

July 22, 2025

County of Humboldt
825 5th Street
Eureka, CA 95501

Subject:
Singing Trees Recovery Center – Addressing Loan Loss Recovery

To whom it may concern,

I hope this letter finds you well. I am writing to provide an update regarding the business loan that was extended to Singing Trees Recovery Center by Pure Solution Family Services Inc. in 2023 and to explain the circumstances that led to an unexpected turn of events.

As you may recall, when we presented the loan proposal there was a solid business plan and we were confident in the prospects for growth. With the funding provided we were able to execute key initiatives, gave the ability to hire additional staff and expand the services of the greater Humboldt County region. Additionally, it provided a much-needed service to our region. At the onset, Singing Trees Recovery Center was poised to operate successfully and we saw early signs of progress and profitability.

However, unforeseen challenges arose that proved to be insurmountable for the business. The loan was made with the expectation of business success, and we share in the disappointment of this outcome.

It is essential to recognize the steps that were taken to mitigate risk. When the loan was initially assessed, the borrower had excellent debt service coverage, made timely credit payments and showcased a solid cash flow for the business along with a healthy debt-to-worth ratio. The risk rating was initially scored 22 out of 30, well within the acceptable range within our organizations rubric for adequately preparing for risk within each loan. These factors indicated a sound economic position at the time of loan origination.

The loan was secured with a “Uniform Commercial Code”, a law that secures all business assets for the lenders; a personal guarantee from the client was obtained. The loan was also covered with an 80% guarantee from iBank, a third party organization that provides financial assistance to support infrastructure and economic development in California. That guarantee added up to \$80,000 as a safeguard in the event of a default loan. These efforts and the fact the loan was also split between Headwaters & North Edge, mitigated the risk further while still having the ability to serve the Humboldt community.

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While we were not able to recover all of the loaned capital, we did everything we could to protect the fund. The 80% guarantee was executed in a timely manner, and as a result, we only lost a fraction of the at-risk capital. This outcome is far more favorable than if we had not had these safeguards in place.

It is important to note that those steps taken to mitigate the loan meant that, even with this worst case scenario, Headwaters took a hit of only ~\$8,000.00 of the \$100,000 leveraged to support a business that filled a critical role in our community. Singing Trees contributed to local employment and provided essential services that are not easily replaceable.

In retrospect, this loan exemplifies the kind of difficult but necessary decisions we must make as part of our broader economic strategy. The loss of a portion of the loan capital, while regrettable, was minimized thanks to the structured protections in place. Our governance practices, in partnership with iBank, allowed us to limit the downside risk and execute the guarantee swiftly, ensuring that we protected both public funds and the community's interests.

The decision to approve this loan, despite the inherent risks, was grounded in our responsibility to ensure the continued viability of key local business. This was a calculated risk designed to preserve and strengthen the community economic fabric.

Due to the unforeseen personal circumstances, Singing Trees was unable to complete the project set forth. As of June 10, 2024, the date of the last recorded payment, the outstanding balance was \$46,036.93. Subsequently, we received a loan guarantee payment from iBank in the amount of \$74,948.12 on January 8, 2025. We remitted half of this amount (\$37,474.06) toward the loan balance, the other half towards North Edge's loan & ultimately reduced the remaining outstanding Headwaters amount to \$8,562.87. The remaining balance is deemed uncollectible.

We stand by the principle that such loans, even with inherent risk, are worth approving, especially when they support businesses critical to our community's well-being. As we move forward, we must continue to support similar initiatives, mindful of risk but committed to fostering economic resilience in our region.

Michael Machado

Loan Support Specialist

Arcata Economic Development Corporation dba North Edge

707 K Street, Eureka, CA 95501