of Wurtsmith Air Force Base in Iosco County was 30,000, and in December, 2012 the population was estimated to be 25,209. Similarly, in Alcona County the permanent population in late 1980's was 18,000 and in December, 2012 the population dropped to 10,487. Iosco County's summer or seasonal population expands by some estimates, to approximately 90,000. In addition, Iosco County and Alcona Counties attract retirees. In 1986, 22% of the population received social security benefits, compared to December, 2012 in which 23% receive these benefits. When the Wurtsmith Air Force Base had closed in 1990, there was concern that the region would see an acceleration in the demographic imbalance as the region no longer attracted military retirees combined with the out migration of current residents who were leaving the region to seek employment in

other geographic areas.

The goals of the RLF are:

1. Mitigate the impacts of WAFB closure by promoting economic growth in industrial manufacturing, resort/tourism and small business clusters.
2. Promote diversification of economic activity.
3. Promote use of new technology.

Responsibility for assessing, monitoring, managing and updating the County's economic adjustment strategy resides with the ICEDC. The ICEDC periodically consults with other economic development entities in the area such as downtown development authorities, tax increment finance authorities, industrial development corporations, the Wurtsmith Air Force Base reuse entities, guided by the EMCOG CEDS. The information gathered from these sources is utilized to objectively measure the economic impact of the adjustment strategy and identify current labor and economic issues.

The area's resources and assets include extensive natural resources as previously indicated and specific growth industries such as aircraft and automotive aftermarket and original equipment manufactured parts. In addition, specific opportunities for expanding and strengthening existing economic clusters and/or creating new cluster development and growth including:

- Tourism related projects that leverage both the WAFB assets and community assets found within Iosco and Alcona Counties
- Expansion of the existing automotive related cluster
- Enhancement of the natural resource base of the local economy
- Air transportation cluster

Currently there are a number of shovel-ready industrial parks that are available for manufacturing/industrial site, many communities have undertaken major downtown enhancement projects that are providing opportunities for both tourism and commercial growth. In general, the administrative infrastructure associated with the successful implementation of localized economic development initiatives have been established through the utilization of professional and administrative staff from various local units of government. This effort combined with the capital provided by the RLF, will create local opportunities to finance economic development projects. A significant lack of capital has been identified in this area which is being addressed by the RLF.

B. THE BUSINESS DEVELOPMENT STRATEGY

The objectives of the Business Development Strategy for Iosco and Alcona Counties include the redevelopment of the Wurtsmith Air Force Base and the associated physical assets, marketing and promotion of the Oscoda and Tawas Area's Industrial Parks, enhancement of the ascetic characteristics of the major downtowns located in the project area and growth of the tourism market. The pertinent characteristics of the business or prospective businesses in the economic sectors targeted by the Revolving Loan Fund focus on medium-size light industrial manufacturers; diversification is emphasized because of the project area's dependence on automotive-related manufacturing. Both high-tech and innovation-related projects are highly desirable. The pristine natural environmental is an area of focus because of the tourism industry associated with the project area. The types of loan assistance needed by these businesses are working capital and gap financing.

A variety of programs and activities currently exist to aide targeted businesses including:

- Saginaw Valley State University's Small Business Center which recently opened in the Oscoda/AuSable area.
- Small Business Outreach Program operated by the Tawas Area Chamber of Commerce
- Develop Iosco Program
- Various manufacturing services provided by the Iosco County Economic Development Commission
- Specific programmatic initiatives provided by the Tawas Area Industrial Development Corporation
- Oscoda/AuSable Industrial Development Corporation

Coopers and Lybrand issued a study regarding the feasibility of a statewide economic development fund and found that Michigan's economic development financing does not systematically provide for an expansion in the supply of capital available for economic initiatives. Specific problems cited:

1. Over-reliance on revenue bond financing;
2. Inability to respond systematically to up-front capital requirements for major revitalization efforts;
3. Lack of innovation in such areas as equity participation in new ventures;
4. Over-reliance on local tax abatement programs in distressed areas;

In addition, recent Coopers and Lybrand survey of local economic development professionals also identified several financing problems:

1. Lack of seed capital and venture capital for new business.
2. Lack of expertise in financial packaging.
3. Poor state business climate.
4. High interest rates.
5. Loss of federal funds.

C. THE FINANCING STRATEGY

Iosco County and Alcona County financing strategy takes into account all sources of financing, public and private, available to support business development objectives. The strategy also identifies the best and most appropriate sources to match the creditworthiness and needs of the types of business targeted for investment.

1. FINANCING NEEDS

The targeted business sectors:

- Industrial manufacturing
- Resort
- Tourism
- Small retail businesses
- Firms promoting diversification of economic activity and the use of new technology

The financing needs of targeted business sectors include our ability to respond systematically to upfront capital requirements for major revitalization efforts, equity participation in new ventures.

2. LOCAL CAPITAL MARKET

The RLF addresses the problems associated with the lack of availability of public and private financing. Specifically, the prevailing commercial lending policies restrict the availability of seed capital and venture capital for new business. The public and private lenders mutually support the community's business development strategy by utilizing the RLF for gap; or bridge; financing thereby alleviating the restriction on venture capital for new businesses and allowing greater opportunities for private/public cooperative efforts. In addition, the RLF enhances the availability of capital that is aggravated by a relatively poor statewide business climate, rising interest rates, and the loss of federal funds associated with the closure of the Wurtsmith Air Force Base. Finally, private lenders have been involved in extensive dialogue with Iosco County Economic Development Commission representatives regarding these issues and a high level of interest has been generated by

private lenders and cooperation with these lenders has begun to emerge. ICEDC's administration addresses the lack of expertise and provides financial packaging.

3. RLF FINANCING NICHE

- Equipment loans for specialized equipment in excess of the amount available from conventional sources secured by a security interest in the equipment.
- Loans for equipment utilizing advance technology in excess of that available from conventional sources secured by a security interest in the equipment.
- Loans for equipment which would substantially improve productivity in excess of that available from conventional sources secured by a security interest in the equipment.
- Working capital loans secured by a security interest in land, buildings and equipment.
- Loans for the purpose of identifying new markets or expansion of existing markets insofar as such loans can be structured to meet all the requirements of the Revolving Loan Fund Program.
- Loans to prevent job loss due to business closure.

D. FINANCING POLICIES.

The following criteria will be used in selecting eligible borrowers:

1. **Eligible Lending Area:** Applicants within Alcona and Iosco Counties will constitute the lending area of the RLF. Future expansion of the area may be allowed with EDA written approval.
2. **Allowable Borrowers:** Ideally, qualified applicants within the retail, commercial and industrial service sectors will be primary borrowers. In most cases, they should have three to five years of operating history in an area of need and can provide evidence that management and marketing infrastructure is in place. Non-Profits and Start-Ups will also be considered as allowable borrowers. Indicators of area of need include:
 - A record of strong sales growth
 - Lengthy delivery times
 - Expanding order backlog
 - Inability to expand into new markets

- Problems of quality control due to lack of adequate equipment
 - Perennial shortage of working capital
3. Allowable Lending Activities: Loans from the RLF may be used to finance facility site preparation, machinery and equipment, land purchase, building construction or renovation, and working 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 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 objective 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.
 - (iii) *Compliance and loan Quality Review*. To ensure that the RLF Recipient makes eligible RLF loans consistent with its RLF Plan or such other purposes approved by EDA, EDA may require an independent third party to conduct a compliance and loan quality review for the RLF Grant every three (3) years. The RLF Recipient may undertake this review as an administrative cost associated with the RLF’s operations provided the requirements set forth in §307.12 are satisfied.

(iv) *Use of In-Kind Contributions.* In-Kind Contributions may satisfy Matching Share requirements when specifically authorized in the terms and conditions of the RLF Grant and may be used to provide technical assistance to borrowers or for eligible RLF administrative costs.

4. **LOAN SIZE:** The maximum loan amount for the RLF will not exceed \$660,000.00. The maximum loan amount should not exceed 25% of the RLF capital base.
5. **INTEREST RATES:** The interest rate the RLF will charge is 80% of the prime rate quoted in the Wall Street Journal, or a floor as established by the EDC periodically adjusted annually on the anniversary date of the loan. The maximum RLF interest rate is not to exceed ten percent (10%). In no event shall the interest rate be less than the lower of four percent (4%) or 75% of the prime interest rate listed in the Wall Street Journal.
6. **TERMS:** Terms shall be as follows:
 - Three years on working capital loans
 - Five to ten years on fixed assets depending on the useful life of the asset
 - Ten to Twenty years on land, building and/or construction loans
7. **FEES:** Borrowers will be responsible for all closing fees including, but not limited to document preparation, recording fees, title insurance and legal counsel.
8. **EQUITY AND COLLATERAL:** Borrowers will normally be expected to contribute 10 percent of the total project costs from their own resources. The ICEDC may waive this requirement where a project has significant job creation potential or the company has made a significant recent equity investment. Types of collateral will include but not be limited to receivables, inventory, fixed assets, personal guarantees, land, buildings and machinery and equipment.
9. **MORATORIA:** Moratoria of principal will be permitted to the extent that cyclical cash flows would support an unconventional payment structure. Certain instances when dealing with defaulted loans will require interest only until cash flows will allow regular amortization of the loan.

10. **START – UPS:** Applicants without a history of sales and expense data will be required to submit pro-forma financial statements combined with all other requirements of an existing business applicant.
11. **WORKING CAPITAL:** Because the objectives of the loan program are capital expansion and economic diversification, working capital loans will be made only if the project, involves capital expansion or improvement and the creation of new jobs.
12. **CREDIT NO OTHERWISE AVAILABLE:** Because it is not the intention of the RLF to take the place of private capital, loans will be made only to those projects which cannot be accomplished without RLF participation. Documentation of the non-availability of private capital is required.

The community's financing policies will take into account all the sources of financing, public and private, available to support Iosco County's business development objectives, and identifies the best and most appropriate sources to meet the differing credit worthiness and needs of the types of businesses targeted for investment. It is anticipated that public and private lenders will be full partners in supporting the community's business development strategy. The characteristics of the financing niche that the RLF will occupy consists primarily of light manufacturing with capital and working capital assistance with standard RLF terms.

The RLF will have significant impact on the restructuring and strengthening of the local economy as it is utilized to reuse the Wurtsmith Air Force Base physical assets. In addition, the spinoff effect from Wurtsmith Air Force Base is anticipated to be significant. In addition, the RLF will stimulate private investment in a variety of other economic sectors leveraging commercial financing and ultimately providing private sector leadership. The RLF will address all sectors of the economy as suggested in the Economic Recovery Strategy and therefore will provide significant enhancing of the overall County job opportunities.

E. PORTFOLIO STANDARDS AND TARGETS

TARGET PERCENTAGES:

It is anticipated that industrial, commercial and service businesses will share in the RLF portfolio. Special emphasis will be placed on new business and the expansion and retention of existing businesses. The portfolio loan targets are as follows: Industrial 50%; Commercial 30%; Service Businesses 20%.

PRIVATE SECTOR LEVERAGE: The RLF will maintain a minimum ratio of \$2 in private financing for every \$1 in RLF financing for that overall portfolio.

JOB COST RATIO: The objective of the RLF is to make loans averaging \$30,000 per job. Targeted job creation will focus on projects which can utilize the local available work force, projects with high growth potential and solidly established businesses. This will promote the objective of economic diversification.

F. RLF LOAN SELECTION CRITERIA

The following general economic impact criteria will be used to evaluate proposed loans:

ICEDC will use the RLF funds to encourage business growth and job creation in Iosco/Alcona Counties, focusing on high wage/high skill jobs with the greatest economic impact.

RLF funds will be used to provide gap financing and leverage private sources of financing.

The loan is consistent with prudent lending practices regarding a diversified loan portfolio.

The loan will help to attract new jobs and investment in Iosco/Alcona Counties.

The loan will diversify the economic base of Iosco/Alcona Counties.

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.

The loan activities are consistent with the approved RLF Plan.

G. PERFORMANCE ASSESSMENT PROCESS

ICEDC will periodically assess the performance of the RLF in accomplishing its stated economic adjustment objectives by comparing quantifiable results, ie jobs created, loans made, default rate, leverage portfolio wide, etc. to those specifically noted in the plan. The review shall be conducted annually, and if necessary, the plan will be amended to account for various changes. If no changes are warranted based on the annual review, the RLF Plan will be updated at a minimum of every five years.

PART II

REVOLVING LOAN FUND OPERATIONAL PROCEDURES

A. ORGANIZATIONAL STRUCTURE

1. Critical Operational Functions: The ICEDC and the RLF Administrator will be responsible for the marketing of the RLF, assistance and advisory services, environmental review, loan processing, loan monitoring, loan closing, and organization administration are summarized below.
 - A. Marketing the RLF will be publicized throughout the region so that businesses most in need of assistance are aware of the program and have access to the funds. The RLF shall explore alternative marketing strategies, such as, direct or targeted marketing. Press releases and other free marketing strategies will be used.
 - B. Business assistance and advisory services to prospective and actual borrowers is available within the Iosco/Alcona Counties. Primary advisory business services within the region will focus on commercial banks and certified public accountants. Secondary assistance will be provided by ICEDC staff as it relates to the application process and required documentation.
 - C. Environmental review will be discussed with potential borrowers to assess the significance of all environmental impacts of activities to be financed in compliance with guidelines contained in the National Environmental Policy Act of 1969, and EPA CFR 300 Hazardous Materials Guidelines.
 - D. Loan processing, loan closing, and loan servicing will be coordinated with applicants and submitting complete application packages to the Loan Review Committee. Loan closing will be handled by legal counsel to insure EDA document requirements are met. Loan servicing will be performed by the RLF administrators and includes billing, collections, reporting, and general accounting of the RLF fund.
 - E. Organizational administration of the RLF falls to the ICEDC. Administrative duties are contracted with the Iosco County Treasurer. Monthly reconciliation of the RLF and all loan activity is presented to the ICEDC. Semi-annual EDA reports will be prepared and submitted by designated local CPA firm. Legal counsel will be retained for document preparation, loan closing, and collections. Iosco County is the fiduciary for the RLF. The EDA RLF portfolio and cash are clearly distinguishable from any other loan program. ICEDC will ensure that the RLF is operating in accordance with generally accepted accounting principles.

2. Loan Administration Board

The Loan Administration Board will be the Board of Directors of the Iosco County Economic Development Commission (EDC) and the Chairman of the Alcona County Economic Development Corporation. As a matter of policy, the Iosco County Board of Commissioners has established private sector financial experience as criteria for appointment to the Iosco County EDC. The six (6) member (plus one (1) Alcona

County representative) Board represents various geographic areas of the region, public and private interests, and has broad corporate experience. Terms of service will be three (3) years. The Iosco County Economic Development Commission meets monthly; four (4) present and voting members represent a quorum. The Commission operates under all relevant Open Meetings Act requirements and public participation is provided for.

The EDC will be responsible for administering and the processing, and servicing of loans. EDC staff shall administer the application process. Legal, financial, market and credit counseling resources will be contracted for. The role of the EDC Loan Administration Board will be to approve loans and determine policy concerning RLF activities.

The Loan Review Committee provides, on behalf of the Iosco County Economic Development Commission Board of Directors/Loan Administration Board, initial review and screening of applications. Five (5) individuals serve on the Loan Review Committee: Two members of the Iosco County EDC, and three members of the financial community serving Iosco and Alcona Counties, who are permanent appointments with no vote on loan decisions. After review, the Loan Review Committee shall recommend to the Loan Administration Board action regarding applications.

3. Conflict of Interest

The EDC members and officers, staff, and outside staff, including immediate family, shall not act on proposed loan packages by vote, date interpretation or other means of influence in which they have a personal, financial, or other interest which would provide them or their firm/business with a monetary gain. This does not refer to salaries, per diems, travel reimbursement and the like incurred in the normal course of Fund activities. Violation of this clause may result in action by the Iosco County Board of Commissioners to terminate the membership or office of a Loan Board member or staff person. All members will sign a conflict of interest statement.

B. LOAN PROCESSING PROCEDURES

- 1. Standard loan application requirements:** the following is a list of standard items that will be required by all RLF loan applicants. It should be noted that not all items will apply to every loan applicant. In certain situations items not included in the following list may be required.
 - A. Complete and signed RLF loan application.
 - B. Business plan, or a summary of the business history and a description of the proposed project for which financing is being requested.
 - C. Credit reports.

- D. Financial projections/or past 3 years financial statements if an existing business.
 - E. Schedule of business debts.
 - F. Statement of collateral.
 - G. Personal financial statements: Current, dated and signed personal financial statements on all principles with a significant financial interest in the business will be required. The Loan Board may require joint personal financial statements that show a spouse's assets and liabilities as well.
 - H. Primary lender letter: The letter from the primary lender should state the financial commitment of the institution to the project and why they are not able to finance the entire project. If the primary lender declines to participate, a denial letter or verbal rejection is needed for the applicant to seek ICEDC funding.
 - I. Affiliate: Description of any affiliates or subsidiaries of the business or principals requesting assistance, as well as balance sheets and income statements for the past two years on such.
 - J. Appraisals: An appraisal is needed only if RLF financing is being used to finance real estate.
 - K. Business filing verification and status.
 - L. Income tax statement: The most recent income tax statements for both the business and principal owner(s).
2. **Credit and financial analysis:** Credit reports, appraisal reports, standard collateral requirements and standard equity requirements are specified as follows.
- A. Credit Reports: Credit reports will be required of all loan applicants and guarantors. The cost of these reports is accounted for in the application fee.
 - B. Appraisal Reports: Appraisals are usually only required in projects where the RLF is financing real estate such as land and buildings. In these projects the private lending institutions always requires appraisals, which they share with the ICEDC. Appraisals are always analyzed carefully to determine the value of the collateral and the level of security that the RLF will be able to obtain. In projects that do not involved real estate, appraisals may be required for equipment, or financial statements are obtained which usually reveals the value of inventory and other types of collateral. By working very closely with the lead lender and/or economic development organization, appraisals and other forms of information that help determine collateral values are readily available upon request.
 - C. Standard collateral requirements: The Loan Committee will make no unsecured loans. Working capital will be collateralized by any asset and any possible security positions deemed appropriate by the Loan Committee. For example, it may accept unconventional forms of

security such as personal guarantees, assignments of contracts for deed, or other creditor's interest in property, and subordinate positions to other private financing. When loans are made to corporations, personal guarantees will be required from the principal owners of the company. In projects where individuals are borrowing funds for purposes that benefit a corporation in which they are an owner, corporate guarantees will be required as added security.

- D. Standard equity requirements: A minimum of 10% equity is required for new startup companies. This equity can be in the form of cash, or assets that are being contributed toward a project such as machinery or equipment, provided the borrower has an equity position, or the equity is free of any liens. Existing companies are also required to show a minimum of 10% cash equity, however greater flexibility can be given to meet this requirement. For example, if an existing company has built up an equity in real estate and/or equipment over several years, this can be used to meet the equity requirements for the RLF. By providing this flexibility, companies that invest cash back into the business and establish equity positions are not penalized for doing so.

3. Environmental Review:

- A. 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.
- B. 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.
- C. Consistent with E.O. 11988, no project shall be approved which would result in new above ground development in a 100-year flood plain. Reviewing the proposed development against FEMA Flood Insurance Rate Maps will make this determination.
- D. 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.

- E. 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.

- 4. **Loan write-up:** Loan Application packages are reviewed by the RLF Administrator and distributed to Loan Committee members prior to meetings for their review and write-up. When available, loan write-ups are obtained from the private lender and analyzed to determine why the lead lender was unable to provide all the financing. In addition, the private lender should provide a loan commitment letter that explains their financial commitment to the project and their reasons for not be able to provide all of the financing. The Loan Committee prepares the loan write-ups that cover the following information:

1. History/Management
2. Eligibility (consistency with RLF Plan and financing policies)
3. Use of personal/business resources
4. Sources & uses of proceeds
5. Balance sheet analysis
6. Collateral
7. Repayment ability
8. Environmental concerns
9. Recommendations

- 5. **Procedures for loan approvals:** Below are the procedures for loan approvals.

- A. **Selection of Borrowers:** The loan selection process on the part of the Fund begins when a loan applicant contacts the RLF

Administrator to discuss his/her proposal. The RLF Administrator will interview the prospect, and make a preliminary analysis. The RLF Administrator will seek to determine the eligibility of the project for the RLF. The RLF Administrator will communicate with the economic development agency representatives to test the possible use of other public/private financing sources.

- B. If the prospect's business plan meets the basic RLF standards, the RLF Administrator will make an initial decision as to the eligibility of the application.
- C. If deemed eligible by the RLF Administrator, a formal application will be invited.
- D. A formal application submittal does not mean that the loan is certain. It does mean that the project meets the (preliminary) selection requirements. The initial eligibility determination should take no more than 15 days from receipt of all documentation from the applicant.
- E. The Loan Committee shall make an extensive review of the loan package. Since a goal of the RLF is to respond quickly, the Committee shall make its recommendation to the ICEDC members in a timely manner. A majority vote of the ICEDC Board is required for approval.
- F. When approving a package, the ICEDC will set specific interest rates; term of the loan; limitations, if any, on uses of loan funds and other conditions to be included in a written confirmation letter to the applicant.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. Loan closing documents:

- a. Refer to file for checklist of required documents:
 - 1. Complete application
 - 2. Signed confirmation letter
 - 3. NCEDA minutes approving project
 - 4. Promissory Note
 - 5. Security Agreement
 - 6. Commercial Guaranty
 - 7. Mortgage
 - 8. Participation Agreement
 - 9. UCC filing
 - 10. Deny letter or e-mail from bank

11. Personal Guaranty

- a. Sole proprietorships using a “doing business as/dba” will be required to provide copies of fictitious name filings.
 - b. Partnerships will be required to provide copies of the partnership agreements and buyout agreements if applicable.
 - c. Corporations will normally be required to provide copies of the Articles of Incorporation, By Laws, certificates of good standing, and corporate resolution to borrow.
 - d. All loans will require a security agreement where personal property secured a loan.
 - e. Perfection of collateral will require UCC filings on equipment and fixtures, inventory and receivables, recording deeds of trust on real property, and certificates of title or stock registration, as appropriate.
 - f. UCC searches will be performed before loan board review to determine position. UCC searches may also be performed after loan closing and UCC filings to confirm that the desired lien position was actually obtained.
 - g. Lenders Title Insurance will be required for all financed real property.
 - h. Vehicle titles that are unencumbered will be filed by staff to show the NCEDA as lien holder. If a third party holds title, this collateral option will not be considered.
 - i. All principals with 20% or more ownership will normally be required to provide continuing guarantees, and subordination agreements, as appropriate.
 - j. Inter-creditor Agreement, if necessary, to preclude prior lien holder from increasing debt, and/or to delineate collateral and responsibilities of lenders.
 - k. Prior to closing, the borrower will present the required hazard and liability insurance policies, and any other insurance coverage such as assignment of life insurance, as required.
 - l. Lease assignments will be taken as appropriate
- b. Proof of equity, such as current bank account statements showing the needed funds on deposit, will be required for all loans requiring an equity injection;
 - c. If existing debt is being converted to equity, or subordinated, evidence such as a subordination agreement, the original note, the conversion agreement, corporate resolutions and copies of shares issued will be required.
 - d. Where another lender is involved in the financing of a business an inter-creditor agreement setting forth the respective rights of the parties shall be required where appropriate for the protection for the RLF.

2. **Loan Agreement Provisions:**
 - a. All loans will require a promissory note and a loan agreement: The Loan Agreement shall contain covenants that shall require the borrower to comply with the Federal statutory and regulatory requirements that apply to activities carried out with RLF loans. The Loan Agreement shall contain a provision to protect and hold the Federal Government harmless from and against all liabilities that the Government may incur as a result of providing an award to assist (directly or indirectly) in site preparation or construction as well as the renovation or repair of any facility or site. This applies to the extent that such liabilities are incurred because of ground water, surface, soil or other conditions on the property. The Loan Agreement shall also include a list of the Federal requirements that apply to RLF borrowers as provided in Part III.B. of the U.S. Department of Commerce Economic Development Administration Revolving Loan Fund Standard Terms and Conditions of September 30, 2002, as may be amended.

3. **Loan disbursement requirements/Loan agreement provisions:**
 - a. The borrower will certify in the loan agreement that the funds are to be used for the purposes intended as specified in the loan application. A positive covenant shall be included in the loan agreement stating the purpose of the loan. A breach of this covenant shall be deemed an event of default and the loan may be called.
 - b. For working capital loans, cash flow projections or other documentation will be required to determine the loan amount and the schedule for loan disbursement.
 - c. If the proceeds are for the purchase of equipment, fixtures, or vehicles the borrower must show original invoices, and the check will be made payable to the vendor or joint to the vendor and business.
 - d. In instances where construction is in progress, a building control account will be established as necessary to avoid mechanics liens.

D. LOAN SERVING PROCEDURES

1. **Loan repayment and collection procedures:** In projects where ICEDC makes a direct loan and services the loan, borrowers are given a loan amortization schedule at the loan closing. Loan payments are receipted by the County Treasurer the day they are received and credited the same day. Inactive RLF funds that are waiting to be lent will be deposited in an interest-bearing money market account that is federally insured and collateralized.
2. **Loan monitoring procedures:** On a monthly basis updated statistical reports are generated to monitor RLF activities including payments. In addition, borrowers are required to send, at a minimum, annual financial statements and proof of insurance. Generally, as a lien holder, ICEDC is

notified by the insurance companies when any changes or problems occur. A tickler file is set up to monitor UCC filings, which are required to be re-filed every 5 years. The ICEDC conducts annual borrower site visits. During these visits the condition of the business and the RLF's collaterals is analyzed. In addition the borrower is asked to verify the number of employees by occupation, race and sex to monitor actual job creation/retention and compliance with civil rights, etc.

3. **Loan Files:** ICEDC will follow the same procedures for loan files and loan documentation for all RLF funds. This includes keeping files that contain original application forms and supporting documentation for each approved loan application. These files will also contain all original legal documents used in the closing process. ICEDC will ensure compliance with all EDA reporting to include the semi-annual and final closeout reports. Loan files will be kept in a locked fireproof file cabinet.
4. **Job Creation:** The primary goal is to create or retain, at a minimum, one job for every \$30,000, or less, of RLF funds lent. Annual surveys to track jobs created and/or retained will be completed by all borrowers. All applicants must meet job creation guidelines. Firm commitment from the borrower to create jobs is mandatory.
5. **Defaulted loans:** For all loans in default, payment will first be applied to interest. Delinquent loans over 30 days and 60 days will receive notices. Procedure for handling loans over 90 days in arrears – If a borrower is 90 days or more past due and previous attempts have been made to rectify the situation, the borrower may be sent a letter notifying him/her that the loan is due in full, unless payments are received or arrangements are made to restructure the payment schedule. If the borrower does not respond the next step may be to have an attorney draft a demand letter, followed by legal action, if necessary. All other courses of action will be exhausted before any legal action is taken, however, some situations may require legal action to protect the interests of the RLF.
6. **Write-Offs:** If the above-mentioned actions do not result in recovering the loan proceeds, it may be necessary to write-off the loan and consider it a loss. ICEDC minutes will reflect a majority vote supporting the write-off.

E. **ADMINISTRATIVE PROCEDURES**

1. **Accounting:** The Iosco County Treasurer maintains a separate fund to account for all repayment of interest and principal so that RLF income is clearly identifiable and auditable. The RLF portfolio and cash are clearly distinguishable from any other loan program. This includes both the EDA and local share portions of the RLF. The ICEDC will ensure that the RLF is operating in accordance with Generally Accepted Accounting Principals (GAAP).
2. **Administrative Costs:** Administrative costs charged against the RLF income may include RLF staff salaries and fringe benefits, RLF related training, travel, marketing, general administration, business counseling

and management assistance, portfolio management, materials and supplies, equipment rental and acquisitions prorated based on RLF usage, building rent, outside professional services, insurance, loan closing costs and costs to protect collateral subsequent to foreclosure.

3. **Capital Utilization and Sequestration:** Every attempt to meet EDA's guideline of loaning 75% of available capital will be made. Capital below that level will be sequestered in a separate interest bearing account. The interest will be remitted to EDA on a quarterly basis.
4. **EDA reporting:**
 - a. ICEDC will submit financial and status reports to the EDA Regional Office semi-annually. The reports will be in a format acceptable to EDA.
 - b. Semi-annual reports will be submitted by April 30th, covering RLF activity through March 31st, and October 31st, covering activity through September 30th. Other reports or special reports will be submitted as required.
 - c. ICEDC will ensure that the RLF Portfolio is in compliance with applicable capital utilizations standards and sequestration requirements.
 - d. GPRA report submitted to EDA annually to track job creation and retention after loan approval.
5. **Audits:** ICEDC acknowledges that the EDA RLF funds are subject to an annual audit requirement and the full value of the RLF (outstanding loans and available cash) will be shown every year on the Recipient's Schedule of Federal Expenditures. ICEDC will ensure that the auditor performs the required federal audit procedures. As stated above, ICEDC already undergoes a separate audit of the RLF in compliance with Generally Acceptable Accounting Principles (GAAP). The audit procedures are updated whenever this is an update to GAAP to ensure that the audit always remains in compliance with these principles.

EXHIBIT B
CERTIFICATION AND LOAN APPLICATION

**IOSCO COUNTY
ECONOMIC DEVELOPMENT COMMISSION
LOAN APPLICATION**

Name of Business: _____

Business Address: _____

City: _____ State: _____ Zip: _____ Phone: _____

Contact Person: _____ Phone: _____

Type of Business: _____ Sole Proprietorship _____ Partnership _____ Corporation

Employer's Federal Identification Number: _____

Employer's State Identification Number: _____

Name of Owner #1

Name of Owner #2

Percentage Owned: _____ %

Percentage Owned: _____ %

Home Address

Home Address

City, State, Zip

City, State, Zip

Home Phone

Home Phone

Personal Services/References:

Name of Bank: _____

Bank Address: _____

City: _____ State: _____ Zip: _____ Phone: _____

Contact Person: _____

Name of Attorney: _____

Address of Attorney: _____

City: _____ State: _____ Zip: _____ Phone: _____

Name of Accountant: _____

Accountant Address: _____

City _____ State: _____ Zip: _____ Phone: _____

RLF APPLICATION

Required Attachments:

- A. Business Plan, if start-up funding is requested, otherwise, a narrative of business history and project description.
- B. Current signed and dated financial statements for any person who owns 20% or more interest in the business.
- C. Federal tax returns filed by the business for the previous three (3) years or personal tax returns for the previous three (3) years, if the applicant is a sole proprietorship, partnership or corporation that does not have audited financial statements.
- D. Any insurance information carried on property or person.
- E. Information concerning any pending or threatened litigation or administrative proceeding, any outstanding administration orders, judgments or injunctions or involvement in any bankruptcy.
- F. Certification of business compliance with the federal, state, county and municipal laws affecting the conduct of business within the county where the business resides (Documentation of current status of franchise tax, sales tax, payroll taxes and property tax.)
- G. Statements and reasons from the lending institution(s) that the RLF loan will not be substituting for commercial lending is required.
- H. A statement from the business that no person will be discriminated against on the basis of race, color, national origin, religion, age, handicap or sex when being considered for employment.
- I. Copy of your last commitment letter from your bank indicating your working capital line of credit.
- J. Commitment letter from your bank regarding any financing the bank will provide for this project.
- K. Any environmental questionnaires, reviews, reports, or audits conducted by the applicant, lending institutions, or their agents shall be provided.
- L. A statement from the business certifying that it will not relocate out of the county it resides in during the term of the RLF loan and that in the event of relocation outside of the county it resides in will immediately repay the RLF loan. In addition, the applicant must sign and Non Relocation certificate.
- M. Business(es) agree not to show preference or prejudice in hiring practices and must agree not to use funds to relocate the business from one geographic area to another.

RLF APPLICATION
Business Plan Outline

- I. Executive Summary**
 - a. Summarize how much money you are needing and what you need it for
 - b. Briefly summarize the product, its market and your management ability

- II. Description of the Company**
 - a. How the company was formed
 - b. Form of organization (ex. Sole Proprietor, partnership, corporation, etc.)
 - c. Discussion of the owners (who they are)

- III. Description of Product or Service**
 - a. Discussion of products or service
 - b. Briefly compare to competitor's products or service
 - c. Discuss any intellectual property (patents, licenses, etc)

- IV. Market Analysis**
 - a. Describe your target market(s)
 - b. Describe your trade area
 - c. Discuss your competition
 - d. Discuss your competitive advantage (what makes you different or better)

- V. Management Profile**
 - a. Discuss the skills, experience, abilities, and education of the management
 - b. Discuss the duties and responsibilities of management
 - c. Organizational charge for management

- VI. Financial analysis**
 - a. One year cash flow projection and assumptions behind the projections
 - b. One year profit and loss projection

CERTIFICATION
ICEDC - 1

The undersigned is authorized representative of the loan applicant, certifies that the following:

1. That _____ will comply with state and federal statutes, regulations, and guidelines associated with the Michigan CDBG program and EDA programs, including those related to civil rights and equal opportunity, labor standards, environmental protection and historic preservation.

2. That the company will provide authorized state and or local officials with access to all records, personnel, and facilities pertaining to the project in order to make audits, examinations, excerpts, and transcripts.

3. That the company will not relocate employment of more than one full-time person from another community in this state as a result of this project without the express written consent of the governing body of the municipality from which employment is to be transferred.

4. That this loan between the County of Iosco and _____, as borrower, will not encourage, directly or indirectly, the relocation of the _____, operations from other areas to Iosco County, nor did the Iosco County Economic Development Commission, or anyone acting in their behalf, including _____, solicit or encourage the transfer of contractor or subcontractor work which would result in a transfer of jobs from one area to another.

5. That the information provided in this loan application, exhibits and attachments, is true and complete to the best knowledge and belief of the applicant and the undersigned.

Dated: _____

By:
Its: President