ADDISON COUNTY
Economic Development Corporation
Great starts here.

Workplan as of January 1, 2019

Section 1 – Introduction

ACEDC was officially chartered in its current corporate structure, as a 501c(6) not-for-profit organization, on November 8, 1991. Shortly thereafter, the first Revolving Loan Fund (RLF) was established with the proceeds from a $200,000 RBEG grant which assisted with funding the acquisition and refit of the Kraft cheese plant for Agri-Mark/Cabot. Subsequently, an additional $200,000 was received as a part of a larger Federal grant to the State of Vermont. These funds were distributed to five entities (ACEDC being one of five) for the purpose of establishing or expanding RLFs.

ACEDC has since applied for and received three Intermediary Relending Program (IRP) loans: one for $500,000 in 1998, the second in 2009 for $500,000 and a third in 2012 for $162,000. These IRPs focus on early stage through second stage companies that have gap financing needs. ACEDC has fully revolved all three loans.

As a regional development corporation serving Addison County, ACEDC offers a wide range of programs to support business growth and development, including numerous workshops, partnering with other entities to assure a wide variety of business support in Addison County and detailed consulting where necessary. We have a Vermont Small Business Development Center staff person located in our office, and we regularly host meetings with businesses that include commercial banks, the Vermont Economic Development Authority (VEDA), other lenders such as the Vermont Flex Fund and Vermont Community Loan Fund, and state officials to discuss economic development services.

Section 2 – Administration

The administration of the RLFs and RLF borrowing is provided primarily by ACEDC's Finance Director with oversight from the Executive Director. The current ACEDC Finance Director has over 20 years' banking and investment management experience, including over 10 years managing commercial loan special servicing, workout and conversion with JP Morgan Chase and Goldman Sachs.

The current Executive Director has over 30 years' experience in economic development, business financial review and administration of grant and loan funds.

In 2007, ACEDC purchased and began using Portfol software to manage all RLF information and data. Portfol is a program developed by the Philadelphia Industrial Development Corporation specifically for RLF management.

In 2018, ACEDC contracted with BMI to develop and implement an online loan application. This will make the loan application process easier and more efficient for applicants, ACEDC Staff and the loan committee. It will also ensure more efficient collection, electronic storage, and privacy protection of USDA-required loan documents.

ACEDC's legal counsel is Anthony Duprey of Neuse, Duprey, Putnam in Middlebury, Vermont. Anthony has been handling our loan closings and previous IRP closings for many years.

ACEDC's current auditor is O'Brien Shortle Reynolds & Sabotka, PC of Rutland, Vermont. ACEDC has retained their auditing services since 2008, including for the required A-133 (single) audit since 2010. However, in early 2019, ACEDC will issue an RFP for auditing services, which may or may not result in contracting with a different firm.

The ACEDC Loan Committee is comprised of at least five (5) but no more than seven (7) members and may consist of both ACEDC Board of Trustee and non-board members. All loan committee members must be individuals with solid financial grounding and experience, though they need not have commercial lending experience. The ACEDC Board of Trustees approves all members of the Loan Committee.

Section 3 – Financial Resources

ACEDC maintains a strong balance sheet. As of June 30, 2018, ACEDC had assets totaling $1,373,726 and liabilities of$806,993, with a Current Ratio of 4.21.

Section 4 – Security

Loans made using IRP funds are secured by all business assets of the borrowing company and/or specific assets for which the loan is made. ACEDC is typically in a subordinate lien position to senior lenders and other bank debt and in a superior lien position to municipal RLFs and private convertible debt. assets may be attached as collateral when business assets are inadequate or unverifiable.

ACEDC requires the personal guarantee of all principals with 20% or greater ownership in the business, unless specifically waived by the ACEDC Loan Committee. The guarantee of any operating or parent company is also required to guarantee loans.

Section 5 – Use of RBS (Rural Business Services) Funds

Funds received by ACEDC through the IRP loan program have been used solely to establish revolving loan funds (RLF). These funds are disbursed to ultimate recipients in Addison County, Vermont, in order to assist with financing business and economic development activity to create or retain jobs in Addison County.

Section 6 – Fees and Charges

1. A $100 application fee is required at the time of application. The application fee is waived for ACEDC members.
2. A closing fee of 1% of loan principal is assessed at closing to defray origination expenses.
3. Borrower pays all attorney, filing, and other fees associated with preparation of loan documents.
4. ACEDC retains all late fees collected to offset additional administrative costs, at a rate of 5% of payments past due after a 10 day grace period.
5. ACEDC retains a RLF fee of 28.58% of the interest collected, which equals 2% of the 7% interest charged.
6. ACEDC retains an additional reimbursement of personnel time and expenses as reflected in the annual budget.

Section 7 – IRP Goals and Objectives

The goal of these IRP monies is to increase economic activity, economic prosperity, and employment in Addison County. Ultimately, the ability to find meaningful employment with businesses borrowing from the ACEDC RLF will reduce resident dependency on government programs.

The objectives of IRP funds include:

- Provide funding where there is a financing gap between available private and/or state financing and borrower cash requirements for economically viable projects where employment opportunities are at stake. ACEDC is a partner to the Vermont lending community, not a competitor.

- Accept a higher loan default-risk profile where warranted to support creation and retention of jobs. Insure access to capital for women- and minority- owned businesses.

Section 8 – Program Guidelines/Eligibility Criteria

Types of Business:

Any for-profit organization existing or seeking to establish itself in Addison County may apply for a loan. Relocating the business outside of Addison County triggers a loan call.

Preference will be given to applicants that have the potential for growth and who can show that the proposed financing will yield substantial economic benefits to Addison County, as measured by the number of jobs created or retained and/or the value-added products or services resulting from the borrower's business activity. Indirect job creation is included, as well as direct job creation.

Preference is given to businesses transitioning out of distressed business lines to more stable commercial endeavors and to smaller businesses, generally defined as companies with annual sales of $10 million or less and 40 or fewer FTEs.

Businesses owned by women, minorities, and those defined as disadvantaged are encouraged to apply for loans under this RLF.

These loan funds are not available for direct agriculture loans.

Use of Funds:

IRP funds must be used for community development projects, the establishment of new businesses, expansion of existing business, creation of employment opportunities, or saving existing jobs.

ACEDC will lend up to 40% of a project, up to $100,000. The minimum loan amount will generally be $10,000, except in the case of emergency situations where a lesser sum will be considered. As per USDA requirements, no more than 25% of any one IRP/RLF may be loaned to any one project or related projects, or any one company/group of companies having the same ownership.

Loans may be used for, but are not limited to:

- Business acquisitions when the loan will keep the business from closing, prevent the loss of employment opportunities, or provide expanded job opportunities;
- Business construction, conversion, enlargement, repair, modernization, or development of manufacturing or business space;
- Purchase and development of land, easements, rights-of-way, buildings, facilities, leases, or materials;
- Equipment purchases, leasehold improvements, machinery, or supplies;
- Pollution control and abatement;
- Transportation services;
- Start-up operating costs;

- Long-term working capital.

Loans from ACEDC may not be used for:

- Lines of credit;
- Agricultural production;
- Refinancing existing debt (except in limited circumstances);
- Golf courses, race tracks, or gambling facilities;
- Any illegal activity;
- Any other loan purpose deemed ineligible by USDA Rural Development.

Section 9 – Loan Terms and Rates

Term of Loan:

All loans made under this program will be term loans with the funds fully drawn down at the time of the loan closing. The term of any specific loan will be based on the repayment capability of the business and on the estimated life of the asset being financed.

> **Fixed asset loans:** In general, fixed assets loans will have a term of three to 10 years, with an amortization period not to exceed fifteen years.
>
> **Working capital loans:** The maximum term will be seven years with an amortization period of 10 years or less, unless otherwise stipulated by the Loan Committee.

Interest Rates:

Interest rates for loans made through the IRP-funded RLF will be set above conventional bank interest rates to reflect the additional risk of these loans, and to encourage borrowers to refinance using conventional loans as soon as it is feasible.

Loan rates are fixed at 7% simple interest, constant payment, 360-day year for all loans. The Loan Committee will review this rate at least annually to ensure that they reflect market conditions, generally 2% above the local prevailing rate for first lien commercial loans.

Section 9 – Application Process

The process for receiving and closing revolving loan fund requests is as follows:

Application Processing

<u>Loan Applications.</u> Applications for RLF financing are made exclusively through the ACEDC loan application portal and must include all the requested, including upload of the USDA-required forms and any additional information as may be reasonably requested by ACEDC. The loan application portal insures all loan applications are archived, all applications are visible to the Loan Committee and that private personal information is maintained behind a secure firewall.

<u>Application Fee.</u> A $100 application fee must accompany the completed loan application unless waived because of ACEDC membership.

Closing Fee: ACEDC retains a 1% of principal closing fee from distributed loan proceeds.

Application Processing. The processing of loan applications will generally consist of the following:

(a) Review applications for completeness and to procure appropriate additional information.

(b) Review for RLF eligibility criteria and eligibility pursuant to ACEDC and USDA requirements.

(c) Determine economic feasibility, perform credit analysis, and assess risk.

(d) Determine amount and terms of RLF financing, including appropriate security.

(e) Prepare written credit analysis report to the ACEDC Loan Committee summarizing the review process and providing recommendations as appropriate.

ACEDC Loan Committee Approval. The ACEDC Loan Committee shall have sole authority to approve RLF loans. Such authority shall include the commitment to lend RLF funds, the interest rate(s) to be charged, the repayment terms, and the requisite security for the loan. The application of other appropriate conditions of lending and covenants of the borrower shall be determined by the ACEDC Loan Committee, subject to input from ACEDC's attorney.

Loan Disapproval.

Loan applications may be disapproved by the ACEDC Loan Committee:

(a) based on a lack of application completeness or a failure to meet the eligibility criteria pursuant to RLF guidelines;

(b) if the ACEDC Loan Committee determines that RLF financing is clearly inappropriate based on the reviews conducted in accordance with guidelines;

(c) for any reason or reasons which represent a reasonable determination that the approval of the RLF application would not meet the objectives of the program and/or would not represent an appropriate or prudent use of program funds.

In all such instances, the applicant will be notified in writing of the reason(s) for disapproval.

Post-Approval Process

Commitment Letter. A commitment letter is sent to the applicant upon the approval of an RLF loan which will include, at a minimum, the following information:

(a) The amount of the loan approved, the applicable interest rate, the term of the loan, the terms of repayment, and the expiration date of the commitment;

(b) The required use of the loan funds;

(c) ACEDC's requirements for collateral and additional security, including guarantees, pledges of assets, etc;

(d) Summary information regarding employment reporting;

(e) Any other conditions of lending;

(f) A listing and explanation of any fees to be charged and other closing costs which will be the responsibility of the borrower;

(g) A listing of those conditions and requirements of the borrower which must be fulfilled prior to a loan closing;

(h) Any other information which could reasonably be expected to influence the borrower's decision to accept the terms of the loan commitment.

Loan Closing. ACEDC's attorney shall have the responsibility to prepare and/or require the preparation of all appropriate and necessary closing documents. The borrower shall be required to pay all closing costs incurred by ACEDC, including the fees and expenses of the ACEDC's attorney. ACEDC's attorney shall determine the appropriate closing documents to be executed. Such documents shall generally include, but are not limited to, the following:

(a) A loan agreement which includes a description of the loan terms and security, appropriate representations and warranties, the conditions of lending, affirmative and negative covenants, including but not limited to compliance with applicable federal laws and regulations, default provisions, and any other provisions which may be appropriate;

(b) A note or notes to evidence the indebtedness and the terms of repayment;

(c) The appropriate documents to evidence liens, guaranties, and such other security as may be required by the terms of the loan;

(d) Other appropriate documents as determined by ACEDC's attorney.

Security. ACEDC's attorney will be responsible for perfecting all ACEDC's security interests including, where appropriate, the execution of security agreements, the filing of financing statements, the execution and filing of the execution of guaranties, and any other appropriate actions to adequately protect ACEDC's security interests. All fees and expenses incurred in connection with the perfecting of the ACEDC's security interests shall be paid by the borrower. Inter-creditor agreements will be executed where appropriate to further protect ACEDC's interests and to facilitate the processing of defaults and foreclosures.

Loan Disbursements. The full amount of the loan request will be disbursed at closing, less any fees due to ACEDC and expenses for attorney fees, perfecting of liens, etc.

Section 10 – Monitoring and Reporting

Annual Financial Review. ACEDC will, at minimum, conduct an annual financial review for all borrowers based primarily on financial statements of the business, and other financial information submitted by the borrower, insurance certificates and employment numbers reported. Quarterly or monthly reviews may be required under certain circumstances. Additional information may be procured as needed. The reviews may be presented to the ACEDC Loan Committee for further action or recommendations as appropriate.

Delinquencies. ACEDC will allow a (10) day grace period calculated from the payment due date before determining that a monthly loan payment is delinquent. A late fee of 5% of the delinquent payment amount will be charged to all delinquent monthly payments. At 20 days past due (dpd) a new invoice is sent to the delinquent borrower with the past due amount highlighted. At 30 dpd and 60 dpd the Executive Director is notified, and follow-up phone calls are made to the borrower to determine the reason for the delinquency and to make payment arrangements. At 90 dpd the Loan Committee is notified and provided all collection information for determination of workout steps or remedy steps. Failure to make a delinquent monthly payment for more than thirty (30) days after the due date shall constitute a default and entitle ACEDC to pursue any and all enforcement remedies. ACEDC's acceptance of any payments, other than payment in full of the delinquent amount plus the late fee within thirty (30) days or less of the due date thereof, shall not constitute a waiver of any of ACEDC's rights nor a cure of the default. ACEDC has had few late payments and no loan delinquencies in the past 12 months.

<u>Adjustment of Terms, Rates, and Conditions.</u> Requests by the borrower for adjustment of any of the terms, rates, and conditions of the loan will be reviewed to determine whether the adjustment is in the best interests of ACEDC. The ACEDC Loan Committee will have the authority to adjust as appropriate.

If a company moves its headquarters or 25% of its full-time equivalent employees out of Addison County, its loan(s) become immediately subject to call.

<u>Additional Monitoring and Reporting.</u> All past due loans will be reported to and reviewed by the ACEDC Loan Committee Chair. In general, past due loans over 90 days will be reported quarterly to the ACEDC Loan Committee with an explanation of the reason for delinquency and actions being taken to cure the delinquency.

Annually, the Executive Director will provide summary information of all RLFs to the ACEDC Board of Directors. Further, the annual audit prepared by our outside auditor will be reviewed in depth with the ACEDC Executive Committee and more generally with the full ACEDC Board of Directors.

[See Addendum A for a detailed loan servicing policy and procedure adopted by the ACEDC Board of Trustees and Loan Committee in January 2019]

Section 11 - Servicing and Liquidation

The administration of all RLFs is provided primarily by ACEDC's Finance Director, with oversight from the Executive Director. ACEDC uses Portfol software to manage all its RLFs. All invoicing, principal and interest payments, fee assessment, loan histories, etc. are tracked or managed through Portfol. In 2018, ACEDC instituted electronic invoicing and ACH payment for all new loans and recommended use of these efficiencies to existing borrowers. Most existing borrowers have adopted electronic invoicing and ACH payment, substantially reducing the frequency of late payments.

Regarding collection and liquidation, ACEDC allows a 10-day grace period calculated from the payment due date before determining that a monthly loan payment is delinquent. A late fee of 5% of the delinquent payment amount will be charged to all delinquent monthly payments. Failure to make a delinquent monthly payment for more than thirty (30) days after the due date shall constitute a default and entitle ACEDC to pursue any and all enforcement remedies. ACEDC's acceptance of any payments, other than payment in full of the delinquent amount plus the late fee within thirty (30) days or less of the due date thereof, shall not constitute a waiver of any of ACEDC's rights nor a cure of the default.

Section 12 – Credit Risk Assessment

ACEDC currently maintains a loan loss reserve of 7% in its RLF accounts to cover estimated losses in the loan portfolio. The USDA requires a 6% loan loss reserve. The ACEDC staff creates a Watch List quarterly for review by the Loan Committee. The Watch List will include loans considered to have a material weakness that may jeopardize full repayment of principal *even if the loan is current in payments*.

The above actions are in addition to quarterly and/or annual financial reviews of all borrowers.