

Policy and Procedures Manual

For

Gloucester Revolving Loan Fund, Inc.

Address

Gloucester, VA

DATE OF ADOPTION: July 26, 2012

DATE OF MOST RECENT REVISION:

POLICY AND PROCEDURE MANUAL GENERAL STATEMENT OF PURPOSE

The purpose of the policies and procedures contained within this manual is to present the criteria for governing the economic development activities assisted with funds made available through the Gloucester Revolving Loan Fund (“RLF”) administered by Gloucester Revolving Loan Fund, Inc. (the “Corporation”), a Virginia non-stock corporation exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, as amended.

SPECIFIC PURPOSE OF THE FUND

The Revolving Loan Fund has been established to provide partial funding for businesses and non-profit organizations undertaking activities broadly defined as economic development within the Gloucester Village area of Gloucester County, Virginia, as defined by the Articles of Incorporation of the Corporation.

RLF PROGRAM OBJECTIVE

Economic development activities assisted with funds made available through the RLF Program are intended to encourage the creation of new or expanded for-profit and non-profit entities within the Fund’s service area.

ADMINISTRATION

The Revolving Loan Fund Board of Directors

A Board of Directors, consisting of not less than seven (7) directors (the “Board”), shall oversee and administer the RLF for and on behalf of the Corporation. The Board shall seek to derive economic development benefits for Gloucester Village by filling the gaps in existing loan financing markets, as well as by identifying and promoting new and especially catalytic opportunities for economic activity in Gloucester Village. The RLF shall be targeted to commercial and non-profit entities within Gloucester Village in an effort to expand the economic activity in the service area. In addition, the Corporation may actually initiate projects and seek an outside entity to assume the lead role in bringing the project to fruition, in which case the Corporation may provide loan funds to assist in financing said projects; or the Corporation may bring said project to completion without the assistance of other organizations with the Corporation’s funds. Some start-up monies may also be available for loan to new enterprises.

Executive Director

The daily operations of the RLF will be managed by an Executive Director. The Executive Director shall be hired by and shall report to the Board. The Executive Director shall be compensated as determined by the Board.

The Revolving Loan Approval Committee

A three (3) member Revolving Loan Approval Committee (“LAC”) shall review and approve applications for loan participation. The LAC shall be composed of community representatives, including those from financial, real estate and legal institutions in Gloucester County, who are actively involved in economic development activity. At least 1 member of the LAC shall be a member of the Corporation’s Board.

The initial members of the LAC are:

1. Steve Callis, Board member
2. Steve Bland
3. Rick Fulk

Serving without compensation, members of the LAC shall serve a single term consisting of three (3) consecutive years and shall be appointed by the Board of Directors of the RLF.

A majority of the LAC may approve or disapprove loan applications, determine interest rates on loans as well as loan terms, and request the Treasurer of the RLF, in writing, to make disbursements. The LAC may also establish reasonable loan fees to be paid by the borrower at the time of closing and costs directly incurred in processing and closing of a loan, i.e., legal, and accounting services to be paid by the borrower.

The LAC may adopt a loan agreement/application to implement the objectives of the Corporation and RLF so long as such actions are in accordance with the Articles of Incorporation of the Corporation.

LAC Meetings

LAC meetings shall be held on an as-needed basis at the discretion of the LAC and the Board. All LAC members and the public shall be provided with prior notice of each meeting in accordance with Virginia state law. The Executive Director is responsible for sending meeting notices of the meetings. A majority of the LAC in attendance at a meeting constitutes a quorum, and shall be required for official LAC action. In accordance with requirements from the U.S. Department of Housing and Urban Development, written records of any meetings must be prepared and maintained. The Secretary will generate and distribute the meeting minutes. Copies of the minutes will be maintained on file.

Other Administrative Duties

The Executive Director will help to coordinate RLF activities. As requested by the LAC, the Executive Director shall report upon the status of the RLF and any outstanding loans. A segregated account will be established to receive payments on loans made by RLF. It will be the responsibility of the Executive Director to hold these funds and any other funds that may be deposited in the trust account and to administer, invest and account for all funds received in accordance with the written direction of the LAC. Uncommitted funds from loan payments may be invested in accordance with accepted practices.

It shall be the duty of the LAC to process all loan applications.

Records

Written records of all program activities, including program meetings, loan applications and related documents, shall be maintained in the appropriate files at the Corporation's

principal office. All files shall be kept in a secure place with limited access by authorized personnel. As necessary, legal counsel shall be consulted in regard to compliance with state and county open records laws.

The following items shall be established and maintained on file by the LAC for each loan recipient:

1. The Application: This will be kept on file in the Corporation's principal office and includes the application, business financial statements, personal financial statements, credit reports, business plan documents and other supporting loan information submitted along with the application, including all applicable correspondence.
2. Loan Recommendation Documents: This paperwork would be kept on file by the Executive Director and would include a copy of the minutes of the LAC meeting summarizing action taken on the loan request, as well as the letter of approval to the applicant.
3. Loan Closing Paperwork: The Corporation shall keep copies of these documents including all loan-closing documents such as the legal documents from the loan closing, security instruments, the note and other applicable correspondence. Originals will be kept in a locked, fireproof safe in the office of the Executive Director.

ELIGIBILITY CONSIDERATIONS

Eligible Area

The area served by the RLF shall be the Gloucester Village area of Gloucester County as defined by the Board. All RLF loan recipients must be located in this area or planning to locate within this area.

Eligible Applicants

1. Applications may be submitted by the sole proprietor, Chief Executive Officer, or other authorized representative of any for-profit business or non-profit entity wishing to establish a new operation or expand an existing operation in the eligible area.
2. No member of the Board, the LAC or any official, employee or agent of Gloucester County, who exercises decision-making functions or responsibilities in connection with the implementation of this program is eligible for financial assistance under the program.
4. No program loans will be made which are in conflict with state law.
5. Applicants shall not be disqualified based on age, race, religion, color, handicap, sex, physical condition, developmental disability, sexual orientation or national origin.

Eligible Activities

Program loans shall be available to eligible applicants for the following activities:

1. Fixed asset loans for acquisition, expansion, improvement and/or rehabilitation of an existing business, land, building, inventory and equipment, to include, without limitation, sites of historical significance to Gloucester Village.
2. Working capital.

Program grants shall be available for qualified projects at the discretion of the Board.

Ineligible Activities

Program loans shall not be available for the following activities:

1. Refinancing or consolidating existing debt.
2. Reimbursement for expenditures prior to loan approval.
3. Specialized equipment that is not essential to the business operation.
4. Routine maintenance.
5. Professional services such as feasibility and marketing studies, accounting, management services, and other similar services. *Legal services incurred in the closing of a RLF loan are eligible.*
6. Rolling stock.
7. Other businesses or non-profit projects not serving the interests of Gloucester Village as determined by a majority of the LAC.

Ineligible Businesses

Program loans shall not be available for the following businesses:

1. Speculative investment companies.
2. Real estate investment companies, except as may be providing facilities for an approved project.
3. Lending institutions.
4. Gambling operations.
5. Non-public recreation facilities.
6. Other businesses not serving the interests of Gloucester Village as determined by a majority of the LAC.

Minimum Requirements

To be eligible for funding, a proposed project must meet all of the following minimum requirements:

1. Private Funds Leveraged: Requiring a minimum of 50% participation by alternative lending sources (or existing capital) before consideration by the LAC. Higher leverage may be required at the discretion of the LAC.
2. Financial Feasibility and Business Vitality: The applicant must demonstrate that the proposed project is viable and the business or non-profit will have the economic ability to repay the funds.
3. Compliance with Applicable Laws: Applicants shall comply with all applicable local, state, and federal laws and codes.
4. Project Completion: Completion of any construction or activities undertaken with RLF loan proceeds shall be completed within 12 months from the date of the loan approval.
5. The borrower(s) and its principals may not have any delinquent federal or state debts at the time the loan is issued. Debts may include VA-guaranteed mortgages, Title I loans, Federal Student Loans, Small Business Administration loans, and/or delinquent federal and/or state taxes. Applicant may be required to give an explanation of any outstanding judgments.

TERMS AND CONDITIONS

Minimum standards for loan terms and conditions include the following:

1. Loan amounts are subject to the availability of funds.

2. Standard amortization terms will be 3-5 years.
3. Interest rates will be fixed at a minimum 2/3 of prime interest as quoted by the Wall Street Journal on the day of closing for the duration of the loan, provided, however, that the LAC shall have the right to set interest rates at its discretion from time to time.
4. Special financing terms may allow interest only payments for up to the first six (6) months. Payments will be based on a schedule, at maturity of the note.
5. Collateral will be required to guarantee security for the loan.
6. Interest and profits earned will be used for:
 - a. Administrative costs
 - b. Loans
 - c. Grants
7. Loan origination fees shall be: 1% of the loan amount (Minimum \$50).
 - a. All applicants who are issued RLF loans must pay a fee covering the general administrative costs associated with the loan's processing and servicing. This fee is collected from the loan applicant at the time of the RLF loan closing.
 - b. Assumption of all other usual and customary fees associated with loan processing and servicing. This may include a Real Estate Appraisal Fee.
8. Loan payments will be made as an automatic withdrawal from a LAC-approved financial institution selected by the borrower.
9. Personal Guarantors of Borrowers and their Spouses will be required.

LOAN SELECTION AND APPROVAL PROCESS:

Program Marketing

As funds are made available to the RLF program, the LAC will advertise the program via the following methods:

1. News articles and advertisements in local newspapers;
2. Informational items in the Chamber of Commerce Newsletter and publication of the Gloucester Main Street Association and the MSPT;
3. Visits with area business/industries;
4. Luncheon and speaking engagements sponsored by area organizations;
5. Brochure distribution; and
6. Notice via the web on the Loan Fund's website and other local websites.

Application Procedures

Applications may be submitted at any time during the calendar year. Prior to submitting an application, the applicant shall discuss the program with the Executive Director of the RLF. The Executive Director or his or her staff, if available and at the discretion of the Executive Director, may assist the applicant, as is reasonably necessary, in completing the application. All financial information shall be kept in a secured place with limited access by authorized personnel only.

Review and Approval Process

Applications shall be reviewed in the order received and based on readiness for the proposed project to proceed. In the event that loan funds requested exceed available funds, the following criteria will be used to determine which business(es) will be awarded the loan(s):

1. Eligibility of the applicants;
2. Eligibility of the project to be undertaken;
3. The extent to which private funds are to be leveraged;
4. The extent to which the loan can be secured;
5. The impact the project will have on the economic vitality of the RLF's service area;
6. Evidence of the ability to repay the loan;
7. Timing of the proposed expenditures;
8. Completeness of the application; and
9. Other relevant factors as deemed appropriate by a majority of the LAC.

Review Process

1. Preliminary Review: RLF staff will review the application for completeness and verify the proposed project meets the minimum requirements provided for in this manual. If the application is not complete, the applicant will be informed of the deficiencies.
2. Credit Analysis Report: Prior to the LAC's review of the application, the Executive Director will prepare a credit analysis report for each principal owner or officer of the business currently with or proposing to have at least 20 percent ownership of the business. The Borrower's signatures will be required consenting to this credit analysis.
3. Formal Review: The LAC will meet to review an application. The LAC has the ability to determine if a proposal is acceptable for funding or not.
4. Notice of Award/Terms: If the application is approved, a loan commitment letter will be sent to the applicant by the LAC detailing the conditions that must be met for the loan. At that point, staff from the RLF will schedule a closing to execute the necessary loan documents.
5. Rejection of Award: If the applicant(s) is not approved, the LAC will send a letter to the applicant stating the reasons for rejection.

A blank copy of the RLF loan application form is included at the back of this manual.

Loan Procedures

Prior to releasing funds, the following documentation must be in place or provided at the appropriate time during the term of the loan:

1. Notice of Award: The LAC must have reviewed and approved a complete application for an eligible applicant.
2. Loan Agreement: A loan agreement shall be executed by a member of the LAC.
3. Cognitive Note: A cognitive note shall be signed by the principal owner(s) or officer(s) of the business or non-profit entity. The note must be dated; it must reference the agreement between the RLF and the business; and it must specify the amount and terms of the loan funds delivered.
4. Security: Mortgage or lien instruments must be executed at the time of the loan closing. The closing attorney shall record the instrument and place the original in the project file which is kept in the office of the Executive Director.
5. Amortization Schedule: An amortization schedule shall be prepared by the LAC. A copy is provided to the borrower. Copies are also retained on file by the Executive Director.

6. Evidence of Permits: Documentation must be provided by the applicant prior to the release of program funds.
7. Other Documentation: As appropriate or necessary, the borrower may be asked to provide other types of documentation such as evidence of having secured other funds necessary for the project.

With the above documentation in place, the LAC will schedule a loan closing. All documents will be executed, and mortgages shall be recorded.

POST-CLOSING AND MONITORING

General Procedures

1. When a loan closing is completed and the funds are disbursed, the Executive Director, will establish a loan servicing file to contain:
 - a. All closing documents; and
 - b. A log of all conversations and correspondence relating to the loan.
2. The loan will be recorded in a master follow-up file to ensure loan monitoring functions are performed on a timely basis. The master file is to be kept by the Executive Director.
3. The financial institution or the RLF's agreement for collection, posting calculation of principal and interest, and monthly payment reports will be executed at the time of the loan closing.

Monitoring Compliance with Loan Conditions

The LAC will be responsible for collecting and maintaining evidence of ongoing compliance with loan requirements, including insurance, financial reporting and special conditions including civil rights, environmental concerns, local economic impact, etc. Refusal to provide the information will constitute a loan in default.

The attached Loan Servicing/Monitoring Checklist illustrates those items which the LAC must review for compliance at least on an annual basis.

POST-APPROVAL REQUIREMENTS OF LOAN RECIPIENT

In addition to the terms and conditions of the loan, all borrowers shall agree to comply with the following:

1. Not to discriminate on the basis of age, race, religion, color, handicap, sex, physical condition, developmental disability, sexual orientation or national origin in any employment activity related to the use of the business loan. Loan agreements shall incorporate CDBG language pertaining to equal employment opportunity. A review of formal or informal employment practices will be incorporated in the application process.
2. To use the loan money only to pay the cost of services and materials necessary to complete the project or activity for which the loan funds were awarded.
3. To permit inspections by persons authorized by the LAC of all projects and properties assisted with loan funds. Related project materials shall also be open to inspections, which include, but may not be limited to, materials, equipment and conditions of employment. Requests for inspection shall be complied with by the borrower.

4. To maintain records on the project as may be requested by the LAC. These files shall be maintained as long as the loan is active or for at least three (3) years after completion of the work for which the loan has been obtained, whichever is longer.
5. To maintain fire and extended coverage insurance on the project property required during the term of the loan. The RLF shall be listed as Loss Payee, Mortgagee, or “additional” insured on the policy. Term life insurance may be required of the applicant to cover the loan balance through the life of the loan.
6. To abide by all federal laws, when applicable. These include, but are not limited to: The Civil Rights Act of 1964; the Age Discrimination Act of 1975; and all regulations pursuant to these Acts.
7. The business or non-profit loan recipient must maintain an actual physical presence within the service area.

Subordination of Business Revolving Loan

Requests to subordinate the position of a loan held by the RLF will be considered based on the following criteria:

- The post-subordinated position of the RLF’s loan shall not be lower than the third position.
- Collateral must be sufficient to cover the unpaid amount of the loan at the time of the request for subordination. “Sufficient” is defined as an amount of money equal or greater than the unpaid portion of the loan or otherwise at the discretion of the LAC. Documentation of equity or valuation in real estate must be provided by the borrower to evidence this fact.

All requests and accompanying documentation will be forwarded to the Executive Director for initial review and approval. The Executive Director will make a recommendation to the LAC as to whether or not the request should be approved or denied, based upon the criteria set forth above. The LAC will make the final determination regarding the Subordination Request approval or denial. If approved, the Executive Director and a Board member will sign the Subordination Agreement.

In the event that the Executive Director is expected to be absent for more than a one-day period, members of the LAC with legal, banking and/or real estate expertise may be consulted to provide a recommendation as to whether or not the request for subordination should be granted. If approved, the Chairman of the LAC and a Board member will sign the Subordination Agreement.

PERFORMANCE MONITORING

Private Leverage Commitments

The LAC reserves the right to monitor the use of funds and expenditure of private leverage commitment. Documentation may include invoices or receipts for materials and supplies, letters from lenders, final bills of sale, and canceled checks.

Default

In the event the loan recipient is in default on any of the terms and conditions of the loan agreement, all sums due and owing, including penalties, shall, at the LAC's option, become due and payable. To exercise this option, the LAC's attorney shall prepare a written notice to the business. The notice shall specify the following:

1. The default.
2. The action required to cure the default.
3. A date, not less than thirty (30) days from the date of the notice, by which the default must be cured to avoid foreclosure or other corrective action.
4. Any penalties incurred as a result of the default, etc.

The Board shall use its discretion in terms of when and how to collect and liquidate secured collateral.

USE OF LOAN REPAYMENTS AND REPORTING

Repaid loans shall be re-deposited into the RLF account and used in a manner consistent with this policies and procedures manual. A separate accounting record for each loan shall be kept to account for all funds loaned.