

PCEC ECONOMIC DEVELOPMENT REVOLVING FUND

PCEC will play an important role in the economic growth and development of the region it serves. The policy of the board of directors and Administration is to be ever mindful of the opportunities to serve people in our area. PCEC recognizes that in order to maintain a strong organization, sound loans must be made, access to management assistance must be provided, and strong collection and liquidation procedures must be followed.

PCEC's assistance consists of direct loan participation and direct loans. PCECEDRF will not be the sole source of capital for a participating business.

In deciding among applications for assistance, primary consideration will be given to the following:

1. The extent to which the proposed project will provide opportunities to residents of the area through job and payroll retention and creation;
2. The level of other sources of equity investment committed to financing the proposed project, positive history, and/or strong personal and collateral guarantees.
3. Credit is not otherwise available on terms adequate to achieve the purposes of the project, or that the project could not be undertaken without such assistance;
4. Businesses which add value to locally produced or recycled raw materials; and
5. The degree of distress in the area in which the project is to be implemented,
6. To the degree that the project enhances the quality of life.

The principal purpose is to help finance businesses in small communities and rural areas. Establishment and retention of new businesses are also of importance in impacting the rural economy. PCECEDRF will maintain flexibility concerning kinds of borrowers and kinds of financing it undertakes.

General Criteria

1. All applicants must be able to provide assurance to PCEC of willingness and ability to pay.
2. The applicants may be required to show at least one refusal for conventional financing.
3. The area in which the business will be located must be receptive.
4. The size of the loan available with PCECEDRF participation must be sufficient to substantially assist the business.
5. Businesses must create jobs or be of direct benefit to the community.

Lending Priority Guidelines

1. Job retention and creation (full-time equivalents) of one job per \$10,000 of loan amount.
2. Existing businesses with a positive history. Start-up businesses are eligible, but existing businesses will be given priority.
3. Businesses offering strong personal and collateral guidelines.
4. Projects in which the borrower(s) has previous similar business experience.
5. Business in which borrower(s) has at least a 10 percent cash injection into the project.

Ineligible Projects

1. Projects with no supplemental financing.
2. Funds for rental real estate unless the owner occupies over one-half the space.

3. Projects which will cause excess competition; i.e., a hardware store in a town of 250 people that already has a viable hardware store.
4. Projects which are considered by the community to be morally improper; i.e., gambling activities.
5. Projects which will be deemed personal in nature.
6. Relocation other than for sound business purposes, or which will result solely in a transfer of employment from one location to another.
7. Businesses that do not meet environmental guidelines.
8. Loans which are determined to be in conflict of interest with the PCECEDRF.

Undesirable Projects

1. Loans which are not supported by adequate or accurate financial information and/or adequately secured.
2. Loans which are speculative in nature to the point of incurring an excessive amount of risk.
3. Loans to individuals or parties with questionable integrity or poor credit history.
4. Loans for personal expenditures.
5. Loans to individuals or parties which cannot show adequate ability to repay.
6. Loans to individuals or parties that are obvious "bailouts" or 100 percent refinancing requests.

Direct Loan Participation

1. PCECEDRF will have direct participation with lending institutions (banks) by acquiring a portion of the bank's loan to spread the risk of a project on new loans only. The loan repayment will be made to the lending institution who will remit payment to PCECEDRF. PCECEDRF will share a security interest on a pro-rata basis
2. An alternative loan participation program with lending institutions may be a direct loan to the business from PCECEDRF, assisting in the collateral requirements, thus promoting maximum participation from private lenders. The loan repayment will be made to the lending institution who will remit payment to PCECEDRF. A qualifying loan would be serviced by the bank. In this case, PCECEDRF would be a junior lienholder behind the bank (second position).
3. Project must involve capital improvement of an existing business or development of a new business. Loan terms cannot exceed the 10-year limit in cases of land, buildings, permanent fixtures, machinery, or equipment and cannot exceed the projected useful life of machinery and equipment.
4. Lenders will impose a fixed interest rate on borrowers.

Direct Loans

Direct loans will be made only if no other source(s) of financing is available. Direct loans to businesses will be made only when:

1. No other source of adequate financing can be found;
2. Credit factors are sufficient to carry the credit;
3. Security is available and a lien can be taken on it; all property serving as collateral security will be appraised by a qualified appraiser.
4. The interest rate charged shall comply with state law and will be set based on risk, term, and current commercial lender rates;
5. PCECEDRF will be responsible for the creation and perfection of all security interests and insurance coverage;
6. An escrow account for taxes and insurance costs will be established if applicable;
7. Loan will not exceed \$100,000 or 50 percent of total project costs, whichever is less.

Referral Process

The board of directors will delegate a staff person, who will receive and review all applications. Having reviewed all information submitted, the assigned staff person will either ask for additional information or prepare a summary report for presentation to the Loan Review Committee. Upon approval by the Loan Review Committee, the loan application will be submitted to the board of directors for final disposition. The board of directors may or may not request the presence of the applicant at the meeting.

The Loan Review Committee will meet on an as-needed basis but not generally more often than monthly. A minimum of five days prior to the Loan Committee meeting, notices will be sent to all members containing a list of applications to be reviewed. The applicants are required to attend the meeting to discuss their projects with the Committee.

Technical Assistance

There are many management/technical-assistance programs which are organized to encourage the establishment, growth, and success of small businesses. Small business owners today must understand and use modern methods if they are to compete successfully. One of the most important duties of PCECEDRF is to make our borrowers aware of this need and help them seek out the information and counsel which will help them improve their management skills and productivity. PCECEDRF will use every resource available to see that businesses it helps finance are successful. PCECEDRF will conduct follow-up to insure that referrals made for technical assistance are given appropriate and timely assistance.

Closing Procedures

The following applicable conditions must precede the loan transaction:

1. Execution of Note and Loan Agreement;
2. Execution of filing of any security agreement or financing statement;
3. Perfection of liens and mortgages;
4. Provide personal guarantees of principals;

5. Provide title insurance;
6. Obtain all necessary governmental and other approvals;
7. Obtain all necessary environmental assessments; and,
8. An opinion of counsel may be required.

If the borrower is a corporation, it must provide:

1. Execution and certification of a board resolution to borrow from the PCECEDRF;
2. Execution and certification of a board resolution naming the President to sign on behalf of the corporation; and
3. Submission of copies of the company's papers.

Terms and Conditions

The borrower must agree to terms and conditions which may include, but not be limited to, the following:

1. Pay the PCECEDRF loan payment as stated in the terms of the loan;
2. Pay any other loans associated with the project;
3. Maintain, insure, and pay all taxes on the property used as collateral. Insurance will include hazard coverage, liability coverage, worker's compensation, and flood coverage (if appropriate);
4. Provide additional equity in the project if there are cost overruns;
5. Provide periodic financial statements;
6. Maintain its legal existence;
7. Pay the loan servicing fee and expenses associated with collection and enforcement of the Loan Agreement;
8. Notify the PCECEDRF of any default on loans associated with this project.

Additional covenants may be requested as follows:

1. Disability insurance
2. Term life insurance on the key owners/management
3. Business interruption insurance

The borrower may not take the following actions without prior written consent of the PCECEDRF authorized official:

1. Encumbrance of assets used as collateral;
2. Sale of assets used as collateral;
3. Change of ownership composition of the business and/or assets;
4. Change of the project's scope as outlined in the application;
5. Borrowing of additional funds for the project without knowledge of PCECEDRF;
6. Altering the terms and conditions of other project financing.

Monitoring

1. Profit and loss statements reviewed quarterly within 30 days.
2. Annual independent certified public accountants report at the end of the fiscal period within 60 days.

3. Copy of paid of property tax receipt.
4. PCECEDRF named on Hazard Insurance.

Default Collection Procedures

It is the responsibility of PCECEDRF to determine the amount of risk involved and to act when a problem loan is identified. Most losses result from failure to act at the proper time, in the proper way, and with the proper determination.

Timely identification of problem loans will help in minimizing losses. The best technique to be employed is an educated vigilance. Knowing what the signs are, monitoring the pulse of the borrower's business, and maintaining open communication with management will allow PCECEDRF to help those borrowers who seek a solution to their problems.

Direct Loan Collection Procedures

Standard collection procedures will be followed on all loans. When a payment is 10 days past due, a notice and penalty statement will be sent out. The standard penalty will be \$25.00 or 10 percent of the loan payment, whichever is less. If there is no response within 5 days, personal contact will be made by the PCECEDRF staff person. The staff person will send a report to the Loan Review Committee identifying the cause of the past-due payment and describing the process to rectify the past-due payment. This report will go in the loan file upon resolution.

When an account is 60 days past due, it is declared to be in problem status. It will then be taken before the PCEC board of directors, where the PCECEDRF staff will present an analysis of the account which will include: value of collateral, if any; what corrective action is being taken; and staff recommendations on a solution to the delinquency. It will be the responsibility of the PCEC board of directors to make the final decision regarding legal action.

The Loan Agreement will list the conditions which constitute a default. A default in the Loan Agreement allows the lender (PCECEDRF) to require accelerated repayment and to demand immediate full payment of all outstanding principal and accrued interest. Events of default include the following:

1. Nonpayment of the PCECEDRF loan
2. Nonpayment of any other loans in the project
3. Incorrect representation or warranty
4. Default in any covenant
5. Insolvency, either voluntary or involuntary
6. Judgments in excess of liability insurance

Direct Loan Participation and Collection Procedures

The participating lending institution will follow its normal collection process, keeping PCECEDRF informed of any difficulties which arise. PCECEDRF will consult with the participating lending agency and borrower to help correct the problem.

If the participating lending institution calls the account in default, as defined in its note, it shall immediately notify PCECEDRF in writing of such event. For 20 business days following receipt of such notice, and at

any time prior to default, PCECEDRF shall have the option to demand that the participating lending institution assign the note to PCECEDRF in exchange for payment of the outstanding principal and accrued interest.

Notwithstanding the right of PCECEDRF to demand assignment of the note and participating lending institution rights, claims, and security interests against the borrower, the participating agency may pursue whatever legal remedy it may have against the borrower during the option period. The option to purchase the loan will be used only when PCECEDRF feels that it is in the best interest of the community, the business, and the cooperative.

Credit Files

A credit file will be initiated whenever a referral is made to the PCECEDRF. All credit files will be kept in a fireproof location. No completed original documents will leave the office. The credit file shall consist of the following sections:

1. Comments
2. Business and Financial Data
3. Correspondence
4. Legal

The Comments section shall contain the following:

1. A cover sheet showing name, address, profession, type of business, date of contact, date that loan or guarantee was approved or disapproved;
2. Credit memorandum showing date of loan or guarantee, terms, maturity and repayment schedule, interest rate, collateral, purpose, source of repayment, analysis of the project, the participating lending institution(s), and other basic data.
3. Comment sheet showing dates of contacts, what was discussed, and who was involved in the discussion.

The Business and Financial Data section shall contain the following:

1. Financial statements, projections, statements of guarantors, spreadsheets, and other financial data deemed necessary;
2. The business plan showing total project costs, sources and uses of funds.

The Correspondence section shall contain the following:

1. Credit reports, correspondence to and from others concerning the project and/or principals;
2. Newspaper clippings and other articles.

The Legal section shall contain the following:

Copies of notes, agreements, assignments, UCC's, legal opinions, insurance policies, environmental compliance, and any other items of legal nature.

Insurance Considerations

In the case of direct loan participation, it will be the responsibility of the primary lender, bank, SBA, etc., to see that adequate insurance is carried. PCECEDRF will consult with the borrower and lender(s) to insure that adequate insurance is in place. On direct loans, PCECEDRF will have the responsibility to see that adequate insurance is carried.

It is the policy of PCECEDRF to request that each borrower have adequate life insurance to cover the amount of the direct loan or direct loan participation. The borrower can purchase credit life insurance or assign existing life policies to PCECEDRF.

Financial Records

The financial functions will be provided by the accounting department until such time as PCECEDRF feels it is in its best interest to secure other fiscal services. Monies received by PCECEDRF will be invested in such a way as to receive maximum interest and local impact. Investment return will be targeted at Treasury Market rates.

All interest shall remain with the fund for lending purposes. Other income received through loan service fees shall be used to cover administrative costs associated with loan processing and will be held in a separate account.

Equal Credit Opportunity Lender

Be it policy that the PCECEDRF will not discriminate against any applicant in any aspect of a credit transaction on the basis of race, color, religion, national origin, sex, marital status, disability, or age, provided the applicant has the capacity to enter into a binding contract. The PCECEDRF will not discriminate against any applicant on the basis of the fact that all or part of the applicant's income derives from any public assistance program or the fact that the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act or under the law of any state which has been exempted from requirement of the Equal Credit Opportunity Act. These requirements apply to every aspect of a credit transaction and includes business, commercial, and agricultural financing, as well as consumer credit. All persons involved in credit decisions or accepting credit applications should be familiar with these nine prohibited bases of discrimination. (Reference Federal Compliance Handbook, Section I.1).

General Policy Statement

PCEC will accept and consider applications for loans from the PCECEDRF for projects that will significantly benefit rural areas, without restriction to PCEC's service area. Also, PCEC will not condition the receipt of a loan from the PCECEDRF with the requirement that the loan recipient take electric service from PCEC or any other specific electric utility.