

Small Business Micro RLF Policies and Procedures

POLICY STATEMENTS:

Mission Statement

The mission of the Athens County Rural Business Development Fund is to encourage economic development in the rural business sector of Athens County.

Goals

The AC-RBDF will be established to meet the following goals:

1. Encourage the expansion and stability of the economic base of Athens County
2. Encourage increased employment opportunities for residents in Athens County
3. Encourage the establishment and expansion of locally-owned businesses in Athens County

Objectives

In order to meet these goals, the operation of the AC-RBDF will address the following objectives:

1. Stabilize and diversify the County's economy by providing capital for start-up and expansion of small businesses located in Athens County
2. Assist with rural business development
3. Coordinate with other local and regional economic development entities to the greatest extent possible
 - To avoid potential conflicts of interest, or the appearance of a conflict of interest, an RLF loan will not be made to any board member, officer, general manager, or supervisory employee of **Athens County Economic Development Council** or close relative thereof, or to any **Athens County Economic Development Council** subsidiary or affiliated organization in which the **Athens County Economic Development Council** has a financial interest.
 - Amendments to this Rural Development Plan will require the approval of **Athens County Economic Development Council** board of directors. However, no action will be taken to amend this plan without the prior written approval of the Rural Business Cooperative Service (RBS), its successors or assigns.
 - The **Athens County Economic Development Council** RLF is an equal opportunity lender and requires loan recipients to adhere to all equal opportunity laws.
 - All information regarding RLF loan requests will at all times be kept confidential by the members of the **Athens County Economic Development Council** board, the loan review committee, and **Athens County Economic Development Council** staff. If necessary, the RLF may seek the advice and counsel of outside consultants and sources in order to adequately perform due diligence regarding the project.

REVOLVING LOAN FUND MANAGEMENT:

1. Administration of the Revolving Loan Fund

The Athens County Economic Development Council shall serve as the Loan Administrator for the RLF. The assistance of outside consultants for the following may be required:

- Legal counsel-preparation of appropriate documents including, but not limited to, mortgage insurance, loan closing documents and review/preparation of legal documents related to loans, delinquencies, and defaults, as needed.
- Underwriting, payment collection, report generation
- Other consultants, who may be required on a case-by-case basis, will be required to execute a letter of agreement with the Athens County Economic Development Council.

The Loan Administrator will be responsible for:

- Intake of applications
- Preliminary analysis of loans based on program criteria
- Financial/credit analysis of the application and applicant
- Preparation of an agenda for the Loan Committee
- RLF related status reports to appropriate authorities
- Project monitoring for compliance with established policies
- Obtaining sufficient applicable documentation/information so that the Loan Committee can make a recommendation on loan applications

2. Loan Review Committee

The Loan Review Committee will be responsible for the following functions:

- Review and analyze all RLF applications prior to action by the Athens County Economic Development Council Board of Directors
- Make recommendation to the ACEDC Board of Directors on the final disposition of loan applications

The Loan Review Committee will be composed of five persons appointed by the Athens County Economic Development Council Board of Directors, with one (1) representative from each of the following:

- 1. Financial institution**
- 2. LMI community**
- 3. Real estate**
- 4. Local government**
- 5. Business community**

If representatives from the above sectors are not available, alternate appointments will be made at the discretion of the Athens County Economic Development Council Board of Directors.

3. Review and Approval Process

The Loan Administrator will present loan requests to the LRC, providing other documentation if/when requested. The LRC will review each application and the financial analysis of the business/industry to determine:

1. The extent of the need for AC-RBDF assistance in order to achieve the AC-RBDF objectives
2. The economic development benefit to be derived in relation to the assistance provided
3. The determination that the objective of "benefit to low and moderate income persons" is met, through creation of jobs for such persons

The LRC will also consider the following factors in their review:

- Job creation/retention potential of the project—the number and types of jobs created or retained
- Experience and “track record” of the business and its management
- Source and reliability of other sources of project funding, if any
- Credit history of applicant
- Reasonableness of project and its costs

- Sufficiency of collateral for loan amount requested
- Past, current, and projected cash flow, and profit and loss statements
- Equity and assets on hand
- Environmental factors
- Evidence that the RLF investment will fill a “gap” in financing

3 persons of the committee shall constitute a quorum necessary for approving or rejecting an application for funding from the RLF. A simple majority (51%) of members voting shall be necessary for approval.

Eligible Projects:

Eligible activities include provision of financial assistance to private, for-profit entities to carry out rural business development projects primarily related to the creation, expansion or retention of a particular business. Financing through the AC-RBDF may cover:

- Fixed assets, including land (its acquisition and improvement)
- Buildings and facilities (new construction or renovation)
- Leasehold improvements
- Machinery and equipment
- Infrastructure investment directly related to the business or industrial development
- Working capital

**The amount and type of financial assistance provided to a project must be deemed necessary or appropriate with respect to the financial gap and benefit to the small & emerging business community.*

In-Eligible Projects:

- Refinancing of existing debt
- Non-capital equipment
- Training costs
- Inventory

Other projects that will not be considered for financing assistance through the AC-RBDF are those that:

- Involve financing of speculative activities or projects, including "pyramid" ventures
- Attempt to finance historically noncompetitive or unsuccessful ventures
- Have unsolvable environmental problems
- Cannot demonstrate the ability to repay the loan
- Are not willing to offer equal opportunity in the employment of women and minorities, and/or have a history of Civil Rights violations or unfair labor practices
- Do not have the proper patent rights, licenses, permits, certification, etc. in advance of commencement of operations
- Are not current with local, state, or federal taxes
- Are not current with other loans

RLF funds will not be used to produce agriculture products through growing, cultivation, and harvesting either directly or through horizontally integrated livestock operations except for commercial nurseries, timber operations, or limited agricultural production related to technical assistance projects.

At least 51 percent of the outstanding interest in the applicant must be owned by those who are either citizens of the United States or reside in the United States after being legally admitted for permanent residence.

**Applications by members of the loan committee and their immediate family members shall be ineligible for funding.*

Minimum / Maximum Loan Amounts, Interest Rate:

The AC-RBDF will offer micro loans to area small businesses. The minimum loan amount will be \$10,000 with a maximum loan amount of \$50,000. The interest rate offered will be based on the risk rating assigned during the underwriting process.

Fees / Closing Costs:

There will be an initial application fee (\$250) paid directly to the loan administrator with submission of application.

**The borrower may be required to bear the costs of legal counsel, accounting services, environmental reviews, surveys, appraisals, and any other fees associated with preparation and filing of the application. The borrower will be responsible for all closing costs related to the loan. The loan administrator will work diligently to keep closing costs as minimal as possible.*

Loan Terms:

Loan financing will not be offered for a term longer than the useful life of the asset financed. The capital needs of the business will be addressed by the AC-RBDF by providing only the amount necessary in the form of a direct loan at favorable and flexible terms, to encourage the commercial lending institution to participate in the project. The effect of flexible terms is an incentive for business/ industry to proceed with an otherwise affordable project.

- Loans of \$10,000 to \$50,000 are available with a one to one leverage at least 5% coming from private sources/ owner equity.
- The interest rate is based on risk rating.
- Each loan will be secured with appropriate collateral, mortgages, and/or liens, in addition to a promissory note. To the greatest extent possible, loans will be secured by personal guarantees.
- The AC-RBDF may take a subordinate position of mortgages and liens where this is necessary in order for a commercial lending institution to participate and for the project to proceed.
- An equal monthly repayment schedule for the term of the loan will normally be required. Alternative loan repayment schedules may be developed where circumstances warrant. Special terms may include but are not limited to:
 - a. Deferral of principal payments for up to one (1) year.
 - b. Deferral of principal and interest payments for up to four (4) months.
 - c. Consideration of restructuring the loan or modification of loan terms after one year, based on thorough analysis of financial capacity and recertification of financial need.

A penalty of 4% of the payment due will be assessed on any payment ten (10) days or more past due.

Security / Collateral:

- Each loan will be secured with appropriate collateral, mortgages, and/or liens, in addition to a promissory note. To the greatest extent possible, loans will be secured by personal guarantees.
- The AC-RBDF may take a subordinate position of mortgages and liens where this is necessary in order for a commercial lending institution to participate and for the project to proceed.

APPLICATION PROCEDURES:

Application Process

All applicants for assistance from the AC-RBDG program will be pre-screened by The Loan Administrator to determine that the loan request meets all AC-RBDF eligibility guidelines. Once it is determined that the project is feasible, that the AC-RBDF financing is necessary and that the project will go forward if assistance is provided, the applicant will be invited to submit a full application. The borrower may be required to bear the costs of legal counsel, accounting services, environmental reviews, surveys, appraisals, and any other fees associated with preparation and filing of the application.

Once the application is received, due diligence documentation of assets and collateral will be performed. A loan request summary is to be prepared for the LRC. It should provide a synopsis of:

- Amount of loan requested and recommended terms
- Business history
- Personal and business financial position
- Personal and business credit issues
- Owner/management team profile
- Professional support
- Strengths and weaknesses of business
- Specific use of loan funds
- Ability to service debt
- Financial projections

Review Criteria:

The applicant's financial institution may be requested to prepare a joint financial and credit analysis with the Loan Administrator. Due to direct loan assistance through the AC-RBDF, the credit worthiness of the business/industry must be considered. The ability to cover debt service will be determined by a thorough analysis of the business/industry's current financial status, as well as by projected income and expense reports.

The LRC will then vote to recommend approving the loan with specified terms and conditions, recommend denying the loan or tabling the loan. The Loan Administrator will present the recommendation of the LRC to the Athens County Economic Development Council Board of Directors for consideration.

The Athens County Economic Development Council Board of Directors have final authority to approve or deny all loans.

If the loan request is denied, a letter will be sent to applicant, stating reason(s) for denial of the loan, and what applicant could/would be required to correct or improve before reapplying.

If the loan request is approved, a signed resolution authorizing the loan amount, interest rate, terms, and conditions is secured from the EDC Board.

The loan closing binder will then be provided to legal counsel, for approval as to form.

Contact is then made with the applicant, outlining terms and conditions of loan, and to schedule loan closing. Once the resolution has been authorized, the Loan Administrator will submit the Loan Review Report Form to USDA for approval.

The Athens County Economic Development Board of Directors must document each loan to determine if the loan is "necessary and appropriate" for the small business, the administrator must complete the following analysis:

1. Evaluate the proposed project costs:

Each project must have a "source and use" table, which reconciles total project costs with all participating sources. All costs associated with the project must be verified prior to determination of level of assistance. The agency must determine that proposed costs are reasonable in amount and are justifiable project expenditures.

2. Verify and maximize other sources of funding (if any):

If the loan applicant chooses to use this fund in conjunction with another lending source; loan applicant must first approach a bank or other lending institution for financing of the project. The bank will determine the level of financing at which it can contribute. All sources of funds must provide evidence of firm commitments to the project.

Risk Rating System:

The risk rating system will be made up of six rating scores that have components of the model used by the OCC (Office of the Comptroller of the Currency).

Risk Rating - 1

Loans will be considered of acceptable risk.

- Repayment ability of 1.2:1 or better
- Collateral coverage 1.5:1 or better
- In business 5 or more years
- Management experienced 5 or more years in industry
- Demonstrated profitability to service debt the last 2 years
- No derogatory credit on principals
- Equity ratio of 3:1 or less

To classify as a 1 rated credit they must be rated affirmative in at least six of the above areas. These businesses would be considered sound with good potential for success.

Risk Rating – 2

Loans will be considered of reasonable risk with minor weaknesses

- Repayment ability of 1.2:1 or better
- Collateral Coverage 1.25:1 or better
- In business 3 or more years
- Management experienced 3 or more years in industry
- Demonstrated profitability to service debt in 2 of the last three years
- Minor derogatory (30 days) on principals
- Equity of 5:1 or less

To classify as a 2 rated credit they must be rated affirmative in 6 or more of the above areas. These businesses would be considered sound with minor weakness.

Risk Rating – 3

Loans will be considered of reasonable risk with moderate weaknesses

- Repayment ability of 1.2:1 or better
- Collateral coverage of 1.25:1 or better
- In business less than 3 years
- Demonstrated profitability to service debt in most current fiscal year
- Management experience less than three years in industry
- Modest derogatory of principals

- Equity of 3:1 or less

To classify as a 3 rated credit they must be rated affirmative in 6 or more of the above areas. Business would be considered satisfactory with moderate weakness.

Risk Rating – 4

Loans will be considered of moderate risk and moderate weaknesses

- Repayment ability of less than 1.2:1
- Collateral coverage less than 1.25:1
- In business less than 3 years
- Demonstrated profitability to service debt in one of last two years
- Management experience less than three years in industry
- Modest derogatory of principals
- Equity of 3:1 or less

To classify as a 4 rated credit they must be rated affirmative in 5 or more of the above areas. Business would be considered moderate risk but improving with improving potential and repayment potential adequate

Risk Rating – 5

Loans will be considered of moderate risk and moderate weakness with deterioration in ability to service debt and the potential collection of the obligation. Collection of debt is considered questionable based on current conditions.

- Repayment ability of less than 1.2:1
- Collateral coverage of less than 1.25:1
- In business less than three years
- Lack of demonstrated profitability in last two years
- Management experience less than three years in industry
- Equity of 3:1 or less

To classify as a 5 rated credit they must be rated affirmative in 4 or more of the above areas. Business would be considered moderate risk with deterioration. Repayment potential in doubt.

Risk Rating – 6

Loans will be considered of unacceptable risk and weakness with probability of collection either by operation, collateral liquidation or repayment by guarantors highly unlikely. Loans rated a 6 will be considered a write-off. Possibility of some recover may be likely but the not expected. Loan would meet and exceed the weaknesses to be rated a 5 credit.

Rating of all loans will be the responsibility of the RLF Manager. All changes in risk ratings will be communicated to the RLF committee.

It is expected that a majority of loans administered by BH-HVRDD will be rated a 2,3 or 4. The RLF manager will not consider funding a loan rated below a 4 unless it is clearly noted and communicated to the RLF committee and the Executive committee that it is an exception to policy and that there is some overriding reason for the exception.

LOAN MONITORING:

Once the Athens County Economic Development Council Board has authorized a loan, the Loan Administrator will take action to ensure that all necessary closing and filing documents are prepared, and that necessary review and discussion with the applicant and legal counsel are accomplished. When a loan closing is completed and funds are disbursed, the Loan Administrator will establish a loan servicing file to contain:

- Application
- Committee minutes showing approval
- Approval from Athens County Economic Development Council Board
- All closing documents

- A loan service checklist
- An amortization table
- A log of all conversations and correspondence relating to the loan
- The financial institution agreement for collection, posting, calculation of principal and interest and monthly payment reports.

The loan will be recorded in a master follow-up file (loan software) to ensure loan monitoring functions are performed on a timely basis.

The RLF Administrator will be responsible for annual review of each loan to assure that all conditions of the loan are satisfied and that all information required of the borrower is received in a timely fashion. The RLF Administrator will send to each borrower a letter stating all documents that are required to be sent to the Athens County Economic Development Council. This is to include but not be limited to:

- Financial statement on the business
- Personal financial statements of all owners
- Site visit (required every year)
- Insurance policy updates
- Annual Employment Numbers

COLLECTION PROCEDURES:

Each loan agreement has a ten-day grace period after the due date before late fees are assessed, and new invoices printed. If payment is not made, a friendly reminder call/email will be made to the borrower on the first business day after the deadline. The following will be discussed;

1. Remind borrower of the date
2. Inquire why the payment is late
3. Work out a solution

If unable to reach borrower by phone or if a phone call produces no response, Loan Administrator will send a letter. If account remains unpaid in 30 days, Loan Administrator will send a collection letter, by certified mail. Default-defined as thirty days past due. Action to be taken:

a. Loan Administrator will send a certified letter to the loan recipient informing them of delinquency and the penalty incurred and requesting that they contact Loan Administrator within five (5) working days to determine the extent of the problem. If contact is made within this time, they will meet to discuss problems, remedies and proposed actions.

b. If no reply from borrower, either by attendance at scheduled appointment or a phone call; or if there is a response with no payment of amount due or no attempt to explain financial difficulties, Loan Administrator will notify the ACEDC Board of collection progress and ask for permission to pursue legal remedy.

c. Loan Administrator will conduct timely follow-up based on time frame of promised actions to ensure compliance.

d. If the required actions do not occur, the Loan Administrator will continue to pursue efforts to remedy the delinquency. If the situation has not been remedied within ten (10) working days after the agreed-upon deadline, the Loan Administrator will contact the loan recipient's financial institution to determine what, if any delinquency exists there and if so, what action has been taken regarding the primary loan.

e. Legal remedies will be pursued using legal counsel.

FILE RETENTION:

All documentation generated from AC-RBDF loan activities will be retained in the Athens County Economic Development Council office in a secured area. All files will remain in the care of the ACEDC for a minimum of (7) seven years after a file is closed. A file is considered closed when:

- a. The loan has been paid back in full and all liens are released
- b. The applicant was either denied a loan or chose not to proceed
- c. The loan was closed through other legal means