Northeast Nebraska Economic Development District (NENEDD) and
Northeast Economic Development Inc. (NED, Inc.)
Revolving Loan Fund Program Guidelines and Procedures

PURPOSE

The purpose of the Northeast Revolving Loan Fund (RLF) program is to provide "gap" financing for start-up and existing businesses that cannot obtain sufficient conventional financing or to attract new businesses within the NENEDD/NED, Inc. service area. The RLF loan customer is an entrepreneur who is unable to access 100% of the needed financing from a financial institution due to failure to meet credit requirements.

Without the assistance of the RLF program, this customer would not be able to start or expand their business. They need assistance in obtaining capital for projects that would otherwise not be possible with only bank financing.

By stopping the "leakage" of dollars from leaving the region, we can encourage and promote entrepreneurship and new business development. This can then help the redevelopment of vacant or blighted buildings and land in the area.

COUNTIES NENEDD AND NED, INC. COVER

The RLF program covers 26 counties in northeast Nebraska. Each loan fund has its own targeted territory that the loans can be used in. With one loan fund or another we cover all 26 of these counties listed below:

Antelope, Boone, Boyd, Brown, Burt, Butler, Cedar, Cherry, Colfax, Cuming, Dakota, Dixon, Dodge, Rural Douglas, Holt, Keya Paha, Knox, Madison, Nance, Pierce, Platte, Rock, Stanton, Thurston, Washington and Wayne.

SOURCE OF LOAN FUNDS

- Economic Development Administration (EDA)
- United States Department of Agriculture (USDA)
- Housing and Urban Development (HUD)
- Nebraska Enterprise Fund (NEF)
- Community Development Block Grant (CDBG) from the Nebraska Department of Economic Development (DED) Regional
- Community loan funds
- Non-Profit Development Organization (NDO) Proceeds

Staff will follow rules and regulations that are specific to each loan fund. This includes but is not limited to documents required for the applicant's file, environmental reviews, and Davis-Bacon wage requirements.

1.0 APPLICANT ELIGIBILITY

1.1 ELIGIBLE BUSINESSES

- Manufacturing assembling, fabricating or processing of tangible personal property
- Storing, warehousing, distributing, transporting, or selling of tangible personal property
- Conducting research, development, or testing for scientific, agricultural, animal husbandry, food product, or industrial purposes
- Performing data processing, telecommunications, insurance or financial services
- Transportation, retail, service and tourism that are for profit and/or not for profit
- The administrative management of any activities, including headquarter facilities relating to such activities

1.2 ELIGIBLE ACTIVITIES

- Acquisition of land and buildings
- Construction or renovation of real estate either leased or owned
- Acquisition of machinery, equipment, property or services
- Providing funds for the purpose of guarantying loans for any of such purposes
- Working Capital
- Equity Investment
- Public Infrastructure (streets, water, sewer, electrical) necessary to accommodate businesses
- Miscellaneous activities that continue to support economic development as approved by the board

2.0 PORTFOLIO STANDARDS AND TARGETS

2.1 The RLF will target those businesses that:

1) Demonstrate a need for financial assistance; 2) demonstrate or project the ability to succeed; and 3) which will, if funded, create or retain employment opportunities in northeast Nebraska. Loans will only be available to individuals, businesses and companies located in or expanding into the 26-county area of northeast Nebraska. The applicant must identify sources of private financing.

2.2 Proposed standards of the RLF are as follows:

- At least one (1) job must be created or retained for each $20,000 in individual loans, while striving to maintain a $10,000/job ratio in the RLF portfolio
- Generally, RLF funding may not represent more than 40% of the total costs
- The RLF funding must be necessary and appropriate based upon a review of other possible financing assistance
- The RLF funding is reasonable in relation to the achieved public benefit

- The RLF portfolio will comprise at least 50% in fixed asset loans and have a private investment leveraging ratio of at least 2-1 for the loan portfolio as a whole
- 10% minimum equity injection from business owner – Certain types of businesses will require a 20% equity injection
- No production agriculture – value added is okay
- Incentive loans can be greater than $100,000 and possibly have a lower interest based on job creation and recruitment
- Microloans under $50,000 can be done without bank participation
- At least 51% of the jobs created or retained must benefit persons of low to moderate income
- Loans typically range from $5,000 to $100,000 maximum

In addition to the required selection criterion that financing is not otherwise available, NENEDD/NED, Inc. will primarily consider the number of jobs created or retained the fixed assets of the project, the amount of private leveraging and the potential benefits to existing business and industry.

3.0 ORGANIZATIONAL STRUCTURE

3.1 RLF Committee

The RLF Committee is the review committee for all business loans for both NENEDD and NED, Inc. They will review and make a loan recommendation of approval or denial to the Board of Directors. The RLF Committee will also recommend changes in the policies and procedures of the RLF to the Board of Directors. This nine-member RLF Committee consists of three lenders, three business owners (one each from manufacturing, service and retail), one economic developer, one city administrator and one small business consultant. These nine also represent the region geographically. This is a three year term commitment.

The RLF Committee meets on an "as needed" basis, but typically the monthly meetings are held on the Monday before the last Wednesday of the month. All documents must be submitted to the business loan specialist a week prior to the RLF Committee meeting. The committee may conduct its review during a meeting, by mail, e-mail, or through the use of a telephone conference call. A quorum of five of the nine RLF Committee members is required to make a recommendation. A simple majority of those attending the meeting or providing an e-mail/mail of their vote is needed to make a recommendation. A loan will not be approved without at least one of the three lender's approval. The Business Loan Specialists will present loan applications to the Board of Directors at the Directors' monthly meetings.

NENEDD staff will administer the RLF. The business loan specialists will be Certified Economic Development Finance Professionals. Staff will be responsible for marketing the RLF, meeting with potential applicants, processing loan applications, closing and disbursing loans, servicing loans and all administrative procedures required. Staff will

monitor the portfolio standards and performance and prepare reports as directed by the Board of Directors and the Program Funders.

3.2 The RLF Committee will receive a loan summary packet that includes:

- Summary
- Proforma – projection of cash flow for the business
- List of what the funds are going to be used for (estimates from vendors, construction estimates, price quotes, etc.)
- Personal tax returns on the applicant (20% or more ownership) for the past two years
- Three years of tax returns, profit/loss statements/balance sheet of the business (if existing)
- Business Plan
- Bank Letter

4.0 LOAN-PACKAGING PROCEDURES

4.1 Application Documents

A standard loan pre-application form will be required. Upon review and approval of the pre-application by staff, the business must submit all items listed on the loan application checklist form if applicable. They include:

- Business plan
- 3 year historical balance sheet and operating statement
- Personal financial statement for each person owning 20% or more of the business
- Letter of participation or rejection from a bank except in the case of incentive loans
- Credit report from a Credit Reporting Agency
- Proforma financial information
- Sources and uses
- Contractor estimates
- Vendor price quotes
- Lease or Purchase agreement
- Job creation/retention form
- Tax Returns on the business and personal (each individual owning 20% or more of the business)
- Resume
- Business formation paperwork
- Aging of accounts payable and receivable
- Appraisal
- Environmental information as required by each funding source
- UCC Search
- Assistance Agreement

- Indemnification Agreement
- Exhibit "A" Memorandum
- Attestation Form
- Credit History Authorization

The staff will review the information submitted to insure it is complete and will prepare a loan write-up to submit to the Northeast RLF Committee. Rate, terms, collateral and equity requirements will be finalized as negotiated between the applicant and the staff. Staff will keep minutes/record of all RLF Committee recommendations. The loan recommendation will be forwarded to the Board of Directors for final approval/denial. After approval or denial by the Board of Directors, staff will immediately notify the applicant of the decision in writing.

4.2 Loan Closing Documents

General closing requirements will include documentation that equity requirements have been met and that private lender financing has been secured. Prior to loan closing the borrower must provide NENEDD staff if applicable:

- Proof of hazard insurance
- Proof of flood insurance
- Schedule of collateral
- Equipment, inventory and contractor invoices
- Life Insurance or any other insurance required by the Board of Directors
- Promotional Use Authorization

Standard loan closing documents will include

- Acceptance/Rejection Letter
- Promissory Note
- Authorization and Loan Agreement
- Security Agreement
- Deed of Trust
- Financing Statement
- Personal Guaranty
- Automated Clearing House (ACH) Form
- Title/Lien Search

5.0 LOAN SERVICING PROCEDURES

5.1 Loan Payments

Staff will monitor each loan by requiring annual financial statements, annual insurance renewals, conducting regular site visits to the borrowers, continuing UCC'S, job creation/retention reports and other reports that are specific to each loan. If evidence of requested documents, such as, but not limited to Loss Payee, Life Insurance assignment and annual financial statements, are not received within 60 days as requested by written

communication, a monthly assessment of no less than $25.00 may be assessed to borrower and will be automatically withdrawn from the client's bank account electronically each month until received.

Staff may report payment history to a credit reporting agency.

5.2 Late Payments

In the event of a late payment or loans over 90 days in arrears, staff and/or legal council will attempt to establish a workout arrangement with the borrower. Every effort will be made to assist the borrower but protect the RLF as well. All action taken on any given loan will be documented in the regular reports to the Board of Directors.

If payment is not honored from the bank, staff documents contact with the client (either by phone or letter) – notifying client of NSF charge and payment must be sent to the office by the 10th to avoid a late payment fee of $25.00. If the bank financing is also involved, the bank is contacted to verify if their payments are in jeopardy, too.

If the 1st payment is not received and the 2nd payment is not made, a certified letter is sent explaining the NSF charge and the late payment fee again if not received by the 10th and the bank is contacted.

If the first two payments are not made and the 3rd payment is not made, the information is turned over to the attorney and a Default Notice is sent and filed. Bank is contacted and usually at this point the bank will have already started their Default process.

In most instances, with a bank as primary lender, we will follow the actions of the bank as not to incur the cost of a Trustee's sale. If there is no bank involved staff will proceed with a Trustee's Sale if applicable.

5.3 Rescheduling Agreement

Special circumstances regarding business loans may require a different repayment plan and will be structured accordingly. Some projects require special financing techniques to meet a borrower's needs. Recognizing that, a subordinate position to other lenders of record at time of the project may be taken. If a subordinate position is required, additional considerations will be taken so as to not jeopardize the loan portfolio. Other special financing techniques may include quarterly or semiannual payments, interest only payments during the first year, or some other method agreed up on by the Board of Directors and the applicant.

Loan payments will start no more than 60 days after loan closing. During the loan payment period, staff at their discretion may authorize a one-time, 3-month payment deferral or 3-month interest only payment. Any other payment arrangements must be approved by the appropriate Board of Directors.

5.4 Collateral Change Requests

From time to time collateral change requests may be necessary. Loan subordination requests for refinancing of existing debt with no "cash out" will be approved by staff in the event it does not diminish our lien position. Any other requests must be approved by the appropriate Board of Directors. All fees associated with any collateral change requests, will be the clients responsibility.

5.5 Loan Write-Off Collections

The organizations may pursue bad debt any way possible to collect loans that have been written off. This may include, but is not limited to, wage garnishment and repossession of collateral.

6.0 LOAN TERMS AND INTEREST RATES

Loan terms vary according to what is being purchased. Working capital: up to five (5) years; furniture, fixtures and equipment: up to ten (10) years; and real estate financing will not exceed 15 years. Interest rates have a base rate determined by the Board of Directors for loans with a term of five (5) years or less with an increase of .5% (one half percent) for loans with terms over five (5) years up to ten (10) years, and an additional .5% (one half percent) for loans over ten (10) years up to a maximum term of 15 years.

7.0 PROPOSED FEES AND CHARGES

7.1 Loan Processing Fees

NENEDD/NED, Inc. charges modest loan processing fees and closing cost fees. As outlined in the Assistance Agreement, the client agrees to pay a loan processing fee if the loan will be presented to the RLF Committee for their review. The fee is $1,000 or 1% of the loan request, with a minimum of $200.00. This fee will be used to reimburse NENEDD/NED, Inc. for all out-of-pocket expenses incurred in researching, preparing and submitting the loan package for a loan. If staff feels that NENEDD/NED, Inc. is not able to provide financial assistance, the processing fee will not be collected. Once a loan has been reviewed by the RLF Committee and the loan is denied, NENEDD/NED, Inc. reserves the right to refund a portion of the fee if it exceeds the costs of actual incurred costs of the loan packaging.

7.2 Servicing Fee

In addition to the above and foregoing fee, the client further agrees to pay to an annual servicing fee of one-half percent (1/2%) of the declining loan balance on the Note, which shall be paid on an annual basis for the term of the loan to be issued by NENEDD/NED, Inc. pursuant to the terms and provisions of the loan.

7.3 Closing Fees

In addition to the above and foregoing fees, the client agrees to a set closing fee. This fee covers all costs of closing the loan, and all related transactions, including, but not limited to, all costs of title insurance, abstracting, recording fees, survey costs, inspections, environmental assessment, and legal fees. It is estimated that the average loan closing fees will be $250.00, but individual loans may vary, depending upon the complexity of the transactions, and the circumstances that develop in connection with the application of the loan.

7.4 Prepayment Penalty

Business loans contain a prepayment penalty of 10% on the outstanding balance if pre-payment occurs before two years following the loan closing date. This is based on the original amortization schedule.

7.5 Automatic Payments

Loan recipients, who are to make payments, are required to use the Automated Clearing House (ACH) method for monthly loan installments. Recipients are required to fill out and submit an ACH form thus authorizing this payment method. Payments will start on the 1st of the month, as indicated in the loan closing documents. The annual service fee will be automatically withdrawn from the client's bank account electronically on the anniversary date of the loan.

8.0 ADMINSTRATIVE PROCEDURES

A separate file will be maintained for each loan applicant and borrower. Each file will contain all documents and correspondence and are kept in a fireproof filing cabinet. The file will include all application documents, loan documents, insurance forms, general correspondence, financial statements, site visit reports and job creation/retention reports.

NENEDD/NED, Inc. shall maintain and keep all applications as well as all other required documents, records and other evidence in conformance with the close out requirements.

Staff, through our GMS Revolving Loan software program, will track the RLF reporting requirements. Each loan will be assigned a number for record keeping. If the loan is in good standing, then the borrower may be eligible for repeat lending.

9.0 AMENDMENT

In an ongoing effort to improve the quality of the RLF Program, the Board of Directors will accept suggestions from the public, program participants, program staff, or members of either Board of Directors with regard to program guideline amendments. All suggestions received will be taken under consideration by the Board of Directors. Upon

approval and adoption by the Board of Directors, the amendment will be included in the program guidelines.

10.0 GREIVANCES PROCEDURES

In the event that any applicant feels he or she has been unfairly treated or discriminated against during the loan application process or within any other segment of the Revolving Loan Fund, he or she may appeal the decision of the staff to the Board of Directors for their consideration. The appeal must be submitted in writing to the President and/or Chairman of the Board of Directors and postmarked within 14 calendar days of the decision. The Board of Directors will act to support or overturn the action within 30 days of the receipt of the appeal. The Board of Directors will have final authority in the decision.

11.0 OFFICIAL CONTACT

The place of contact for this program shall be the office of NENEDD/NED, Inc. 111 South 1st Street, Norfolk, Nebraska. Any grievances, suggestions, or requests for information should be directed to this office. This in no way shall be construed to limit other interested parties from distributing information about the program or receiving suggestions for amendments to the program. All grievances shall be directed to NENEDD/NED, Inc. in writing.

These guidelines are hereby approved by action of the Board of Directors of the Northeast Nebraska Economic Development District (NENEDD) this 29 day of June 2011.

John F. Lohr, Chairman
NENEDD

These guidelines are hereby approved by action of the Board of Directors of the Northeast Economic Development, Inc. (NED, Inc.) this 29 day of June 2011.

Rick Uhlir, President
NED, Inc.