

CHERRYLAND ELECTRIC COOPERATIVE

BOARD POLICY NO. 311

REVOLVING LOAN FUND PLAN

GENERAL

1. Administration and management of the Revolving Loan Fund (RLF) will be performed by the staff of Cherryland Electric Cooperative with the assistance of Venture North Funding and Development as needed. The Loan Fund Committee shall consist of the Board of Directors of Cherryland Electric Cooperative. The Loan Fund Committee shall be responsible for reviewing the projects proposed by the Cherryland Electric Cooperative staff and Venture North, and for determining whether to recommend the loans proposed.
2. The Loan Fund Committee is the sole authority for approving or denying loans from the RLF and is responsible for all decisions and actions of the RLF. The RLF shall be operated and maintained solely by the Loan Fund Committee with assistance from the staff of Cherryland Electric Cooperative.
3. The purpose of the RLF is to assist economic development in the counties served by Cherryland Electric Cooperative. This will be done by focusing on the creation and retention of jobs in Grand Traverse, Leelanau, Benzie, Kalkaska, Wexford and Manistee Counties. Funds from the RLF are intended to serve as seed money to generate economic development.
4. The Loan Fund Committee will work with local lenders and others to maximize the leverage of RLF funds, in order to achieve the greatest possible economic development. RLF funds should supplement, but not compete with, capital that may already exist within the counties served.
5. The RLF is to be used primarily for capital projects in expanding existing industries or promoting new industry in the counties served by Cherryland Electric Cooperative. Fixed asset financing may include land, buildings, manufacturing equipment, office and work equipment or infrastructure improvements. Operating capital loans may be recommended by the Loan Fund Committee but only in conjunction with other financing.
6. Loans from the RLF are limited to expanding existing industries in, or supporting new industries locating in, the counties served by the cooperative (i.e., Grand Traverse, Leelanau, Benzie, Kalkaska, Wexford and Manistee Counties).
7. The Basic Loan Criterion is the creation or retention of one (1) job (full-time equivalent) for every \$20,000 provided from the RLF.
8. The RLF may be used in a junior position at the discretion of the Loan Fund Committee; however, a first position will be expected and requested when it is available.
9. Jobs must be permanent in nature, defined as employment of at least nine months per year, and indefinite duration.

10. The financial statements of the RLF shall be annually subject to audit or review by a qualified Certified Public Accountant. The audit or review will be presented to the Loan Fund Committee.
11. The RLF may provide gap financing to business owners that create job opportunities for the unemployed, underemployed, or low income persons.
12. The RLF may also provide gap financing to business owners whose operations will help certain economically distressed areas by combating community deterioration, urban decay, or poverty.
13. Capital projects should be of the type which would otherwise not be undertaken but for the availability of the RLF.
14. The preceding policies reflect only the minimum criteria and standards. Other evaluative criteria may be introduced once the full measure of requests is received for consideration.
15. If the project satisfies the above-stated criteria, a potential recipient is invited to complete the application form.

ELIGIBLE APPLICANTS

The following entities are eligible to submit an application for a loan under the RLF:

1. Business ventures, including but not limited to: corporations, partnerships, limited liability companies, sole proprietorships, and cooperatives
2. Governmental Units, including but not limited to: local townships, municipalities, county government, regional authorities, nonprofit entities, and tribal authorities

ELIGIBLE PROJECTS

To be eligible for RLF funding, proposed projects must create or retain employment or provide needed community facilities and services, including but not limited to: industrial/commercial development; small business expansion or startup; business incubators; community infrastructure; community facilities; medical facilities; training/educational facilities; or tourism.

INELIGIBLE PROJECTS

Projects that shall be ineligible for RLF funding include but are not limited to: refinancing of existing debt, or payment to business owners or partners; projects without any supplemental financing; activities determined to be for investment purposes; general improvement loans related to normal replacement needs of a business and unrelated to business expansion/job creation; agricultural production costs (i.e., cultivation, production, harvesting); vehicles used for general purposes or that may be considered

for personal use; projects that are primarily working capital with limited security; construction projects of a personal residential nature; illegal activities and legalized activities (e.g. gambling casinos) that in the opinion of the Loan Fund Committee may adversely affect RLF interests; projects in which any director, officer, general manager or supervisory employee of Cherryland Electric Cooperative, or close relative thereof, has a financial interest; or projects which, based on the judgment of the Loan Fund Committee, would create a conflict of interest, potential conflict of interest, or any appearance of a conflict of interest.

LOAN TERMS AND CONDITIONS

1. The RLF shall not lend more than 75% of the total amount that is needed for a project. The maximum amount of a single loan may not exceed \$360,000. The minimum RLF loan amount is \$20,000.
2. Supplemental financing of at least 25% shall be required for each applicant. Evidence of availability of supplemental financing will be required prior to approval or disbursement of RLF funds.
3. The maximum interest rate for loans made from the RLF is zero percent (0 %).
4. There shall be no servicing or legal fees charged to the loan recipient.
5. Cherryland Electric Cooperative will submit annual budgets to Rural Development Business Programs setting forth the costs of operating the RLF.
6. Repayment terms shall not exceed 10 years. The following maturities will be used as a general guideline: building – 10 years; real estate – 10 years; equipment – 5 to 7 years or depreciable life up to 10 years maximum; working capital – 1 to 3 years. The Loan Fund Committee shall provide a recommendation on term options and loan repayment schedules (e.g., annual, monthly, quarterly) on a project-by-project basis.
7. The Loan Fund Committee shall work with the potential borrower to obtain security that is adequate for the term of the loan. The nature of the collateral to be pledged shall be determined by the Loan Fund Committee on a project-by-project basis. Generally, security should consist of a first lien position on real property. If the same collateral is used in joint financing, the RLF will require a parity position with other lenders. Other types of security may include: letters of credit from acceptable financial institutions; machinery and equipment which have a developed market; accounts receivable and inventory for short-term loans; and securities issued by the Federal government or its agencies.
8. The borrower 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.
9. Personal guarantees from partners, owners, members, principles, or majority stockholders may be required for corporate borrowings (including but not limited to partnerships, LLCs, LLPs, and sole proprietorships) where the equity requirement is not met by cash.

10. Borrower shall not relocate the facilities or employment outside of the counties served by Cherryland Electric Cooperative (as set forth above) during the term of the loan. If facilities are relocated outside of the counties served by Cherryland Electric Cooperative, immediate payment of the outstanding loan balance shall be required of the borrower.

APPLICATION

1. All loans or loan guarantee applicants shall be required to complete an application form, documenting verifiable data demonstrating that their proposed projects are economically feasible, sustainable, and will provide benefits to rural areas, either through job creation or infrastructure improvements. Thus, applicants are required to provide:
 - A. Assurance of compliance with the Civil Rights Acts of 1964.
 - B. Financial information (no less than annually) which includes:
 - 1) Balance sheet, operating (profit and loss) statements, supplemental supporting schedules, and/or personal financial statement. When possible, financial statements should be prepared by a Certified Public Accountant in the following order:
 - a. Unqualified audit,
 - b. Review basis, or
 - c. Compilation basis
 - C. Such nonfinancial information as the Loan Fund Committee determines is necessary.
- Any directly prepared financial statement shall be certified by an authorized individual or officer as to its accuracy and completeness. The frequency and quality of required financial information will depend upon the size, type, and condition of the credit and borrower.

APPLICATION SELECTION PROCESS

The Loan Fund Committee shall have the authority to review and nominate applications for loan approval. Unless noted elsewhere in this plan, criteria to be considered by the Loan Fund Committee include, but are not limited to:

1. *The ability of the applicant to repay the loan.* The Loan Fund Committee shall not recommend any loan where there is a reasonable doubt as to the ability of the applicant to repay the loan.
2. *Other sources for the loan.* No loan or loan guarantee shall be extended if funds are otherwise available from lenders on terms which, in the opinion of the Loan Fund Committee, will permit the accomplishment of the project.
3. *Job creation.* The applicant must show the ability to create or retain a minimum of 1 job for each \$20,000 borrowed.
4. *Type of project.* The proposed project must be an eligible project under the terms and conditions of this plan and the requirements of the USDA Rural Business Programs.

CLOSING AND DISBURSEMENT

1. No funds shall be disbursed until the following are properly processed and completed to the satisfaction of the Loan Fund Committee:
 - a. Cherryland Electric Cooperative board resolution
 - b. Loan agreement
 - c. Promissory Note
 - d. Security Agreement (e.g., lien, UCC financing statement, irrevocable letter of credit)
 - e. Any other agreement, contract or document as required by the Loan Fund Committee or Cherryland Electric Cooperative Board of Directors.
2. Unless otherwise directed by the Loan Fund Committee, Cherryland Electric Cooperative will disburse the loan funds in one lump sum after proper verification of purchase via sufficient documentation and/or a site visit.
3. Borrower shall apply all loan proceeds for the agreed upon purpose as set forth in the loan application materials and other documents as required by the Loan Fund Committee and/or Cherryland Electric Board of Directors.
4. The Loan Fund Committee and/or Cherryland Electric Board of Directors may require joint signatures on checks used in the disbursement of loan funds.
5. Principal payments shall commence on the date(s) set by the Loan Fund Committee.

LOAN MONITORING

Once the loan funds are disbursed to the loan recipient, the loan recipient will be monitored by the Loan Fund Committee or any Cherryland Electric Cooperative staff member(s) as designated by the Loan Fund Committee. The loan recipient shall be required to report to the Loan Fund Committee or its designee on a regular basis. The monitoring includes, but is not limited to, the following:

1. The submission of annual financial reports as audited by a certified public accountant.
2. The submission of semi-annual management reports beginning 6 months after the advance of RLF funds and continuing semi-annually thereafter for a period of 3 years or until completion of the project. Management reports shall include:
 - a. Information on the number of jobs created or retained during the reporting period;
 - b. A comparison of accomplishments during the reporting period to the objectives established for the project; and
 - c. A description of any problems, delays, or adverse conditions that may materially affect the completion of planned project objectives and a statement of action taken or contemplated to resolve the situation.
3. At a minimum, Cherryland Electric Cooperative staff, as designated by the Loan Fund Committee, shall semi-annually initiate a phone call to the borrower/loan recipient to review performance and any issues. On-site visits may also be conducted annually to verify and evaluate the use of RLF funds. An annual review and report of the outstanding loans of the RLF, including job creation totals and community benefits, will be compiled by the designated staff for presentation to the entire Loan Fund Committee.
4. The borrower shall submit quarterly financial statements in a form and content satisfactory to the Loan Fund Committee.

FILE RETENTION

All RLF files will be retained for a period of not less than 2 full years after the loan has been repaid in full. After 2 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 Cherryland Electric Cooperative staff and Board of Directors with RLF responsibilities only. Other security measures will be initiated as needed to protect the confidentiality of the loan documents.

AMENDMENTS

Amendments to this plan shall require the approval of the Cherryland Electric Cooperative Board of Directors. No action shall be taken to amend this plan without the prior written approval of USDA Rural Business Programs, its successors or assigns.

CHERRYLAND ELECTRIC COOPERATIVE

Revolving Loan Fund Plan

PROCESSING PROCEDURE

APPLICANT INQUIRY

Staff

- Provides application forms and guidelines

Loan Fund Committee

- Reviews recommendation of staff
- Reviews loan application
- Structures loan
- Considers resolution for loan
- Approves loan for closing

APPLICANT RETURNS FORMS

Staff

- Interview
- Review of required documents
- Financial analysis

Staff

- Staff to determine if additional information required
- Determine preliminary structure of loan
- Staff prepared overview of loan for Loan Fund Committee

CHERRYLAND ELECTRIC COOPERATIVE
Revolving Loan Fund Application

Company

Address

Work Phone

Cell
Phone(s)

Work
email(s)

Nature of Business (products, services, etc.)

Loan Purpose

Total Cost of Project

Amount of Zero Interest Loan Request

Loan Term Desired

Location

Real Estate

Equipment

Working Capital

Other sources of funds to be used (include lender(s) name, contact, phone number and collateral given)

Employment (present)	Managerial/salaried _____
	Skilled/unskilled/labor _____

New employees over next 3 years with this loan	Managerial/salaried _____
	Skilled/unskilled/labor _____

Include the following:

1. The names (full first name and middle initial) and addresses of all shareholders, partners, or owners of the borrowing entity and their status or connection with the business. Include both husbands and wives if applicable.
2. Listing of officers if applicable
3. Listing of related firms, affiliates, subsidiaries, etc to be involved with this project
4. Describe the collateral being offered and the level of priority (1st mortgage, 2nd position, etc) – be specific with machinery and equipment and for real estate loans include the street address and/or a complete legal description of the property involved as found on the deed or title insurance policy
5. All loans secured by physical collateral must be covered by appropriate hazard insurance with Cherryland Electric Cooperative (CEC) noted on the policy as a lien holder and loss payee. A copy of the insurance policy or binder must be obtained and submitted at least one week prior to closing containing the

- following information: name of insurance company, type of coverage, amount of coverage, CEC endorsement as lien holder and loss payee
6. Indicate the amount of any debt to be subordinated to the CEC loan. Include both husbands and wives if applicable.
 7. In the case of all subordinated debt, a copy of the original debt instrument must be obtained and submitted at least one week prior to the closing. The original debt instrument itself should also be available at closing to be held by CEC while the loan is outstanding.
 8. Dunn and Bradstreet business identification number
 9. Personal financial statement for each principal
 10. Resume of each principal
 11. Business financial statements for previous three years (balance statements and income statements or income tax returns on business income)
 12. Current (not more than 60 days) balance sheet and income statements
 13. Business plan including projections of cash flow – year 1 by month and years 2 and 3 by year
 14. Loan repayment shall occur electronically after loan proceeds are issued. Supply necessary account information to facilitate this process.

The undersigned acknowledge and understand that Cherryland Electric Cooperative is relying on the information provided herein and attached hereto in deciding to grant credit. Each of the undersigned represents, warrants, and certifies that the information provided is true, correct and complete. Each of the undersigned agrees to notify Cherryland Electric Cooperative immediately and in writing of any change in a name, address, or employment and of any material adverse change (1) in any of the information contained in this statement or (2) in the financial condition of any of the undersigned or (3) in the ability of any of the undersigned to perform its (or their) obligations.

Date_____Signature_____

Date_____Signature_____

Legal Counsel

- Prepares all documents necessary for closing
- At closing, loan proceeds are transferred to applicant
- Applicant makes debt payments as required by loan documents
- Payments to Cherryland Electric Cooperative for RLF reuse