

RANDOLPH AREA COMMUNITY DEVELOPMENT CORPORATION

HEART OF VERMONT ENTERPRISE
REVOLVING FUND

[Policies and Procedures]

Adopted by the RACDC Board of Directors on April 18, 2008 and amended May 16, 2008

Heart of Vermont Enterprise Revolving Fund Policies and Procedures

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A. Loan Committee Structure

1. Membership

The Loan Committee shall be composed of five members. These members shall be appointed annually by the Randolph Area Community Development Corporation (RACDC).

2. Chairperson and Other Officers

The Chairperson of the Loan Committee shall be appointed by the RACDC.

The Loan Committee may appoint a Vice-Chairperson to act in the absence of the Chairperson.

3. Authority

The Loan Committee will review all applications to the Heart of Vermont Enterprise Revolving Fund (HOVER FUND), and within these policies, recommend approved loans and/or grants to the RACDC Executive Director (ED) for funding.

The RACDC ED will make final funding decisions on all loans and/or grants upon receiving a recommendation to fund from the Loan Committee, except that loans of over \$50,000 or grants of over \$5,000 must also be approved by the RACDC Board. A loan and/or grant may only result from a written application.

4. Voting

Recommendations for loans shall be approved by at least a majority of those members of the Loan Committee present and voting.

5. Quorum

A quorum of the Loan Committee shall be at least three members.

6. Reports

The ED of RACDC shall periodically report to the RACDC Board of Directors on all final funding decisions. Annual reports on all funding decisions will be provided to the Randolph Selectboard in accordance with the Memorandum of Agreement between RACDC and the Town of Randolph.

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7. Review

The RACDC shall review these policies at least annually, and make changes as needed to meet the community and economic development needs of RACDC and the areas it serves.

B. Revolving Loan Fund

1. Purpose and Objectives

The Heart of Vermont Enterprise Revolving Fund is established for the following purposes and objectives:

- To operate a business revolving loan program available to eligible and qualified business owners, nonprofits, or municipalities located within RACDC's service area, irrespective of the residence of the owner(s), for loans, or at RACDC's discretion, grants, as may be allowed under appropriate regulations;
- to promote and advance the development of sound businesses ideas and practices which contribute to the community or economic development goals of the area as interpreted by RACDC with input from such information as municipal town or economic development plans, the Regional Plan, and the mission and goals of RACDC;
- to assist in the creation, retention and expansion of local businesses through access to program capital and technical assistance;
- to increase the capacity of the applicant, the business, and the region's economy to be sustainable over time;
- other activities which promote community and economic development.

If the Loan Committee has questions concerning the eligibility or other criteria it must consider, it should seek an opinion from the RACDC ED before considering an application for a loan and/or grant, or, if time is of the essence, condition its recommendation accordingly.

2. Borrower Eligibility

RACDC will designate its service area for its Heart of Vermont Enterprise Revolving Loan Fund. The primary activity or place of business shall be located in the RACDC service area. For profit businesses, nonprofit organizations, and municipal organizations are eligible.

The applicant must demonstrate to the Loan Committee's satisfaction a commitment, intent and ability to repay the loan.

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The borrower must be current in all tax payments at all levels, including any fees to be assessed by the municipality, or be current in an approved plan to pay taxes or fees.

3. Eligible Activities

The Heart of Vermont Enterprise Revolving Fund may be used for legitimate expenses contributing to the purpose of the award. Eligible uses of the Heart of Vermont Enterprise Revolving Fund include, but are not limited to: purchase of property equipment, machinery or inventory; construction and rehabilitation; working capital; marketing; training and technical assistance. All proposed projects must be in compliance with applicable municipal, state, and federal codes and regulations.

Generally, loans or grants will prioritize activities in the RACDC service area to benefit low and moderate-income persons, and Title I eligible activities as defined under the Housing and Urban Development Act of 1974, as amended from time to time.

4. Other Funding

Generally, the Heart of Vermont Enterprise Revolving Fund is designed to supplement other business financing. The Loan Committee and RACDC staff anticipates that most funding requests will be made in conjunction with other funding sources, such as a bank loan and/or personal equity, and/or other alternative lending sources.

5. Security

Security for loans will be determined by the Loan Committee on a case by case basis. Every loan will be collateralized. Business owners may be required to personally guarantee a loan. Holders of 20% or more of the stock in a corporation are required to personally guarantee a loan made to the corporation.

6. Interest Rate and Terms of Loans

Interest rates and other loan terms will be designed based upon the need of the Borrower taking into consideration the relative risk, level of need, the soundness of the proposal, the availability of funds, the credit-worthiness of the applicant, and other factors deemed reasonable and appropriate. Typically the interest rate will be set between Wall Street Journal Prime Rate and Wall Street Journal Prime Rate plus 2 percent.

Generally, interest rates will be fixed for the term of the loan. The Loan Committee may recommend variable rates under certain unusual circumstances, or changes in the rate as part of a proposal for forbearance. (See section D.4. below). Loans should generally be repayable in five years or less, but may carry amortization schedules greater than five years as in a "balloon note," in which case final payment due under such a loan is larger

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than the previous monthly payments and includes a substantial payment of principal. An extension of the loan may be requested at the end of the loan year period with a new application; however, RACDC is under no obligation to renew at these or other terms at that time.

All loans shall be due in full immediately upon the sale, transfer, change in title, ownership or refinance of the business and/or business property at any time.

7. Multiple Loans or Grants

Borrowers may have more than one loan with the Heart of Vermont Enterprise Revolving Fund. Grants may be considered for technical assistance, business development and marketing as deemed reasonable and appropriate by the Loan Committee. Loans of over \$50,000 or grants of over \$5,000 must be approved by the RACDC Board.

8. Fund Administration

The Heart of Vermont Enterprise Revolving Fund is operated, administered and managed by RACDC. The fund balances and loan payment processing are managed by RACDC.

RACDC shall have complete control and responsibility for the Fund, including loan administration, marketing the availability of funds, handling applications, underwriting, processing, closing, disbursement and servicing. RACDC shall administer and manage the funds subject to oversight consistent with Vermont Community Development Program (“VCDP”) regulations when and as applicable. RACDC will charge appropriate application and processing fees. RACDC shall be responsible for reporting and other requirements of programs such as the VCDP program, as applicable.

If and when RACDC decides that it no longer is able or willing to provide management and administrative services for the HOVER Fund it may then transfer all or will transfer at least the VCDP related portion of the existing assets of the Fund through an assignment to another Nonprofit Community Development Organization, such transference and assignment which shall be agreed to by and under conditions amenable to the State of Vermont’s Agency of Commerce and Community Development. In such event, RACDC shall have the right to compensate itself for services rendered up to the date of termination not yet paid. RACDC shall also have the right to retain a reasonable amount of Program Income to cover the estimated costs associated with transferring the assets.

RACDC shall manage the Heart of Vermont Enterprise Revolving Fund in accordance with these loan fund policies and procedures along with any updates as adopted or amended.

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C. Loan Application Procedures

1. Loan Application

Loan applications will be made through the RACDC.

Each loan/grant application must be accompanied by a non-refundable fee of 1/2 of 1% of the loan/grant request amount, but in no case less than \$25 to help defray the costs of application processing. In addition, each approved loan is subject to a documentation fee of \$200.00.

Loan and/or grant requests must be made in a written application, and must include, at minimum, the following information:

- a. Application Form: The Application Form will be provided by the Administrator, and completed in its entirety by the applicant, including a signed authorization for the Administrator to perform credit investigation and a “Family Income Statement for Economic Development”.
- b. Personal Financial Statement, including a “Family Income Statement for Economic Development”, to be completed on a form provided by the Administrator, for each owner and corporate shareholders owning 20% or more of the corporation stock.
- c. Written Business Plan: At a minimum, the business plan will include a written description of:
 - Short and long term goals of the business;
 - Business history;
 - A description of the business environment (size and character of market, major competitors, major customers, major suppliers, uniqueness of product or service, special skills and capabilities of borrower);
 - Marketing plan;
 - Operational plan;
 - Management plan, including resumes of key personnel;

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- Financial information, including three year prior tax returns (if available), and three-year cash flow, income and balance sheet. The first year of cash flow projections will be provided on a month-to-month basis. Cash flow projections will include footnotes and assumptions;

d. Statement of Uses of Funds, including list and other description of all equipment, land, buildings and other assets to be purchased in the project;

e. Statement of Sources of Funds, detailing all sources of funds for the project (including the loan request), and including commitment letters for funds other than HOVER FUND funds;

f. List and value of collateral to be provided.

Grants may be available to assist with the development of a business plan.

2. Loan Application Decisions

All applications will be reviewed and considered by the Loan Committee on a case-by-case basis. No application will be considered unless it is deemed complete by the Loan Committee.

A positive recommendation will be forwarded to the ED of the RACDC for final approval. All decisions of the ED's are final. If the Loan Committee does not make a positive recommendation, the Loan Committee will send a letter to the applicant explaining the reasons for the denial, and suggesting conditions under which the application would be reconsidered.

A letter of approval, indicating the approved amount, terms, collateral required, and other conditions, will be sent to the applicant within five working days of the ED's approval. If the ED does not approve a loan, a statement of denial will be sent within five working days, giving the reasons for denial.

3. Loan Closing

RACDC may contract for the closing of loans. The loan applicant will pay all costs of closing. In order for a loan to be closed, all conditions contained in the Loan Approval letter must be satisfied. In addition, the loan applicant shall pay a documentation fee (referenced in C-1), payable to RACDC, at the time of the loan closing.

4. Standard Conditions

Standard Documentation required for each loan closing will include:

- Promissory note;

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- Security Agreements (including mortgages and UCC financing statements);
- Guarantees;
- Proof of insurance as outlined below.

Each borrower is required to submit a statement of actual revenues and expenses compared to projections at least semi-annually, commencing on the 6-month anniversary of the loan.

Each borrower is required to collect and document beneficiary data using the “Family Income Statement for Economic Development Projects” which will be provided to the borrower from RACDC. Borrower will be required to have employees complete this form at the time of funding and subsequently as new employees are hired. Borrower will retain the completed forms for a period of three years from completion of the loan obligation. Annually, Borrower will report beneficiary data to RACDC during the term of the loan. The information requested will include the number of jobs created and or retained; the number of low moderate-income positions; and the percent of low moderate-income positions.

5. Loan Payment

Loan payments will be made payable to the RACDC. Instructions on where and when payments should be made will be given to the borrower at loan closing.

6. Insurance

The following insurance will be required:

- a. Evidence of homeowners or property fire insurance sufficient to cover the amount of all mortgages and loans, including the HOVER FUND, with evidence of RACDC designated as loss-payee.
- b. Flood Hazard Insurance will be required for all loans made for improvements or business activities in properties within the standard intermediate flood plain (100 year flood plain), at least in the amount of all debt.
- c. Casualty Insurance and Credit Life Insurance may be required if the Loan Committee deems it appropriate.
- d. Business Liability Insurance will be carried by all recipients of HOVER FUND funds.
- e. Workers Compensation shall be paid for all employees of any business receiving HOVER FUND funds.
- f. Other insurance as may be deemed appropriate and necessary by the Loan Committee.

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D. Loan Servicing

1. General Procedures

Loan payments shall normally be due every month. A late charge of 5% of the payment amount shall be assessed for any payment received late by 10 days or more. Loans may be pre-paid at any time without penalty. RACDC may pursue the collection of payments due.

2. Delinquent Accounts

A loan shall be considered delinquent and collection procedures may be instituted by RACDC for any loan delinquent for 30 days or more. Borrower shall pay all costs of collection and are not limited to legal fees.

3. Acceleration

RACDC will protect the fund by proceeding with lawful acceleration under the terms of its note and security agreement, and transfer of collateral in the event of non-payment of the loan or other defaults. The Loan Committee, by majority vote, will decide upon acceleration or liquidation. The ED of RACDC shall have final approval over what action is taken.

4. Forbearance

Recasting of loans shall be considered at the borrower's request when the borrower's financial situation has changed significantly since the closing of the loan. The decision upon any method of forbearance must be recommended by the Loan Committee to the RACDC ED, who will consider and act on each request.

5. Non-discrimination

In accordance with the provisions of the Equal Credit Opportunity Act and Vermont law, the HOVER FUND may not discriminate in its lending practices on the basis of race, color, religion, sex, national origin, ethnicity, age, familial status, sexual preference, physical or mental handicap.

6. Confidentiality

All Loan Committee meetings to consider loan requests shall be held in Executive Session. Consideration of Loan Committee recommendations by the RACDC ED will be held in confidentiality if made outside of the Executive Session of a Loan Committee meeting.

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Confidential business information received by the RACDC ED or staff or the Loan Committee in relation to loan/grant applications and loan review shall not be released to anyone except by written authorization of the borrower.

The name of the loan recipient (individual or business entity), the loan amount and interest rate are public information and are recorded in the minutes of the Loan Committee and the monthly report of the ED to the RACDC Board of Director's. RACDC will reports on the status of each loan – original loan amount, unpaid balance, interest rate, and payment status - annually to the Randolph Selectboard in accordance with the Memorandum of Agreement between RACDC and the Town of Randolph.

RACDC may, as necessary, issue aggregate loan fund activity reports, including information such as average interest rate and terms of loans, kinds of businesses assisted, number of jobs created, average size of business and other information related to the HOVER FUND as a whole.

E. Government Programs

1. Adherence to Government Regulations

The HOVER FUND shall adhere to all applicable government regulations governing the use of the fund.

F. Appeals

1. When Applicant Disagrees

When an applicant disagrees with a decision of the Loan Committee, the following procedures shall be followed:

- a. The applicant shall contact the Chair to resubmit an application, which responds to the reasons for denial of the first application.
- b. Upon re-submittal, the Loan Committee will meet to hear the re-submitted proposal as the first order of business at its next regularly scheduled Committee meeting.
- c. The decision of the Committee (whether for approval or denial of the loan request) will be reported in writing to the RACDC ED who will take action at that time. If the loan is denied, the applicant may request appeal of the decision to the RACDC Board, which may, at its discretion, hear the appeal. The decision of the RACDC Board is final.

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G. Conflict of Interest

Members of the Loan Committee and the staff of the RACDC shall be ineligible to apply for revolving loan funds as long as they are members.

Members of the Loan Committee and the RACDC Board and RACDC ED are required to proactively reveal any conflict of interest that may exist in regard to particular loan/grant applications. Members having such a conflict will take no part in discussion nor will they vote on that particular application. Conflicts of interest will be recorded in the minutes of the Loan Committee. In the case of a conflict of interest exists with the ED the RACDC Board of Directors will have final decision making authority on funding decisions recommended by the Loan Committee.

H. Amendments

Amendments may be proposed at any time by the Loan Committee, and recommended by a majority vote to the RACDC Board of Directors for approval. Amendments will be approved by a majority of the RACDC Board of Directors. Such amendments will affect all applications made after the date of the amendment.