

Arenac County

Revolving Loan Fund Plan

Arenac County has played an active role in the development of rural America. Through its board and staff, **Arenac County** has provided not only leadership but financial participation in economic and community development. Now, through the creation of a Revolving Loan Fund (RLF), **Arenac County** is seeking to improve the quality of life in rural areas by contributing to the long-term improvement in the economy, including job creation and retention, diversification of the economy, improving the education and skills of the rural workforce, and upgrading the public infrastructure to improve the health, safety, and/or medical care of rural residents.

The Arenac County (grantee) Revolving Loan Fund (RLF) shall be operated under the guidance of the following Revolving Loan Fund Plan. This Revolving Loan Fund Plan will not be amended or changed without prior written concurrence from Rural Development (grantor), an Agency of the USDA.

POLICY STATEMENTS:

- Grant funds to be received by the grantee through the Rural Business Development Grant program will be used to establish a revolving loan fund (RLF). The RLF will be used to provide financial assistance to third parties within the guidelines of this revolving loan fund plan.
- The Grantee will contribute a cash match to establish the RLF. Verification of these funds is provided with the grant application. These funds will remain in the RLF until the RLF is terminated. Termination will not take place without prior concurrence of the grantor.
- Applicants of the RLF will be required to meet their financial needs from their own resources and commercial financial institutions whenever possible. The RLF will be used to finance applicant needs that cannot be met from the above resources. The RLF may finance 100% of an applicant's needs if other resources are not available.
- The Board of Directors of **Arenac County** is the sole authority for approval or denial of loans from the RLF and is responsible for all decisions and actions of the RLF. The RLF will be operated and maintained solely by **Arenac County**.
- 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 **Arenac County** or close relative thereof, or to any **Arenac County** subsidiary or affiliated organization in which the **Arenac County** has a financial interest.
- Amendments to this Rural Development Plan will require the approval of **Arenac County** 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 **Arenac County** 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 **Arenac County** board, the loan review committee, and **Arenac County** 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:

Administration of the Revolving Loan Fund

Management of the RLF will be the the Arenac County Economic Development Board.

Loan Review Committee

The **Arenac County** Board of Directors has appointed a Loan Review Committee (LRC) to review all RLF loan applications. The LRC will perform necessary credit analysis and due diligence in order to make a written recommendation to the **Arenac County** board of directors, which has final authority regarding all actions of the RLF. The LRC will meet on an as needed basis under the terms of the application procedures listed below.

The Loan Review Committee serves on a volunteer basis. The Loan Committee shall be comprised of no fewer than **5** voting members plus the Economic Development Executive Director. The Economic Development Executive Director shall not have voting privileges.

5 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.

If a member of the LRC has a financial interest in the project being reviewed, he/she will abstain from the loan review/recommendation to the **Arenac County** Board of Directors. Members of the LRC will serve indefinite terms. However, the **Arenac County** board of directors has the right to replace members of the LRC in the event of resignation or other necessary circumstances.

The Loan Review Committee members were chosen, in part, because of their experience with lending and/or economic and community development projects. A current and up to date roster of the members of the LRC will be attached to this Revolving Loan Fund Plan as new members are appointed. These committee appointments do not reflect an amendment to the RLF Plan and therefore do not have to be approved by USDA.

REVOLVING LOAN FUND GUIDELINES:

Loan funds will be used to finance and/or develop small and emerging private business enterprises in rural areas.

Qualifying Projects:

- Project / business to be assisted by the RLF program typically must be physically located within Arenac County. On a case by case basis, the Loan Committee may waive this requirement and provide loan funds to a business located outside the Arenac County. Area if the committee determines doing so will have a positive economic impact on the community to be assisted with RLF funds. If the business relocates outside of the Arenac County Area, the Loan Committee may require immediate pay off of the loan.
- Acquisition and development of land, easements, and rights-of-way.
- Construction, conversion, enlargement, repairs or modernization of buildings (including façade repairs), plants, machinery, equipment, access streets and roads, parking areas, utilities, and pollution control and abatement facilities.
- Loans for startup operating cost and working capital.
- Technical assistance for private business enterprises.
- The grantee has a goal of creating or retaining at least one full time job for each \$10,000 loaned from the RLF.

In-Eligible Projects:

- 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.
- RLF funds will not be used to finance comprehensive area-wide type planning. This does not preclude the use of grant funds for planning for a given project.
- RLF funds will not be used to fund a part of a project which is dependent on other funding unless there is a firm commitment of the other funding to ensure completion of the project.
- RLF loan funds will not be used to pay off any previous debt. Refinancing construction financing is an exception to this rule.
- Loans will not be made unless there is a reasonable prospect that the applicant meets the definition of "small and emerging private business enterprises" defined as "any private business that will employ 50 or fewer new employees and has less than \$1 million in projected gross revenues." If the grantor changes its definition of small and emerging business as defined by the Rural Business Development Grant regulations, the grantee reserves the right to utilize the amended definition without further approval from the grantor.
- Applications by members of the loan committee and their immediate family members shall be ineligible for funding.

Minimum / Maximum Loan Amounts:

Loans to be made from the RLF will not exceed the level of available funding in the RLF bank account. Loans made from the RLF typically will not be less than \$5,000 and not to exceed \$20,000. The Loan Committee may authorize loans smaller or larger than the above values on a case by case basis.

Interest Rate:

The interest rate will not exceed prime rate by more than **2%**. The Loan Committee will determine the rate on the day of loan closing based on the evaluation of the applicant's ability to repay and the necessity of below market financing to advance the project. Interest earned on any RLF loan must stay in the fund for use in making additional RLF loans.

Fees/Closing Costs:

A **\$150** application fee shall be submitted with each application. Costs associated with processing the application (e.g. credit report fees, UCC and lien search fees, filing security documents, filing legal documents fees, etc.) shall be the responsibility of the applicant. The Loan Committee may waive or amend this fee structure without further approval from the grantor.

The RLF may charge loan recipients for loan closing costs, attorney's fees, filing fees, etc., as necessary to complete loan documentation. All loan fees will be addressed in the Loan Agreement between the RLF and the loan recipient.

Loan Terms:

Loans can be amortized over the lesser of seven years or the life of the security. The Loan Committee shall determine the term.

The Loan Review Committee will make a recommendation concerning the term of the loan and payment frequency (monthly, quarterly, etc.) depending upon project need, the expected life of the security, and the applicant's ability to repay. The term of the loan will not exceed the expected life of the asset being used as collateral.

Security / Collateral:

Security shall consist of the best lien available on real estate, equipment, inventory, etc. The discounted value of the security (using typical lender discount rates) shall equal or exceed the value of the loan. The Loan Committee may require personal guarantees and/or co-signors.

Arenac County will work with the potential loan recipient to obtain security that is adequate for the term of the loan. The nature of the collateral pledged shall be determined by the loan committee on a project-by-project basis. If the same collateral is used in joint financing, the RLF will seek a parity position with other lenders. Types of security may include:

- Mortgage Lien on Real Property
- Machinery and equipment which have a developed market;
- Letter(s) of credit from acceptable financial institution(s);
- Securities issued by the Federal government or its agencies.
- Accounts receivable and inventory for short-term loans; and

The loan recipient will be required to maintain fire insurance, and flood insurance if necessary, on secured assets. In some cases, credit life or key man insurance will be required with the RLF as loss payee.

APPLICATION PROCEDURES:

Applications for RLF funds will be accepted on a continual basis. All applicants for RLF funding will be required to complete an application form and provide a corresponding business plan with verifiable data which demonstrates that their proposed projects are economically feasible, sustainable, and will provide

benefits to rural areas, either through job creation or infrastructure improvements. A copy of the application which includes a list on supporting information is attached to this plan.

- Applications will be accepted at the **Arenac County** office during normal business hours. The **Arenac County** is located at **120 N. Grove Street, Standish, MI 48658**.
- Complete applications will be reviewed by the loan review committee. An application is not considered complete until all required information has been submitted to the **Arenac County** staff as listed on the attached application.
- There must be evidence presented by the applicant that indicates the RLF loan is necessary to make the proposed project feasible.
- The Loan Committee may require written feasibility studies, business plans, market studies, etc. as appropriate for the business type.
- The loan review committee will analyze each project and make a written recommendation to the **Arenac County** Board of Directors.
- The **Arenac County** Board of Directors will normally review RLF applications at their scheduled monthly Board Meeting. However, if needed and at the Board's option, the Board may call a special meeting to review a loan application.
- The **Arenac County** Board of Directors shall have final authority to approve or deny RLF loan requests, and to determine appropriate terms and conditions.
- For approved loans, a loan agreement addressing all of the terms and conditions, including monitoring procedures, repayments, delinquencies, defaults and remedies for that project will be prepared by the RLF. In addition, the RLF shall have prepared all notes, mortgages, security agreements, UCC filings and other legal documents necessary to close the loan. The RLF will use appropriate note, mortgage, and other forms which are approved by the State Bar Association.
- Before RLF funds can be disbursed to the loan recipient, all requirements and terms of the loan agreement must be met and supplemental financing must already be contributed or verified ready to contribute to the project.

Review Criteria:

The basis for determining the eligibility/approvability, loan amount, interest rate, and terms and conditions of a revolving loan fund request, and general RLF operational procedures, are as follows:

- The loan review committee and **Arenac County** board will consider the financial need of the project, the probability of success, the security offered, and the overall benefits of the project to rural areas, including the number of jobs to be created or retained, diversification of the economy, the extent of the upgrading of the skills of the rural workforce, the quality of the jobs in terms of pay scale and benefit package, and, for community development projects, improvements to the community infrastructure, facilities, and/or acquisition of equipment that improves the education, health, safety, and/or medical care of rural residents.

- Applicants who choose to apply in times when inadequate funds exist for extending a loan will be informed of the lack of funds. Applications will be reviewed and funded (if eligible) based on the following criteria:
 - Applications with the greatest anticipated economic impact for the community shall receive greatest priority. Criteria to be considered in determining economic impact include number of jobs created or saved, wage scale of employees, benefits paid to employees.
 - Applications of equal economic impact will be funded in date order of application.

In accordance with Federal law and U.S. Department of Agriculture policy, the Loan Committee will not discriminate on the basis of race, color, national origin, sex, religion, age, disability, or marital or family status.

LOAN MONITORING:

The Economic Development Executive Director shall be responsible for administrative requirements of the RLF. The Economic Development Executive Director may delegate these responsibilities to other persons.

All RLF loans will be monitored to ensure that loan proceeds are spent as identified in the RLF application, that all other sources of financing have been committed to the project, and that the benefits of the project, such as job creation, are accomplished as stated in the RLF application. The Economic Development Executive Director shall ensure that RLF lien positions and loan collateral are secure

This loan monitoring will require regular reporting by the loan recipient.

- Annual income statements and balance sheets will be collected from the loan recipient. Depending on the nature of the project and security arrangements, **Arenac County** reserves the right to require the submission of annual financial reports as audited by a certified public accountant.
- **Arenac County** will also conduct annual site visits to meet with the loan recipient, verify collateral and collect any information as required.
- At the option of **Arenac County**, periodic management information reports may be required of the loan recipient. Management reports may be required on a semi-annual basis beginning six months after the advance of RLF funds and continuing semi-annually thereafter for a period of 3 years or until completion of the project, whichever is the later period. If requested, management reports will include:
 - information on the number of jobs created or retained during the reporting period;
 - a comparison of accomplishments during the reporting period to the objectives established for the project,
 - a description of any problems, delays, or adverse conditions which will materially affect the attainment of planned project objectives and a statement of action taken or contemplated to resolve the situation.
- **Arenac County** reserves the right to require these reports on a more frequent basis if it is determined to be in the best interest of the RLF.

- An annual review and report of the outstanding loans of the RLF, including job creation/retention totals and community benefits, will be compiled by the loan committee for presentation to the **Arenac County** Board of Directors.

COLLECTION PROCEDURES:

The Economic Development Executive Director is charged with the responsibility for loan collections and related workouts, collection of charged-off loans, management and disposal of other real estate owned and any other activities related to delinquent accounts.

As part of this responsibility, the Economic Development Executive Director shall have authority to initiate foreclosures, and collection suits after consultation with **Arenac County's** legal counsel. The Economic Development Executive Director will advise the board of such action at their next regular meeting.

- Past due notices will be generated and sent to the loan recipient according to the following schedule:
 - First notice sent on the 10th day after a note or payment is due.
 - Second notice sent on the 20th day after a note or payment is due.
- If the delinquent account becomes 30 days delinquent, the Economic Development Executive Director will make phone contact with the loan recipient to inquire about the situation and arrange appropriate corrective action.
 - As a prudent lender and at the **Arenac County's** sole discretion, a one-time corrective action/workout of a delinquent account is permitted. As part of the workout, loan terms may be modified by deferral, reamortization and/or balloon payments.
- If the delinquent account is not taking steps to cure default and the account becomes 60 days delinquent, a written 30 day Notice to Cure will be issued and sent to the loan recipient via certified, first class mail with a return receipt requested.
- If the delinquent account does not respond to the Notice to Cure by paying the amount stated in the cure notice, the file will be forwarded to Arenac County's legal counsel to start foreclosure actions.

FILE RETENTION:

All RLF files will be retained for a period of not less than 3 full years after the loan has been paid in full. After 3 years, the files will be destroyed by shredding or incineration. Files will be secured in a locked, safe place and access will be limited to Intermediary staff with RLF responsibilities. Other security measures will be initiated as needed to protect confidentiality of loan documents.