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2011 Disaster Response Revolving Loan Fund

***Approved by the UMVRDC:
March 26th, 2013***

**Eligible Lending Area:
The Minnesota counties of
Big Stone, Chippewa, Lac qui Parle, Swift and Yellow Medicine**



Part I: 2011 Disaster Response RLF Strategy

A. Economic Adjustment Program Overview

The UMRDC is the grant recipient of EDA funds used to create a separate revolving loan fund to respond to economic impacts resulting from the FEMA Disaster Declaration dated May 24th, 2011 (FEMA-1982-DR, Minnesota). It is the intent of the UMRDC that after the 2011 Disaster Response RLF Funds have been dispersed that the 2011 Disaster Response RLF will be combined with the Original RLF. This request will be sent to EDA as soon as the initial disbursement of funds is complete.

The entire UMRDC area was impacted by flooding and storms during the spring of 2011 between March and May. Agriculture was the primary industry impacted; physical damage was scattered about the region, while flooding was limited to areas surrounding the Minnesota River and its tributaries. In many cases the loss of farming revenue caused farm families to seek off the farm employment as their primary income. The impacts from storms and flooding have ripple effects with some of the impacts yet to be realized. It was realized during this disaster that our region has much work to do in order to diversify our traditionally thought of agricultural region. Our overarching goals are to create job opportunities for all individuals displaced by disasters and further secure the regional economic stability through the diversification of businesses and industries.

The 2011 Disaster Response Revolving Loan Fund (RLF) is a strategy that helps rebuild and diversify regional businesses and employment opportunities for those impacted by disasters. The Upper Minnesota Valley Regional Development Commission's (UMVRDC) Comprehensive Economic Development Strategy (CEDS) identifies RLF's as a strategy and critical tool for rural economic development. The CEDS is currently being updated to address disasters and regional resiliency. Through the CEDS process extensive community engagement will be sought in order to define a collective vision for recovery response to disasters.

The 2011 Disaster Response Revolving Loan Fund (RLF) is a program of the UMRDC with recommendations provided by an RLF Advisory Board. The RLF Advisory Board is made up of local elected officials, appointed individuals, CEDS and UMRDC members. The Loan Advisory Board oversees both the Original Revolving Loan Fund & the 2011 Disaster Response Revolving Loan Fund. RLF administration and staffing is provided by the UMRDC.

All of UMRDC area is eligible for funding based on the FEMA disaster declaration map. Region 6W is located along the South Dakota border in western Minnesota. The five counties that make up the region include: Big Stone, Chippewa, Lac qui Parle, Swift and Yellow Medicine Counties. Within these five counties that make up Region 6W are 37 cities and 94 townships.

Much of the economic activity and more than half of employment in the region is in Education and Health Services and Trade, Transportation and Utilities. The region experienced increases in

unemployment between 2008 and 2010, with all counties now seeing declines in unemployment. The unemployment rates in the Upper Minnesota Valley Region are currently, and are traditionally lower than national unemployment rates. One unknown factor in the unemployment percentage is the number of people who have stopped looking for work.

B. Business Development Strategy

The region's CEDS vision, goals and business development strategy helped develop the following goal and objectives of the RLF:

Goal: To provide access to affordable capital through gap financing for business start-up or expansion in the region to create a more disaster resilient region by supporting businesses that make the region less dependent on agriculture, create jobs that demand the skillsets of those that were displaced or affected by disasters, retain existing jobs, improve income levels, diversify the economy and provide more economic stability.

Objectives:

1. Support new and expanding businesses that create disaster resilient employment opportunities
2. Diversifying the regional economy to be more resilient to economic changes and disaster impacts
3. Encourage and assist communities with the development of comprehensive planning efforts to define and implement a collective vision for recovery in response to disasters and incidents.
4. Develop a diversified base of businesses and industries to insulate the region's economy from impacts from natural disasters and incidents that may create a domino effect in changing local and regional markets and business cycles.
5. Create or retain permanent employment
6. Encourage entrepreneurship
7. Reduce unemployment and underemployment in the region
8. Encourage the creation of jobs that create a living wage and improve income levels
9. Stimulate increased tax base

10. Leverage other public and private (with an emphasis on private) sector investment
11. Encourage growth of the region's existing business and industry
12. Support new and emerging industries including, but not limited to, renewable energy or value-added agriculture activities

The region has an existing manufacturing base that the RLF will attempt to build on. Renewable energy and value-added agriculture industries are potential growth industries the RLF will encourage growth in. Commercial, retail and non-profit activities will also be encouraged that provide an essential service or help to diversify the local economy.

In addition to providing needed capital, the RLF will act as a catalyst for achieving the objectives above by:

1. Assist in loan packaging
2. Assist in business planning
3. Refer businesses and entrepreneurs to sources of assistance including, but not limited to, the Minnesota Small Business Development Center, Southwest Minnesota Private Industry Council, Inc., Prairieland Economic Development Corporation, Minnesota Department of Employment and Economic Development, Southwest Minnesota Initiative Foundation, area colleges and universities, and county and city economic development entities.

C. The Financing Strategy

In the Upper Minnesota Valley region there exists a need to deepen the capacity of communities to be more disaster resilient and absorb the shock of disasters and incidents that impact the local and regional economies. The financing strategies for the 2011 Disaster Response RLF include the following requirements:

1. Businesses and industries that can show direct impact from the 2011 disaster event will be given priority.
2. Identify and invest in opportunities and projects that would increase the region's resiliency to disasters.
3. Increase the region's ability to reduce the negative consequences resulting from a disaster by supporting business retention and expansion programs, invest in efforts that broaden the industrial base, give priority to investments that would strengthen existing

high-growth businesses and invest in projects that have extensive community support such as those that fulfill an essential need in the community.

4. Provide funds for business start-up and expansion that will help further strengthen and diversify the regional economy and strive to provide disaster resistant employment.
5. Assist businesses that can provide jobs that match skillsets of those who were impacted financially or displaced from work as a result of the disasters.

This revolving loan fund was created with the intent that when the initial funds have been disbursed for the priorities listed above the fund shall be combined with the UMVRDC's Original Revolving Loan Fund. A formal request will be sent to EDA as soon as this is possible.

Public financing is a vital tool for business development in the region. RLF financing will be used to fill financing gaps and be accessed when credit is otherwise not available. The RLF will try to partner with other public sources of funds whenever possible to fill financing gaps. Other gap financing sources that may be accessed include, but are not limited to:

1. Southwest Initiative Foundation (private funding)
2. Prairieland EDC (SBA lender)
3. Minnesota Department of Employment and Economic Development (public funding)
4. County and city RLFs (public funding)

The RLF's financing niche will be to provide gap financing to businesses that fulfill one or more objectives of the RLF's business development strategy. The types of businesses/firms eligible for RLF financing are:

1. Manufacturing
2. Commercial/service and retail – commercial and retail business projects, while eligible for RLF financing must fulfill a local need for essential goods and services. Services which have an area greater than the regional or multi-state markets are eligible.
3. Non-profits and Quasi-public
4. For-profit Businesses
5. Traditional farming activities are not eligible for RLF financing.

To fulfill the RLF's goal and objectives stated herein the RLF may take guidance from the following financing impact factors:

1. The RLF should make investments that support businesses and communities in recovery from disasters both man-made and natural that lead to more resilient economies.
2. The RLF should support businesses that offer jobs requiring skillsets of those impacted by disasters both man-made and natural.
3. The RLF's financing strategy should be proactive in nature and scope – RLF investments should attempt when possible to mitigate the potential economic damage of future natural disasters and incidents through disaster planning and investments.
4. The RLF should be market based – RLF investments should capitalize on the region's unique assets and strengths when possible to build comparative advantages for future business investment.
5. The RLF should support and help advance innovation and increase productivity in both new and existing businesses to strengthen the existing economic base. The RLF should attempt to enhance the region's success in achieving a high and rising standard of living.
6. The RLF looks beyond the immediate economic horizon, anticipates economic changes and diversifies the local and regional economy – the RLF investments should attempt to be part of an overarching, long-term regional strategy that includes expanding existing industry and developing emerging, new industry. Investments should try to create conditions for sustained productivity.
7. RLF investments maximize the attraction of private sector investment that would not otherwise come to fruition absent RLF investment – the RLF should try to serve as a unique public sector source of capital to assist distressed communities that otherwise would be at a competitive disadvantage in attracting the private capital investment.
8. RLF investments should have a high probability of success.
9. The RLF should attempt to contribute to an environment where higher-skill; higher-wage jobs are created.
10. The RLF should attempt to maximize the return on taxpayer investment – RLF investments should generate a return for the taxpayer by attracting private capital investment and high wage jobs that promote regional prosperity. Successful RLF investments should promote economic self-sufficiency; provide the resources for building safe, healthy and attractive communities; and minimize poverty.

D. Financing Policies

The RLF Advisory Board shall take guidance from the following guidelines:

1. Demonstrate Financing Gap - The RLF shall not be a substitute for private financing. The fund will lend to applicants who can demonstrate a financing gap. Loan documentation for each RLF loan must demonstrate that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed.
2. Bank Participation Required - As a resource for gap financing, the RLF is intended to augment, not supplant and/or compete with existing sources of local and private capital. Bank financial participation is required. A letter from the bank explaining their financing terms and why they cannot provide the full project financing is also required.
3. Use of Capital
 - (a) General - RLF capital shall be used for the purpose of making RLF loans that are consistent with the RLF Plan or such other purposes approved by the Federal EDA. To ensure that RLF funds are used as intended, each loan agreement must clearly state the purpose of each loan.
 - (b) 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) Make loan guarantees
 - (5) 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.
 - (6) 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.
 - (7) Refinance existing debt, unless:

The RLF 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

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.

- (8) With prior approval from the Federal EDA, an RLF may enter into a sale or securitization of all or a portion of its RLF loan portfolio.

4. Types of Assets Financed

- (a) Working capital
- (b) Fixed assets
- (c) Real estate

5. Size of Loans – 20% of the total portfolio may be lent at any one time.

6. Repayment Terms - the term selected will take into consideration the value and depreciable life of the assets to be financed and the forecasted cash flow of the project.

The RLF Advisory Board may elect to use balloon payments for any loan. When a balloon payment comes due the borrower shall pay the remaining principal and interest balance in full or may request the RLF Advisory Board to rewrite the remaining principal and interest balance with new terms or extend the terms of the existing loan. If the borrower requests a loan extension or the loan to be re-written, the RLF Advisory Board will evaluate the financial position of the borrower to determine if they are able to pay the balance in full, if financing is otherwise available from another source on terms and conditions that permit the completion or successful operation of the activity financed or if there is a need to extend or re-write the existing loan.

The RLF Advisory Board shall use the following as a general guide for repayment:

- (a) Working capital – Terms up to five years

- (b) Fixed assets – Terms up to 10 years (terms greater than five years may require a five-year balloon)
 - (c) Real estate – Terms up to 20 years (terms greater than 10 years may require a five to 10-year balloon)
7. Interest Rates – The minimum rate the UMVRDC may charge is four (4) percentage points below the lesser of the current money center prime interest rate quoted in the Wall Street Journal (WSJ) 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 seventy five (75) percent of the prime interest rate listed in the WSJ.

Within the parameters outlined above, the RLF will operate with fixed interest rate schedules which shall be negotiated between the RLF Advisory Board and the borrower after taking into account interest rates prevailing in the local commercial market, the term of the loan request, collateral and the financial projections for the project. The RLF Advisory Board will consider an interest rate in line with the business's internal rate of return. Interest rates will generally be below local financial institutions' rates.

8. Special Financing Techniques – The RLF Advisory Board may deviate from the financing policies stated herein to accomplish the objectives of the RLF. Key factors such as job creation, job retention, wages of jobs created/retained and the amount of capital investment proposed will be evaluated to determine when special financing techniques will be used. The RLF Advisory Board may also deviate from its financing policies to increase the likelihood of RLF capital being repaid. Special financing techniques will seek review and approval from EDA.

The RLF reserves for itself the ability to employ the following financing techniques as determined by the RLF Advisory Board:

- (a) Moratorium on principal payments (The maximum moratorium period on principal payments shall be six months. Additional moratorium periods of up to six months each may be granted by the RLF Advisory Board to a borrower after the RLF Advisory Board completes a re-evaluation of the financial condition of the borrower and determines the borrower is not able to resume payments).
- (b) Subordinated positions
- (c) Scheduled balloon payments
- (d) Loan extensions
- (e) Lower interest rate – but not below the EDA allowable minimum rate.

- (f) Longer term
 - (g) Reduced equity requirement
9. Equity - In all cases, the strongest possible equity commitment from borrowers shall be sought as determined by the RLF Advisory Board through an analysis of the borrower's net worth and financial condition. As a general guide, a minimum borrower equity contribution of ten (10) percent of the total project cost will be sought when possible. In-kind equity will be allowed to permit greater flexibility.
 10. Collateral - The RLF Advisory Board shall make no unsecured loans. Working capital shall be collateralized by any assets and any possible security positions deemed appropriate by the RLF Advisory Board. Personal guarantees and liens against specific personal assets of the borrower may be required.
 11. General Policies for Restructuring or Modifying Terms of RLF Loans - The RLF Advisory Board may extend the terms of a loan through a moratorium on principal payments up to six months upon borrower request if circumstances warrant such action. Terms may also be restructured with a loan extension agreement approved by the RLF Advisory Board if circumstances warrant such action. The borrower must provide both past and current personal and business financial information as requested by the RLF Advisory Board. This information will be used by the RLF Advisory Board to evaluate the need for a moratorium or extension on payments.

In addition, the RLF Advisory Board may choose to include a call clause in its contract with the borrower. A call clause would allow the RLF to withdraw its funds ahead of schedule from successful firms that have the called-for repayment ability.

12. Financial Statement - Current financial statements, including operating figures, will be required no less than annually or no less frequently than required by other creditors. Supervision of RLF credits (renewals, refinancing, workouts and collections) plus collateral inspections and file maintenance (current financing statements, operating statements and other paperwork) may be handled by a third party. Any information received by the third party will be sent to the RLF and the RLF Advisory Board. The RLF Advisory Board of the RLF will review loan activity at each monthly meeting.

E. Portfolio Standards and Targets

The following portfolio standards will be used by the RLF Advisory Board to measure the performance of the RLF, prioritize applications and fulfill the RLF objectives. These standards are meant as guidelines and not absolute requirements.

1. Retail - Retail type business loans will not exceed 50 percent of the RLF capital portfolio.
2. Non-profit/Quasi-public - Loans may be made to not-for-profit and quasi-public organizations providing the combined loans to both will not exceed 15 percent of the total RLF capital portfolio and they meet all other requirements for eligible borrowers. Priority will be given to private borrowers, as private sector employment is a primary goal of the RLF.
4. Working Capital - working capital loans shall not exceed 50 percent of the RLF capital portfolio.
5. Portfolio Participation Rate & Leverage of Private Sector Investment – Private investment must be leveraged at a minimum of two private dollars to one RLF dollar for the portfolio as a whole. Private investment includes:
 - (a) Capital invested by the borrowers or others
 - (b) Financing from private entities; or
 - (c) The non-guaranteed portions and 90 percent of the guaranteed portions of the U.S. SBA 7(A) and 504 loans.
 - (d) Private investment shall not include accrued equity in a borrower’s assets.
6. Cost Per Job – A goal of one job created or retained for every \$25,000 of RLF dollars loaned for the loan portfolio overall. Job retention results from loans to existing firms in the eligible lending area where these jobs would be lost to the local economy but for the RLF.

F. RLF Loan Selection Criteria

In addition to the required selection criteria that financing is not otherwise available and the financial impact factors stated in Part I.C - *The Financing Strategy*, the following criteria will be used to evaluate proposed loans:

1. Projects that provide jobs in an industry or sector that utilize the skillsets of individuals affected by natural or man-made disasters such as manufacturing, renewable energy, value-added agriculture and technology will be encouraged and receive priority.
2. Likelihood the proposed loan will benefit those displaced or suffering economically as a result of natural disaster impacts.
3. Diversification of the regional economy.

4. Job creation is the first priority and job retention is the second priority.
5. Emphasis will be on new business start-ups or expansions of existing businesses needing fixed-asset financing.
6. Priority will be given to private borrowers as private sector investment and employment is a primary goal.
7. Improvements in the income level of residents, either directly or indirectly.
8. The amount of private sector investment.
9. Emerging niche markets that further diversify the regional economy and create economies that are more resilient to natural and man-made disasters
10. Projects that will lead to increased tax base.

G. Performance Assessment Process

The RLF completes an annual report each year on the performance of the RLF. This annual report is presented to and discussed with UMVRDC Board and CEDS Committee. The RLF Plan is annually reviewed, updated and certified by UMVRDC and sent to the Economic Development Administration (EDA) every five years as part of a complete update process. In addition, changes are made to the plan as needed and sent to EDA for approval.

Part II: Revolving Loan Fund Operational Procedures

A. Organizational Structure

1. EDA Grant Recipient – the UMRDC is the grant recipient and responsible for RLF funds.
2. RLF Advisory Board – will have thirteen members including two voting members from the UMRDC as well as a Chairman. The Advisory Board will oversee all RLF's of the UMRDC.
 - Each county will nominate a county commissioner and an at-large member from an economic development background to serve on the Loan Advisory Board.
 - The UMRDC will appoint three total members from the commission to serve on the RLF Advisory Board with one of those members serving as the Chairman.
 - The UMRDC will approve all appointments.

The RLF Advisory Board's composition to the extent possible will have equal representation by women in its membership. RLF Advisory Board members are encouraged to be from a business or financial background. The term of RLF Advisory Board members that are county commissioners runs concurrent with their elected term. Other RLF Advisory Board members are elected to a three-year term and may not serve more than two terms. A quorum of the RLF Advisory Board requires seven members.

The RLF Advisory Board is responsible for recommending approval or denial of all requests, all major loan modifications or waivers, loan foreclosure actions, recommending RLF loan policy and any other administrative items requiring action that comes before the RLF. The UMRDC will make all final decisions.

3. Operational Functions – The following administrative functions have been identified along with the primary source of staffing. This is not an inclusive list as some additional administrative items may arise from time to time. Also, other staffing sources may be needed other than those listed based on the administrative function needed and the expertise of the primary source of staffing.

<u>Administrative Function</u>	<u>Primary Source of Staffing</u>
(a) Marketing and outreach	UMVRDC staff
(b) Application preparation	UMVRDC staff
(c) Issuance of meeting notices, recording of minutes for nonprofit RLF corporate body	UMVRDC staff

and RLF Advisory Board, facilitation of meetings, organization of meetings	
(d) Maintenance of financial records	UMVRDC staff
(e) Preparation of required reports	UMVRDC staff
(f) Identification of business loan prospects	local and regional development entities, local and regional development staff, financial institutions and RDC staff
(g) Explanation of the RLF to potential borrowers	UMVRDC staff
(h) Coordination with private sector funding sources	local and regional development staff, RDC staff
(i) Coordination of legal and accounting services needed	UMVRDC staff
(j) Technical assistance	UMVRDC staff; Minnesota SBDC
(k) Coordination of the RLF	UMVRDC staff
(l) Environmental review	UMVRDC staff, applicant, consultant
(m) Loan processing	UMVRDC staff
(n) Legal work	Attorney
(o) Credit analysis	UMVRDC staff
(p) Loan write-ups	UMVRDC staff
(q) Closings	UMVRDC staff, participating lead bank/lender, attorney

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| (r) Repayment and servicing | UMVRDC staff |
| (s) Default loans, bad debt foreclosures, collateral recovery | Attorney |
| (t) Compliance with grant requirements | UMVRDC staff |
| (u) Financial audits professionals | contracted audit |

4. Staff qualifications – Loan analysis staff is expected to have appropriate educational background and/or experience. National Development Council certification or similar training is recommended. All other staff functions should be completed by staff with education and/or experience in the task being completed.
5. Conflict of Interest – Conflicts of interest with staff, RLF Advisory Board, and RDC members will be evaluated prior to any actions taken by the RLF. RLF Advisory Board and UMVRDC members will not be allowed to vote on loan requests and administrative functions that may present a conflict of interest. A code of conduct agreement shall be signed by all Advisory Board and UMVRDC members.

B. Loan Processing Procedures

1. Standard Loan Application Requirements – The following is a list of standard items required by RLF loan applicants. It should be noted that not all items will apply to each loan applicant. In certain situations additional items not included on the following list may be required.
 - (a) Complete and signed RLF loan application.
 - (b) Business plan, or a summary of the business’s history and a description of the proposed project for which financing is being requested.
 - (c) Credit reports.
 - (d) Financial projections.
 - (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 RLF Advisory Board may require joint personal financial statements that show a spouse's assets and liabilities as well.

- (h) Bank letter – The bank letter should state the financial commitment of the bank to the project and why they are not able to finance the entire project.
- (i) Affiliates - 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 statement for both the business and principal owner(s).
- (m) Federal requirements – A potential borrower will be required to sign documents stating compliance with all applicable Federal requirements including, but not limited to, compliance to Davis-Bacon wage requirements (if applicable), EDA's non-relocation requirements, Civil Rights Act requirements and assurance of benefits to low-income persons.
- (n) Environmental review – The applicant shall complete an environmental review form included with the loan application. In addition, the RLF Advisory Board, through appropriate staff, shall assess the significance of all environmental impacts of activities to be financed, in compliance with the National Environmental Policy Act of 1969 and other Federal environmental mandates, as required. No activity shall be financed which would result in a significant adverse environmental impact unless that impact is to ensure compliance with applicable laws. The RLF Advisory Board shall make any required mitigation part of the loan conditions.

All loan applicants shall be requested to provide information indicating whether or not there was a hazardous material such as EPA listed, hazardous 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 performance of a Phase I Site Assessment to identify possible sources of contamination, a Phase II Site Assessment to test soil and/or groundwater samples, and a Phase III Site Remediation involving mitigation of applicable contaminants. In cases where there are unresolved site contamination issues, RLF

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

The Loan Administration Board shall not finance any loan activity which results in development other than underground utilities in the 100-year floodplain as defined by the Federal Emergency Management Agency or unless all capacity removed from such floodplain is to be restored by excavation or other appropriate means. No loan shall be approved which would result in a 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. The Board shall not approve any project which would result in alteration of any wetland or in any adverse impact on any wetland without prior consultation with, and consent of, the appropriate local, state and/or federal agency.

No loan 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.

The State Historic Preservation Officer, (SHPO) shall be notified of approved loan proposals that involve 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 action or has been determined an adverse impact.

- (o) Other documents and information as deemed necessary by the RLF Advisory Board.
- 2. Loan write-up – A loan write-up will be done for each RLF financing request. The loan write-up will discuss how the proposed RLF loan is not replacing private lender funding sources. The items listed under the Part II.B.1 - *Standard Loan Application Requirements* above will be used in the loan write-up. The loan write-up will be provided to the RLF Advisory Board prior to the loan decision.
- 3. Application Review –The RLF Advisory Board shall make an extensive review of the application, with analysis provided by the participating local bank and/or UMVRDC staff. RLF loan applications will be reviewed by the RLF Advisory Board who will provide a recommendation to the UMVRDC to be approved, denied or tabled for a future meeting. Both boards shall make their decision by a majority vote. Financial data from the applicant is used to make the lending decision but is not passed on to the RDC board and does not become public information. No one other than staff and the RLF Advisory Board shall have access to the entire loan file. The UMVRDC will receive the recommendation from the RLF Advisory Board and non-private information.

4. Decisions - RLF Advisory Board and UMVRDC decisions will be documented in the corresponding meeting minutes. In approving an application, the RLF Advisory Board will recommend specific interest rates, terms, conditions and limitations, if any to the UMVRDC. The UMVRDC will accept, modify or reject the recommended terms.
5. Notification to the Applicant – The Applicant will be notified of the RLF Advisory Board and UMVRDC’s decisions by either written letter or email notification.

C. Loan Closing and Disbursement Procedures

1. Fees - The borrower will pay an origination fee not to exceed one percent of the loan amount which will cover some of the time needed for loan analysis by the contract staff. In addition to the one percent origination fee, the applicant will also pay any legal, mortgage, UCC, ACH or other fees or costs associated with the loan closing.
2. Loan Closing Documentation Requirements – The following is a list of standard documents that will be required for RLF loans.
 - (a) Note
 - (b) Security agreement (if applicable)
 - (c) Mortgage with title opinion (if applicable)
 - (d) Personal guarantee (if applicable)
 - (e) UCC financing statement and search (if applicable)
 - (f) ACH form for loan repayment (if applicable)
 - (h) Required life, personal property, real estate, flood, mortgage and other applicable insurance policies listing the RLF as a loss payee (if applicable)
 - (i.) Participation agreement, inter-creditor agreement, subordination agreement, development agreement (if applicable)
 - (j) Documentation confirming other project financing committed
 - (k) Memorandum of understanding requiring annual financial statements, insurance policies and other applicable documents be provided to the RLF
 - (l) Other loan documents as needed

3. Loan Disbursement Requirements – All required loan application documents and signatures and all required loan closing documents, signatures and fees must be provided to the RLF by the borrower prior to disbursement of RLF funds. For real estate loans, a purchase agreement must be provided by the borrower. For other loans, invoices or vendor quotes must be provided to the RLF when applicable. To ensure RLF funds are being used as agreed upon in the loan agreement, the RLF may disburse funds directly to a vendor or contractor that the borrower is purchasing items or services from and that are part of the project financing.

D. Loan Servicing Procedures

1. Loan Payment and Collection Procedures - The RLF Advisory Board will authorize a loan repayment schedule and the method of repayment. All borrowers will be required to make RLF loan payments, unless otherwise authorized by the RLF Advisory Board and UMRDC, by one of the following methods:
 - (a) Electronic transfer (ACH transaction) from an account of the borrower to an RLF account. All fees associated with an electronic transfer payment will be the responsibility of the borrower.
 - (b) A participation agreement with a participating bank or other lender where payments are made to the bank/lender and disbursed to the RLF.

A separate bank account has been established for the RLF so that repayments and interest income are clearly identifiable and auditable. The EDA RLF portfolio and cash are clearly distinguishable from any other Recipient loan program. This includes both the EDA and local share portions of the RLF.

After loans are closed UMRDC staffs will service the loan using the UMRDC's Accounting Policies and Procedures Manual. Per the UMRDC's division of duty policies more than one staff is responsible for handling and verifying loan payments, payment receipts and updating accounting documents.

The UMRDC RLF Coordinator will be responsible for periodic and as-needed site visits, and maintenance of collateral filings and collateral existence on an annual basis and as-needed basis by review the RLF master file detailing this information.

2. Loan Monitoring – Borrowers will be required to sign a memorandum of understanding at the time of closing requiring them to provide the RLF financial statements, insurance policies and other required documentation annually.

UMRDC staff will check on initial job creation claims and collateral verification through site visits and/or other documentation from the borrower. Staff will monitor job creation and retention as well as continued insurance coverage through the use of an

annual verification worksheet sent out to all borrowers to complete and return. Maintenance of collateral filings is reviewed by the RLF Coordinator annually, while collateral positions are maintained and updated on an as needed basis.

3. Delinquent and Default Loans and Bad Debt Procedures

- (a) Twenty (20) days past due - When payment on account has reached 20 days past due, a phone call will be made to the borrower.
- (b) Thirty (30) days past due – delinquent - When payment on account has reached one month past due and becomes a delinquent account with the RLF, a written notice of payment failure and delinquency will be mailed to the borrower. A personal visit may also be made to the business if deemed necessary. The borrower must show that appropriate measures are being taken to assure that payments will resume.
- (c) Sixty (60) days past due – default - When payment on account has reached two months past due and becomes a defaulted account with the RLF, the borrower must attend a regularly scheduled RLF meeting to address the RLF Advisory Board on the financial condition of the business and provide a plan of action/steps to resume RLF loan payments. The borrower will provide the RLF with the following information:
 - 1. Current business financials
 - 2. Two most recent business tax returns
 - 3. A repayment plan

In addition to the above, the board may obtain a credit history. The Loan Advisory Board and UMVRDC reserve the right to request additional information. Contact with other participating lenders will also be made.

- (d) Ninety (90) days past due - When payment on account has reached three months past due, inquiry into legal action will begin unless the borrower has made reasonable steps towards bringing the loan to current status.
- (e) Loan Satisfaction Options - The RLF Advisory Board will proceed with collection efforts that are deemed the most likely to recover RLF funds. To settle debt, the board will consider the following options:
 - (1) Letter requesting payment in full of the loan balance within seven days of the date on the letter.
 - (2) If payment in full is not made, a letter requesting partial payment of the loan (in an amount voted on and approved by the UMVRDC) may be sent to the

borrower with payment due within seven days of the date of the letter. The RLF Advisory Board will evaluate the financial condition of the business and its owners in determining the partial payment amount.

- (3) Upon approval by the UMVRDC, file default judgment or proceed with foreclosure to obtain assets as settlement for loan.
- (4) Write-off Procedures - Debt will only be written off after all possible and cost-effective collection efforts are exhausted.

E. Administrative Procedures

1. Loan File Documentation – RLF loan files should include all loan application and loan closing documents as required in this Plan. Loan files will be kept in a locked file.
2. Administration Costs - Eligible and reasonable costs incurred to administer the RLF will be covered by the interest earned on loan repayments and origination fees. While RLF income will be used to pay for eligible and reasonable administrative costs, a reasonable percentage of RLF income will be added to the RLF capital base to compensate for loan losses, the effects of inflation and to maintain a minimum funding level for future borrowing needs within the eligible lending area. At no time will principal funds be used for administrative expenses.
3. EDA Reporting Requirements – RLF loan payments and income sources will be tracked and accounted for by UMVRDC financial staff using accounting software and appropriate EDA forms.
4. As an RLF recipient the UMVRDC understands that EDA RLF funds are subject to an annual audit requirement and that the full value of the RLF (outstanding loans and available cash) must be shown every year on the Recipient’s Schedule of Federal Expenditures. If the dollar amount of the RLF qualifies the RLF as a major federal program, that the auditor performs the required federal audit procedures.

F. Hold Harmless Provision

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 Award 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 Recipient or any of its borrowers, predecessors or successors.



Upper Minnesota Valley
REGIONAL DEVELOPMENT COMMISSION
Helping Communities Prosper

**Revolving Loan Fund
Code of Conduct**

The UMVRDC as the Recipient of federal funding must maintain written standards of conduct to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict-of-interest, or personal gain in the administration of the funds. The written standards of conduct shall provide for the disciplinary actions to be applied for violations of such standards by any Interested Party.

An “Interested Party” is defined as “any officer, employee or member of the board of directors or other governing board of the Recipient, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of the Recipient, such as agents, advisors, consultants, attorneys, accountants or shareholders.” An interested party also includes “Immediate Family” as a person’s spouse, parents, grandparents, siblings, children and grandchildren, but does not include distant relatives, such as cousins, unless the distant relative lives in the same household as the person and other persons directly connected to the Interested Party by law or through a business organization. In addition, “Immediate Family” includes a person’s “significant other” or partner in a domestic relationship with an “Interested Party”.

The UMVRDC must establish safeguards to prohibit an Interested Party from using its position for a purpose that constitutes or presents the appearance of personal or organizational conflict-of-interest or of personal gain.

An Interested Party must not receive any direct or indirect, financial or personal benefits in connection with the funds or their use for payment or reimbursement of costs by or to the applicant. A financial interest may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a sub-award. An appearance of impairment of objectivity could result from an organizational conflict where, because of other activities or relationships with other persons or entities, a person is unable or potentially unable to render impartial assistance or advice. It also could result from non-financial gain to the individual, such as benefit to reputation or prestige in a professional field.

In addition to the rules set forth above, the UMVRDC must adhere to these special conflict-of-interest rules set out for Revolving Loan Fund:

1. An Interested Party of a Recipient of an RLF loan shall not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of RLF loans.

2. The UMVRDC shall not lend RLF funds to an Interested Party.
3. Former board members of the UMVRDC and/or Loan Advisory Board of RLF funds and members of his or her Immediate Family shall not receive a loan from the RLF for a period of two (2) years from the date that the board member last served on the UMVRDC and/or Loan Advisory Board.
4. In order to establish safeguards to prohibit an Interested Party from using their position to influence a loan decision, the Interested Party will indicate that they have a conflict. They will leave the room during the discussion and vote, returning when the next agenda item is called.

I have read this Code of Conduct and understand the conflict-of-interest rules as they pertain to federal funding and the Revolving Loan Fund. In order for the UMVRDC to establish safeguards and maintain the highest standard of conduct, I will abide by the Conflict-of-Interest Rules as defined by the U.S. Economic Development Administration.

Signature

Date