Central Oklahoma Economic Development District

Revolving Loan Fund Plan

October 1, 2019

Economic Adjustment Overview

The COEDD Revolving Loan Fund is targeting toward the seven (7) counties in the district, since they all meet the EDA criteria for Long Term Economic Deterioration. This includes Hughes, Lincoln, Okfuskee, Pawnee, Payne, Pottawatomie and Seminole counties. Special emphasis for the initial targeting will be placed on those areas with the greatest economic distress Hughes and Okfuskee Counties because they have the least per capita income and negative population growth; and also, Pawnee, Pottawatomie and Seminole Counties because of the negative employment growth within the district. Payne County, the most recent addition to the list, has experience a negative population change.

The current conditions within the area clearly reflect employment growth and rates that are below the U.S. average over the past five (5) years and a negative growth in the five (5) of the counties. Loans will be targeted towards job creation through the expansion of small businesses within the communities, and strategic investments in communities to improve efficiencies and sustainability particularly, water/wastewater treatment facilities and rural health care facilities along with minority entrepreneurs. Focusing on investments wherever possible.

There has been an ongoing analysis of the COEDD area's financial problems as part of the CED's. The failure of banks and the conservative loan practices that resulted have made clear the need for a Revolving Loan Funds. Interviews and inquiries have been made of finance, business and public officials and the following general problems found:

1.High interest rates and an unwillingness to participate in long term ventures. Convention commercial sources will only go three (3) to five (5) years.

2.Limited funds available for lending business expansion or start-ups.

3.Strict credit requirements and collateralization. Also, low loan-to-value ratios.

4.Inability of small businesses to secure capital from private lending sources.
5.Equity requirements of the lending institutions is too high.

6.Limited sources of capital for entrepreneurs.

7.Venture capital sources require too large of participation.

8.Resulting from the number of bank failure financial institute attitudes.

The following goals and objectives for the Revolving Loan Fund are consistent with the CEDS:

GOALS:

1)To create new permanent jobs.
2)To stimulate new private investment in long-lived Physical plant and equipment.
3)To increase productive capabilities of business and industry.
4)Diversity the economic region's economic base.

OBJECTIVES:

a) Provide long term loans
b) Increase the amount of loan money available to expand and/or maintain competitiveness.
c) Provide low interest loans.
d) Provide loans to reduce risks caused by under financing.
e) Provide subordinate financing to local lenders to encourage participation in financing of business expansions and job retention.
f) Provide capital to encourage updating of manufacturing capabilities for greater production.
g) Encourage diversification of industry by providing additional capital for expansion and diversification.

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FINANCING POLICIES

1. Allowable Borrowers:

Allowable borrowers shall include for-profit entities, not-for-profit businesses, local governments, municipal trusts, authorities and medical and healthcare entities.

Allowable sectors shall include, retail, commercial, industrial, service and essential and non- essential government service.

2. **<u>Allowable Lending Activities:</u>**
    - Acquire an equity position in a private business;
    - Subsidize interest payments on an existing RLF loan;
    - Provide for borrowers' required equity contributions under other Federal Agencies.
    - Loan programs;
    - Enable borrowers to acquire an interest in a business either through the purchase of stock or through acquisition of assets, acquiring such interest shall not be allowed 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's;
    - The provision of RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificated of deposit or any investment unrelated to the RLF; or refinancing existing debts shall not be allowed unless:
        - 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 reasoning, 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 a 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 cost plus a reasonable portion of the outstanding loan within a reasonable period of time, as determined by EDA, following the date of refinancing.

    The types of activities to be financed in the first round of loans shall generally be of the hard asset type, i.e., land, building and equipment. Working or operating capital may also be considered where necessary to enhance the success of the project. Emphasis will be placed on expansion of existing businesses rather than start-ups except in special cases. Construction of new facilities as well as updating existing buildings and equipment will also be considered depending on availability and timing. Emphasis by activity type is placed on, but not limited to, the following:

- Private borrowers – 60%
- Public borrowers- 40%
- Expansions/Retentions – 90%
- New companies – 10%
- Locally owned – 90%
- Not locally owned – 10%
- Small business – 100%
- Large business – 0%
- Industrial borrowers – 75%
- Commercial borrowers - 25%
- Traditional - 75%
- New technology 25%

The RLF may not be used to relocate a business from one area to another. When an applicant wishes to expand to a new location outside of its immediate area, a careful check will be made to determine whether the employment and economic impact in the existing location would be.

The requested loan must not be available from another source, on terms and conditions that would allow the project to be completed. A statement indicating the unavailability of financial assistance from other lending sources must be submitted with the package.

There must be substantial assurance that the loan can be repaid along with the applicant's other financial obligations.

The projects must be consistent with the EDA- Comprehensive Economic Development Strategy Plan CEDS

3. **Loan Size:**

Hard asset type of loans will be made in various amounts up to $150,000. Hard collateral and working loans maybe combined for any single borrower; however, at no time will these loans exceed $250,000 without approval from EDA.

4. **Interest Rates:**

Loans will be made at interest rates to be established by COEDD RLF Board of Trustees, taking into consideration the minimum interest rate that can be charged is four (4) percentage points below the current money center bank prime rate as quoted in the Wall Street Journal, but not less that four (4) percent of the maximum interest rate allowed under that Sate Usury laws, whichever is lower. It is planned to establish a range from two (2%) to four (4%) below NY Prime, except that the floor shall be eight (8)%. In the initial round of loans all rates shall be fixed, rather than variable, but are subject to an adjustment pm an annual basis.

5. Terms:

In general, the term of hard-asset type loans shall not exceed fifteen (15) years. However, the usable life of the asset will determine the exact term of the loan. All will have a call provision to protect the Revolving Loan Fund. This can only be executed by the Board of Trustees under circumstances set forth in each loan term and conditions. Typically, a company will have many of its problems in either start-up or expansion phases. The RLF will protect its position by maintaining constant touch with the borrowers through phone contacts and meetings in the early stages of the loan process and require financial reports at frequent intervals. During the first early states of the loan process and require financial reports at frequent intervals. During the first year of the loan term, the borrower will provide monthly financial statements to the RLF staff. Once borrower has established satisfactory debt service record of financial reporting will be adjusted to a quarterly or semi-annual cycle. Operating/working capital loans may be made for a term ranging from three (3) to five (5) years. In case of the operating capital or accounts receivable loans, the term shall be for a period of three (3) years to five (5) years. These loans shall not exceed $50,000, or 50% of the remaining RLF funds to be loaned. Whichever is smaller.

6.Fees:

There shall be a loan processing fee of $300.00.

7. Equity and Collateral:

Each loan will require equity injection on the part of the borrower of at least ten (10%) preferable in the form of cash dollars. A personal guarantee will be required for each borrower Regardless if he is doing business as a sole proprietor of corporation. In the case of a corporation, personal endorsements may be required by major stockholders, or officers or both depending on an evaluation of their financial condition or net worth.

The RLF will require a first lien whenever possible to be in the best collateral position. However, in circumstances where banks or other lending institutions are involved in the overall financial package, the RLF may have to accept a second lien position. A shared first or shared second lien may also be acceptable for certain situation such as "gap financing", but anything less than a shared second will not be acceptable. In general, a revolving loan funds loan will only be reconstructed if this action improves the borrower's ability to repay. The Board of Trustees have the sole authority to authorize loan modifications.

The RLF, which will make hard-collateral type loans with a maximum term of fifteen (15) years, may at its discretion, put a call provision in each loan in the range from one(1) to five (5) years depending on the type of loan and the associated risk involved. At the appropriate call the RLF would analyze the progress and performance of the company/borrower and determine if there is a need for an infusion of additional capital or a restructure of the loan.

8. Moratoria:

It is not planned to grant any moratoria

FINANCING STRATEGY

1.Targeted Businesses:

During the initial round, the RLF program will focus on private sector, well collateralized, hard-asset type business expansions that can provide diversification to the area's economic base while creating a number of skilled and semi-skilled jobs. Start-up operations may be considered in circumstances that are well collateralized and there the local number of jobs created has a direct an and immediate impact on the local economy. It is expected that five (5) to fifteen (15) loans will be made in the initial round depending on the loan amounts.

2. Local Capital Market:

Generally speaking, we find credit in rural Oklahoma very difficult to find for all categories and types of endeavors. Below is the Federal Reserves 10th District WEB Page report to Congress on availability of Credit.
http://www.federalreserve.gov/publications/2017-september-availability-of-credit-to-small-business.htm

3. RLF Financing Niche:

The COEDD Revolving Loan Funds will provide loans for upgrading the area through business expansions that created permanent jobs. In special cases, the RLF will look at loans for new or start-up operations provided that they are well collateralized and will have a direct and immediate economic impact on the residents of the area.

The jobs created will be permanent, long term with entry level of minimum or better. No projects will be supported by the RLF with beginning wages of less than the current minimum wage. Closely related to the need for new jobs within the area is job opportunities for the economically disadvantage /long term unemployed. Each and every employer/borrower will be encouraged as an Equal Opportunity Employer to hire the disadvantage/long term unemployed. It is expected that at least 15% will fall in this category.

It is estimated, based on referrals from banks, career techs, and other local area sources that over seventy-five (75%)new/upgraded jobs in the skilled and semi-skilled, industrial, can be created from the first round of loans and at least fifty (50) additional new one in the same categories saved.

PORTFOLIO STANDARD AND TARGETS:

1.Private Sector Leverage:

The ratio of private sector dollars to be leverage by RLF funds shall be maintained at a minimum of two (2) private dollars to one (1) RLF dollar in accordance with EDA requirements. It is expected that the RLF will work closely with banks, CDC's and other resources of capital for private section participation.

2. Job Cost Ratio:

All projects must meet the minimum threshold of one (1) job created for every ten thousand dollars ($10,000) of RLF funds invested.

MANAGEMENT

The COEDD RLF Funds shall establish such metrics for each individual loan that will accurately indicate the initial and cumulative effects of employing the funds allocated for each loan. Metrics will typically rely on the construction effects, employment effects, wage effects, sale tax effects, jobs saved, essential services preserved operational efficiencies obtained.

The RLF Plan shall be updated at least every 5-years.

RLF LOAN SELECTION CRITERIA

The RLF will accept and analyze all packages with regard to good business practices and the "Project Source and Use of Funds", and other appropriate forms and certain ratios and thresholds established by the Board of Trustees. Staff will check for completeness of the loan package or submittal with emphasis on financial statements, business plan and past credit history. Where, necessary, the RLF staff will offer technical assistance to an applicant in certain area of the loan package that may have been found unacceptable or lacking in content to the Board of Trustees during the loan approval process but are considered correctable. If in fact the package can be corrected and is a quality or impact type of project, it may be re-submitted for approval.

It shall remain the intent of the RLF to look at each package for economic development impact in the area through actual job creation. The final approval shall depend on the ability of the borrower to provide accurate data to substantiate the number and types of jobs to be created.

The steps in the process after the marketing of the RLF and the receipt of associated inquiries are as follows:

1. Staff will meet with applicants to discuss their requirements and if appropriate, to accept their loan package for review and analysis.
2. Staff will analysis the package and determine whether the package is technically complete and feasible. If technical assistance is deemed necessary, staff will contact the Applicant and make recommendations. If the package is complete in all respects and ready for submittal to the Board of Trustees, the staff will proceed to take a formal loan package.
3. The Board of Trustees functions and responsibilities include establishing policies for the RLF, determining terms and conditions of loans, approval and disapproval of loan applications, authorizing call provisions, and loan restructuring approval. Because of the complex nature of the documentation, as well as the manpower required for both loan closing and servicing, it is planned to contract this effort to a local bank.

PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES

ORGANIZATIONAL STRUCTURE:

The COEDD Revolving Loan Funds which will be administered by the COEDD Trust, will have a Board of Trustees consisting of nine (9) members and a separate Loan Screening Committee consisting of five (5) members. The Board of Trustees will make all policy, administrative, and loan approval decisions. In doing so they will establish such policy as be necessary to direct all staff and screening committee efforts. Should conditions occur within the RLF district that necessitate a change in program direction, the Board of Trustees will determine the nature of such changes and approve a revised plan if necessary. The new plan would then be submitted To EDA for approval and implementation.

Careful selection of the Board of Trustees and Loan Screening Committee will assure that the portfolio is handled in a professional and business- like manner. The Board of Trustees will be comprised of leaders from various fields of expertise including, but limited to, finance, mortgage banking, real estate, accounting, and management from both public and private sectors.

Wherever possible minorities will play a key role on the Board and participate in every aspect. There will be a minimum of one (1) each minority on the Board of Trustees and the Loan Screening Committee,

LOAN ADMINISTAION BOARD:

The key bonded staff members assigned to the RLF activities are as follows:

David Hinkle – COEDD Executive Director
Pat McCormick – COEDD Deputy Director

If for any reason, the Staff and Loan Screening Committee do not have a specific area of expertise to properly evaluate a loan submittal, outside sources maybe retained at the expense of the appropriate borrower. Professional services such as title work, surveying and appraisals are representative of such services.

The responsibilities of both staff members above shall coordinate the RLF Project Review.

CONFLICT OF INTEREST:

COEDD shall seek to act with the highest ethical standards with regards to RLF activities.

LOAN PROCESSING PROCEDURES:

There shall be a $300.00 loan processing application fee.

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CREDIT AND FINANCIAL ANALYSIS:
Each transaction shall require:

- A credit report from a recognized credit reporting agency (where applicable).
- A personal Guarantee of each owner of 10% or more of the stock and their spouses (where applicable)
- Mortgages (where applicable)
- Insurance (life & property and casualty) (where applicable)
- 10% post-closing borrower's equity (where applicable)
- Appraisals (where applicable)
- Acceptable evidence of Credit not available elsewhere (where applicable)

ENVIRONMENTAL REVIEWS:

The Loan Screening Committee will be appraised of all federal and state statutes and regulations concerning environmental impact and will evaluate each proposed project for compliance as an official part of the loan package. All potential impact will be identified as to historical and environmental concerns and coordinate with appropriate agencies.

If , an impact is discerned , applicant will be required to clearly identify what mitigation steps will be taken. No loan will be approved until environmental, historical and archaeological clearances are obtained.

LOAN WRITE -UP:

Each loan write up shall contain the loan officers write-up; it is intended to summarize the key aspects of the loan such as firm history, management , product, production capability, market conditions, financing, collateral, underwriting policy, repayment ability, consistency with the RLF's financing policy, community impact, and whether there are any environmental issues.

PROCEDURES FOR LOAN APPROVALS:

The applicant shall apply for the loan and submit completed packages only containing the entirety of the loan documentation and justifications. The credit officer shall provide a loan write up along with a loan recommendation and a draft Loan Commitment with Terms and Conditions. The RLF board shall vote to approve, or, disapprove or approve with modification to the recommendation of the loan officer.

LOAN CLOSING AND DISBURSEMENT PROCEDURES

Documents that shall be required at loan closing will at a minimum include:

- Loan application
- Loan agreement
- Board meeting minutes approving the RLF loan
- Promissory note
- Security agreement (s)
- Deed of trust or mortgages (as applicable)
- Agreement of prior lien holder (as applicable)
- Evidence that credit is not otherwise available
- Loan Commitment with Terms and Conditions

LOAN DISBURSEMENT:

Loan funds will be disbursed only on regular business days via check within 24 hours after satisfying Loan Commitment Requirements established and approved by the RLF Board for the asset being financed.

LOAN SERVICING PROCEDURES:

It is expected that the loan servicing area will be one of the keys for the entire RLF Program. In the initial year of the loan, it is anticipated that the borrower will submit ***quarterly or semi-annual financial statements.*** Staff will review all company activities and progress such that an

Evaluation or comparison can be made of the initial Pro-forma projections vs. actual operating figures. These variables will help determine the needs of the company for technical and/or management assistance and keep any situation from getting out offhand during critical times. It is essential that any problems and needs be identified such that corrective steps be taken to maintain proper trends.

Because of the complexity of the servicing and closing operations, as well as the manpower needs and requirements to support it, the servicing and closing operations will be contracted out a local financial institution where possible. A loan closing/servicing fee shall be charged to the applicant to offset those expenses. All procedures and forms will be handled in accordance with normal policies and standards set prior to closing.

MONITORING:

RLF staff will be monitoring each loan closely through its terms to ensure compliance with appropriate rules and regulations and will respond immediately in case of default or delinquency in payments.

There will be immediate response by the RLF staff to any delinquency in payments with several possible course of action:

1. Identify any technical and management assistance that will help the borrower to strengthen and restore their loan protection.
2. If there are extenuating circumstances such as a severe market changes, act of God, national policy changes or other events out of the real control of the borrower, to consider a restructure of loan.
3. If technical assistance or restructuring of the debt are not feasible or possible, initiate - liquidation activities.

COLLECTION PROCEDURES:

If the borrower sets a pattern of being late with his debt service payments and does not respond to a late payment notice or telephone follow-up, or misses a payment after a forty - five (45) day period, and spears to be reaching a default position, he will be called in for a conference with the RLF staff. If there cannot be a resolution per 1 and 2 above, then staff will take the necessary steps to call the loan and proceed with liquidation.

In the event of a proposed solution to the problem through restructure of the loan, the RLF will consider deferring principal payment, i.e., interest only, for a given period of time until the problem is resolved. Although an infusion of new capital is a potential solution under certain conditions, it will only be considered if it is in the best interest of the RLF. It shall be the intent of the RLF staff at all times take such action as may be necessary to protect the RLF capital and minimize the potential dilution of the RLF's collateral. It shall be an objective of the program to take into consideration the modification and restructuring of loans in special instances where cyclical changes are acknowledged and anticipated in the original loan evaluation and risk management.

LOAN FILES:

Loan files are maintained in the COEDD' s office and the following documents are included in the RLF loan file.

- Loan Application Form
- Minutes of the Loan Administration Board approving loan
- Commitment Letter
- Loan Agreement
- Promissory Note
- Environment Assessment
- Recorded Mortgage or Deed of Trust. Applicable if Real Estate secures the loan.
- Title Insurance Policy. Applicable if Real Estate secure the loan.
- Security Agreement. Applicable if Personal Property secures the loan; personal property includes all property except real estate.
- UCC Filing (Uniform Commercial Code) with date stamp. Applicable is PERSONAL PROPERTY secures the loan; personal property includes all property except real estate.
- Personal Guarantee Agreement (guarantee by the individual to repay the loan, usually principals of closely held corporations.
- Hazard and Liability Insurance with the Grantee named as "loss payee" on the current Certificate of Insurance
- Bank Loan Agreement or Bank Commitment Letter (verifies private sector financing)
- Job count documentation (records the number of jobs actually created/saved since the loan was made; will be done annually
- Documentation of Non-Substitution Requirement
- Financial Statements not over 12 months old in loan file
- Borrower Site Visit Documentation

ADMINISTRATION PROCEDURES:

ACCOUNTING:

A separate bank account is established for the RLF so that repayments and interest income are clearly identifiable and auditable. The EDA RLF portfolio and cash is clearly distinguishable from any other Recipient loan program. This includes both EDA and local share portions if the RLF. The RLF Plan states that COEDD will ensure that the RLF is operating in accordance with the Generally Accepted Accounting Principles (GAAP).

ADMINISTRATIVE COSTS:

The Central Oklahoma Economic Development District is currently funded by Federal, State and Local monies; however, the administrative support of the RLF will come from State and Local funds and loan processing fees of $300.00 each. No EDA funds will be used for administration of the RLF.

ALLOWABLE CASH PERCENTAGE:

In keeping with EDA Excess Retention Policy which sets the upper limit of 25%, the RLF itself has established a limit of 20% for uncommitted funds. In the event that an influx of private funds results in exceeding the limit, the Board of Trustees will take immediate action to resolve the situation. To maximize the interest income for the unused funds, the RLF will buy short-term Certificates of Deposit or utilize an interest- bearing checking account with an "on demand" capability.

EDA REPORT:

The RLF Plan acknowledges that EDA requires a Recipient to file a semi-annual or annual report with EDA and that COEDD will certify as part of that report that the RLF is operating in accordance with the RLF Plan and that the information provided is complete and accurate.

AUDITS:

The RLF Plan acknowledges that EDF RLF funds are subject to an annual audit requirement and the full value of the RLF must be shown every year on the Recipient's Schedule of Federal Expenditure. If the dollar amount of the RLF qualifies the RLF as a major Federal program, the Recipient must ensure that the auditor performs the required Federal audit.