ATTACHMENT 4

REVOLVING LOAN FUND RESPONSE
RREDC

RREDC

Redwood Region
Economic Development
Commission

520 E Street Eureka • California 95501 • (707) 445-9651 • FAX (707) 445-9652

January 31, 2014

Dawn Elsbree
The Headwaters Fund
520 E Street
Eureka, CA 95501

RE: County of Humboldt Request for Proposals for Lender Services RFP #181

Dear Ms. Elsbree:

RREDC has been pleased to provide lender services for the Headwaters Fund for nearly ten years. Enclosed please find our proposal for continuing that service into the future.

As you know, lending to entities that are ineligible for conventional financing is inherently risky. However, as it is the mission of both the Headwaters Fund and RREDC to make these loans, some risks must be taken. I'm happy to report that, due to the stewardship of RREDC, losses of principal from RREDC/HWF loans have been extremely low and we expect that trend will continue due to our minimum 100% collateral requirements.

We are proposing altered terms for our participation agreements in response to the expressed needs of the Headwaters Fund for higher returns. While RREDC cannot compromise its financial integrity, our commitment to cooperation with the Headwaters Fund has led us to propose this arrangement in spite of some misgivings. RREDC is eligible to obtain lower cost funds from other sources and may pursue those funds in the future. Our first choice, however, is to come to a mutually beneficial arrangement with the Headwaters Fund.

Please contact me if you have any questions or comments.

Sincerely,

Don Ehnebuske
Executive Director

MEMBER AGENCIES

City of Arcata • City of Blue Lake • City of Eureka • City of Ferndale • City of Fortuna • City of Rio Dell • City of Trinidad
County of Humboldt • Humboldt Bay Harbor, Recreation and Conservation District • Humboldt Bay Municipal Water District
Humboldt Community Services District • Manila Community Services District • McKinleyville Community Services District
Orick Community Services District • Redwoods Community College District • Hoopa Valley Tribe
Willow Creek Community Services District • Orleans Community Services District • Redway Community Services District

Headwaters Fund Lender Proposal
Redwood Region Economic Development Commission
January 31, 2014

A. Cover Letter

B. Institutional Experience and References

RREDC was formed in November 1977 in order to be a lender of community funds to small businesses and nonprofit organizations as well as to provide leadership in economic development issues. A Joint Powers Authority comprised of 19 public entities, RREDC has successfully maintained and expanded a revolving loan fund since being formed.

RREDC has participated with the Headwaters Fund in lending to small businesses since 2004. Three recent loans in 2013 have included two loans to the Natural Resources Management Corporation totaling $530,000, and one loan to Andrew & Sarah Albin for $240,000. Information and contact numbers for these and all joint RREDC/HWF projects were submitted to the Headwaters Fund at the time the loans were made.

C. Staff Experience

Please see attached resumes, outlining lending, management, and financial management experience of RREDC staff members.

D. Cost/Revenue

Please see attached spreadsheet projecting loan volume and HWF revenue for Component One lending activity.

E. Design/Description

Please see descriptions of Components One & Two below.

F. Insurance Requirements

RREDC insurance exceeds the requirements outlined in section IX of the Request for Proposals. Upon acceptance of RREDC's proposal, appropriate certificates and original endorsements will be provided.

G. Violations

RREDC has received audits free of findings for the past four years. RREDC has received no notices of violations, corrective action notices, enforcement actions or orders, warning notices, or any other violation/noncompliance documentation.

Component One – Headwaters Participation Loans

A. Identify specific gap loans for Headwaters RLF funds participation that fit with the criteria in the Headwaters Fund RLF Manual;

Headwaters Funds will expand the ability of RREDC to provide loans to Humboldt County businesses and nonprofit organizations substantially as current funds available for lending are limited to around $500,000 above repayment levels. The need for these funds appears to be increasing as economic stability increases in the region as indicated by 2013 activity.

B. Identify non-Headwaters RLF sources of funding to match Headwaters Funds;

RREDC/EDA revolving loan funds will be used to match Headwaters monies.

C. Stipulate the percentage of Headwaters Funds to participate in loans;

RREDC funds will match HW funds in equal proportions unless otherwise requested and approved by the Headwaters Fund.

D. Underwrite loans;

RREDC will use the methods outlined in the RREDC Revolving Loan Funds Plan attached to underwrite loans.

E. Secure loans;

RREDC will use the methods outlined in the RREDC Revolving Loan Funds Plan attached to secure loans. Loans made to entities which are not eligible for conventional financing are inherently risky. However, all loans will be fully collateralized at the time the loans are made.

F. Execute Participation Agreement with Headwaters Fund for each new loan (this document to be created based on the terms negotiated through this RFP process);

It is proposed that participation agreements be identical to participation agreements used in the past for joint RREDC/HWF loans.

G. Track and collect loan payments, interest, and late fees;

RREDC will continue to use the loan software GMS for financial management of the loans

H. Collect the debt and re-pay Headwaters portion monthly;

RREDC will use methods outlined in the RREDC Revolving Loan Funds Plan to collect debt and will transfer funds between RREDC accounts held by the County of Humboldt and HWF accounts held by the County of Humboldt. Payments by new RREDC/HWF loans will be combined with existing RREDC/HWF loan payments.

Component Two – New Loan Mechanisms for Headwaters RLF Funds

A. Describe an identified gap in the local capital market;

Capital purchases by local governments with 5-10 year terms are currently being financed through a number of methods, many of which are through outside companies associated with the equipment provider. Leasing options are sometimes required for partially grant funded purchases.

B. Describe a program in which Headwaters RLF funds are used to fill this gap;

- *Working with local jurisdictions, RREDC staff helps to identify potential purchases which would qualify for HWF Community Investment Funds loans.*
- *Terms for these loans would be based on comparable options for financing.*
- *RREDC would provide the loan packaging and servicing, but no loan funds for these projects.*
- *Origination and servicing fees would be negotiated on a case by case basis.*
- *Minimum loan amounts of $500,000, unless negotiated separately.*

C. Identify non-Headwaters RLF sources of funding to match Headwaters Funds;

Local jurisdictions would provide funding through general or grant funds

D. Underwrite loans;

Underwriting will be done similarly to that used for the Airport Runway Loan which RREDC serviced for the County of Humboldt from CIF funds.

E. Secure loans;

Loans would be secured by a UCC filing on the equipment and a guarantee by the local jurisdiction.

F. Track and collect loan payments, interest, and late fees;

RREDC will continue to use the loan software GMS for financial management of the loans

G. Collect the debt and re-pay Headwaters portion monthly; and provide monthly, quarterly and annual reports as specified in the Revolving Loan Fund Manual; and anticipated return to the Headwaters Fund RLF.

RREDC will use methods outlined in the RREDC Revolving Loan Funds Plan to collect debt and will transfer funds between RREDC accounts held by the County of Humboldt and HWF accounts held by the County of Humboldt. Payments by new RREDC/HWF loans will be combined with existing RREDC/HWF loan payments. Returns will be determined on a case by case basis. Current rates range from 3.75% to 5%.

Headwaters Loan Projections
RREDC Proposal for New Loans
1/30/14

Proposed Interest Sharing Arrangement

Loans $150,000 and Under	
HWF Share	65% of total interest
RREDC Share	35% of total interest
Loans Over $150,000	
HWF Share	7% annual rate
RREDC Share	1% annual rate

Loan Term Assumptions	HWF Share	RREDC Share	Total
Loans from $25,000 to $150,000	5.85%	3.15%	9.00%
Loans from $150,000 to $800,000	7.00%	1.00%	8.00%
Term Length of All Loans			15.00 Years

Loan Performance Assumptions	New Loans	2013	
Cash vs Accrual Factor	85.00%	77.86%	% of amount due that is paid in current year*
Loan Losses	2.00%	0%	over term of loan

Average Outstanding Loan Balance	New Loans	Current
Loans from $25,000 to $150,000	$250,000	$368,075
Loans over $150,000	$750,000	$2,480,737
Total Loan Balance	$1,000,000	$2,848,812

timeline?

Annual Interest Revenue from Loans	Cash Basis	Accrual Basis
Loans under $150,000	$12,097.92	$14,291.67
Loans over $150,000	$43,625.00	$51,500.00
Total Interest Revenue	$55,722.92	$65,791.67

Projected Annual HWF Loan Return	**Cash Basis**	**Accrual Basis**
Return on Investment	**5.57%**	**6.58%**

2013 Actual ROI on Existing Portfolio	
Beginning Loan Balance	$2,458,239.81
Ending Loan Balance	$2,816,163.99
Average Loan Balance	$2,542,751.85
Interest Earned	$136,893.40
Interest Received	$106,584.73
Cash ROI	**4.19%**
Accrued ROI	**5.38%**
Cash to Accrued Factor	77.86%

Notes:

* One loan comprising 20% of the protfolio made no payments in 2013
Projections do not include current loan portfolio activity

RREDC

Redwood Region
Economic Development
Commission

REVOLVING LOAN FUND PLAN

Adopted by the Board of Directors

July 26, 2010

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PART I. –REVOLVING LOAN FUND STRATEGY

A. Background

The Redwood Region Economic Development Commission was formed in 1977 to support economic development in Humboldt County. RREDC was formed to allocate economic mitigation funds directed to Humboldt County as part of the legislation to increase the size of Redwood National Park. While the majority of these funds were used for capital projects, RREDC used $2.9 million to create Humboldt County's first economic development revolving loan fund.

B. Humboldt County's Economic Development Strategy

Humboldt County's economic development programming is guided by the Comprehensive Economic Development Strategy (CEDS) known as "Prosperity – The North Coast Strategy". The CEDS was developed in 1999 – 2000 through an extensive planning process involving hundreds of business owners, community members, and government leaders.

The Humboldt County CEDS approaches local economic development based on the following beliefs:

- Focusing on growing base industry clusters is a key to economic growth.
- Owner-resident businesses represent our greatest potential for economic growth and stability.
- Quality of life and proximity to natural resources are the two main reasons for businesses locating in our region.
- Our region's barriers to business require us to maximize the coordination and effectiveness of regional economic development efforts.
- The private sector must be involved in supporting our economic development efforts.

The CEDS contains the following five goals:

- Focus on growing base industry businesses
- Support business growth and development
- Enhance our competitive edge
- Invest in our businesses
- Enhance regional quality of life

The RREDC RLF shall be used to complement and support the goals, strategies, and projects documented in the Humboldt County CEDS. In addition, RREDC's RLF activities shall be coordinated with other programs, which are part of Humboldt County's economic development service delivery network. In the future, as the CEDS is updated, the RREDC RLF plan will be amended as necessary to reflect any strategic or other significant changes in the CEDS.

C. Identification of Financing Needs

Humboldt County is served by a number of national and community-based financial institutions. Many of these are actively involved in commercial lending. In the past year, however, commercial lending by these institutions has become much more restricted. As a result, there is an increased need for economic development lending that addresses financing not provided by the private sector financial institutions. These include:

1. Business start-ups
2. Businesses for whom the private financial institutions require participation to fully meet the financial needs of the business.
3. New or unproven businesses.
4. Businesses with weaker collateral.
5. Businesses whose owners have less than perfect credit.

The RREDC RLF shall provide financing for feasible, job-creating business development projects for which private sector financing is unavailable or only partially available. Although loans will only be issued to those firms who can demonstrate an ability to fully repay them, maximizing job creation and generating other community economic development benefits will be the predominant goals. Flexible terms shall be offered, and start-up businesses shall be eligible for funding providing all other program requirements are met.

RLF Impact: The three main impacts the RLF anticipates having on the region are:

- Strengthening the local economy by providing financing to existing and start-up businesses.
- Stimulate private investment by leveraging financing with other private and public sources and referring businesses to other investors with available resources.
- Enhancing the job opportunities by providing financing to viable, long-term businesses that will create stable jobs.

In keeping with the overall economic development goal, private and public sector lenders shall be sought as partners for funding economic development projects. RREDC shall regularly communicate with loan officers from the commercial banks in our area on both a formal and informal basis, and encourage referrals of projects for joint funding.

RREDC shall also continue participating in, and co-sponsoring various community conferences and workshops designed for small business networking and education. Commercial lenders are encouraged to participate in these. In addition, RREDC actively involves local financial services professionals on its Loan Committee.

D. Targeting Criteria and Financing Strategy

1. Business Types

Humboldt County has traditionally relied on a resource extraction, export-based economy. Historically, this led to periods of local wealth, but the nature of the extractive industries was both cyclical (tied to the broader economy) and seasonal (tied to local weather). With the decline of these industries, Humboldt County has had to target the development of new small businesses whose primary markets for their goods lie outside of the region. As outlined in the CEDS, Humboldt County targets those businesses that:

- Maximize the use of and add value to local assets (such as specialty agriculture and wood working)
- Take special advantage of our location (tourism),
- Can overcome transportation issues relating to our remote location (manufacturers of high-value, low volume products),
- Can succeed in a remote location (e.g. technology and service companies).

The CEDS also targets those businesses that provide critical support to those listed above.

2. Targeted Uses

Historically, small to medium size businesses need financing for asset acquisition and working capital. The RLF will review qualified applications for acquisition of commercial real estate, including the commercial portions of mixed-used buildings, equipment acquisition, and working capital. On a limited basis, applications may be accepted to finance soft costs related to commercial development. In addition to the types of transactions already noted, the RLF will remain cognizant of the needs in the community for other types of business financing.

3. Business Stages

Business loans will generally be made to small businesses from start-up stage to five years old. A small business is defined as a company with annual sales of $1,000,000 or less, or otherwise meeting the SBA's definition as a small business.

4. Role of the RLF Loans

The RLF will serve small and medium sized businesses with loans that:

1. Are reasonably priced.
2. Are matched to the useful life of the asset financed.
3. Conserve cash for continued growth.
4. Allow for a reasonable return on equity in line with industry norms.
5. Generate a public benefit such as job creation and leveraging of private investment.

E. Standards for the RLF Portfolio

Potential loan recipients are generally required to directly create or retain one full-time equivalent, (FTE), job for each $50,000 borrowed in order to be eligible for RLF funding. (Thirty-five hours per week shall be used as the factor for converting part-time jobs to their FTE). Owners' jobs shall count towards meeting the jobs standard, if they live and work in Humboldt County. However, businesses may borrow money at a rate greater than $50,000 per job if other priorities are met. These might include high-wage jobs, potential for indirect job creation, capital flow into the region, etc. These other priorities will be addressed in the Loan Application Summary.

Although new jobs are to be targeted, job retention shall count towards meeting the jobs standard if a business demonstrates that it requires RREDC funds to support its continued operation and the jobs retained (i.e. saved) would be imminently lost with out RREDC assistance.

Private sector participation in individual projects shall be encouraged. The EDA RLF program requires demonstration that private financing is not otherwise available for the amount of the loan being requested. Consequently, compliance with EDA grant terms will require maximizing private financing. The goal of the RLF is to achieve a 2:1 RLF leveraging ratio consistent with EDA's program objectives.

RREDC will also work with the County of Humboldt's Headwaters Revolving Loan Fund to maximize capital available and leverage for EDA loans.

RREDC funds will be available for subordinated financing of projects, (e.g. where commercial banks are willing to loan 70% to 75% of collateral value, and the applicant still needs to borrow additional funds to pay the remaining costs of an otherwise feasible business development project).

RLF funds may be borrowed for any activity necessary to accomplish or support business expansion or retention including

1. Purchase of land, buildings
2. Purchase of equipment and inventory
3. Leasehold improvements
4. Short-term capital injection
5. Long-term working capital.

The RLF funds are primarily available for private sector borrowers; however, non-profit and public agency loan requests shall be considered for projects beneficial to Humboldt County's economy if there is a firm source of revenue for repayment, and the loan request meets other RREDC requirements including job creation/retention and the assistance provided will directly benefit business enterprises.

Companies at all stages of development, and in all sectors of the economy are eligible RLF applicants; however priority will go to those which will generate the greatest economic impact in Humboldt County.

F. Financing Policies

Between 1980 and September 30, 2009, RREDC issued 189 EDA loans totaling $18.9 million. Of this amount, $2.9 million was the initial base capital provided by EDA. The additional $15.9 million was "revolved" for issue to new borrowers after being successfully repaid by initial borrowers.

As of September 30, 2009, RREDC's EDA Fund had approximately $2.9 million in outstanding principal distributed among 23 active loans. This implies an average principal balance of approximately $126,086 per loan. Although loans in excess of $500,000 were issued during the early years of RREDC's RLF program, the maximum loan will generally not exceed 10% of the capital base or $325,000, whichever is lower. The average loan amount issued in recent years has been steadily increasing from an average of approximately $50,000 in FY 2000 to approximately $125,000 in 2008. However, in 2009, the average sized loan again was approximately $50,000.

Historically, 30% of RREDC loan funds have been used by borrowers for working capital, the remaining 70% for fixed assets. Most RREDC loans are for business expansion projects with both fixed asset and working capital components. Although it is typically easier for fixed asset projects to meet RREDC collateral requirements, because property and equipment purchased with loan proceeds are available as security, RREDC does not preclude or limit working capital loans. Borrowers needing working capital are encouraged, providing they meet RREDC's primary job creation criteria, and offer supplementary personal or business fixed assets as collateral.

G. Loan Products

Two loan products will be offered from the EDA RLF. These include fixed rate term loans and lines of credit.

1. Fixed Rate Term Loans

Currently, for fixed rate term loans, the following terms are generally offered:

- **Five-to Seven Year Terms**: for working capital loans or fixed asset loans secured by equipment, inventory, receivables, or other tangible short-term assets. Loan must be collateralized and real estate as collateral may be required for the longer term.
- **Ten-Year Term**: for purchase of certain machinery and equipment, or real estate purchase. Loan must be secured by real estate. RREDC may offer up to 25-year amortization with balloon payments required in year ten.

Loan terms will not normally exceed the average useful life of assets being financed.

Interest rates offered based on the riskiness of the business proposition and the strength of the collateral offered and will not be less thank 4% or 75% of the prime interest rate as published in the Wall Street Journal. A discussion and justification of the interest rate offered must be included in the loan summary. There will be a loan origination fee of 1.25% to 1.50% depending on the complexity of the loan.

The maximum loan amount will generally not exceed $325,000 or 10% of the EDA RLF capital base, whichever is lower. Minimum loan amount will generally not be less than $10,000. Loan minimums and maximums may be exceeded in special cases with sufficient justification noted in the loan summary.

Additional terms may be offered in special circumstances. In these instances the special terms and the reasons for offering them shall be outlined in the Loan Application Summary.

2. Line of Credit Loans

A line of credit is a valuable tool for a lender and borrower to finance recurring cash-flow needs. A RREDC EDA RLF line of credit will use a multiple advance promissory note and the loan will be structured as follows:

- A revolving loan where the principal is paid back and is then available for re-lending
- A non-revolving line of credit where the principal is not re-lent after repayment.

Lines of credit offered by RREDC EDA RLF will require the following:

- Minimum loan amount of $20,000
- A loan origination fee of 1.5%.
- A maximum of three withdrawals per month. Withdrawal requests must be made a minimum of five working days prior to disbursement.
- A minimum withdrawal amount of $10,000.
- Annual reviews/renewals
- "Evergreen" clauses. Evoking an evergreen clause would be the consequence of the borrower not revolving principal as required in their loan agreement. The "evergreen" clause typically spells out provisions in this event and often will result in the amortization of the principal balance on a predetermined schedule. The annual review and possible renewal of a line of credit addresses the continued appropriateness and compliance to the provisions of the loan.
- Regular financial reporting (at least quarterly) from the borrower. RREDC may require financial statements be prepared, compiled, or reviewed by a Certified Public Accountant.

The term offered for a line of credit will be twelve months. Lines of credit will be renewable annually at the discretion of RREDC.

H. Restrictions on the Uses of RLF Capital

RREDC EDA RLF Funds may not be used to:

1. Acquire an equity position in a private business.
2. Subsidize interest payments on an existing RLF loan
3. Provide for borrower's equity contributions under other Federal Agencies' loan program
4. Provide for borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF.
5. Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit or any investment unrelated to the RLF.
6. Refinance existing debt, unless:
    a. The RLF Recipient sufficiently demonstrates in the loan documentation a "sound economic justification" for the refinancing (e.g., the refinancing will support

additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia constitute a sound economic justification; or

b. RLF Capital will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF Capital may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to convert an RLF's costs plus a reasonable portion of the outstanding RLF loan within eighteen 18) months following the date of refinancing.

I. General Loan Requirements for EDA Loans

RREDC is a "cash flow" lender, meaning that there must be sufficient evidence that the business has or will have sufficient cash flow to service their loan. However, recognizing the higher-risk of RREDC loans, we will also take an "abundance of caution" by maximizing the collateral for our loans. General requirements for EDA loans include:

Cash Flow

Borrower must demonstrate or provide reasonable assurance that the proposed project will provide sufficient cash flow to service the loan and provide a reasonable return to the borrower.

Capital (Equity)

Borrower must provide 10% cash equity contribution to the proposed project, or in some other manner demonstrate their willingness to place their new dollars or resources at risk.

Collateral

Collateral will generally be valued according to the table below.

Type	Discount Factor	Discount Amount	Valuation
Real Estate	.90-.80	10% -20%	Assessed value, appraisal, or broker's opinion of value with market survey. Lower discount amount (10%) would apply when we have a current appraisal. This is typically the case when we participate on loans with other lending institutions.
Equipment	.5	50%	Stated value, purchase order, appraisal (large

			pieces of equipment)
Inventory	.2	80%	Stated value
Accounts Receivable	.2	80%	Stated value
Passenger Vehicle	.70-.80	20%-30%	Low blue book value

Personal guarantees will also be required from principals in business with a greater than 10% ownership of the business.

RREDC requires pledges of collateral for all loans with the goal of 100% loan to discounted value. Greater loan to value will be accepted in specific cases where other loan criteria are judged to provide sufficient support for the loan."

Conditions

In their business plan, the applicant must demonstrate that a market for their product or service exists and that they have the ability to capitalize on that market.

Character

Applicant must demonstrate a history of debt repayment or provide a reasonable explanation for past credit issues. RREDC will require credit reports for all applicants. Applicant must provide three references, two of which must be from sources related to the business or business proposition.

Part II. Operational Procedures

A. Loan Committees and Staff

1. Loan Review Committees

RREDC is a local government joint powers authority with a board of directors consisting of elected officials from 19 Humboldt County jurisdictions. Six board members are elected for three-year staggered terms to serve on an Executive Committee, which has the authority for approving loans, modifying loan terms, taking foreclosure actions, and making other operating decisions as necessary between monthly Commission meetings.

A separate Loan Committee is appointed to serve in an advisory capacity to the Executive Committee. The Loan Committee is comprised of up of 10 regular members. Three categories of regular members are appointed:

(1) Small business owners or managers
(2) Finance or banking professionals,
(3) RREDC Board members.

Three individuals from each category are appointed by the RREDC board of directors. Additionally, one member-at-large is appointed. The three members representing finance and banking must each be from separate institutions.

In addition to the regular members outlined above, three alternate finance and banking professional members will be appointed.

Loan Committee members serve a two-year term. To provide continuity, terms within each category of members are staggered with five expiring one year and five the next year. Appointments shall be made the January meeting of the Board of Directors. Terms will begin March 1 of each year or as necessary to fill vacancies. Members may be reappointed at the discretion of the Board of Directors.

A quorum of the Loan Committee consists of five members one of which must be a person appointed in the "finance or banking professional" category. In the absence of a quorum no official action or votes on recommendations may be taken.

2. Staff

Primary contact with applicants and borrowers occurs through RREDC's Lender. RREDC's Lender is a full-time employee. The Lender is primarily responsible for interviewing potential applicants, deciding whether or not to invite an application, analyzing credits, preparing loan application summaries and making presentations to the Loan Committee.

Assisting the Lender is a half-time Assistant Lender. This position is primarily responsible for maintaining files, preparing documents, and otherwise providing administrative support to the Lender.

RREDC's Executive Director is primarily responsible for oversight of the RREDC RLF portfolio, supervision of the loan program and staff, and reviews all loan applications and summaries prior to their presentation to the Loan and Executive Committees. The Executive Director is also responsible for reviewing, approving, and making decisions regarding actions taken for individual loans, except for major actions that are reviewed and approved by the Loan and Executive Committees. Finally, the Executive Director is responsible for budgeting, policy formation, community outreach and administrative oversight.

RREDC's Lender has extensive commercial lending experience in the private sector and the Executive Director is experienced in economic development with training and experience in business credit analysis.

B. Marketing Strategy

RREDC believes in networking and has great success in obtaining loan referrals from the following:

- Local financial institutions
- North Coast Small Business Development Center
- Board and Loan Committee members
- Real estate companies and agents.
- Accountants and bookkeepers.
- Other economic development entities
- Existing or prior customers

As a result, our marketing efforts primarily focus on maintaining good relationships with our regional "network." Because our County is relatively small, and the amount of dollars we have to offer is limited, we do not feel that a comprehensive advertising effort is necessary at this time to specifically market our loan programs. Nevertheless, we do undertake marketing efforts to preserve and enhance the visibility of the RREDC RLF in the community. These include:

- Periodic co-sponsorship of SBDC and other organizations' events and classes.
- Regular media releases highlighting the activities of RREDC.
- A website, www.rredc.com
- Presentations to and distribution of brochures at various local business and economic development conferences and meetings.
- Limited advertising on public affairs program of a local radio station.
- Publishing of column on economic development in local daily newspaper.
- Regular appearance on public affairs show of local radio station.
- Meetings with local lenders to discuss program.

C. Loan Review and Approval Process

The Lender is primarily responsible for responding to loan inquiries. If initial discussions indicate probable eligibility, clients are encouraged to meet with the Lender to discuss their borrowing needs in detail. At these meetings, RREDC application materials are provided and thoroughly explained. Clients are encouraged to consult the Small Business Development Center for assistance in completing their loan application package.

As part of their application, prospective borrowers will be asked to provide information on their efforts to obtain private sector financing, and the reasons why they cannot obtain adequate private capital. Written support from the financial institution verifying the inability to obtain capital must be included in the loan application file.

When applications are formally submitted, the Lender reviews them for completeness and consistency. If necessary, applications are returned to prospective borrowers with specific requests for more complete information.

When applications are complete, they are thoroughly analyzed by the Lender for their job-creation capacity and other economic development benefits, evidence of adequate markets to support projected sales, management capacity, profitability, cash flow, and adequacy of collateral. The Lender then prepares a loan summary. The Executive Director reviews all applications and summaries and makes the final approval to present the loan application to the Loan and Executive Committees.

Generally, Loan Committee members are given at least five days to review a loan application before a Loan Committee meeting. Meetings are held up to twice monthly. Special meetings can be called as necessary. At the Loan Committee meetings, members and staff contribute their observations and questions with regard to the criteria mentioned above. After this team review process is complete, members vote to specifically recommend denial or approval, and may add special conditions as the loan warrants.

Approved applications are presented to the Executive Committee, which generally meets the week following the Loan Committee. Again, staff presents the loan summary with the recommendation of the Loan Committee. The Executive Committee makes the final decision on making the loan.

D. Standard Loan Application Requirements

A complete RREDC loan application must be accompanied by the following information as applicable:

- Three years of business and personal tax returns for all persons owning 20% or more of the business.
- Three years of business financial statements which contain balance sheets and profit and loss statements.
- Personal Financial Statements for all persons owning 20% or more of the business. Forms must be dated within the most recent quarter and not more than 3 months old
- Business plan that describes the potential use of RREDC funds and contains business financial projections.
- Lease or purchase agreements.
- Proof of Hazard and Liability Insurance (if so desirable, proof of life insurance.).

- Schedule of debts including current outstanding balances, repayment schedules and due dates, and schedule of collateral.
- Evidence of other financing commitments.
- Authorization to request business or personal credit reports as required (D&B, TRW, etc.)
- Articles of Incorporation, By-Laws, Partnership Agreements, Etc.
- Business licenses and fictitious name statements.

In addition to the above, the Lender is responsible for adding the following as applicable:

- Appraisal Reports
- Environmental Reviews
- Standard Collateral Requirements
- Standard Insurance Requirements
- Public Benefit Requirements and required certifications or documentation.

The Lender is responsible for preparing the Loan Application Summary, which is reviewed by the Loan Committee.

E. Appraisal Reports

In specific cases, the RREDC may order an appraisal of the assets of the applicant to determine whether there is sufficient collateral to secure the loan. The cost of these appraisals is borne by the applicant, regardless of whether or not they are successful in obtaining a loan from RREDC. RREDC must approve of all third party appraisers prior to their engagement. For loans involving commercial real estate, RREDC will require a recent (no more than 180 days old) appraisal on the subject property.

F. Environmental Reviews

Environmental reviews shall comply with the intent of the National Environmental Policy Act of 1969, as amended, as implemented in regulations and as listed in EDA's RLF Standard Terms and Conditions. Construction loans will comply with the California Environmental Quality Act (CEQA) as amended

G. Appeals Process

As noted above, the RREDC the loan process involves three levels of review. These are:

1. Staff review of application
2. Loan Committee review of staff recommendation
3. RREDC Executive Committee approval of Loan Committee recommendation.

At any point of this process, RREDC may choose to deny further consideration of a loan. In the case of denial, the applicant will be given a written notice with an explanation of the reasons for the denial. In each case, the applicant has the right to appeal the denial to the next level of decision-making. However, no loan requests shall be approved without receiving the consideration of the RREDC Loan Committee.

1. Level 1 - Staff Denial

Staff will review the loan application and conduct necessary due diligence to determine whether the applicant is an appropriate candidate for a RREDC loan. If staff determines that the applicant is not an appropriate candidate, the applicant will be notified in writing of this determination and the reasons for the denial.

The applicant may appeal staff's decision and request further review of the application. This request must be made in writing and should include tangible, objective information supporting the request. The letter of request must be addressed to the Chair of the Board of Directors of RREDC, 520 E Street, Eureka, CA 95501.

Upon receipt of the written appeal, the Executive Director will schedule consideration of the applicant's request at the next regularly scheduled meeting of the Executive Committee. At their meeting, the Executive Committee shall take one of two actions:

1. Approve the request for further consideration and direct staff to prepare a loan application summary and recommendation for consideration by the Loan Committee, or
2. Deny the request for further consideration.

2. Level 2 Denial by the Loan Committee

The Loan Committee will consider all loan applications recommended for approval by staff. The Executive Committee shall not consider loans requests denied by the Loan Committee unless the applicant appeals the Loan Committee's decision to deny their request.

If the Loan Committee denies a loan request, the applicant will be notified in writing of the decision and reasons for the denial.

Applicants have the right to appeal the Loan Committee's recommendation to deny their request. The appeal must be in made in writing and shall be sent to the Chair of the Board of Directors of RREDC, 520 E Street, Eureka, CA 95501. The appeal shall list the reasons for the appeal and should present new information not included in the original application.

Upon receipt of the written notice, the Executive Director shall schedule consideration of the applicant's appeal at the next regularly scheduled meeting of the Executive Committee. At their meeting, the Executive Committee shall take one of the following three actions:

1. Approve the appeal and refer to the Loan Committee for reconsideration.
2. Approve the appeal, override the Loan Committee's recommendation, and approve the loan request. Overriding the Loan Committee's denial shall require affirmative votes of four members of the Executive Committee.
3. Deny the request for further consideration.

The Chair of the Loan Committee or a committee designee shall attend the meeting of the Executive Committee to provide background information

3. Level 3 Denial by the Executive Committee

The Executive Committee is the approval body for all loan requests. If the Executive Committee chooses to deny a loan request or a request for reconsideration, the applicant has the right to appeal their decision to the Board of Directors of RREDC. This appeal must be in writing and be addressed to the Chair of the Board of Directors of RREDC, 520 E Street, Eureka, CA 95501.

Upon receipt of written notification, the Executive Director shall schedule consideration of the appeal at the next regularly scheduled meeting of the Board of Directors. The Board of Directors shall take the following actions:

1. Approve the appeal and refer to the Executive Committee for reconsideration.
2. Approve the appeal, override the Executive Committee's recommendation, and approve the loan request. Overriding the Executive Committee's denial shall require affirmative votes of ten members of the Board of Directors.
3. Approve the appeal and refer to the Loan Committee for consideration (if the application has not yet received Loan Committee consideration).
4. Deny the request for further consideration.

All decisions of the Board of Directors will be final.

H. Loan Closing and Servicing

1. Time Schedule for Loan Closing

RREDC's standard time for issuing approved loans is 30 to 45 days from the date a complete application is received. However, closing time is sometimes longer in cases where the process for evaluating project feasibility or perfecting RREDC's security interest is unusually complex.

RREDC will typically prepare all loan documents and issues funds directly to the borrower or to vendors, depending on the nature of the loan. In the case where real estate is involved, either as a pledge of collateral or where RREDC is providing funds for the purchase of the real estate, RREDC will use a title company to prepare deeds of trust, title insurance policies, and issue funds to the title company to fund the loan via an escrow process.

2. Routine Monthly Loan Payment and Collection Procedures

RREDC provides borrowers with an amortization schedule showing the due date and amount of each payment. When a payment is received, RREDC sends a loan payment acknowledgement that shows how the payment was applied, the resulting loan balance, and the due date for the next payment.

Payments are deposited into an interest bearing account held by the Treasurer of the County of Humboldt.

The Executive Director and the Lender review the monthly activity reports for all loans at the middle and end of each month. Late fees, which are typically 10% of the loan payment, are assessed fifteen days past the due date of the loan payment.

Loan clients that are delinquent are contacted to remind them of their payments and to inquire as to the reasons for the late payment. If a loan client is experiencing difficulty in making payments because of poor cash flow, they will be referred to the Small Business Development Center for assistance. In addition, RREDC's Lender will work with the client to ascertain whether a change in terms, loan payment deferral, or other modification to their loan agreement is needed. Any modification to the loan terms must be approved by the Executive Committee. More detail on late payment procedures is detailed below in the section "Late Payment Follow-up Procedures."

3. Loan Monitoring Procedures

Annual financial statements (defined to include a balance sheet and profit and loss statement, compiled by an independent accountant or certified by the owner, chief financial officer and/or president) shall be required on all loans. Quarterly financial statements may be required during the initial years of a loan. These requirements are contained in the borrower's loan agreements.

RREDC staff monitors these statements and other dated requirements such as insurance renewals, and UCC renewals. If documents are not received on a timely basis, RREDC staff contacts the borrower to correct the deficiency.

4. Site Visits

RREDC staff will visit each borrower quarterly for the first 12 months and determine whether the business is on line with its business plan. RREDC will then schedule annual visits with each borrower. Each visit will be documented by memorandum, and will contain a summary of the progress the business is making from a marketing and financial perspective, as well as an assessment of the business's future.

5. Job Reports

Twice a year jobs saved/created data will be compiled by RLF staff and supplied to the EDA as part of the required semi-annual reports. All jobs will be reported in full time equivalents. All required loan documentation and special provisions will be monitored.

6. Late Payment Follow-up Procedures

RREDC knows that diligent monitoring and prompt follow-up with delinquent borrowers is critical for the success of the RLF. Accordingly, RREDC has instituted the following procedures for monitoring and following up with late payments:

a. Upon the mid-month review of loan activity, all borrowers with delinquent payments will be contacted to remind them of their obligation and to inquire as to whether there are issues with the business that need to be addressed.
b. RREDC staff will send a written notice 30 days after the due date.
c. RREDC staff will send a second written notice 60 days after the due date.
d. RREDC staff will send a third written notice 90 days after the due date.

e. During the first 30 days of delinquency, written and oral communication, as well as site visits by will be used to resolve the delinquency.
f. If, after 90 days a delinquency still exists and the loan has not been renegotiated or brought current, the loan will generally be determined to be in default. This declaration of default will be declared by the Executive Committee and recovery of the security will commence.
g. Any renegotiation of loan terms to remedy a default must be approved the Executive Committee.

7. Collection Procedures for Defaulted Loans

RREDC will exercise all rights and privileges of a lender in order to collect the proceeds on delinquent loans. To ensure that the delinquent loan is collected in an appropriate, efficient, and timely manner, staff will:

1. Prepare a plan of action with guidance for collecting the loan and taking action against the collateral.
2. Make sure all required loan documentation is in order.
3. Consult with the RREDC counsel on all default notices and collection efforts and to insure that no laws or regulations will be violated by the collection effort and that all legally required actions are taken.
4. Contact all other co-lenders as appropriate.
5. Notify the guarantors of the default and put them on notice that they are expected to make payment, in full, upon demand.
6. Begin collection procedures and/or asset liquidation process.

8. Payments on Defaulted Loans

When an RLF Recipient receives proceeds on a defaulted loan such proceeds shall be applied in the following order of priority:

1. First, towards any costs of collection
2. Second, towards outstanding penalties and fees
3. Third, towards any accrued interest to the extent due and payable
4. Fourth, towards any outstanding principal balance

9. Write-off Policy and Procedures

Loans with an outstanding balance that have been placed in default and remain outstanding after 180 days will generally be written off. However, collection efforts will continue until determined not to be cost effective or prospects for recovery no longer exist. All write-offs must be approved by the Executive Committee.

10. Monitoring Portfolio and Delinquent/Defaulted Loans

Each month, RREDC staff prepares a "Loan Portfolio Report" that summarizes each of the loan funds handled by the agency. This report shows the aging of the loan portfolio with the number and aggregate amount of loans that are current, 30, 60, and 90 days delinquent. The loan report also shows the total amount of the fund in cash and calculates the capital utilization of each fund. This qualitative report may, as necessary or desired by the board, be accompanied by a written narrative discussing specific loans or other concerns that may be raised by the report.

I. Sources for Funding to Cover Administrative Costs

RREDC has been financially self-sufficient based on RLF loan program interest since 1980. Annual income and expenses are carefully monitored to ensure that no initial base capital is ever used to pay administrative or program expenses. EDA RLF income can be used only for eligible expenses to operate the EDA RLF program or for EDA RLF loans. It has been and continues to be RREDC's goal to maximize net income to the EDA RLF in order to grow the fund over time.

The primary use of RLF interest revenue is for loan program administration and promotion. Secondarily, it is used to replenish initial base capital lost when loans are written off.

J. Capital Management Strategy

Approximately 78% percent of RREDC's base capital had been issued as of September 30, 2009. RREDC staff reviews the performance of the loan portfolio monthly and, based on the outcome of that review, determines the amount of funds available for lending. It is our goal to achieve at least 75% capital utilization. Capital utilization may not exceed 90%, with a minimum cash balance of at least 10%. Maintaining this minimum cash balance is a prudent measure to ensure that RREDC has sufficient resources in the unlikely event that we experience low or negative cash flow or, more likely, that cash is needed to protect our security interest in a defaulted loan where there is a senior lienholder. Cash balances are pooled with the County of Humboldt and the Humboldt County Treasurer provides investment management.

No loan may represent more than 10% of a loan fund without specific approval by the RREDC Executive Committee.

K. Conflict of Interest Policy

As a California Joint Powers Authority, RREDC is required to have an adopted conflict of interest policy in compliance with the Political Reform Act of 1974, California Government Code Section 8100 et seq and with Section 87300 et seq. This adopted code is attached to this RLF Plan for reference.

In addition to the California requirements, the Conflict of Interest Code includes the following special rules for EDA RLF Grantees:

1. An Interested Party of a Recipient of an RLF Grant shall not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of RLF Loans
2. An Recipient of an RLF Grant shall also not lend RLF to an Interested Party; and

3. Former board members of a Recipient of an RLF Grant and member of his or her Immediate Family shall not receive a loan from such RLF for a period of two (2) years from the date that the board members last served on the RLF's board of directors