County of Humboldt
Headwaters Revolving Loan Fund
Lender Agreement

This Lender Agreement (Agreement), made as of this 8th day of April, 2014, by and between the Redwood Region Economic Development Commission, a joint powers authority("Lender"), and the County of Humboldt, ("County"), a political subdivision of the State of California (collectively, the "Parties"), for participation in the Headwaters Fund Revolving Loan Fund Program ("Program").

WHEREAS, County contracted with Lender on the 8th day of April, 2014 to become a lender for the Program administered by the County in order to provide loans to eligible borrowers in the Lender's region; and

NOW, THEREFORE, in consideration of the mutual representations, covenants and agreements contained herein and other good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

I. AWARD and DISBURSEMENT

1.1 The County hereby awards to Lender and agrees to make available to Lender from the Program, during the term of this Agreement, unless sooner terminated in accordance with its provisions, an amount not to exceed the principal sum of three million five hundred thousand dollars ($3,500,000). The total sum of these funds may not be available if other requests for loan funds are approved by the County prior to the full disbursement of the three million five hundred thousand dollars ($3,500,000).

1.2 Lender agrees to use all monies received from the County and its proceeds solely in accordance with this Agreement, the Revolving Loan Fund Lender Manual ("Lender Manual"), the Master Participation Agreement, and the Participation Certificate to be executed in connection with each Loan made by Lender, as each may be amended from time to time and copies of which are incorporated herein and attached as Exhibits A, B, and C, respectively.

1.3 Lender shall establish and maintain a separate ledger and segregated account for all monies received by Lender from the County. Lender agrees Program monies received from County shall not be commingled with any other monies of Lender nor shall any such monies be commingled with monies of any other corporation, firm, association, entity, or individual, except that, notwithstanding the foregoing, where the County only partially funds a given loan, Lender may deposit Program monies into an account in the name of Lender for two purposes: (1) to combine the Program monies with monies from other Loan participants in order to issue a borrower a single check for the loan and (2) to deposit payments received from the borrower that must be allocated to various loan participants, including the County. In regards to these two limited purposes, Program monies may not remain in an account in the name of Lender for more than 48 hours.

1.4 Lender agrees it will not and may not make a loan commitment to a project or prospective borrower without first receiving the written concurrence of County as to the proposed use of Program monies from the County for that specific project or prospective borrower. All requests from Lender to draw down Program monies must be made in writing and specify the date by which Lender desires to receive the funds from County, which date shall be a minimum of ten (10) business days from the date County actually receives, in its office, the drawdown request from Lender. Upon receiving written concurrence from the County to fund a specific project or prospective borrower, Lender may draw down under this award only such funds as are necessary to cover a thirty (30) day period in implementing the activities provided for by this Agreement. The date of such draw down shall constitute the date the funds are advanced by County under this Agreement for purposes of computing the thirty (30) day period. Any funds drawn down by Lender which have not, within the thirty (30) day period, been loaned out to a Borrower and/or which are not accruing interest payable by Borrower, shall be returned immediately to County by Lender along with a written explanation by Lender as to the cause for the failure by Lender to comply with the lending of monies within the thirty (30) day time limitation set forth in this Agreement.

1.5 Funds shall only be released by County to Lender on a loan-by-loan basis, up to the total amount of the award, upon the execution of the Fund Participation Certificate and satisfaction of any other terms or conditions precedent to disbursement by County of all or any portion of this award are satisfied. In the event any portion of the award is not drawn down by Lender prior to the expiration or termination of this Agreement, according to its terms, then Lender shall no longer, as of the date of expiration or termination of the Agreement, have any right to request any further drawdown of funds from County.

1.6 Lender shall not be authorized to issue a line of credit to any Borrower without the express written consent of the County. Neither Section 11.5 of this Agreement nor any similar provision in the Revolving Loan Fund Manual and the Master Participation Agreement shall have any applicability to this section.

II. LENDER'S REPRESENTATIONS AND COVENANTS

2.1 Lender hereby represents and covenants the following:

(a) Lender has been duly incorporated and validly exists as a corporation in good standing under the laws of the State of California or is a Joint Powers Authority (JPA); is not in violation of any provision of its Articles of Incorporation or its Bylaws; has power to own the collateral, to operate and to enter into and perform its obligations under this Agreement and the Master Participation Agreement; and, by proper corporate action has duly authorized the execution and delivery of this Agreement. Lender shall maintain the appropriate licenses or certificates necessary to fulfill its contractual obligations to the County throughout the life of this Agreement.

(b) This Agreement constitutes a valid and legally binding obligation of the Lender, enforceable in accordance with its terms.

(c) Lender presently has available the necessary funds to participate in Program loans (i.e., provide a portion of the loan from non-County sources as defined in Section 7 of the Lender Manual) to leverage this Disbursement, according to Section 7 of the Lender Manual.

(d) Lender will notify County of any change of its Articles of Incorporation or By Laws.

(e) If Lender dissolves as a corporation or a JPA or if all or substantially all of Lender's assets are placed in control of a receiver or trustee, all assets held by Lender in trust for County shall be immediately transferred by Lender to County. In the event California's non-profit corporation law shall control the disposition of Lender's assets, these assets shall not include any funds held, including any interest or principal paid to Lender pursuant to Fund loans, by Lender pursuant to this Agreement, the Master Participation Agreement or any applicable Participation Certificate. All such assets shall be immediately transferred by Lender to County.

(f) Lender warrants that its directors, officers and employees possess the degree of learning and skill ordinarily possessed by reputable professionals practicing in similar localities in the same profession and under similar circumstances. Lender agrees that its directors, officers and employees will perform their duties under this Agreement with such care, skill and diligence as professionals engaged in the same profession ordinarily exercise under like circumstances.

(g) There is currently no legal or administrative action, suit or proceeding before any court or any governmental body or authority pending or threatened against Lender.

(h) Since the date Lender submitted to County its request for County to purchase a participating interest in the Loan, Lender has acquired no knowledge of any fact which would materially adversely affect the ability of Lender to render performance of the obligations under this Agreement.

(i) Lender warrants that neither the corporation or JPA, nor its directors, officers or employees, presently have an interest and shall not acquire any interest, direct or indirect, which would conflict in any manner with the performance of services under this Agreement. Lender further agrees to comply with the Fund conflict of interest policies as set forth in Section 8 of the Lender Manual.

III. LENDER'S RESPONSIBILITIES IN LENDING

3.1 County Approval of Loan Documents. Lender shall provide the County with written copies of all forms to be used for lending purposes, including, but not limited to, application forms, notes, loan agreements and security instruments. The County may disapprove any such forms used by Lender for any reason upon 10 days written notice. Such disapproved forms shall not be used for loans involving the County's funds

3.2 County Approval of Forms and Procedures. Lender must obtain the County's prior written approval before making any substantive changes to its forms or its lending program. Lender shall immediately transmit all forms that have changed, whether or not the change is substantive, to County. Lender further agrees to utilize program funds and to operate in conformance with the Lender Manual.

3.3 Approval of Proposed Use of Funds. Contractor agrees it will not and may not make a loan commitment to a project or prospective borrower without first receiving the written concurrence of County as to the proposed use of monies from the Fund.

3.4 Geographic Lending Restriction. Lender shall only lend Program monies to eligible Borrowers within the geographical boundaries of the County of Humboldt.

3.5 Determination of Borrower Eligibility. Lender will be responsible for review of the loan applications and verification of the information submitted from potential borrowers and shall determine whether the Borrower and proposed project are eligible pursuant to the loan guidelines set forth in Section 4 of the Lender Manual. Lender agrees not to make any loans to an ineligible borrower or for an ineligible project.

3.6 Default Loan Rate. The Lender shall immediately notify the County in writing when the principal amount of Lender's actual program loans in default exceeds ten percent (10%) of Lender's aggregate principal amount of loans outstanding. Upon such notice, the County may declare an event of Agreement Default pursuant to Section 5 herein. For purposes of this Agreement, an Agreement Default shall be a loan with any scheduled or required payments that are over ninety (90) days or more past due.

3.7 Loan Guidelines. Lender agrees to make loans to Borrower only in compliance with the Master Participation Agreement, the Lender Manual, the Participation Certificate, and the terms of this Agreement, which include the following loan guidelines:

(a) The size of the combined loan from the County and Contractor will be no less than $25,000, no more than $200,000 (with exceptions) for start-up firms, as defined in the Lender Manual Section 9, and no more than $800,000 for all other borrowers;

(b) For loan origination fees to borrowers, Contractor will charge the lesser of 2% of the loan amount or the lowest fee structure charged under Contractor's other loan programs;

(c) For interest rates to borrowers, Contractor will charge borrowers the same rates charged under Contractor's other loan programs, within the range of 5-12% interest, unless express written permission from County to exceed this parameter is granted;

(d) For loan servicing fees, Contractor will charge borrowers the same rates charged under Contractor's other loan programs;

(e) For collateral discounting, Contractor will use the more conservative (i.e. lower loan-to-value ratio) of Contractor's policy or the following loan-to-value ratios – real estate (90%), equipment (50%), inventory and accounts receivable (20%), furniture/fixture (10%).

3.8 Delinquent, Default or Charged-off Loans. For delinquent, default or charged-off loans, Lender agrees to execute all necessary recovery procedures for County funds pursuant to this Agreement, the Master Participation Agreement and the Lender Manual. Lender agrees to be responsible for paying for such portion of the recovery efforts as stipulated in the Participation Certificate. Any recovered funds shall be paid out in proportion to the monies lent, without exception.

3.9 Nondiscriminatory Employment: Lender shall comply with Title VII of the Civil Rights Act of 1964 and no person shall, on the grounds of race, religion or religious creed, color, age (over 40), sex (including gender identity and expression, pregnancy, childbirth and related medical conditions), sexual orientation (including heterosexuality, homosexuality and bisexuality), national origin, ancestry, marital status, medical condition (including cancer and genetic characteristics), mental or physical disability (including HIV status and AIDS), military service, or any other classification protected by federal, state, or local laws and ordinances be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under this Agreement.

3.10 Workers Compensation and Employer Liability Insurance. Lender represents and warrants it is aware of the provisions of the California Labor Code Section 3700, which requires every employer to be insured against liability for workers' compensation and employer's liability or to undertake self-insurance in accordance with the provisions of that Code, and it will comply with provisions of that Code before commencing with and during the performance of the work of this contract.

3.11 Americans With Disabilities Act Compliance: Lender agrees to comply with all local, state and federal laws and regulations, including but not limited to the Americans With Disabilities Act. Lender further agrees to comply with any applicable federal, state or local licensing standards, any applicable accrediting standards, and any other applicable standards or criteria established locally or by the state or federal governments.

3.12 Prevailing Wage Laws. Lender shall ensure that in the event any borrower whose project includes work to be performed which is deemed to be a public work as defined in California Labor Code Section 1720.0 for the purpose of requiring the payment of prevailing wages and the employment of apprentices as set forth in Sections 1770 and following of the Labor Code, as may be amended from time to time, the borrower or an agent of borrower shall, within five (5) days of the award of any construction contract for any portion of the work, file the award or extract thereof with the Department of Industrial Relations, Division of Apprenticeship Standards, as required by Section 1773.5 of the Labor Code. Lender shall advise any borrower or prospective borrower of the potential applicability of the foregoing provisions of the California Labor Code and shall require compliance with the Labor Code as a condition to any loan made under the Program. Lender shall require any borrower whose project involves construction, or might otherwise be subject to the requirements of this Section, to include in any construction contracts relating to the project, additional provisions requiring compliance with the California Labor Code.

3.13 Compliance with Governmental Laws and Regulations. Lender shall comply in all respects with all laws, regulations, rules and ordinances, whether city, county, federal or state as are applicable to the obligations of Lender.

3.14 Media Release: Lender will notify County prior to issuing all notices to third parties and any and all other publicity concerning the transaction contemplated by this Agreement. County reserves the right to require prominent mention of the Headwaters Fund program(s) in all such notices and publicity.

IV. ADMINISTRATIVE FEES AND PAYMENT TRANSFERS

4.1 Lender shall be entitled to receive as payment for services rendered in connection with this Agreement the sums as set forth in Section 16 of the Master Participation Agreement attached hereto as Exhibit B and the Participation Agreement, as shown in the form attached as Exhibit C, to be executed by the County and Lender for each Loan funded under the Program.

4.2 Lender will provide County with a complete written record on a quarterly basis for each loan transaction including the portion of the borrower loan payment for interest, portion of the borrower loan payment for principal, Lender fee, and amount returned to the County.

4.3 Lender shall remit principal and interest payments to the County in accordance with the Lender Manual, the Master Participation Agreement and the Participation Agreement attached hereto as Exhibits A, B and C.

V. AGREEMENT DEFAULT

5.1 Upon occurrence of an event of Agreement Default, as hereinafter defined, the County may:

(a) Take whatever action at law or in equity may appear or become necessary or desirable to collect the amounts due and thereafter to become due or to enforce the performance or observation of the obligations, agreements and covenants of the Lender;

(b) Withhold further funding of undisbursed amounts from Lender;

(c) Require immediate repayment of any undisbursed or misapplied loan funds and loan repayments, including an assignment of all loan documents; and

(d) Immediately terminate Lender's ability to make the loan, collect loan payments, service its loans, or otherwise continue to participate in the Program.

5.2 An event of Agreement Default shall be defined to include:

(a) Failure, inability or unwillingness of Lender, in the sole opinion of County, to carry out or comply with any of the terms, provisions, covenants, conditions or obligations of this Agreement, the Lender Manual, the Master Participation Agreement, or any Participation Certificate;

(b) Failure of Lender to timely pay all amounts due County;

(c) The occurrence of (1) the Lender's becoming insolvent, or ceasing, being unable, or admitting in writing or otherwise its inability to pay its debts as they become due, or making a general assignment for the benefit of, or entering into any arrangement with, its creditors; (2) proceedings for the appointment of a receiver, trustee, or liquidator of Lender, or of a substantial part of its assets, being authorized or instituted by or against it; (3) institution by Lender of any proceedings under the Bankruptcy Act, as such now exists or under any amendments, reenactments, or replacements thereof that may hereinafter be enacted, or under any other act relating to the subject of insolvency or bankruptcy, whether in such proceeding Lender seeks to be adjudicated a bankrupt, or to be discharged of its debts or to effect a plan of liquidation, composition or reorganization; (4) filing of any involuntary proceeding against Lender under any such bankruptcy laws; (5) Lender becoming adjudicated a bankrupt in any court of competent jurisdiction; or (6) attachment, execution or other judicial seizure of substantially all of Lender's assets, or a writ of attachment is executed on property of Lender.

(d) Submission or making of any report, statement, warranty or representation by Lender to County which is false, incomplete or incorrect in any material respect.

(e) Failure of Lender to remedy any material adverse change in its financial or other condition arising since the date hereof, which condition was an inducement to the County to make this Agreement.

5.3 Upon the occurrence of an event of Agreement Default, the County shall notify the Lender in writing of such default, specifying the corrective actions necessary to cure the default. Lender shall have thirty (30) days from the date of service of the default notice to cure the default or defaults, provided, however, County shall have the right to exercise the suspension provisions set forth in Section 6 of this Agreement during thirty (30) day period. In the event Lender fails, in the sole opinion of County, to cure the default within the thirty (30) day period, County may terminate this Agreement without further notice to Lender.

VI. AGREEMENT EXPIRATION, SUSPENSION OR TERMINATION

6.1 The term of this Agreement shall be from the date first mentioned above and shall expire on June 30, 2019. The obligations to service, monitor, and report to County pursuant to the terms of this Agreement, the Master Participation Agreement, Lender Manual or any Participation Certificate shall survive the expiration or early termination of this Agreement.

6.2 Upon expiration of this Agreement, Lender will, unless otherwise instructed by the County, continue normal loan servicing of existing Program loans under the terms specified in this Agreement, the Lender Manual, and any Participation Certificate executed by the County and Lender.

6.3 This Agreement may be terminated as specified in this Section. If this Agreement is terminated before its stated expiration, Lender will, unless otherwise instructed by the County, continue loan servicing of existing loans under the terms of this Agreement, the Lender Manual, and any Participation Certificate executed by the County and Lender.

(a) Immediate Termination: Notwithstanding and in addition to any other remedies provided by this Agreement, the County may terminate this Agreement immediately upon 24 hours written notice in the event any of the conditions of Section 5.2(c) come to pass.

(b) Termination for Cause: County may terminate this Agreement with Contractor for cause with or without prior suspension of Contractor as provided in this Section. Termination for Cause shall mean the continued failure by Contractor for more than thirty (30) days after receiving the notice provided for in Section 5.3, in the sole discretion of County, to cure the default specified in the notice and fully perform each and every term, provision, covenant, condition and obligation contained in this Agreement, the Lender Manual, the Master Participation Agreement, and any Participation Certificate executed by the County and Contractor.

(i) In such event, County may require the Contractor to continue loan servicing of existing loans under the terms of this Agreement, the Lender Manual, the Master Participation Agreement, and any Participation Certificate, and this Agreement.

(ii) In such event, County will have the right and option, but not the obligation to purchase from Lender the Lender Investment in all loans with Program funds as set forth in the Participation Certificate for Lender's then-outstanding investment in the applicable Participation Loan, plus then accrued interest thereon at the participation Rate of Interest to the date of repurchase.

(c) Termination for Convenience: Contractor or County has the right to request termination of this Agreement for convenience at any time upon thirty (30) days notice. In such event, County may require the Contractor to continue loan servicing of existing loans under the terms of this Agreement, the Lender Manual, the Master Participation Agreement, and any Participation Certificate.

6.3 Suspension: County may, but shall not be obligated, after notifying the Lender of a default but throughout the thirty (30) day period set forth in Section 5.3, to immediately suspend ability of Lender to draw down funds under the Program pursuant to Section 1.4 of this Agreement, when County determines, in its sole discretion, Lender has failed to comply with any term, covenant or provision of this Agreement, the Master Participation Agreement, the Lender Manual, or any applicable Participation Certificate. County may require Lender during the period of any suspension to continue loan servicing of existing loans under the terms of this Agreement, the Lender Manual, and any Participation Certificate. In the event Lender fails, in the sole opinion of County, to cure the default within the thirty (30) day period, County may terminate this Agreement without further notice to Lender.

VII. RELATIONSHIP OF PARTIES

7.1 Lender shall perform all work and services as described herein as an independent Lender. No person performing any of the work or services described herein shall be considered an officer, agent, servant or employee of the County nor shall any such person be entitled to any benefits available or granted to employees of the County. Lender shall be solely responsible for the acts or omissions of its officers, agents, employees, and subcontractors. Nothing herein shall be construed as creating a partnership or joint venture between the County and Lender.

VIII. INSURANCES

8.1 This Agreement shall not be executed by the County, and the Lender is not entitled to any rights, unless certificates of insurance or other sufficient proof that the following provisions have been complied with, are filed with the Clerk of the Humboldt County Board of Supervisors.

8.2 Without limiting Lender's indemnification provided herein, Lender shall, and shall require any of its subcontractors to, take out and maintain, throughout the period of this Agreement, the following policies of insurance placed with insurers with a current A.M. Bests rating of no less than A:VII or its equivalent against injury/death to persons or damage to property which may arise from or in connection with the activities hereunder of Lender, its agents, employees or subcontactors:

(a) Comprehensive or Commercial General Liability Insurance at least as broad as Insurance Services Office Commercial General Liability coverage (occurrence form CG 0001), in an amount of $1,000,000 per occurrence. If work involves explosive, underground or collapse risks, XCU must be included. If a general aggregate limit is used, either the general aggregate limit shall apply separately to this project or the general aggregate shall be twice the required occurrence limit. Said policy shall contain, or be endorsed with, the following provisions:

(1) The County, its officers, employees and agents, are covered as additional insured for liability arising out of the operations performed by or on behalf of Lender. The coverage shall contain no special limitations on the scope of protection afforded to the County, its officers, agents, and employees.

(2) The policy shall not be canceled or materially reduced in coverage without thirty (30) days prior written notice to the County by certified mail.

(3) The inclusion of more than one insured shall not operate to impair the rights of one insured against another insured, and the coverage afforded shall apply as though separate policies had been issued to each insured, but the inclusion of more than one insured shall not operate to increase the limits of the insurer's liability.

(4) For claims related to this Program, the Lender's insurance is primary coverage to the County, and any insurance or self-insurance programs maintained by the County are excess to Lender's insurance and will not be called upon to contribute with it.

(5) Any failure to comply with reporting or other provisions of the parties, including breach of warranties, shall not affect coverage provided to the County, its officers, employees, and agents.

(b) Professional liability insurance/errors and omission coverage in an amount no less than $1,000,000 combined single limit (CSL). If insurance is written on a claims-made basis, Lender agrees to maintain such insurance in effect for at least three (3) years following completion of performance under this Agreement.

8.3 Lender shall furnish the County with certificates and original endorsements affecting the required coverage prior to execution of this Agreement by the County. The endorsements shall be on forms as approved by the Humboldt County's Risk Manager or County Counsel. Any deductible or self-insured retention over $100,000 shall be disclosed to and approved by the County. If Lender does not keep all required policies in full force and effect, the County may, in addition to other remedies under this Agreement, take out the necessary insurance, and Lender agrees to pay the cost of said insurance. All insurance coverage shall be with insurance carriers licensed and admitted to do business in California. All insurance coverage shall be with insurance carriers acceptable to the County.

IX. CONFIDENTIALITY

9.1 Lender agrees that neither it nor any of its agents or employees will knowingly divulge or disclose any confidential financial information or business plan submitted to, or developed by, Lender on behalf of Borrower, except to the extent that the disclosure is deemed by the Lender to be necessary for evaluation of any application submitted to the Lender or is required by applicable law. Lender agrees to comply with all laws regarding confidentiality and shall advise and require all subcontractors to comply with the laws of confidentiality.

X. HOLD HARMLESS AND INDEMNIFICATION

10.1 Lender shall indemnify and hold County harmless against and from any and all claims arising from the conduct, management, or performance of the Lender's obligations, including, without limitations, any and all claims arising from any condition, or arising from:

(a) Any breach or default on the part of Lender in performance of any covenant or agreement on its part to be performed pursuant to the terms of this Agreement and the Exhibits attached hereto;

(b) Any act of negligence of Lender, including professional negligence, or any of its agents, servants, employees, subcontractors, or licensees; or

(c) Any accident, injury, or damage howsoever caused to any person, firm, or corporation.

Such indemnity shall include any and all costs, reasonable counsel fees, expenses and liabilities incurred in or about any such claim, action, or proceeding brought thereon, and if any action or proceeding be brought against County, its employees, agents, or directors by reason of any such claim, Lender, on notice from County, shall defend against such action or proceeding by counsel satisfactory to County, unless such action or proceeding is defended by counsel for any carrier of public liability insurance provided herein. This indemnification shall not be affected by a claim the County, its employees, agents, or directors contributed in part to the loss of damage indemnified against.

10.2 Acceptance of insurance required by this Agreement does not relieve Lender from liability under this indemnification clause. This indemnification clause shall apply to all damages or claims for damages suffered by Lender regardless if any insurance is applicable or not.

XI. MISCELLANEOUS

11.1 Except for report preparation, auditing, legal review, and accounting, Lender shall not subcontract any portion of the work required by the Agreement without prior written approval of the County.

11.2 Each party hereto will pay its own attorney fees incurred in connection with the negotiation and execution of this Agreement.

11.3 Notwithstanding any other provision of law, if any lawsuit or proceeding is brought by either party hereto to enforce the terms of this Agreement, each party in such proceeding hereby agrees to pay its own court costs and reasonable attorney fees incurred in bringing and defending such action.

11.4 Venue for any action relating to this Agreement will be in an appropriate Court in Humboldt County, California and this Agreement and any interpretation thereto shall be governed by the laws of the State of California

11.5 Unless stated otherwise in this Agreement, when the consent or approval of either party is sought, such consent or approval will be deemed given unless notice of written disapproval is given no later than fifteen (15) business days after receipt of written request therefore, unless the parties agree to an extension of this deadline.

11.6 This Agreement and the terms and provisions hereof will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

11.7 This Agreement, the Master Participation Agreement, the Lender Manual, and the Participation Certificate, when executed by all parties, together constitute the entire agreement between the parties hereto with respect to its subject matter, supercedes all prior and contemporaneous agreements between the parties with respect to the subject matter and may not be modified, amended or otherwise changed in any manner except by a writing executed by the party to be charged. In the event of any conflict in the terms of the Master Participation Agreement, the Lender Manual, Lender Agreement, and the Participation Certificate, the terms of the Master Participation Agreement shall control.

11.9 It is understood that any and all documents, information, and reports prepared by and/or submitted by Lender shall become the property of the County. Lender may retain copies for its own records. In the event of termination of this Agreement, for any reason whatsoever, Lender shall promptly turn over all information, writings and documents to the County without exception or reservation.

11.10 Except as otherwise provided in this Agreement, any notice or consent required or permitted to be given hereunder must be in writing and may be served personally or by mail; if served by mail, it shall be registered or certified mail with evidence of post office mailing and return receipt requested. If served by mail, it shall be addressed as follows:

If to Lender:

Redwood Region Economic Development Commission
Attn: Executive Director
520 E Street
Eureka, CA 95501

If to Participant: County of Humboldt
County Administrative Officer
Attn: Headwaters Fund
825 5^{th} St.
Eureka, CA 95501

Any written notice shall be deemed received at the time of personal delivery, or if given by mail, then five (5) days after the mailing thereof. Either party may, by written notice to the other party as provided herein, specify a different address or additional addresses for notice purposes.

11.11 The waiver by either party of any breach or violation of any requirement of this Agreement shall not be deemed to be a waiver of any such breach in the future, or of the breach of any other provision of this Agreement.

11.12 This Agreement has been negotiated at arm's length and between persons sophisticated and knowledgeable in business and real estate matters. In addition, each party has been represented by experienced and knowledgeable legal counsel. The provisions of this Agreement shall be interpreted in a reasonable manner to affect the purposes of the parties and this Agreement. Hence, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits thereto.

11.13 Nothing contained in this Agreement is intended to confer any benefit or to create any claim in favor of any person or entity who is not a party to this Agreement.

11.14 Lender certifies by their signatures below that Lender or Lender's agents, representatives, employees, contractors and subcontractors are not a Nuclear Weapons Contractor, in that Lender is not knowingly or intentionally engaged in the research, development, production, or testing of nuclear warheads, nuclear weapons systems, or nuclear weapons components as defined by the Nuclear Free Humboldt County Ordinance. Lender agrees to notify County immediately if it or Lender's agents, representatives, employees, contractors and subcontractors become a nuclear weapons Lender, as defined above. County may immediately terminate this agreement if it determines that the foregoing certification is false or if Lender or Lender's agents, representatives, employees, contractors and subcontractors become a nuclear weapons Lender.

IN WITNESS WHEREOF, the parties have executed this agreement as of the day and year first herein above written:

(SEAL)

COUNTY OF HUMBOLDT

ATTEST:
CLERK OF THE BOARD

____

BY: ______________________
CHAIR, BOARD OF SUPERVISORS
COUNTY OF HUMBOLDT
STATE OF CALIFORNIA

APPROVED AS TO FORM:

COUNTY COUNSEL

BY: ______________________
DAVINA SMITH, DEPUTY

LENDER

BY: Julie Fulkerson

TITLE: CHAIR
(Corporate Officer)

APPROVED FOR INSURANCE REQUIREMENTS

____
KELLY VIZGAUDIS, RISK ANALYST

LENDER

BY: ______________________

TITLE: SECRETARY
(Corporate Officer)

First Amendment to

County of Humboldt
Headwaters Revolving Loan Fund
Lender Agreement

This Agreement, made as of this 31st day of May, 2016, amends the agreement by and between the Redwood Region Economic Development Commission, a joint powers authority having a place of business in Eureka, California and a mailing address of 520 E Street, Eureka, CA ("Contractor"), and the County of Humboldt, ("County"), for participation in the Headwaters Fund Revolving Loan Fund Program ("Program").

Section I. currently reads:

I. AWARD and DISBURSEMENT

1.1 The County hereby awards to Contractor and agrees to make available to Contractor from the Fund, during the term of this Agreement, unless sooner terminated in accordance with its provisions, an amount not to exceed the principal sum of three million five hundred thousand dollars ($3,500,000). The total of these funds may not be available if other requests for loan funds are approved by the County prior to the full disbursement of the three million five hundred thousand dollars ($3,500,000).

Section I. is modified to read as follows, per the Board approved MOU, dated x/x/2016:

I. AWARD and DISBURSEMENT

1.1 The County hereby awards to Contractor and agrees to make available to Contractor from the Fund, during the term of this Agreement, unless sooner terminated in accordance with its provisions, an amount not to exceed the principal sum of three million five hundred thousand dollars ($3,500,000).
The loan pool is split into two categories: Traditional and EDA Match.

Traditional: The total of these funds ($2,500,000) may not be available if other requests for loan funds are approved by the County prior to the full disbursement of the two million five hundred thousand dollars ($2,500,000).

EDA Match: The total of these funds ($1,000,000) are available exclusively for participation in EDA RLF funded loans only.

Section III. currently reads:

III. CONTRACTOR'S LENDING RESPONSIBILITIES

3.7 Loan Guidelines. Contractor agrees to make loans to borrowers only in compliance with the Lender Manual and the following loan guidelines:

(a) The size of the combined loan from the County and Contractor will be no less than $25,000, no more than $200,000 (with exceptions) for start-up firms, as defined in the Lender Manual Section 9, and no more than $800,000 for all other borrowers;
(b) For loan origination fees to borrowers, Contractor will charge the lesser of 2% of the loan amount or the lowest fee structure charged under Contractor's other loan programs;
(c) For interest rates to borrowers, Contractor will charge borrowers the same rates charged under Contractor's other loan programs, within the range of 5-12% interest, unless express written permission from County to exceed this parameter is granted;
(d) For loan servicing fees, Contractor will charge borrowers the same rates charged under Contractor's other loan programs;
(e) For collateral discounting, Contractor will use the more conservative (i.e. lower loan-to-value ratio) of Contractor's policy or the following loan-to-value ratios – real estate (90%), equipment (50%), inventory and accounts receivable (20%), furniture/fixture (10%).

Section III. is modified to read as follows, per the Board approved MOU, approved on 5/31/2016:

III. CONTRACTOR'S LENDING RESPONSIBILITIES

3.7 Loan Guidelines.

Contractor agrees to make loans from the Traditional loan pool to borrowers only in compliance with the Lender Manual and the following loan guidelines:

(a) The size of the combined loan from the County and Contractor will be no less than $25,000, no more than $200,000 (with exceptions) for start-up firms, as defined in the Lender Manual Section 9, and no more than $800,000 for all other borrowers;
(b) For loan origination fees to borrowers, Contractor will charge the lesser of 2% of the loan amount or the lowest fee structure charged under Contractor's other loan programs;
(c) For interest rates to borrowers, Contractor will charge borrowers the same rates charged under Contractor's other loan programs, within the range of 5-12% interest, unless express written permission from County to exceed this parameter is granted;
(d) For loan servicing fees, Contractor will charge borrowers the same rates charged under Contractor's other loan programs;
(e) For collateral discounting, Contractor will use the more conservative (i.e. lower loan-to-value ratio) of Contractor's policy or the following loan-to-value ratios – real estate (90%), equipment (50%), inventory and accounts receivable (20%), furniture/fixture (10%).

Contractor agrees to make loans from the EDA Match loan pool to borrowers only in compliance with the Lender Manual, the loan guidelines outlined in Section III. 3.7 Loan Guidelines, and the Standard Terms and Conditions set forth in Attachment A of the MOU between RREDC and HWF, dated May ___, 2016.

All other terms and conditions of the Agreement entered into on July 1, 2008 referenced above shall remain in full force and effect, except as otherwise specifically amended herein.

IN WITNESS WHEREOF, the parties have executed this agreement as of the day and year first herein above written:

(SEAL)

ATTEST:
CLERK OF THE BOARD

DEPUTY

COUNTY OF HUMBOLDT

BY:

CHAIR, BOARD OF SUPERVISORS
COUNTY OF HUMBOLDT
STATE OF CALIFORNIA

CONTRACTOR

BY: Nancy Kolke
TITLE: RREDC Board Chair
(Corporate Officer)

CONTRACTOR

BY:
TITLE: Executive Director
(Corporate Officer)

County of Humboldt
Headwaters Revolving Loan Fund
Master Participation Agreement

This Master Loan Participation Agreement (Agreement), dated as of the 8th day of April 2014, by and between the County of Humboldt (Participant) and the Redwood Region Economic Development Commission (Lender) (collectively, the Parties) with respect to participation in the County of Humboldt's Headwaters Fund Revolving Loan Fund Program (Loan Fund) as defined and described in The Headwaters Fund Revolving Loan Fund Lender Manual (Lender Manual), as amended from time to time, is made subject to the following terms and conditions.

RECITALS

WHEREAS, as the result of a Request for Proposals (RFP), Lender was under contract as a lender for the Participant's Loan Fund continuously from 2004 to 2013, when the contract expired; and

WHEREAS, Participant issued a new RFP for lenders, which closed January 31, 2014; and

WHEREAS, Headwaters Fund staff has evaluated the proposals received and have recommended that the Humboldt County Board of Supervisors enter into contracts with both Lender and Arcata Economic Development Corporation (AEDC) to provide Loan Fund services to the County; and

WHEREAS, the Board of Supervisors, after receiving all the evidence and testimony during a duly noticed hearing on April 8, 2014, has decided to enter into two contracts for Loan Fund services: one with AEDC and one with Lender; and

WHEREAS, Lender desires to enter into contract with the County to provide Loan Fund services as set forth in this Agreement and in the Lender Manual, the Lender Agreement, and the Participation Certificate; and

NOW, THEREFORE, in consideration of the mutual representations, covenants and agreements contained herein and other good and valuable consideration, receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Definitions. For purposes of this Agreement, the following terms will have the meaning indicated.

   A. "Agreement" means this Master Loan Participation Agreement.

   B. "Borrower" means the borrower indicated in the applicable Participation Certificate.

C. “Collateral” means the realty, equipment, inventory, chattel paper and/or other property which secures the payment of the Note.

D. “Lender” shall mean the Redwood Region Economic Development Commission; the Lender that originally entered into a Loan, as such Lender is identified on the Participation Certificate relating to such Loan.

E. “Lender Agreement” shall mean the agreement between the County of Humboldt, as Participant, and the Redwood Region Economic Development Commission, as Lender, dated as indicated above, and amended from time to time.

F. “Loan” shall mean the a loan or series of loans from Lender to Borrower, which are subject to Participation..

G. “Loan Documents” mean the Note, Security Agreement and any guarantees and other documents under which Lender has rights and which are executed and delivered in connection with the Participation Loan.

H. “Note” means the Note, Loan Agreement or any other document which evidences Borrower’s indebtedness to Lender as indicated in the applicable Participation Certificate.

I. “Participant” shall mean the County of Humboldt, which has purchased a Participation in a Loan as identified on the Participation Certificate relating to such Loan.

J. “Participation Loan” means the loan contemplated by a Note.

K. “Participating Interest” means the undivided interest held in and to any of the Loans by Participant in a Participation Loan as more fully explained in Paragraph 2 and identified on the Participation Certificate relating to such Loan.

L. “Participation Certificate” means a Participation Certificate executed by the parties with reference to this Agreement, which describes a Participation Loan, the related Participating Interest, and various other related matters.

M. “Pro Rata Share” means at any point in time the percentage of the principal balance of the Participation Loan represented by Participant’s then-outstanding investment in the Participation Loan.

N. “Participation Rate of Interest” means the rate of interest specified in the Participation Certificate as applicable to a Participation Loan and which is contemplated to be received by Participant or Participant’s outstanding investment in the Participation Loan from time to time commencing as provided in paragraph 2. The rate of interest specified in the Participation Certificate may differ from the rate contemplated under the Note.

O. “Lender Manual” means the Headwaters Fund Revolving Loan Fund Lender Manual, as amended from time to time.

P. "Security Agreement" means the mortgage, deed of trust, financing statements(s), guarantee(s) and/ or other security instrument or security instruments in the broadest sense possible creating a lien on the Collateral, executed and delivered to Lender in connection with a Participation Loan, and includes the Note, to the extent such documents perform that function.

2. Participating Interest Sale and Making of Participations.

Lender agrees to sell, and Participant agrees to purchase, an ownership interest in the Loan for which a participation certificate ("Participation Certificate") is issued by the Lender and accepted by Participant. Upon receipt of any or all payment for the ownership interest from Participant, the Lender shall apply such funds on its books to the purchase of the ownership interest, and immediately upon the Lender doing so, Participant shall be deemed to have purchased the corresponding ownership interest in the amount of the funds so applied. The Lender shall promptly confirm Participant's purchase by notation thereof upon the Lender's records. The sale and purchase is subject to the return to Lender of a fully-executed copy of the Participation Certificate and will occur, as appropriate, as follows:

A. To the extent the Loan has been previously funded and as indicated in the Participation Certification, upon payment to Lender of the amount to be paid by Participant for the Participating Interest; or

B. To the extent the Loan has been partially funded as indicated in the Participation Certificate, upon payment to Lender of Participant's amount of advances made previously and, as to each further advance, upon the payment to Lender of the amount to be paid by Participant for all such advances; or

C. To the extent the Loan has not been previously funded, as to each advance upon the payment to Lender of the amount to be paid by Participant as to that advance.

The Participating Interest includes the right to receive the applicable portion of all principal and interest payments and such other payments made in connection with the Participation Loan as are set forth in the related Participation Certificate.

The Participating Interest also includes an undivided ownership interest equal to the Pro Rata Share in the Note, Lender's security interest in the related Collateral, Security Agreement, other related Loan Documents and the Participation Loan. Interest will commence accruing as to Participant with respect to any portion of the Participation Loan as of Lender's receipt of the applicable portion of the Purchase Price for the Participating Interest.

3. Participation Loan Closing and Administration

A. This Participation Loan will have been negotiated by Lender. Participant will not take part in any negotiations with Borrower which may precede consummation of any portion of the Participation Loan.

B. Lender will administer loan repayment billing, collection, loan servicing, amortization record and job creation records in accordance with the provisions of this Agreement and the Lender Manual, as such may be amended from time to time.

C. Lender shall exercise the same degree of care and discretion in continuing to service the Loan and in collecting payments thereunder, as the Lender would ordinarily take in servicing the Loan and in collecting payments thereunder solely for its own account.

D. Lender will notify Participant in writing and consult with Participant before undertaking any of the actions listed below in this section. Lender will provide updates to Participant in writing on a monthly basis once any of the actions below are taken. If Participant owns more than 50% of a Loan, the Lender may not, without the prior written consent and concurrence of the Participant, undertake any of the actions listed below:

(1) Make or consent to any amendments in the terms and conditions of the Loan, or in the terms of the note or notes evidencing the Loan, or in any security agreement or instrument securing the Loan;

(2) Waive or release any claim against any Borrower and/or against any co-maker, guarantor or endorser under the Loan;

(3) Make or consent to any release, substitution or exchange of Collateral;

(4) Accelerate payment under the Loan and/or under any note or notes evidencing the Loan;

(5) Commence any type of collection proceeding against the Borrower and/or against any co-maker, guarantor, or endorser under the Loan; and/or

(6) Seize, sell, transfer, assign, foreclose or attempt to exercise against any collateral securing the Loan.

E. In no event may Lender restructure a Loan more than three (3) times. If Lender wishes to restructure a loan more than three (3) times, Lender must obtain permission from Participant and Participant and Lender must agree upon a plan to address the troubled loan.

F. In the event of a disagreement as to the appropriate course of action in a given instance in Section 3(D), the decision of Participant will govern if Participant owns more than 50% of a Participation Loan.

G. With respect to Section 3(D) above, Participant will consult or grant consent or denial within 15 working days of receipt of request from Lender. If Participant does not respond within 15 working days, approval is deemed given by Participant for the discrete action requested by Lender.

4. <u>Obligation to Fund</u>. As stated in Section 2, by executing this Agreement and a Participation Certificate, Participant has agreed to purchase the Participation Interest in

the Loan. To the extent the Participation Loan has been previously funded, Participant agrees to pay Lender any amount to be paid by Participant for the Participating Interest in then-available funds at the time Participant returns a fully-executed copy of the Participation Certificate to Lender. To the extent the Participation Loan has not been previously funded, Participant agrees to pay any amount to be paid by Participant for the Participating Interest as to each advance by check or draft of then- available funds, or as otherwise directed by Lender at the time of funding of the advance, or at such later time as Lender directs. In the event Participant fails to fund a required advance in a timely manner, Lender may terminate its obligation to tender further investments in the Participation Loan to Participant without notice.

5. Review of Documents. By execution of a Participation Certificate, Participant acknowledges that Participant has reviewed such documents as Participant has deemed appropriate in connection with the applicable Participation Loan and has made its decision to purchase the related Participating Interest based upon such review and whatever further advice of Participant's own advisors as Participant has deemed appropriate.

6. Participating Interest Remittances. Not later than the fifteenth (15^{th}) day of every month, Lender will remit to Participant any principal and/or interest payment in connection with this Participation Loan to which Participant is entitled hereunder. These remittances will be made in the manner specified in the applicable Participation Certificate.

7. Reports. In addition, Lender will provide standard participation accounting reports, as those reports may change from time to time, promptly following generation and comply with all reporting requirements set forth in the Lender Manual, as such may be amended from time to time.

8. Participation Loan Collections. Subject to any limitations set forth in this Agreement, the Lender Agreement and the Lender Manual, Lender has the exclusive right to, and will use reasonable efforts in attempting to, collect any and all items (including interest and principal payments and direct expense reimbursements) due or collectible in connection with the Participation Loan.

9. Default. If either Party acquires any knowledge of a default in connection with a Participation Loan or any matter which, in its judgment, such Party deems may affect the enforceability or collectability of such Participation Loan, then the Party having such knowledge will, with reasonable promptness, notify the other Party in writing, and the Parties will thereafter consult regarding the action to be taken in connection therewith pursuant to Section 3(D) of this Agreement. Except as limited by this Agreement, Lender has the responsibility to implement any actions determined to be appropriate, and in connection therewith, may contract with such agents as Lender deems appropriate. Participant shall not have any responsibility whatsoever to reimburse Lender any amounts Lender pays third parties in connection with enforcing a Participation Loan.

10. Limitation of Participant's Duties. Participant has no duties or responsibilities except those expressly set forth in this Agreement. Participant does not have any obligations to Lender relative to a Participation Loan, and nothing in this Agreement is intended to or is to be so construed as to impose upon Participant any obligations in respect to a

Participation Loan except as expressly set forth herein.

11. Lender's Duty of Care. Participant hereby acknowledges that Lender, in the performance of its duties and obligations hereunder, shall be obligated to exercise the degree of ordinary care as to a Participation Loan which Lender exercises in the conduct and management of loans similar to the Participation Loan.

12. Lender Representations and Warranties.

A. Lender hereby represents and warrants to Participant that at the time Lender executes the Participation Certificate:

(1) The execution, delivery and performance of this Agreement and the Participation Certificate have been duly authorized by all requisite corporate or other actions of Lender;

(2) Lender is, or upon the satisfaction of certain conditions contained in the loan commitment will be, the owner of the applicable Participation Loan and has the right to sell to Participant the applicable Participating Interest;

(3) Lender has in its possession (or will have in its possession prior to funding) fully executed counterparts of the applicable Loan Documents;

(4) Lender has no actual knowledge of any fact which in Lender's opinion would materially adversely affect the enforceability or collectability of the Participation Loan which it has not disclosed in writing to Participant;

(5) Lender has provided Participant with copies of all current credit information Lender has as to the parties obligated in connection with the Participation Loan, and any information provided is, to the best of Lender's knowledge, true, complete and accurate as to the subject matter thereof, except as otherwise noted by Lender;

(6) Lender will promptly provide the Participant upon request with copies of all relevant credit and other information in the possession of the Lender that are used by the Lender as the basis of and for its decision to make the Loan to the Borrower;

(7) Lender will additionally provide the Participant with copies of the Loan Documents that are executed by the Borrower as well as by other co-makers, guarantors and endorsers under the Loan;

(8) The Borrower, together with all co-makers, guarantors and endorsers under the Loan, has consented to the sale of the Loan;

(9) The Loan satisfies all guidelines and requirements set forth in the Lender Manual in effect on the date the Loan is funded by Lender; and

(10) Where the Loan is presently in existence:

(i) There are no events of default under the Loan and/or under the

Loan documents;

(ii) The Loan has not been classified as delinquent on the books of the Lender;

(iii) The Loan is presently on accrual status; and

(iv) The terms of the Loan have not previously been renegotiated as a result of a prior loan default or deterioration in the Borrower's financial condition.

B. The Lender makes no representations or warranties, whether express or implied, to the Participant, as to the collectability of the Loan, the continued solvency of the Borrower, or as to the existence, sufficiency or value of the collateral securing the Loan in the event of a Loan default.

C. The Lender makes no representations or warranties, whether expressed or implied, to the Participant as to the validity and enforceability of the Loan documents, other than that:

(1) The Loan documents were validly executed by the Borrower, as well as, to the degree applicable, by the co-makers, guarantors and/or endorsers under the Loan;

(2) To the extent required under applicable law, the security agreements under the Loan were (and/or will be) properly recorded and/or filed in order to result in the valid perfection of a security interest in the collateral subject to such agreements; and

(3) To the extent required under applicable law, the Lender has taken, and/or will take, and/or will continue to take whatever additional actions may be necessary and proper to validly perfect and maintain a security interest on the collateral securing the Loan.

13. Additional Obligations of Lender

A. The Lender shall promptly notify the Participant in writing within ten (10) business days should the Lender learn or have any knowledge of the following:

(1) Any change in the financial condition of the Borrower, or of any co-maker, guarantor or endorser, under the Loan, which may have a material adverse effect upon continuation of payments under the Loan or the Loan's ultimate collectability;

(2) Any material change in the value of collateral securing the Loan;

(3) Any change in lien status as affecting the secured collateral;

(4) Any request by the Borrower, or by any co-maker, guarantor or endorser under the Loan for any change in the terms and conditions of the Loan, or in the terms of any note or notes evidencing the Loan or in any security agreement or instrument securing the Loan;

(5) Any request by the Borrower, or by any co-maker guarantor or surety under the Loan for the release, substitution or exchange of any collateral securing the Loan;

(6) Any request of the Borrower, or by any co-maker, guarantor or endorser under the Loan for the release of any personal obligations of any such party under the Loan;

(7) Any request to the Lender for any change in the terms and conditions of the Loan, or in the terms of any note or notes evidencing the Loan, or in any security agreement or instrument securing the Loan;

(8) Any request by the Lender for an increase in and/or substitution or exchange of collateral securing the Loan;

(9) Any failure by the Borrower to pay principal and/or interest payments under the Loan when due; and/or

(10) The occurrence of any other event, which with the passage of time and/or failure to cure, would constitute an event of default under the Loan, or under any note or notes evidencing the Loan, or under any Loan Document and/or security agreement instrument securing the Loan.

B. The Lender agrees to regularly provide the Participant, when requested, with complete and current credit related and other information concerning the Borrower, the Loan and the collateral securing the Loan, including, without limitation, copies of:

(1) Current financial statements of the Borrower, as well as of all co-makers, guarantors and sureties under the Loan;

(2) Any officer's certificates, financial and other statements and information submitted by the Borrower to the Lender in connection with the Loan;

(3) The records of the Lender reflecting the amounts and dates of receipt of principal and interest payments under the Loan;

(4) Any information and/or documents in possession of the Lender applicable to the existence, value and lien status of collateral securing the Loan;

(5) Any additional factual information and/or documents in possession of the Lender bearing upon the continuing creditworthiness of the Borrower.

(6) All information, documents and reports provided for and required to be supplied to Participant by Lender pursuant to the Lender Manual, as amended from time to time.

14. <u>Participant Warranties</u>. Participant hereby represents and warrants to Lender that at the time Participant executes a Participation Certificate:

A. The execution, delivery and performance of this Agreement and the Participation Certificate have been duly authorized by all requisite action of Participant; and

B. Participant has the financial ability and legal authority to fund the Participating Interest. Participant will have the projected principal of the Participation Loan in accordance with the terms of this Agreement.

15. <u>Insolvency</u>. In the event Lender becomes insolvent or the subject of a bankruptcy proceeding, commits an act of bankruptcy, makes an assignment for the benefit of creditors, is subjected to the appointment by any public authority of any person to take charge of Lender or Lender's assets, has Lender's interest in a Participation Loan involuntarily sold, or in the sole opinion of Participant, is in breach of Lender's obligation hereunder or any provision in the Lender Manual, as amended from time to time, Participant will have the option on notice to Lender to assume all of the powers granted to Lender in this Agreement and to designate any person or firm, in its discretion, to exercise such powers. In such event, the Loan Documents and records relative to each Participation Loan will be delivered promptly to Participant or its designee, as the case

may be, together with such other documents as Participant may reasonably request. In the event there are other participants as to a Participation Loan which have similar rights to Participant, the participant with the then-largest Pro Rata Share will have the option contemplated in this paragraph; provided that if such Participant shall not exercise such option, the remaining participants will have a right to exercise such option based upon the failure of each participant with a greater Pro Rata Share to exercise the option after notice from the subject participant requesting either an election of the option to assume Lender's powers or a release of the option.

16. Amounts Payable to Lender. As stated in Section 2, Participant's purchase of the Participating Interest entails the right to receive specified funds paid in connection with the Participation Loan. Accordingly, Lender will be entitled to retain the following except as otherwise set forth in the applicable Participation Certificate:

A. If the total loan is less than $300,000, thirty-five percent (35%) of interest collected on the Participating Interest as a Service Fee. As of the date of this contract, new loans underwritten in the amount of $300,000 or less cannot exceed 25% of the total Participant's portfolio, unless with prior consent of Participant.

B. If the total loan is greater than $300,000, one percent (1%) will be collected on the unpaid balance as a Service Fee.

C. Non-interest late charges arising in connection with the Participation Loan, but only after all interest payments are brought current;

D. Origination fees and related charges received by Lender in connection with the Participation Loan, but only after all interest payments are brought current.

17. Notices. Any notice or consent required or permitted to be given hereunder must be in writing and may be served personally or by mail; if served by mail, it shall be registered or certified mail with evidence of post office mailing and return receipt requested. If served by mail, it shall be addressed as follows:

If to Lender:	Redwood Region Economic Development Commission Executive Director 520 E Street Eureka, CA 95501
If to Participant:	County of Humboldt County Administrative Officer Attn: Headwaters Fund 825 Fifth Street, Room 112 Eureka, CA 95501

Any written notice shall be deemed received at the time of personal delivery, or if given by mail, then five (5) days after the mailing thereof. Either party may, by written notice to the other party as provided herein, specify a different address or additional addresses for notice purposes. Any consent or approval in this Agreement required of County, the HWF Board, or the HWF staff, may be exercised by the County Administrative Officer or, upon the

County Administrative Officer's written authorization, by the HWF Coordinator.

18. No Brokers. Lender and Participant each warrant to the other that they have not had, and will have no, dealings with any agent or broker in connection with the negotiation or performance of this Agreement and hereby agree to indemnify and hold the other harmless from any cost, expense, or liability for any compensation, commission or charges claimed by any agent or broker with respect to this Agreement or the sale of a Participating Interest pursuant to the provisions hereof.

19. Securities Laws. Participant releases Lender to the maximum extent permissible under law from any liability under state or federal securities laws arising from the failure by Lender to register a Participating Interest. Participant and Lender acknowledge that it is their respective analysis that a Participating Interest is either not a security under federal or state law or, if a security, is exempt from registration or qualification.

20. Term and Continuing Obligations of the Parties. The Parties obligations under this Agreement shall commence upon the date first written above and shall continue until June 30, 2019 except that the Parties specifically agree that the Participant has no obligation to utilize Lender's services to purchase any participating interests in loans. The obligations to service, monitor, and report to the Participant pursuant to the terms of this Agreement, the Lender Agreement, Lender Manual or any Participation Certificate shall survive the expiration or termination of this Agreement and shall continue until Participant's participating interest has been repaid in full.

21. General Provisions.

   A. Each party hereto will pay its own attorney fees incurred in connection with the negotiation and execution of this Agreement.

   B. Notwithstanding any other provision of law, if any lawsuit or proceeding is brought by either party hereto to enforce the terms of this Agreement, each party in such proceeding hereby agrees to pay its own court costs and reasonable attorney fees incurred in bringing and defending such action.

   C. Venue for any action relating to this Agreement will be in an appropriate Court in Humboldt County, California.

   D. This Agreement and the terms and provisions hereof will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

   E. This Agreement, the Lender Manual, the Lender Agreement, and the Participation Certificate, together constitute the entire agreement between the Parties hereto with respect to its subject matter, supersedes all prior and contemporaneous agreements between the parties with respect to the subject matter and may not be modified, amended or otherwise changed in any manner except by a writing executed by the party to be charged. In the event of any conflict in the terms of the Lender Manual, Lender Agreement, the Participation Certificate, and this Agreement, the terms of this Agreement shall control.

   F. If any term or provision of this Agreement or the application thereof is held invalid or unenforceable as to any party, the balance of the Agreement will not be affected thereby, and each remaining term and provision of this Agreement will be valid and enforceable to the fullest extent permitted by law.

G. It is understood that any and all documents, information, and reports prepared by and/or submitted by Lender shall become the property of the Participant. Lender may retain copies for its own records. In the event of termination of this Agreement, for any reason whatsoever, Lender shall promptly turn over all information, writings and documents to the Participant without exception or reservation.

H. The waiver by either Party of any breach or violation of any requirement of this Agreement shall not be deemed to be a waiver of any such breach in the future, or of the breach of any other provision of this Agreement.

I. For the purposes of this Agreement, time is of the essence.

J. It is agreed that the laws of the State of California will be applicable to the interpretation of this Agreement.

K. Paragraph headings in this Agreement are for convenience only and not an aid in interpretation.

L. This Agreement may be assigned by Participant. This Agreement may not be assigned by the Lender without the written consent of the Participant. In the event Lender voluntarily assigns its obligations under this Agreement, Lender hereby agrees that assignee will take over all of Lender's obligations and duties arising from this Agreement, without exception.

M. Lender shall comply with Title VII of the Civil Rights Act of 1964 and no person shall, on the grounds of race, religion or religious creed, color, age (over 40), sex (including gender identity and expression, pregnancy, childbirth and related medical conditions), sexual orientation (including heterosexuality, homosexuality and bisexuality), national origin, ancestry, marital status, medical condition (including cancer and genetic characteristics), mental or physical disability (including HIV status and AIDS), military service, or any other classification protected by federal, state, or local laws and ordinances be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under this Agreement.

N. Lender certifies by its signature to this Agreement that Lender or Lender's agents, representatives, employees, contactors, and subcontractors are not a Nuclear Weapons Contactor, in that Lender is not knowingly or intentionally engaged in the research, development, production, or testing of nuclear warheads, nuclear weapons systems, or nuclear weapons components as defined by the Nuclear Free Humboldt County Ordinance. Lender agrees to notify Participant immediately if Lender or Lender's agents, representatives, employees, contractors, and subcontractors become a nuclear weapons contractor, as defined above. Participant may immediately terminate this Agreement if it determines that the foregoing certification is false or if Lender or Lender's agents, representatives, employees, contractors, and subcontractors become a nuclear weapons contractor.

Redwood Region Economic Development Commission

EDA REVOLVING LOAN FUND PLAN

Adopted by the Board of Directors

September 28, 2015

Amended October 4, 2016

Amended January 28, 2019

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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 updated in 2018 and adopted by the Humboldt County Board of Supervisors and approved by the Economic Development Administration. This update identified strategies and approaches to further develop target industries identified in the 2012 plan. These included:

- Diversified Health Care
- Specialty Food, Flowers & Beverages
- Building & Systems Construction
- Investment Support Services
- Management & Innovation Services
- Niche Manufacturing

In the 2018 update, two new areas of interest were identified by stakeholders, Alternative Agriculture and Tourism/Arts and Culture, as strong economic drivers and priority areas of interests

The updated CEDS states the following:

> In order to build a strong and resilient economy, economic development efforts need to:
> - Build on regional strengths
> - Address cross-industry and industry-specific barriers to growth and prosperity
> - Anticipate and address evolution in industry needs, technology, workforce demands and changes in the economy
>
> This requires a coordinated, regional effort that:
> - Addresses infrastructure gaps and deficiencies
> - More effectively builds and retains workforce that responds timely to industry needs
> - Strengthens and supports promising emerging industries
> - Highlights and promotes the region's strengths and opportunities

The plan highlights four primary focus areas:

1. Build, Attract, Retain, and Grow Industry

2. Workforce
3. Alternative Agriculture
4. Tourism/Arts & Culture

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. Since 2007, most 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 which 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 and reflect the inherent risk of the loan.
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, and improvement of real estate. 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 without 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, the Humboldt Area Foundation and other entities 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. Construction of commercial projects
4. Leasehold improvements
5. Short-term capital injection
6. 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

As of December 31, 2018, RREDC's EDA Funds had approximately $4.2 million in outstanding principal distributed among 32 active loans. This implies an average principal balance of approximately $136,000 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 to reduce risk by limiting concentration.

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.

In addition to the EDA funds, RREDC also has approximately $2.5 million lent through participation agreements with the Humboldt County Headwaters Fund and $225,000 in loans from the RREDC General Fund.

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 than 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.

Should the prime interest rate listed in the *Wall Street Journal* exceed 14 percent, the minimum RLF interest rate will not be higher than 10 percent if doing so inhibits RREDC's ability to make loans or unreasonably burdens a loan customer.

The maximum loan amount will generally not exceed 10% of the EDA RLF capital base. 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 $5,000.
- Terms up to 36 months with annual reviews.
- "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 20% 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. Organization Structure

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. Seven board members are elected for three-year staggered terms to serve on an Executive Committee, which has the authority for approving loans over $50,000, 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.

The Loan Committee shall appoint a Chairperson who will serve in that capacity until such time as they leave the committee, resign the Chair, or the Loan Committee chooses a new Chair. The Chairperson shall be responsible for running the Loan Committee meetings. In addition, the Chair shall have responsibility for approval of loans made under "Tier 2" (greater than $50,000) of the microloan program discussed below.

In the event that the Loan Committee Chairperson is not available or must recuse themselves due to a conflict of interest, the Vice-Chairperson or another member designated by the Loan Committee will act in their behalf.

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.

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, a Facebook page and other social media.
- 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

RREDC has a three tiered loan approval process. The process for loan approvals is determined by the size of the request. These three tiers are:

- Tier 1: Microloans up to 35,000
- Tier 2: Microloans between 35,001 and $50,000
- Tier 3: Loans greater than $50,000

Procedure for All Tiers

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.

Microloan Approval Procedures:

Per action of the Board of Directors, the following types of loans may be approved without review of the executive committee.

- **Tier 1 Approval Procedure:** Microloans up to $35,000 must be approved by the Lender and the Executive Director.
- **Tier 2 Approval Procedure:** Microloans exceeding $35,000 must be approved by the Lender, Executive Director, and the Chair of the Loan Committee.

Customers may receive more than one microloan, given, however, that the aggregate balance of those loans does not exceed $50,000. If the aggregate balance to any borrower is over $35,000 or if a new loan will cause the balance to exceed $35,000, any loan approvals will be subject to the Tier 2 loan approval procedure.

Tier 3 Loan Approval Procedure

The Lender submits the complete loan package and credit memorandum to the Executive Director. The Executive Director has the sole authority to recommend approval to 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 may require a recent (no more than one-year old) appraisal on the subject property. If the appraisal is more than one year old, RREDC may require a new appraisal, an updated appraisal or a Broker's Opinion of Value, depending on the specific circumstance. Justification for the method used will be included in the loan write-up.

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.

Staff shall assess the significance of all environmental impacts of activities to be financed in compliance with the National Environmental Policy Act of 1969 and other Federal environmental mandates, as per the Assurances (SF 424D as revised) executed with the Economic Development Administration. No activity shall be financed which would result in a significant adverse environmental impact unless the impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.

No project shall be approved which would result in the alteration of or have an adverse impact on any wetland without prior consultation with the U.S. Department of the Interior, Fish and Wildlife Service, and, if applicable, obtaining a section 404 permit from the Army Corps of Engineers.

Consistent with E.O. 11988, no project shall be approved which would result in new above ground development in a 100-year flood plain. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.

The State Historic Preservation Officer, (SHPO) shall be notified of each loan proposal that involves significant new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. The RLF Administrator shall work with the SHPO and EDA in cases where the SHPO has recommended actions or has been determined an adverse impact.

All loan applicants shall be requested to provide information indicating whether or not there was hazardous materials such as EPA listed (see 40 CFR 300), hazard substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials on site that have been improperly handled and have the potential of endangering public health. If deemed necessary, loan applicants may be required to perform or provide evidence of a Phase I site assessment to identify possible sources of contamination, a Phase II site assessment to test soil and/or groundwater samples, and a Phase III site remediation involving mitigation of applicable contaminants. In cases where there are unresolved site contamination issues, the RLF Administrator shall work with the loan applicant and the appropriate state environmental agency office to resolve these outstanding issues.

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 81% percent of RREDC's base capital had been issued as of March 31st, 2015.

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. A 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

RREDC

Redwood Region Economic Development Commission

EDA REVOLVING LOAN FUND PLAN

Adopted by the Board of Directors

September 28, 2015

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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 target industries of Prosperity 2012 are somewhat different than the base industries of Prosperity 1999. Many of the sectors that made up the base industries are re-combined and included within the Target industries, as demonstrated in the table below:

Base Industry Prosperity 1999	**Target Industries 2012**
Fisheries, Processing &Aquaculture	
Dairy & Dairy Processing	**Specialty Food, Flowers &Beverages**
Specialty Agriculture & Horticulture (beef, flowers, crop farming)	

Art Culture	**The arts are an asset in our economy**
Information & Technology	**Information Technology & Communications (ITC) cuts across all industries**
Education & Research	**Management & Innovation Services**
Manufacturing	**Niche Manufacturing**
Lumber & Wood Products	**Forest Products**
Tourism	**Tourism**
	Diversified Health Care
	Investment Support Services
	Building & Systems Construction

*revised 05/06/2015

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. Since 2007, most 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 which 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. Construction of commercial projects
4. Leasehold improvements
5. Short-term capital injection
6. 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 March 31st, 2015, RREDC's EDA Fund had approximately $3.5 million in outstanding principal distributed among 30 active loans. This implies an average principal balance of approximately $118,355 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 $118,355 in 2015.

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. (*revised 05/06/2015)

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 than 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.

Should the prime interest rate listed in the *Wall Street Journal* exceed 14 percent, the minimum RLF interest rate will not be higher than 10 percent if doing so inhibits RREDC's ability to make loans or unreasonably burdens a loan customer..

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 20% 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. Organization Structure

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 and a Facebook page.
- RREDC newsletter that is distributed quarterly.
- 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.

(*revised 05/06/2015)

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.

Staff shall assess the significance of all environmental impacts of activities to be financed in compliance with the National Environmental Policy Act of 1969 and other Federal environmental mandates, as per the Assurances (SF 424D as revised) executed with the Economic Development Administration. No activity shall be financed which would result in a significant adverse environmental impact unless the impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.

No project shall be approved which would result in the alteration of or have an adverse impact on any wetland without prior consultation with the U.S. Department of the Interior, Fish and Wildlife Service, and, if applicable, obtaining a section 404 permit from the Army Corps of Engineers.

Consistent with E.O. 11988, no project shall be approved which would result in new above ground development in a 100 year flood plain. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.

The State Historic Preservation Officer, (SHPO) shall be notified of each loan proposal that involves significant new construction or expansion and asked to submit comments on the effect of the proposed activity on historic and archaeological resources. The RLF Administrator shall work with the SHPO and EDA in cases where the SHPO has recommended actions or has been determined an adverse impact.

All loan applicants shall be requested to provide information indicating whether or not there was hazardous materials such as EPA listed (see 40 CFR 300), hazard substances, leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials on site that have been improperly handled and have the potential of endangering public health. If deemed necessary, loan applicants may be required to perform or provide evidence of a Phase I site assessment to identify possible sources of contamination, a Phase II site assessment to test soil and/or groundwater samples, and a Phase III site remediation involving mitigation of applicable contaminants. In cases where there are unresolved site contamination issues, the RLF Administrator shall work with the loan applicant and the appropriate state environmental agency office to resolve these outstanding issues.

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 81% percent of RREDC's base capital had been issued as of March 31st, 2015. 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