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## ECONOMIC DEVELOPMENT ADMINISTRATION

### CARES ACT REVOLVING LOAN FUND PLAN (EDA CARES RLF)

September 30 , 2020

Loren Kucera, NENEDD Chairman

## PART I: THE REVOLVING LOAN FUND STRATEGY

### **COVID-19 OVERVIEW**

The Northeast Nebraska Economic Development District (NENEDD) and its sister organization, Northeast Economic Development, Inc. (NED, Inc.) loan clients have been affected by the COVID-19 situation. This was due to various reasons from decrease in production to closing down completely due to the governor's policy based on the Department of Health and Human Services guidance. With assistance of the Economic Development Administration (EDA) from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), to help applicants "prevent, prepare for, and respond to coronavirus" or respond to "economic injury as a result of coronavirus", NENEDD staff has prepared the EDA CARES Revolving Loan Fund Plan. (EDA CARES RLF)

Several loan clients contacted NENEDD staff about possible loan modifications. Fortunately, the established guidelines allow for a one-time 3-month loan deferral, without board approval, in which no loan payments are required, but interest is to accrue and added to the end of the note. This loan deferral was originally established for clients that may have a short term cash flow problem regardless of a disaster. NENEDD staff immediately took these into consideration and rescheduling agreements were executed and signed. All banks we contacted also provided some type of payment deferral plan for a short period of time. The NENEDD & NED, Inc. board of Directors also approved a separate 3-month loan deferral specifically for times of state or federally declared emergencies, where staff may also authorize immediate loan payment deferral in increments of three months, with interest to still accrue. Loan payment deferral related to state or federally declared emergencies will be limited to one time within 12 months. Any other payment arrangements must be approved by the Board of Directors.

Since the initial COVID-19 impact, many businesses in NENEDD's EDA CARES RLF service area have experienced long term negative affects. This includes the need for working capital, laying off employees, delaying planned expansions, delayed new equipment purchases to increase production, and delayed or cancelled expansion plans into diversified markets. Service and retail businesses such as hotels, restaurants, and beauty/barber shops were forced to close their doors due to mandated guidelines put in place in the state of Nebraska. This resulted in a total loss of revenue for a period of time. Fortunately, there are programs that helped keep employees hired with the Paycheck Protection Plan and increased unemployment insurance. It is anticipated EDA CARES RLF will provide funding to aid in their resiliency from further economic injury as they reopen adjusting to the ever-changing COVID-19 regulations.

Some businesses were in the the process of completing an expansion project. One such project is a veterinary clinic that was undergoing renovations and expanding their facility with a 20' x 48' addition and adding a 2<sup>nd</sup> story to a portion of the existing building. They will also repair/replace the roof on the remaining portion of the existing building. This project was started in October 2019 and was in the process of completion when the COVID-19 situation impacted both the veterinary business and the contractor doing the work. There were some modifications to the project which lead to increased construction costs. On top of the construction delay and increased costs, the vet business took somewhat of a financial hit, too, from short-term decreased revenue. It is anticipated the EDA CARES RLF will be able to assist in the additional financing needed to complete the project.

Manufacturing type businesses have cancelled, delayed or postponed purchasing new equipment that would have allowed them to increase production or expand and diversify into other markets. One business had plans to purchase new equipment for their Nebraska facility, increasing their production to meet demands of their customers. This was a critical decision on the part of the home office located in Wisconsin. Unfortunately during the COVID-19 situation, their customers were no longer needing additional products which lead to the cancellation of new equipment purchase. This series of events may have long term affects in the retention of this business in Nebraska, as it may be moved to one of their another locations in Wisconsin or Texas. At this point, there are no plans to continue with the new equipment purchase.

On a positive note, some businesses have adapted their production facilities to accommodate new products needed to meet the needs related specifically to COVID-19. One example is a food manufacture that switched from bottling sauces such as bloody mary mix and salsa to bottling hand sanitizer. Unfortunately, this delayed their plans to add a second line of sauce production for the time being. It is anticipated this busienss will need additoinal working capital during the down time to add the second production line which will enhance contingency plans if this type of situation were to occur again.

Although not specifically targeted to all of NENEDD's CARES RLF service area, a survey was completed by the Norfolk Area Small Business Resource Team as part of a gift card program to assist businesses's cash flow. Of those completing the survey, 50% were service related businesses including beauty and food/beverage businesses, 33% retail, and 17% other. 97% of the businesses indicated they were significantly affected by directed health measures related to COVID-19. Most were closed for a period of time, nearly all had reduced revenue, limited hours, and several laid off employees. Some businesses were to able to convert to on-line/remote activities such as classes and lessons to maintain somewhat of a revenue stream.

NENEDD has partenered with the Nebraska Business Develpoment Center that recently initiated a survey to collect data from the businesses in communities that were affected by the 2019 floods and the COVID-19 pandemic in 2020. They are collecting data to learn how we can help businesses and communities plan for potential disruptions in the future. The data will be used to find the best opportunities to provide training and assistance.

### **ECONOMIC ADJUSTMENT OVERVIEW**

The board of directors and staff of the Northeast Nebraska Economic Development District (NENEDD) brought together a diverse group of citizens from Northeast Nebraska to develop the Comprehensive Economic Development Strategy (CEDS) through the analysis of existing conditions affecting the area's economy and quality of life and developing a plan to improve conditions in the future. NENEDD's sister organization, Northeast Economic Development, Inc. (NED, Inc.) board members of were also involved in the CEDS process.

With the NENEDD and NED, Inc. board of directors acting as the steering committee, the first step in the CEDS process was to survey the region to identify existing conditions affecting the area. An on-line survey was conducted in 2018 throughout NENEDD's 16 county region to assist in addressing

the needs of the area. Once the on-line survey results were tabulated, a series of town hall meetings were held throughout the region to discuss the results of the survey and identify any additional needs. From those results, the CEDS committee and NENEDD staff developed a list of goals and objectives to address the issues in the region.

Through this process, the CEDS committee identified many elements that affect our local economy. Several challenges were identified. A plan of action for Northeast Nebraska, developed by the committee, addresses the needs to diversify and strengthen NENEDD's regional economy, encourage economic development and job creation/retention throughout Northeast Nebraska, continue to provide technical planning assistance in community development activities, assist members in identifying available federal, state, local and private resources to provide safe, affordable, quality housing in Northeast Nebraska, and assist members in identifying available federal, state, local and private resources to help with flooding recovery efforts. The goals and objectives could only be met through the combined efforts of many citizens and organizations. The board of directors and staff of NENEDD have focused their efforts toward the fulfillment of the development plan by maximizing resources in the region.

NENEDD's CARES RLF Plan will address the need for financial assistance for businessowners to overcome economic injury as a result of coronavirus.

The current EDA RLF Plan was updated in 2013 to offer additional financial incentives for businesses. These changes were 1) amount of funds available for each job being created/retained - increased from \$20,000 to \$35,000 for each job being created/retained; 2) amount of total funding for a project - increased from \$100,000 to \$200,000; 3) term of financing available – increased from 15 years to 20 years. The term of financing available was extended to 25 years due to the fact that when SBA provides a portion of the financing and NENEDD provides “gap” financing, SBA requires the term to match that of the SBA portion of financing. This is applied to all loans if required by SBA. These changes lead to increased loan volume and widened the size of businesses utilizing the EDA RLF as NENEDD was able to assist larger businesses with their financing. As the RLF capital base grows, NENEDD may consider amending the RLF plan to increase the maximum allowable loan size. The EDA RLF Plan was most recently updated in April 2020.

The RLF Plan continues to provide funding for start-up and existing businesses wanting to expand, that will create and/or retain quality jobs, especially with the potential of more advanced technology jobs. The RLF plan will be adjusted (when applicable) in response to the changing economic and market changes with prior EDA approval.

From 2012 to 2018, statistics show there has been less than 1% (.4%) loss of small businesses in the NENEDD RLF service area; 9,719 in 2012 to 9,684 in 2018. However, the number of employees increased by 1.6% from 2012 to 2018; 119,931 in 2012 to 121,778 in 2018. NENEDD's RLF Plan will continue to provide funding to increase the number of small businesses in the area. This includes retail and service businesses.

The CEDS was developed for the 16 NENEDD counties of Antelope, Boone, Burt, Cedar, Colfax,

Cuming, Dixon, Dodge, Knox, Madison, Nance, Pierce, Platte, Stanton, Thurston and Wayne. The RLF Plan is utilized in these 16 counties, as well as six counties in north central Nebraska (Boyd, Brown, Cherry, Holt, Keya Paha, and Rock), one in the SIMPCO area (Dakota County), and one in the MAPA region (Washington County). This is 24 counties total. NENEDD’s CARES RLF will be available to these same 24 counties. Other eligible lending areas may be added to NENEDD’s lending area with EDA’s prior written approval.

NENEDD currently employs ten full-time staff which include an Executive Director, Deputy Director, three Community Planners, two Housing Specialists, one Business Loan Specialist, Fiscal Officer, and Administrative Assistant. The Business Loan Specialist is a certified Economic Development Finance Professional (EDFP) and Accredited Business Planning Advisor (ABPA).

Total population of NENEDD’s CARES RLF Plan area in northeast and north central Nebraska decreased only 0.6% in population since the last census (2010 – 2018). Seven of the 24 counties experienced an increase in population, with Thurston County enjoying the highest percentage increase (+5.0%) Seventeen counties suffered from a decrease in population between the 2010 and 2018 estimated population. Rock County suffered the worst loss in population (-12.4%).

Source: <https://www.census.gov/quickfacts/fact/table/>

Per capita income in the NENEDD CARES RLF service area had historically been lower than the State average. The state average during the 12 months in 2017 (in 2017 dollars) was \$29,866 while the average in NENEDD’s CARES RLF service area was \$27,588. Fifteen EDA CARES RLF service area counties’ per capita incomes were lower than the State average and ranged from \$19,380 in Thurston County to \$33,867 in Rock County. According to QuickFacts from the US Census Bureau, the Median Household income (MHI in Nebraska in 2017 was \$59,970 while the average MHI in NENEDD’s CARES RLF service area was \$52,387. This ranged from a low of \$42,773 in Brown County to \$66,485 in Washington. Only one NENEDD CARES RLF county exceeded the State MHI.

Source: (<http://quickfacts.census.gov/qfd/states>).

The following is a chart showing the change in retail sales in 2012 compared to 2018 for the 24 counties in the NENEDD EDA CARES RLF service area.

<b>COUNTY</b>	<b>2012 Retail Sales</b>	<b>2018 Retail Sales</b>	<b>CHANGE</b>	<b>2018 retail sales per capita</b>
Antelope	\$21,932,326	\$19,063,914	86.9%	\$3,009
Boone	\$31,034,969	\$35,523,321	114.5%	\$6,781
Boyd	\$3,242,860	\$4,104,646	126.6%	\$2,100
Brown	\$20,344,035	\$18,156,388	89.2%	\$6,107
Burt	\$12,319,194	\$13,633,601	110.7%	\$2,101
Cedar	\$22,589,169	\$25,042,270	110.9%	\$2,965
Cherry	\$26,081,023	\$31,808,914	122.0%	\$5,521
Colfax	\$24,402,267	\$25,032,008	102.6%	\$2,301
Cuming	\$24,847,867	\$28,782,833	115.8%	\$3,220

Dakota	\$75,753,667	\$88,835,873	117.3%	\$4,423
Dixon	\$4,348,799	\$7,225,929	166.2%	\$1,266
Dodge	\$226,331,525	\$271,522,210	120.0%	\$7,380
Holt	\$47,807,311	\$43,389,394	90.8%	\$4,263
Keya Paha	\$537,939	\$675,074	125.5%	\$833
Knox	\$21,335,665	\$24,680,939	115.7%	\$2,932
Madison	\$317,177,625	\$316,356,006	99.7%	\$8,939
Nance	\$5,330,809	\$5,938,672	111.4%	\$1,681
Pierce	\$12,497,910	\$13,659,075	109.3%	\$1,913
Platte	\$202,104,263	\$217,039,484	107.4%	\$6,505
Rock	\$3,270,724	\$2,930,034	89.6%	\$2,154
Stanton	\$3,409,009	\$3,486,778	102.3%	\$584
Thurston	\$7,646,347	\$7,513,667	98.3%	\$1,029
Washington	\$62,999,601	\$77,238,428	122.6%	\$3,737
Wayne	\$21,419,767	\$24,975,073	116.6%	\$2,656

Source: [http://revenue.nebraska.gov/research/salestax\\_data.html](http://revenue.nebraska.gov/research/salestax_data.html)

2018 figures show the NENEDD service area was led by Madison County with over \$316.3 million in retail sales followed by Dodge with \$271.5 million and Platte with \$217 million. Dixon County had the largest percentage increase of 166.2%, from 2012 to 2018. Keya Paha County had the least amount of retail sales at \$675,074. Six of the 24 counties had lower retail sales in 2018 compared to 2012. In terms of retail sales per capita, Madison County was also the highest at \$8,939. Stanton County had the lowest retail sales per capita at only \$584 and Keya Paha was comparable at \$833. Both counties had retail sales per capita that are significantly lower than the NENEDD CARES RLF service area as a whole (average of \$4,965). Having such a lower retail sales per capita figure could indicate the need for more small businesses. Increasing the number of small businesses could increase the counties pull factors (the relative market share of retailing captured by a county over time) and the county's trade capture (the ability to bring more dollars from outside into the county).

As of July 2019, Nebraska's unemployment rate was 3.1%. In the NENEDD CARES RLF service area, the total rate of unemployment was 3.2% or 4,723 persons. Northeast Nebraska's entire labor force is comprised of 145,869 individuals with 141,146 of them employed. Madison (654), Dodge (625), and Platte (558) counties have the highest number of unemployed persons, with Thurston's unemployment rate of 5.3% being the highest in the NENEDD CARES RLF area. The need for new business and subsequent employment in Thurston county is higher than any other county in the District. Antelope, Boone and Nance counties have the lowest rates of unemployment (2.7%) in the NENEDD CARES RLF service area. Six of the 24 counties showed unemployment rates higher than NENEDD's CARES RLF service area coverage.

In 2018, the three industries that employed the most people, according to the NEworks Nebraska Department of Labor, were Healthcare and Social Assistance (1,428 establishments), Retail Trade (1,116), and Construction (1,004). Followed by Transportation and Warehousing (723) and Wholesale Trade (606), Agriculture, Fishing, Forestry, Hunting (605), and Other Services Excluding Public Administration (602).

As of 2012, Madison (1,478), Platte (1,181), and Dodge (1,179) counties had the greatest number of business establishments versus any other county. In 2018, the three counties with the greatest number of business establishments are Madison (1,486), Dodge (1,178), and Platte (1,176). Rock (61) and Keya Paha (32) counties have the smallest number in 2018.

In 2012, Madison County had the largest number of business establishment employees (21,062) followed by Platte County (19,196). Keya Paha County had the lowest number of business establishments (31) and the fewest employees (132). In 2018, the three counties with the largest establishment employees are Madison (21,733), Platte (19,009) and Dodge (17,298). Keya Paha (142) and Rock (486) have the least number of employees. Source: Source: Nebraska Department of Labor, Labor Market Information, Quarterly Census of Employment and Wages.

NENEDD is the entity responsible for the implementation and on-going management of the EDA CARES RLF program. Designed initially as an economic development facilitator, NENEDD started operations in 1977 to serve Northeast Nebraska. NENEDD's first objective was to provide a series of meetings between communities in the area where common goals, objectives and problems could be discussed. The organization's founders believed the region's communities should work together because of their shared economic base. Over the years, the CEDS has been updated to meet the ongoing challenges throughout the region. NENEDD's current RLF has been instrumental in meeting the current goals and objectives.

One Goal Statement in NENEDD's 2019 CEDS Strategy related to Business and Industry in the Evaluation Framework is "Encourage economic development and job creation/retention throughout Northeast Nebraska." Objectives are to a.) assist in the coordination of entrepreneurial training programs for existing and new businesses, including minorities to help foster the creation and retention of higher paying jobs; b.) Assist in marketing and recruitment of new business/industry; c.) Assist in the implementing job creation projects and programs, especially as they may relate to applying for EDA assistance and carrying out the projects and programs funded with such assistance; and d.) encourage the creation of additional business and industrial parks and assist in identifying the resources needed for the construction of the needed infrastructure to adequately supply these parks.

NENEDD staff promotes entrepreneurship at public meetings, through social media, news briefs, in meetings with local lenders and participating and presenting at local business expos. As part of the entrepreneurial promotion, NENEDD staff provides credit-based technical assistance and/or training which consist of one-on-one technical assistance (T/A) to each business client. This T/A consists of but is not limited to personal credit counseling, one-on-one business plan development required for loan packaging, delinquency counseling and delinquency monitoring including cash flow and business plan assistance, access to markets assistance, and e-commerce assistance. Classroom trainings have also been provided for businesses that need legal assistance in formation of their business, such as sole proprietor, general and limited partnerships, C and S corporations, LLC, etc. At the same time, NENEDD utilizes existing incentive programs such as low interest loans and promote entrepreneurship within communities.

Evaluation indicators are “Job creation/retention in the region and significant private and public sector investment.” NENEDD’s EDA RLF program has been successful in addressing these goals in the form of financing and technical assistance provided throughout the region. The following are statistics of NENEDD’s EDA current RLF and NENEDD’s entire loan portfolio including all funds.

	# of loans	# of jobs	Total lending	Total private investment
EDA RLF	118	832.25	\$7,465 ,029	\$41,337,219
NENEDD TOTAL	247	1,520	\$13,358 ,839	\$84,653,000

Another Goal Statement in NENEDD’s 2019 CEDS Strategy related to Flooding in its Evaluation Framework is to “Assist members in identifying available federal, state, local and private resources to help with the recovery efforts.” NENEDD has the fortunate opportunity to utilize and partner with other organizations and funding sources that provide financing in certain situations that the NENEDD EDA CARES RLF cannot be used. This is especially important as it relates to disaster assistance. NENEDD has a sister organization, Northeast Economic Development, Inc. (NED, Inc.), which contracts with NENEDD staff to administer its business loan program. NED, Inc. has USDA and defederalized CDBG funds that can be used specifically for 0.00% loans for businesses that have been affected by disasters such as flooding which occurred in federally and/or state-wide declared disaster areas.

Evaluation indicators are “Business programs will assist businesses in the region affected by the flooding.” NENEDD’s sister organization, NED, Inc., has provided 0.00% disaster loans to three businesses in 2019 alone and will continue to offer this as the need arises.

**BUSINESS DEVELOPMENT STRATEGY**

**Financing Strategy**

NENEDD started its EDA RLF program in 1996 followed by re-capitalizing in 1998. The two funds were consolidated in 2006.

The objective of NENEDD’s CARES RLF is to provide funding for businesses to help respond to the unusual and compelling urgency of the coronavirus pandemic within the NENEDD service area. Without the assistance of the CARES RLF program, this customer would not be able to prevent, prepare for, and respond to coronavirus. By providing these funds, businesses will be able to continue and expand. NENEDD’s CARES RLF financing will assist businesses in many ways such as diversifying manufacturing capacity that lead to new products that add value to meet changing needs and increasing capacity to supply parts and services for other local manufacturers. NENEDD CARES RLF will also fill the unmet need for financing high growth/high technology business start-ups. The CARES RLF provides funding at rates and terms to enhance the chances for success of worthy projects.

In times of sudden and severe economic distress, such as the COVID-19 situation, it is often necessary to use as many resources as possible to assist businesses to continue. It is anticipated NENEDD’s CARES RLF will often be a piece of a wide variety of financing options such as bank financing, tax

increment financing (TIF), Community Development Block Grant (CDBG), USDA, SBA, local sales tax option, and owner carry-back (owner financing).

Demand for NENEDD's CARES RLF is enhanced because of Nebraska Department of Economic Development (DED) guidelines for its CDBG programs. Funds from this program are primarily used for business retention and expansion of industrial manufacturers as outlined in the Nebraska Advantage Act [http://www.revenue.nebraska.gov/incentiv/neb\\_adv/312\\_info.html](http://www.revenue.nebraska.gov/incentiv/neb_adv/312_info.html). DED and NENEDD have developed a very good working relationship through the years. DED staff refers several projects a year, creating a greater demand for NENEDD funds. As in the past, DED would most likely prefer to utilize NENEDD's CARES RLF before tapping into CDBG funds for the northeast and north central regions of Nebraska. In addition, since DED funds cannot be used for retail or service sector projects the state staff refer all of those projects to NENEDD. Without NENEDD's CARES RLF, there would be few other resources available to retail and service businesses.

NENEDD's CARES RLF prospective clients have a wide variety of characteristics; generally, anywhere from 1 to 100 employees (usually 3-10 employees); established businesses; sole proprietors, LLC, S & C Corporations; manufacturing to food processing and boat covers to dental offices. The businesses that NENEDD does not lend are for production agriculture such as cattle yards, swine confinements, or row crop production unless it is related to value added production. NENEDD's EDA CARES RLF will not be used by not-for-profit organizations.

#### Eligible Businesses

The NENEDD Board of Directors, as recommended by the NENEDD staff, has identified and approved the following types of for-profit businesses that would be eligible for the NENEDD CARES RLF Plan:

- 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
- The administrative management of any activities, including headquarter facilities relating to such activities only when jobs are created and/or retained. In the case where the loan will impact job retention, the borrower must demonstrate how many jobs will be lost without the loan. Financial records must be provided to NENEDD to support this claim.

This list may change as identified by the NENEDD Board of Directors

#### Eligible Activities in accordance with 13 C.F.R. 307.17(b)

- Acquisition of real estate and buildings
- Construction or renovation of real estate either leased or owned
- Acquisition of machinery, equipment, property or services
- Working Capital

- Public Infrastructure (streets, water, sewer, electrical) necessary to accommodate businesses (only if jobs are created/retained)
- Administration costs related to servicing NENEDD's CARES RLF Program as allowed in accordance with 13 C.F.R. 307.12

### Portfolio Targets

The CARES RLF will target those businesses that need financial assistance to overcome economic injury as a result of coronavirus. Loans will only be available to individuals, businesses and companies located in or expanding into the 24-county area of northeast and north central Nebraska. The applicant must identify sources of public and private financing.

### Portfolio standards of the CARES RLF are as follows:

- At least one (1) job must be created or retained for each \$35,000 in individual loans, while striving to maintain a \$15,000/job ratio in the CARES RLF portfolio
- The CARES RLF funding must be necessary and appropriate based upon a review of other possible financing assistance
- The CARES RLF funding is reasonable in relation to the achieved public benefit
- The CARES 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.
  - This will not apply during the initial 24-month disbursement phase.
- 10% minimum equity injection from business owner – certain types of businesses will require a 20% equity injection
  - This will not apply during the initial 24-month disbursement phase.
- No production agriculture – such as hog confinements, cattle yards, and row crops like corn and soybeans
- Loans typically range from \$5,000 to \$200,000
- Loans larger than \$200,000 will be considered based on job creation to encourage a business, which offers its employees above average wages for the county, to locate or expand into NENEDD's service area. Loans greater than \$200,000 will not exceed 25% of the CARES-RLF capital base to any one borrower. EDA will be provided a summary of the terms of the loan at the time the application is received.
- Maximum loan size for any business will not exceed 25% of the CARES RLF capital base to any one borrower.
- Job Pirating will not be allowed in any instance.

### Credit not otherwise available

NENEDD is not in the business to replace bank financing. A letter from a primary lending institution will be required to either ask NENEDD to 1) provide some of the financing, due to bank lending policies and/or limitations or 2) provide a turn-down letter. This will not apply during the initial 24-month disbursement phase. In addition to the required selection criterion that financing is not otherwise available, NENEDD will primarily consider the number of jobs created or retained, the fixed assets of the project, the amount of private leveraging, the potential benefits to existing business and industry and the type and value of collateral.

### Other programs and activities

As mentioned previously, NENEDD has the fortunate opportunity to utilize and partner with other organizations and funding sources that provide financing in certain situations that the NENEDD EDA CARES RLF cannot be used. This is especially important as it relates to other disaster assistance. NENEDD has a sister organization, Northeast Economic Development, Inc. (NED, Inc.), which contracts with NENEDD staff to administer its business loan program. NED, Inc. has USDA and defederalized CDBG funds that can be used specifically for 0.00% loans for businesses that have been affected by other disasters such as flooding which occurred in federally and/or state-wide declared disaster areas.

In addition to NED, Inc., NENEDD often partners with other organizations to provide financing and/or technical assistance needed for small businesses in northeast and north central Nebraska. These include, the Rural Enterprise Assistance Project (REAP), through the Center for Rural Affairs, Nebraska Enterprise Fund, local economic development programs, and the Nebraska Business Development Center.

### Performance Assessment

The CARES RLF standards will be reviewed by the NENEDD Board of Directors with staff at least annually to insure it is consistent with and supportive of the area's current economic adjustment strategy and is operated in accordance with the policies and procedures. The RLF plan will be updated in conjunction with the CEDS at least every five years.

### 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 25 years. The term must be reasonable and prudent considering the purpose of the loan, expected repayment ability of the ultimate recipient, and the useful life of collateral.

During the 24-month Disbursement Phase, interest rates will initially have a fixed rate of 2.00% for the first two years regardless of the initial term. After that the loan interest rate will be adjusted to the 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, an additional .5% (one half percent) for loans over ten (10) years up to fifteen (15) years, an additional .5% (one half percent) for loans over fifteen (15) years up to twenty (20) years, and an additional .5% (one half percent) for loans over twenty (20) years up to a maximum of twenty-five (25) years.

After the initial 24-month Disbursement Phase, the minimum interest rate will be four (4) percentage points below the lesser of the current money center prime rate quoted in the Wall Street Journal, or the maximum interest rate allowed under State law. In no event may the interest rate be less than four (4) percent or 75 percent of the prime interest rate listed in the Wall Street Journal. However, should the prime interest rate listed in the Wall Street Journal exceed fourteen (14) percent, the minimum RLF interest rate is not required to be raised above ten (10) percent if doing so compromises the ability of NENEDD to implement its financing strategy.

## FEES AND CHARGES

### Loan Processing Fees

NENEDD 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 for out-of-pocket expenses incurred in researching, preparing, and submitting the loan package for a loan. During the initial 24 month Disbursement Phase, the applicant has the choice of paying this at time of application or this fee will be added to the loan amount. If staff feels that NENEDD is not able to provide financial assistance, the processing fee will not be collected. During the Revolving Phase, once a loan has been reviewed by the RLF Committee and the loan is denied, NENEDD reserves the right to refund a portion of the fee if it exceeds the costs of actual incurred costs of the loan packaging.

### Servicing Fee

In addition to the above and foregoing fee, the client further agrees to pay an annual servicing fee of one-half percent (1/2%) of the declining loan balance on the Note. During the 24 month Disbursement Phase, this fee will not be charged during the first two years, but will start on the 3<sup>rd</sup> year anniversary of loan closing, which shall be paid on an annual basis for the term of the loan to be issued by NENEDD pursuant to the terms and provisions of the loan.

### 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. During the initial 24-month Disbursement Phase, the applicant has the choice of paying this at time of closing or this fee will be added to the loan amount.

### Prepayment Penalty

Business loans with a term of 24 months or more 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. Loans closed during the 24-month Disbursement Phase will not have a prepayment penalty.

### 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.

## PART II: OPERATIONAL PROCEDURES

### LOAN-PACKAGING PROCEDURES

#### 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. Not all checklist items will apply for each applicant and certain situations may require additional items not on the list. 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 person (each individual owning 20% or more of the business)
- Resume
- Business formation paperwork
- Aging of accounts payable and receivable
- Appraisal
- UCC Search
- Assistance Agreement
- Indemnification Agreement
- Exhibit "A" Memorandum
- Attestation Form
- Credit History Authorization

#### Environmental Reviews

NENEDD Business Loan Specialists will be responsible for ensuring compliance with applicable environmental laws and regulations, including but not limited to 13 CFR Parts 302 and 314, the National Environmental Policy Act of 1969, and other Federal environmental mandates. The environmental review process will include the following:

- A determination whether the project will result in a significant adverse environmental impact. The applicant may be asked to submit additional documentation as necessary to make the determination. No activity shall be financed which would result in a significant adverse environmental impact unless that 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.
- A determination whether the project involves new above-ground development within a floodplain based on a review of the proposed development against FEMA Flood Insurance Rate Maps. No activity shall be financed which would result in new above-ground development in a 100-year

floodplain, per E.O. 11988.

- A determination whether the project will be located within or adjacent to any wetland area. The applicant may be required to provide wetland delineation information as necessary. No activity shall be financed which would result in alteration of any wetland or in any adverse impact on any wetland without consultation with the U.S. Department of the Interior Fish and Wildlife Service and, if applicable, a Section 404 Permit with the Army Corp of Engineers shall be obtained.
- Contacting the State Historic Preservation Officer (SHPO) of each approved loan that involves significant new construction and expansion and request and receive comments on the effect of the proposed activity on historic and archaeological resources prior to closing of the loan. In cases where SHPO has recommended actions or has determined an adverse impact, NENEDD and loan applicant must work with the SHPO and EDA to address any issues identified before the loan is closed.
- Requiring loan applicants to provide information regarding whether or not there are hazardous materials such as EPA listed hazardous substances (see 40 CFR 300), leaking underground storage tanks, asbestos, polychlorinated biphenyls (PCB), or other hazardous materials present on or adjacent to the affected property that have been improperly handled and have the potential of endangering public health. If deemed necessary, loan applicant may be required to perform or provide evidence of performance 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. No activity shall be financed which involve unresolved site contamination issues. The loan applicant shall be responsible for working with the appropriate state environmental agency office to resolve any outstanding issues before any loan can be approved for the affected site.

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. The loan write-up will summarize the key aspects of the loan such as firm history, management, product, production capability, market conditions, financing, collateral, repayment ability, consistency with the CARES-RLF's financing policy and any environmental issues. Rate, terms, collateral and equity requirements will be finalized as negotiated between the applicant and the staff.

The RLF Committee receives 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
  - Bank letter is not required during the 24-month Disbursement phase

NENEDD utilizes the Northeast RLF Committee as the review committee for all business loans. 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 2<sup>nd</sup> 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 Specialist will present loan applications to the Board of Directors at the Directors’ monthly meetings.

Staff will keep minutes/record of all RLF Committee recommendations. The loan recommendation will be forwarded to the NENEDD 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. Minutes of the NENEDD Board meeting will also be kept in the file.

#### NENEDD Board of Directors

Size and general composition - The membership of the District Board of Directors shall consist of not less than nine (9) persons elected annually by the Council of Officials and may consist of elected or appointed officials from the Council of Officials membership. At least three (3) of the Board positions will be held by an elected official or a private sector representative as appointed by the Mayor from the three growth centers of Columbus, Fremont, and Norfolk.

Experience and occupational requirements – Our requirements are that there is a wide range of representation from our region including local elected officials, the business sector, community & economic development professionals and the education sector.

Process for appointing members - A vacancy on the Board shall be filled by the staff and existing board recommendation. Vacated board and officer positions may be filled at any regularly scheduled board meeting by a majority vote of the board of directors present.

Membership terms - The terms of members of the Board of Directors shall be three years except that at the inception, one-third of the Board shall serve for a period of one year, one-third for two years, and one-third for three years and shall be determined by lot. A Director may serve two (2) consecutive terms and then must be off the Board for at least one (1) year prior to further Board eligibility.

Quorum requirements - A quorum of the Board of Directors shall be a simple majority of the board members. Any meeting of the Board at which less than a quorum is in attendance is valid provided

that the minutes of that meeting or the transactions of the Directors are approved at a subsequent meeting with at least a simple majority of the Directors present.

NENEDD staff administers the CARES RLF. The business loan specialist is a Certified Economic Development Finance Professional. Staff will be responsible for marketing the CARES 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.

#### Loan Proceeds

All loan proceeds will be disbursed at time of loan closing. Borrower must provide cost estimates and/or invoices for items being purchased and agree that they will be used as agreed in the loan agreement. NENEDD will be provided receipts of items purchased using NENEDD's EDA funds.

#### Loan Closing Documents

General closing requirements will include documentation that equity requirements have been met. This may include but not limited to copy of bank statement showing cash in the bank and/or sweat equity in the form of work to be completed by the borrower. Private lender financing must be secured; included in bank letter. Prior to loan closing the borrower must provide NENEDD staff if applicable:

- Proof of hazard insurance
- Proof of flood insurance
- Schedule of collateral - which may include:
- Business furniture, fixtures, equipment, real estate
- Personal residence, guaranty, vehicles, property
- 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

### **LOAN SERVICING PROCEDURES**

#### Loan Payments

As part of the Assistance Agreement, the client acknowledges that NENEDD will require an authorization to have loan payments be automatically withdrawn from client's bank account electronically on the 1<sup>st</sup> of each month and the annual service fee will be automatically withdrawn from

the client's bank account electronically on the anniversary date of the NENEDD loan.

Staff will monitor each loan by requiring annual financial statements, annual insurance renewals, continuing UCC'S, job creation/retention reports and other reports that are specific to each loan. NENEDD also conducts regular site visits to the borrowers. At a minimum, site visits to the borrowers will be conducted on an annual basis. If evidence of requested documents, such as, but not limited to NENEDD being listed as 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.

#### Late Payments

If payment is not honored from the bank, staff documents contact with the client (either by phone or letter) – notifying client of Non-Sufficient Funds (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 2<sup>nd</sup> 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 3<sup>rd</sup> payment is not made, the information is turned over to the attorney and a Default Notice is sent and filed. The bank is contacted and usually at this point the bank will have already started their Default process.

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 CARES RLF as well. All action taken on any given loan will be documented in the regular reports to the Board of Directors.

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.

#### Rescheduling Agreements

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. A moratorium on interest or principle (not both) of not more than twelve months will be permitted as approved by the Board of Directors. A request by the business owner(s) stating the type of special financing will be required. 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. In situations where a business needs to reschedule payments during the course of the loan, an explanation and workout plan must be submitted to insure

a rescheduled loan will solve the problem leading to the request. NENEDD staff will review the past and current financial situation of the business in conjunction with the bank (if applicable) along with credit worthiness of the business owner(s).

Loan payments will generally 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 with interest to still accrue, or 3-month interest only payment. Any other payment arrangements must be approved by the Board of Directors. In times of state or federally declared emergencies, staff may also authorize immediate loan payment deferral in increments of three months, with interest to still accrue. Loan payment deferral related to state or federally declared emergencies will be limited to one time within 12 months.

#### 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 client’s responsibility.

#### Loan Write-Off Collections

The NENEDD Board of Directors will approve any loan that is to be written-off. 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.

#### Administrative Procedures

**Accounting:** A separate bank account is established for the CARES RLF so that repayments and interest income are clearly identifiable and auditable. The EDA CARES RLF portfolio and cash will be clearly distinguishable from any other NENEDD loan program. This includes both the EDA and local share portions of the CARES RLF. NENEDD will ensure that the CARES RLF is operating in accordance with Generally Accepted Accounting Principles (GAAP) in accordance with 13 CFR 307.15(a).

**Administrative Costs:** NENEDD will use CARES RLF income to cover administrative costs in accordance with 13 CFR 307.12. It is anticipated that expenses will not exceed CARES RLF income in the same fiscal year. Expenses will be kept at a minimum in order to maintain and grow the capital base. Any administrative costs which exceed CARES RLF income will be paid from NENEDD membership dues. NENEDD will track CARES RLF administrative costs through its financial software using a separate element code to charge for specific EDA CARES RLF administrative costs. NENEDD will maintain adequate accounting and source documentation to substantiate the amount and percent of CARES RLF income expended to the CARES RLF in accordance with 13 CFR 307.13(b).

**Capital Utilization & Sequestration:** NENEDD will ensure that the CARES RLF Portfolio is in compliance with applicable capital utilizations standards and sequestration requirements by monitoring on a monthly basis as outlined in 13 CFR 307.16(c).

**EDA Reporting:** NENEDD will file, at minimum, an annual report with EDA in accordance with 13 CFR 307.14.

**Audits:** EDA CARES RLF funds are subject to an annual audit requirement and the full value of the CARES RLF (outstanding loans and available cash) will be shown every year on NENEDD's Schedule of Expenditures of Federal Awards as outlined in subpart F to 2 CFR part 200 and Compliance Supplement, which is appendix XI to 2 CFR part 200, as applicable. If the dollar amount of the CARES RLF qualifies the CARES RLF as a major federal program, NENEDD will ensure that the auditor performs the required federal audit procedures.

**Fidelity Bond Coverage:** NENEDD will maintain fidelity bond coverage for persons authorized to handle funds under the grant award in the amount sufficient to protect the interest of EDA and the CARES RLF as outlined in 13 CFR 307.13(b). At a minimum, the amount of coverage shall be the greater of the maximum loan amount allowed for in the EDA approved CARES RLF Plan or 25 percent of the CARES RLF capital base. Such coverage will exist at all times during the duration of the CARES-RLF's operation. NENEDD will provide EDA with evidence of such coverage.

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 shall maintain and keep all applications as well as all other required documents, records and other evidence in conformance with the close out requirements. This includes keeping all original notes, loan agreements, personal guarantees and security agreements in a fireproof facility or container. Staff, through our GMS Revolving Loan software program, will track the CARES 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.

#### Compliance with applicable laws and regulations

NENEDD staff will ensure that potential borrowers comply with applicable laws and regulations including but not limited to 13 C.F.R. Part 307. This includes proper documentation for each applicant's file, environmental reviews, and wage rate requirements of the Davis-Bacon Act.

#### Conflict of Interest

An "Interested Party" is defined in 13 C.F.R. § 300.3 as "any officer, employee or member of the board of directors or other governing board of NENEDD, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of NENEDD, such as agents, advisors, consultants, attorneys, accountants or shareholders." An Interested Party also includes the Interested Party's "Immediate Family" (defined in 13 C.F.R. § 300.3 as a person's spouse, parents, grandparents, siblings, children and grandchildren, but does not include distant relatives, such as cousins, unless the distant relative lives in the same household as the person) and other persons directly connected to the Interested Party by law or through a business organization. In addition, "Immediate Family" includes a person's "significant other" or partner in a domestic relationship with an "Interested Party." NENEDD will establish safeguards to prohibit an Interested Party from using their

position for a purpose that constitutes or presents the appearance of personal or organizational conflicts-of-interest or of personal gain. (See 13 C.F.R. § 302.17(a) and (b), 15 C.F.R. §§ 14.42 and 24.36(b)(3), and Forms SF-424B (*Assurances – Non- Construction Projects*) and SF-424D (*Assurances – Construction Projects*)). NENEDD shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts.

An Interested Party must not receive any direct or indirect, financial or personal benefits in connection with this Award or its use for payment or reimbursement of costs by or to NENEDD. A financial interest may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a sub-award. An appearance of impairment of objectivity could result from an organizational conflict where, because of other activities or relationships with other persons or entities, a person is unable or potentially unable to render impartial assistance or advice. It also could result from non-financial gain to the individual, such as benefit to reputation or prestige in a professional field. (*See* 13 C.F.R. § 302.17(b).)

In addition to the rules set forth in 13 C.F.R. § 302.17(a) and (b), NENEDD must adhere to these special conflicts-of-interest rules set out in 13 C.F.R. § 302.17(c):

- a. An Interested Party of a Recipient of a CARES -RLF Award shall not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of CARES RLF loans.
- b. A Recipient shall not lend CARES RLF funds to an Interested Party.
- c. Former board members of a Recipient and members of his or her Immediate Family shall not receive a loan from the CARES RLF for a period of 2 years from the date that the board member last served on the CARES-RLF's board of directors.

#### Amendment

In an ongoing effort to improve the quality of the CARES RLF Program, the Board of Directors will accept suggestions from the public, program participants, program staff, or members of either NENEDD or NED, Inc. Board of Directors with regard to program guideline amendments. All suggestions received will be taken under consideration by the Board of Directors. Prior approval from EDA must be obtained prior to any modifications of the CARES RLF Plan. Upon approval and adoption by the Board of Directors, the amendment will be included in the program guidelines.

#### Grievance 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 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.

### Official Contact

The place of contact for this program shall be the office of NENEDD, 111 South 1st Street, Norfolk, Nebraska, 68701. 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 in writing.