



# SMALL BUSINESS LOAN FUND MANAGEMENT PLAN

ADOPTED BY THE LCLGRP BOARD ON OCTOBER 12, 2021

# TABLE OF CONTENTS

---

<b>Program Overview</b>	<b>Page 4</b>
<b>Part I. Small Business Loan Fund Strategy</b>	<b>Page 5</b>
Comprehensive Economic Development Strategy	Page 5
Business Development Strategy	Page 8
<i>Objectives</i>	Page 8
<i>Target Industries</i>	Page 8
<i>Business Characteristics</i>	Page 9
<i>Business Needs</i>	Page 10
Finance Strategy and Policies	Page 10
<i>Minimum and Maximum Loan Amounts</i>	Page 10
<i>Interest Rates</i>	Page 10
<i>Interest Rate Exceptions</i>	Page 10
<i>Closing Fee</i>	Page 10
<i>Equity</i>	Page 11
<i>Start-Ups, New Acquisitions and Established Businesses</i>	Page 11
<i>Repayment Terms</i>	Page 11
<i>Loan Modifications</i>	Page 11
<i>Collateral Requirements</i>	Page 11
<i>Application Fee</i>	Page 11
<i>Deviation from Loan Terms</i>	Page 11
Small Business Loan Fund Portfolio Standards and Targets	Page 12
<i>Leveraging of Funds</i>	Page 12
SBLF Loan Selection Criteria	Page 12
<i>Eligible Borrowers</i>	Page 12
<i>Allowable Borrowing</i>	Page 12
<i>Eligible Loan Activities</i>	Page 13
<i>Restrictions on Use of Capital</i>	Page 13
<b>Part II. Small Business Loan Fund Operations Procedures</b>	<b>Page 15</b>
Administrative Structure	Page 15
<i>Loan Administrative Committee</i>	Page 15
<i>LCLGRP Board of Directors Executive Committee</i>	Page 16
<i>Conflict of Interest</i>	Page 16
<i>Environmental Review and Compliance</i>	Page 16

Loan Processing Procedures	Page 17
<i>Credit Reports</i>	Page 17
<i>Appraisal Reports</i>	Page 17
<i>Standard Collateral Requirements</i>	Page 17
<i>Standard Equity Requirements</i>	Page 18
<i>Underwriting</i>	Page 18
<i>Procedures for Approval</i>	Page 18
Loan Closing and Disbursement Procedures	Page 19
<i>General Loan Closing Procedures</i>	Page 19
<i>Loan Closing Documentation Requirements</i>	Page 19
<i>Loan Agreement Provisions</i>	Page 19
<i>Disbursement of Funds</i>	Page 20
Loan Servicing Procedures	Page 20
<i>Collections</i>	Page 20
<i>Monitoring</i>	Page 20
<i>Delinquent Account Follow-Up Procedures</i>	Page 20
<i>Foreclosures</i>	Page 21
Administrative Procedures	Page 22
<i>Loan Files</i>	Page 22
<i>Write-Offs</i>	Page 22
<i>Interest Bearing Accounts</i>	Page 22
<i>Small Business Loan Fund Income</i>	Page 22
<i>Evidence of Fidelity Bond Coverage</i>	Page 22
<i>Accounting Principles</i>	Page 23
<i>Performance Assessment</i>	Page 23

# PROGRAM OVERVIEW

---

The Lake Champlain-Lake George Regional Planning Board (LCLGRP) manages five Loan Fund Grant Awards sponsored by the US Department of Commerce Economic Development Administration (EDA).

In October 2020, Congress passed the Reinvigorating Lending for the Future Act, which allows the EDA to release its interest in grant awarded Small Business Loan Funds where more than seven years has passed since the final EDA disbursement of award funds. This means that grant recipients no longer need to comply with the federal regulations imposed by the EDA or report to the EDA on loan activities. For the LCLGRP, this includes loans given for EDA Award #01-19-02546 (RLF 1), #01-39-02913 (RLF 2) and # 01-39-02913-01 (RLF 3).

The LCLGRP's Small Business Loan Fund provides low-cost, short-term financing to small businesses within Clinton, Essex, Franklin, Hamilton, Jefferson, Lewis, St. Lawrence, Warren, and Washington Counties of New York State. Loan funds are to assist small businesses with fixed-asset loans for acquisition and improvement of land, buildings, plant and equipment, including new construction or renovation of existing facilities, and working capital loans for the start-up of new business or expansion of existing business.

# PART I: SMALL BUSINESS LOAN FUND STRATEGY

---

## *Comprehensive Economic Development Strategy*

The Comprehensive Economic Development Strategy (CEDS) for the Lake Champlain-Lake George (LC-LG) Economic Development District is a tool that provides an analysis of the regional economy, serves as a guide for establishing regional economic development goals and objectives, helps develop and implement a regional plan of action, and identifies investment priorities and appropriate funding sources. Programs initiated and individual projects supported by the LC-LG Economic Development District must meet the mission statement of the CEDS which is to “promote sustainable economic development that strengthens our communities, provides quality jobs and preserves the unique natural, historical and cultural characteristics of the region.”

The CEDS shows that in many respects, the LC-LG Economic Development District is a microcosm of national and multi-state trends. There continues to be an overall loss of manufacturing in the region which to a large degree is being replaced by lesser paying service-related employment.

The CEDS endorses the use of a long-established Small Business Loan Fund Program as a useful means to increase private sector investment in the region. The strategic purpose of the SBLF Program is to provide low interest small business loans that result in long term job creation and increased commercial development activity. The SBLF strategy, policy and portfolio standards are centered on the CEDS identified regional economic strengths and weaknesses.

An analysis of the local capital market recommends that SBLF financing be directed to the major employment industries shown in Table 1. Table 1 lists each county with the 2016 average annual employment location quotient (LQ) for each of 19 industries. The LQ is a measurement of the concentration of a given industry as measured against the national average. An LQ of 1.0 represents the national average, therefore anything measured greater than 1.0 represents a higher locational concentration of that industry. An LQ below 1.0 indicates a lower concentration of an industry than the national average.

As can be seen in Table 1, each county has a greater number of employees within various industries, as compared to the national average. A list of the top three industries within the greatest employment LQ’s for each county are below. The “Other” industry includes any array of employment opportunities not captured in other industries including equipment and machine repair, religious activities, advocacy, grant-writing, dry-cleaning and laundry services, personal care services, pet care services, dating services and mortuary services.

Clinton County:                      Retail Trade  
  Transportation and Warehousing  
  Health Care and Social Assistance

Essex County:                        Mining, Quarrying & Oil and Gas Extraction  
  Arts, Entertainment & Recreation  
  Accommodations & Food Service

Hamilton County: Arts, Entertainment & Recreation  
Accommodations & Food Service  
Other

Warren County: Arts, Entertainment & Recreation  
Accommodations & Food Service  
Retail Trade/Other

Washington County: Agriculture, Forestry, Fishing & Hunting  
Mining, Quarrying, and Oil & Gas Extraction  
Retail Trade

LC-LG Region: Arts, Entertainment & Recreation  
Accommodations & Food Services  
Retail Trade

Table 1. 2016 Average Annual Employment Location Quotient for five counties and the LC-LG Region.						
Industry	Clinton	Essex	Hamilton	Warren	Washington	LC-LG Region
Agriculture, Forestry, Fishing & Hunting	0.0	<b>1.15</b>	<b>1.09</b>	0.21	<b>2.50</b>	0.99
Mining, Quarrying, and Oil & Gas Extraction	0.0	<b>1.86</b>	0.0	0.6	<b>1.93</b>	0.88
Utilities	0.0	0.47	0.0	0.0	0.0	0.09
Construction	0.87	0.79	0.85	0.81	0.94	0.85
Manufacturing	<b>1.14</b>	0.73	0.0	0.94	2.0	0.96
Wholesale Trade	0.0	0.5	0.0	0.51	0.45	0.29
Retail Trade	<b>1.36</b>	<b>1.11</b>	<b>1.06</b>	<b>1.29</b>	<b>1.11</b>	<b>1.19</b>
Transportation & Warehousing	<b>1.35</b>	0.24	0.34	0.0	0.0	0.39
Information	0.57	0.54	0.35	<b>1.04</b>	0.23	0.55
Finance & Insurance	0.3	0.32	0.0	0.79	0.33	0.35
Real Estate and Rental & Leasing	0.8	0.52	0.0	0.68	0.26	0.45
Professional & Technical Services	0.37	0.22	0.0	0.59	0.0	0.24
Management of Companies & Enterprises	0.16	0.2	0.0	0.98	0.0	0.27
Administrative and Waste Services	0.48	0.16	0.16	<b>1.02</b>	0.51	0.47
Educational Services	0.24	0.84	0.0	0.38	0.05	0.30
Health Care & Social Assistance	<b>1.19</b>	<b>1.01</b>	0.0	<b>1.23</b>	0.89	0.86
Arts, Entertainment & Recreation	0.46	<b>1.86</b>	<b>4.59</b>	<b>2.17</b>	0.83	<b>1.98</b>
Accommodations & Food Service	0.93	<b>1.76</b>	<b>1.57</b>	<b>1.55</b>	0.45	<b>1.25</b>
Other Services	0.93	<b>1.10</b>	<b>1.49</b>	<b>1.29</b>	0.84	<b>1.13</b>

Source: U.S. Bureau of Labor Statistics, QCEW NAICS-Based Data Files, 2016.

Table 2 show the total number of industry establishments within each LC-LG County in 2006, 2011 and 2016. As it indicates, the total number of industry establishments within the region varies by County, as do the types of industries with the greater number of establishments. The overall trend is that the number of establishments within all of the counties has decreased from 2006 to 2016, which can be attributed to the Great Recession. However, the LCLGRP's SBLF Program is a tool that can assist in rebuilding the number of businesses establishments within the region.

**Table 2. Total number of industry establishments within each county in 2006, 2011 and 2016.**

Industry	Number of Establishments														
	Clinton			Essex			Hamilton			Warren			Washington		
	2016	2011	2006	2016	2011	2006	2016	2011	2006	2016	2011	2006	2016	2011	2006
Ag, Forestry, Fishing & Hunting	9	13	9	15	13	17	3	6	8	8	10	20	6	5	6
Mining, Quarrying, Oil/Gas Extraction	4	4	3	2	2	3	1	1	2	4	4	3	6	6	5
Construction	152	165	180	134	132	138	30	35	29	207	205	248	142	161	166
Manufacturing	83	85	91	33	27	36	3	3	3	79	79	79	87	90	94
Wholesale Trade	88	106	107	14	14	10	2	0	3	65	69	73	28	33	36
Retail Trade	359	370	379	202	204	231	33	32	41	414	434	447	187	187	208
Transportation & Warehousing	112	120	100	18	17	19	3	4	5	37	40	34	30	22	27
Information	31	37	36	29	25	25	4	4	3	39	34	32	20	15	15
Finance and Insurance	85	86	87	43	49	47	4	4	4	94	96	96	38	40	45
Real Estate and Rental/Leasing	81	79	80	37	30	35	4	9	8	77	69	85	21	17	19
Professional Science & Technical Services	107	116	133	64	69	65	3	3	5	148	169	176	64	62	68
Management of Companies & Enterprises	3	3	2	4	4	2	0	1	2	14	12	14	3	3	2
Admin, Waste Management and remediation	70	67	68	51	43	36	8	6	2	102	96	94	50	43	36
Health Care & Social Assistance	232	238	238	149	146	127	6	5	7	279	275	240	98	104	99
Arts, Entertainment & Recreation	31	30	32	46	48	51	15	14	15	94	103	96	32	38	36
Accommodations & Food Service	195	196	174	214	203	212	60	54	53	429	422	381	115	119	107
<b>Total Number of Establishments</b>	<b>1642</b>	<b>1715</b>	<b>1719</b>	<b>1055</b>	<b>1026</b>	<b>1054</b>	<b>179</b>	<b>181</b>	<b>190</b>	<b>2090</b>	<b>2117</b>	<b>2118</b>	<b>927</b>	<b>945</b>	<b>969</b>

Source: U.S. Census Bureau, 2006, 2011 and 2016 County Business Patterns.

## *Business Development Strategy*

Due to the decline in large manufacturing jobs over the past 30 years, much of the employment opportunity within the LC-LG Region is found within small, service-based businesses. The LCLGRPB believes that small business owners are the backbone of the region's economy and is committed in assisting small business owners with retaining and creating new jobs through its Small Business Loan Fund Program.

### **Objectives**

The overarching objective of the LCLGRPB's Small Business Loan Fund Program is to assist in the creation and retention of private sector employment opportunities and aiding in small business development by providing necessary funding. Priorities are;

- To strengthen the commercial, industrial and service base industries in the area by stabilizing existing businesses and attracting new ones;
- To create new and retain existing jobs; and
- To stimulate new private investment within the region.

This will be accomplished through;

- Assisting existing businesses with maintaining and upgrading operations;
- Assisting the service-based industry with thriving in a region that relies heavily on tourism as its economic engine so that it may maintain its status as a destination area;
- Assisting businesses with the responsible extraction and use/re-use of natural resource found within the region;
- Assisting businesses thrive that provide services to local communities;
- Assisting businesses with providing local products in larger retail markets; and
- Ensuring that small businesses that service the towns and hamlets within the region are provided with the necessary support to thrive.

### **Targeted Industries**

The LCLGRPB Small Business Loan Fund Program targets five types of industries within the region;

#### 1. Service-Based Industries

Service based industries includes Art, Entertainment & Recreation, Accommodations & Food Services, and Retail Trade. Much of the economy of the LC-LG Region is based around tourism and accounts for the highest employment LQ in the region. Examples of small businesses to invest in include restaurants, retail stores, hotels, campgrounds, marinas, and wedding venues.

The need for the type of assistance provided by the LCLGRPB's SBLF is greatest in this area, as banks in the area are hesitant to invest in the hotel and restaurant industry.

#### 2. Natural Resource-Based Industries

Natural resource-based industries include Mining, Quarrying & Oil and Gas Extraction and Agriculture, Forestry, Fishing & Hunting. The Adirondack Park has had a natural resource extraction industry since it was first settled. Timber harvesting and stone, gravel and sand mining

operations are still prevalent in the area, although on a much smaller scale than the old timber and stone quarry giants.

Agricultural operations are prevalent throughout the area. In addition to the traditional agricultural operations, many are turning to agri-tourism, which melds agricultural production with the tourism industry to promote a focus on local good sales. As the LC-LG Region has always been a beacon for local production of goods, this is an area that the LCLGRP B deems important to invest within. Examples of local goods producing businesses for investment within natural resource-based industries include timber re-use, breweries and distilleries, honey, produce, décor, and furniture.

### 3. Transportation and Warehousing Industry

Transportation and warehousing is one of the largest industries within Clinton County as the county does a significant portion of business across the Canadian Border. Bringing goods and products back and forth across the border is an important part of the economy in the most northern County of the LC-LG Region. Potential lending areas in this industry include small trucking businesses and the spin-off businesses that service this industry, including garages, gas stations, and towing services.

### 4. Health Care Industry

Lending for the Health Care industry within the LC-LG Region is more focused on wellness businesses such as day spas, yoga studios and massage and physical therapy businesses. The larger Health Care employers in the area do not meet the small business characteristics for the LCLGRP B SBLF Programs. However, wellness is an area that the LCLGRP B deems as important to invest in, as it promotes healthier lifestyles and all-around quality of life within the region.

### 5. Other Industries

The “Other” Industry category is an all-encompassing category that includes business that provide services to the cities, towns, villages, and hamlets within the LC-LG Region. These types of business include, but are not limited to, heating/ cooling repair, day care facilities, pet care facilities, photography, small contractors, small markets, delis, and salons. These are the types of small businesses that improve life and provide services to tourists and residents within small communities throughout the area. Investing in this industry also provides people the opportunity to grow their small downtowns and revitalize their communities.

### **Business Characteristics**

The LCLGRP B SBLF Program targets small to medium businesses that are locally owned and operated. Special consideration is given to businesses that provide full-time, year-round employment. Creation and retention of jobs are of equal importance, as the region’s unemployment numbers are still below the state and national average. Projects that involve redevelopment of unused or vacant buildings are especially attractive, as well as projects that will assist in revitalizing community, downtown area or economic district. Also taken into consideration will be projects that will create the types of jobs that are appropriate for the existing labor pool.

## **Business Needs**

The types of assistance needed by local businesses includes financing and access to business development skills. The LCLGRP's Small Business Loan Fund Program provides the financing needs to businesses in an area where there is a lack of large, private investment. Access to business development skills can be found in the NY Capital Region at SCORE (Albany, NY), North Country Small Business Development Center (Plattsburgh, NY) or at SUNY Adirondack's Small Business Development Center (Queensbury, NY).

---

## *Finance Strategy and Policies*

Due to the region's rural nature and lack of competitiveness, traditional economic development methods have not been successful in meeting local business financing needs. A majority of the areas industrial, commercial and service businesses are relatively small. Modest in size, they do not have the risk capital for expansion and development projects. Commercial lenders remain reluctant in approving loans for new business ventures and the rural area does not enjoy the luxury of competition among lending institutes.

In an effort to maximize the economic benefits flowing from a project, financing strategies and loan lending criteria will evaluate projects based on the nature and potential of the business or industry, estimated tax revenues derived from a project, community need, environmental impact, local capacity and project readiness.

Anticipated impacts of the LCLGRP SBLF include new business opportunities, improved employment capabilities, revitalization of business districts and communities, retention of a skilled labor pool, and improved quality of life in the LC-LG Region. These anticipated impacts also align with state economic development priorities set by the North County and Capital District Economic Development Councils.

## **Minimum and Maximum Loan Amounts**

Loans from the LCLGRP SBLF will range from a minimum of \$10,000 to a maximum of \$200,000. However, the Loan Administrative Committee can approve an amount above or below the stated amounts with a simple majority vote (4 people).

## **Interest Rates**

Interest rates will be determined at the time the loan is given and will be fixed from the term of the loan. The LCLGRP will not negotiate interest rates with borrowers. Interest rates will fluctuate annually upon review of current interest prime rates quoted in the Wall Street Journal for loans of similar size and maturity. This information will be presented to the Loan Administrative Committee (LAC) towards the end of the calendar year, who will make a recommendation to the LCLGRP Board of Directors. A simple majority vote (8 people) of the Board of Directors will determine the range of interest rates available for the upcoming year.

## **Interest Rate Exceptions**

The interest rate exceptions will be set at the time the loan is made and will be fixed for the term of the loan.

## **Closing Fee**

There is a closing fee of 2% to be paid to the LCLGRP.

## **Equity**

The LCLGRP encourages all borrowers to provide at least 10% cash equity participation.

## **Start-Ups, New Acquisitions and Established Businesses**

The SBLF can be utilized to fund start-ups, new acquisitions, and established businesses. Criteria and terms for all types of loans are the same. Start-ups and new acquisitions may be able to obtain up to 12-months of deferred loan payments providing they supply a complete business plan and a year's worth of projections with back-up on how projections were established. Any deferred loan payments must be approved by the LAC.

## **Repayment Terms**

The terms for loans will be as follows:

Brick and Mortar and Real Estate: 10 – 15 years

Machinery and Equipment: 5 - 10 years

Working Capital: 5 – 10 years

## **Loan Modification**

Loan modifications are allowable under the LCLGRP SBLF, however, they must be approved by the LAC. This relates to any modification of a previously approved loan, including, but not limited to term, use, or collateral.

Loan modifications can include moratoriums on principal payments for a maximum of six months, provided that the borrower has shown a definitive need for interest only payments. In order to receive a moratorium on principal payments, the borrower must provide the LCLGRP with a current copy of their financial statements. They must also provide information on any outstanding debt and accurate financial projections for the following 12 months. LCLGRP staff will review the paperwork for completeness and provide it to the LAC for a vote. Should the moratorium be approved by the LAC, LCLGRP staff will inform the bank of the dollar amount and length of time of the interest-only payments.

## **Collateral Requirements**

Collateral requirements, including general intangibles, will be based on the merit of each request and will vary for each loan. It is the preference of the LCLGRP to obtain a first mortgage on property, however, additional examples of appropriate collateral include liens on inventory, receivables and/or fixed assets, as well as the acquisition of hazard and other forms of insurance. Other additional securities may be identified by the LAC to ensure that all SBLF loans are well collateralized. In addition, a personal guarantee from the borrower is required to secure a loan.

## **Application Fee**

There is a \$250 application fee that must be paid at the time of application submission.

## **Deviation from Loan Terms**

During the loan approval process, a deviation from the loan terms is allowable on a case by case basis and must be approved with a simple majority vote of the LAC (4 people). Reasons for a deviation from the loan terms must still remain in concert within the overall goals of the SBLF, and only be done to enhance the capability of the SBLF at the LCLGRP.

## *Small Business Loan Fund Portfolio Standards and Targets*

Portfolio standards for the LCLGRP B SBLF are designed to achieve the economic objectives outlined in the Regional CEDS and address the major financing issues within the region as whole. While individual loans are looked at to achieve standards, each will vary case by case based on potential economic impact, as long as the total cumulative economic impact of the loan portfolio as a whole achieves the set standards within the SBLF Management Plan.

The SBLF portfolio aims at creating a mix of loans provided to small businesses within the five identified targeted industries in the LC-LG Region. No predetermination of the percent of each industry where loans are to be made has been determined, and it is anticipated that the concentration of loans within each target industry will vary based on the current economic climate and needs of the region.

### **Leveraging of Funds**

Funds from the SBLF may be used to leverage private investments, however, the project must still align with the priorities of the LCLGRP B SBLF, most importantly the investment in small, locally owned businesses. To be classified as leveraged, additional investment must be made within 12 months of approval of an SBLF loan, as part of the same business development project, and may not include accrued equity in a borrower's assets.

---

## *SBLF Loan Selection Criteria*

Projects will be evaluated based on community need, local capacity, project impact and project readiness which are consistent with the SBLF Management Plan. SBLF capital shall be used to make loans that are consistent with the SBLF Management Plan.

### **Eligible Borrowers**

Eligible borrowers under the LCLGRP B SBLF Program include for-profit businesses only and can be sole proprietorships, partnerships, corporations or LLCs with proposed activities to be located with Clinton, Essex, Franklin, Hamilton, Jefferson, Lewis, St. Lawrence, Warren, and Washington Counties of New York State. Businesses may be new or established. Eligible borrowers must be project occupants – no third-party loans will be given. Businesses eligible to receive SBLF assistance include those firms in the manufacturing, industrial, agribusiness, commercial and service industries.

### **Allowable Borrowing**

Eligible borrowers are allowed to borrow for;

1. Fixed asset loans for the acquisition or improvement of land, buildings, plant and equipment, including new construction or renovation of existing facilities, demolition and site preparation.
2. Working capital loans for the start-up of new businesses or conduct of current businesses.
3. The LCLGRP B will entertain other lending scenarios, provided that the exceptions have been approved by the SBLF LAC and the LCLGRP B Board of Director's Executive Committee.

## **Eligible Loan Activities**

The following types of activities are eligible for use of SBLF funding;

- Purchase of vacant property or existing facilities;
- Improvement of land;
- Rehabilitation and renovation of existing property;
- Expansion of current business property;
- Lease-hold improvements and acquisitions;
- Purchase of machinery, equipment, and inventory;
- Working capital loans ; and
- Start-up costs.

## **Restrictions on Use of Capital**

The following activities are not eligible uses of SBLF funding;

- Acquisition of an equity position in a private business;
- Subsidizing interest payments on an existing SBLF loan;
- Providing a loan to a borrower for the purpose of meeting the requirements of equity contributions under another Federal agency's loan program;
- Providing a loan that would result in the relocation of jobs outside of the LC-LG area;
- Enabling a borrower to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the SBLF;
- Providing funds to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit, or any investment unrelated to the SBLF;
- Refinancing existing debt, unless: (a) Recipient sufficiently demonstrates in the loan documentation a "sound economic justification" for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia, constitute a sound economic justification; or (b) SBLF funds will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an SBLF loan. SBLF funds may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an SBLF's costs plus a reasonable portion of the outstanding SBLF loan within a reasonable time frame approved by EDA following the date of refinancing;

- Serving as collateral to obtain credit or any other type of financing without LCLGRP's prior written approval (e.g., loan guarantees);
- Financing gambling activity, or any illegal activity, including the cultivation, distribution, or sale of marijuana that is illegal under Federal law; or
- Providing a loan that would create a conflict-of-interest.

## **PART II: SMALL BUSINESS LOAN FUND OPERATIONAL PROCEDURES**

---

Uniform operating procedures are followed in the administration of the Small Business Loan Fund Program. Administrative procedures are designed to meet the following objectives:

- To provide for the consistent application of loan fund policy
  - To ensure uniformity in the application of evaluation and decision making
  - To maintain a clear record of the disposition of each loan request
  - To ensure that decisions are made in an efficient and prompt manner while adhering to generally accepted lending practices
  - To monitor and evaluate the use of loan fund proceeds and to provide assistance to borrowers as appropriate
- 

### *Administrative Structure*

Staff at the LCLGRPБ provide critical SBLF functions that include meeting arrangements, assisting borrowers with filling out application, obtaining information necessary for a complete application (credit reports, etc), coordinating with member counties, performing program and policy development activities and working with other local public and private lending agencies. Staff are provided with assistance from local development agencies who will provide additional technical assistance to borrowers with completing applications. LCLGRPБ also retains the services of two law firms, one for closing of loans and one for collection of loans.

Once a loan is approved, LCLGRPБ staff will provide specific assistance with loan packaging and loan processing, and work with the designated SBLF bank to set up the loan in the proper SBLF fund account.

LCLGRPБ staff do not conduct environmental reviews, which should only be conducted by those that are licensed to do so. Potential loan recipients should contact their attorneys for further advisement in this area.

### **Loan Administrative Committee**

SBLF applications received from prospective borrowers are forwarded to the Loan Administrative Committee (LAC) for review. The LAC consists of seven individuals; one from each of the five counties within the LC-LG Region, and two at-large members (preference for at-large membership will be given to individuals in the banking or financial lending profession and/or accounting profession). LAC members represent broad based interest groups and can include elected officials and other public servants, economic development professionals, banking or financial community representatives, representatives from the academic community with expertise in business and/or economics; or private sector businesspersons. All LAC members must be residents of LC-LG Region and familiar with LCLGRPБ's SBLF Management Plan and Comprehensive Economic Development Strategy; regional sustainable economic development plans and objectives, investment priorities, and funding sources; and the LCLGRPБ and Loan

Administrative Committee missions, bylaws and applicable state and federal laws. All actions of the LAC will be consistent with the 2018 approved LAC By-Laws, the guidelines set forth in the SBLF Management Plan, and the general administrative policies of the LCLGRP.

Appointments to the LAC can only be made by a simple majority vote of the members of the LCLGRP Board of Directors. Members shall be appointed to terms of two (2) years and staggered. Term expirations are as following;

- Odd years – County representatives from Warren and Essex County, as well as the one at-large position.
- Even years - County representatives from Clinton, Hamilton and Washington Counties, as well as the other at-large position.

Members may serve more than one term. Vacancies shall be filled by appointments made in accordance with the LCLGRP by-laws.

The LAC reviews loan applications, determines eligibility criteria have been met, evaluates the economic feasibility and impact of the project, assess credit risks, make determinations on the feasibility of business plans, and determine if loan amounts are appropriate. A simple majority (four members) represents a quorum and is required for loan application approval. The LAC can approve, approve with conditions, or reject loan applications under \$100,000. Any loan applications that are asking for \$100,001 - \$200,000 must be forwarded to the LCLGRP Board of Directors Executive Committee following approval of the LAC.

The LAC also monitors post loan approval activities through quarterly meetings, prepared quarterly financial reports, and independent yearly audits.

All decisions concerning SBLF applications are the sole responsibility of the LAC, even though certain administrative duties such as records maintenance can be delegated to the LCLGRP Executive Director or staff member. LCLGRP staff have no voting power and do not advocate for any project.

### **LCLGRP Board of Directors Executive Committee**

The Executive Committee of the LCLGRP Board of Director's consists of the Chairman, Vice-Chair, Treasurer, Secretary, and one additional appointed person from the voting members of the LCLGRP Board. In certain instances (as stated throughout this document), decisions made by the LAC will have to be approved by the Executive Committee before any action can be taken. The Executive Committee is voted on by the LCLGRP Board of Director's on a yearly basis.

A simple majority vote (3 members) in favor of the action is needed from the Executive Committee to proceed.

### **Conflict of Interest**

All appropriate parties will adhere to the LCLGRP Ethics Policy.

### **Environmental Review and Compliance**

All borrowers must certify that their projects are in compliance with application federal and state environmental laws and regulations.

## *Loan Processing Procedures*

A loan applicant must, at minimum, provide the LCLGRP with:

1. Complete application form including personal background information;
2. Interim financial statements of the company through the most recent month available, but in no case more than three months prior to the loan application date.
3. Previous two years of business Federal Tax returns or Schedule C (if two years are not available, an explanation must be provided).
4. Previous two years of personal Federal Tax Returns (if two years are not available, an explanation must be provided).
5. Projected balance sheet and income statement for one year following the receipt of the loan
6. Personal financial statement (either on a standard bank form or in a comparable format) for each principal owning at least 20% of the company.
7. Business Debt Schedule (if applicable)
8. Aging Account Receivable and Payable Schedule (if applicable)
9. Current Business Plan (if current ownership has been less than two years)
10. Supporting documentation of worth of collateral
11. Copy of dba, partnership papers or incorporation agreement
12. Completed Credit Authorization Form
13. Certification(s) regarding disbarment/information on pending litigation (if applicable)
14. If funds are being used to purchase equipment or materials, a quote or bid from a reputable vendor must be provided.
15. If funds are being used for any form of construction or renovation project, a quote or bid from a reputable contractor must be provided.

### **Credit Reports**

Credits reports are obtained by the LCLGRP staff for all names listed as borrowers/guarantors on the loan. Credit reports are provided to the LAC as part of the evaluation for approving loans.

### **Appraisal Reports**

Appraisal reports are required once a loan has been approved and must be completed before the closing. The appraisal report is at the cost of the borrower. Appraisal reports should be conducted only by those licensed to conduct such reports.

### **Standard Collateral Requirements**

Collateral requirements will be based on the merit of the project and the economic benefit of each request. It is the preference of the LCLGRP to obtain a first mortgage on property, however, additional examples of appropriate collateral include liens on inventory, receivables and/or fixed assets, as well as the acquisition of hazard and other forms of insurance. Other additional securities may be identified by the LAC to ensure that all SBLF loans are well collateralized. In addition, a personal guarantee from the borrower is required to secure a loan.

## **Standard Equity Requirements**

The LCLGRPБ encourages all borrowers to provide at least 10% cash equity participation.

## **Underwriting**

Write-ups about the loan applications will be completed on the standard form and include all information therein.

- Character – The reputation of the business/management, past credit history of the business and all principal owners and summary of references
- Capacity – Past payment history, past business results and borrowing history
- Capital – How well capitalized is the company?
- Conditions – A discussion of the industry and market conditions of the company
- Collateral – The primary analysis of any loan request will be on the projected cash flow of the business. Collateral will represent a secondary source of repayment
- Management – Does management have sufficient financial skills to operate the business and provide capital to avoid overextending the business

## **Procedures for Approval**

The average time for a loan to be received, processed, vetted, awarded and funds disbursed varies due to several factors, but the LCLGRPБ has established a target of 8 weeks. Generally, this first step is for a prospective borrower to meet with staff from the LCLGRPБ to determine if their projects meets all the threshold criteria for the SBLF. If the project seems to fit well within the parameters of the SBLF, the prospective borrower will be asked to submit all of the necessary paperwork. LCLGRPБ staff, with assistance from local economic agencies, check the paperwork for completeness. A completed application is then analyzed through the underwriting process.

Once complete, the LAC will be provided with the application and supporting paperwork for review. Once sufficient time for review has been met, LCLGRPБ staff will call a meeting with the LAC and the prospective borrower to discuss the loan application, collateral, ask questions, and voice any concerns. Loan can be approved, approved with conditions, or rejected.

If the loan is for \$10,000 - \$100,000, a simple majority vote (4 people) of the LAC will approve the loan.

If the loan amount is above \$100,001, the application information must go to the LCLGRPБ Board of Directors Executive Committee for approval. A simple majority vote (3 people) will approve the loan.

If a loan is approved with conditions, the borrower must meet all stated conditions before funds will be disbursed.

If a loan is approved, the approval will be documented in the meeting minutes and with a resolution passed by a simple majority vote of the LAC and if required, the LCLGRPБ Executive Committee. Once approved, a commitment letter will be issued to the borrower. Once a signed commitment letter is received back by the LCLGRPБ, a closing date is scheduled.

## *Loan Closing and Disbursement Procedures*

### **General Loan Closing Procedures**

Loan funds are disbursed to borrowers as follows:

- SBLF attorney is responsible for preparing all required legal documents for signature by borrower at closing including but not limited to note, mortgage, security agreement, UCC certificate, etc.
- A closing fee of 2% of the loan amount is due from borrower at the time of closing.
- Other costs, such as the SBLF attorney fees, UCC filing fees, mortgage recording tax, appraisals or other fees deemed necessary are the responsibility of the borrower and are due at the closing.

### **Loan Closing Documentation Requirements**

At a minimum, the required loan closing documents include;

- Commitment Letter
- Meeting minutes and resolution(s) approving the SBLF loan;
- Promissory note;
- Security agreement(s) and/or collateral filings;
- Mortgage (if necessary);
- Amortization Schedule;
- Insurance Certificate;
- Personal Guarantee;
- Disbursement Summary and voucher;
- Copy of checks
- Assessments and/or appraisals;

### **Loan Agreement Provisions**

As a condition of the loan, the borrower must meet the following provisions;

- Funds obtained from the SBLF will be utilized in the manner in which they are intended and stated within the loan agreement. Failure to do so may result in legal action against the borrower.
- All borrowers must protect and hold harmless the LCLGRP from and against all liabilities that the LCLGRP incurs as a result of providing funding through the SBLF to assist directly or indirectly in site preparation or construction, as well as direct or indirect renovation or repair of any facility or site.

The SBLF loan documents will include loan call stipulations for instances of non-compliance.

## **Disbursement of Funds**

Disbursement of funds by the LCLGRP will be consistent with the loan commitment.

If the borrower intends to utilize the SBLF funding to purchase equipment necessary for the operation of the business, the borrower must first provide a purchase order from the equipment vendor as proof that the equipment has been secured. At that time, the LCLGRP will work with the vendor to obtain serial numbers or any other form of individual identification for the pieces of equipment. Once the LCLGRP is satisfied that the appropriate equipment has been secured, the LCLGRP will pay the vendor directly for the equipment.

---

## *Loan Servicing Procedures*

### **Collections**

LCLGRP staff are responsible for ensuring payments are made to the SBLF designated bank for each of the active loans. It is the preference of the LCLGRP that borrowers set up automatic withdrawals with the SBLF bank. However, borrowers may mail payment checks to the LCLGRP offices. Should this occur, staff will deposit the check into the designated bank account. Additional staff responsibilities include posting of payments from weekly loan remittance reports provided by the bank and notifying the bank of any loan modification terms approved by the LAC.

### **Monitoring**

Monitoring includes ensuring loan recipients maintain evidence of ongoing compliance with loan requirements including annual insurance filings, collateral, and financial reporting. Proof of insurance, copies of tax returns and an annual job survey are required to be submitted to the LCLGRP office. This information must be received in a timely fashion after the end of the year. Staff at the LCLGRP also conduct yearly site visits.

Staff at the LCLGRP monitor the UCC filings monthly and refile with the NYS Department of State when necessary to maintain updated UCC's.

LCLGRP staff also notify borrowers in a timely fashion when their accounts become past due, counseling of delinquent accounts, and the initiation of any necessary legal actions.

### **Delinquent Account Follow-Up Procedures**

On a monthly basis payment on all loans will be reviewed to ensure that payments have been made on a timely basis and the amount received is according to the loan agreement. If payments are not made on a timely basis or the amount due, the following process should be followed:

Loans which are ten (10) days past due:

- A late fee of 5% of any payment that is ten (10) days past due will be assessed. This is a standard term that is stated within the Promissory Note.

Loans which are fifteen (15) days past due:

- Loans first time past due: LCLGRP staff will place a call to the Loan Recipient, obtain information on the cause of the past due payment, and work with them to bring the loan current.
-

- Loans which are habitually past due: Staff will place a call to the Loan Recipient and discuss terms for payment. At this time, LCLGRP staff will discuss with the recipient the potential resources for not making regular payments and assist them in working through any cash flow issues affecting payments.
- Follow-up calls should be made to the Loan Recipient if they do not make their past due payments as promised.

Loans which are thirty (30) days past due:

- A thirty (30) day letter will be sent to the Loan Recipient.
- If payment is not remitted within 10 days of the date of the letter, a follow-up call is made to the loan recipient to discuss payment options. In some cases, it may be prudent to ask them to meet with LCLGRP staff to discuss their situation. If late payments are habitual, LCLGRP staff will review loan documents and work with recipients to assist through their payment issues.

Loans which are sixty (60) days past due:

- A sixty (60) Second Notice Past Due letter will be sent to the Loan Recipient.
- If payment is not remitted within 10 days from the date of the letter, LCLGRP staff will contact the recipient and set up a meeting to discuss options for keeping payments on track.
- In reviewing their current position, a loan modification may be in order, however any Loan Modification must be approved by the LAC.

Loans which are ninety (90) days past due:

- A ninety (90) day Final Notice letter will be sent to the Loan Recipient requiring the recipients to come and speak at a LAC meeting.
- If payment is not remitted within 10 days from the date of the letter, the loan will be turned over for collection. At any point, the recipient may bring the loan current. Loan modifications are an option and must be approved by the Loan Advisory Committee.

Once payment on a defaulted loan is collected, the priority of payment is as following;

- **First**, towards any costs of collection;
- **Second**, towards outstanding penalties and fees;
- **Third**, towards any accrued interest to the extent due and payable; and
- **Fourth**, towards any outstanding principal balance.

## Foreclosure

If collection efforts are unsuccessful on a defaulted loan or inadequate to recover loan proceeds, LCLGRP will commence foreclosure proceedings to acquire title and possession of affected collateral. All such proceedings will be in accordance with applicable New York State laws.

LCLGRP staff will meet with legal counsel to evaluate the status of the collateral, value of collateral, positions on mortgages, potential of judgements, seizing assets, and the cost to LCLGRP associated with all potential actions. LCLGRP staff will review all options with the

LAC to determine a path forward. LCLGRP will continue to service any defaulted loan until a settlement deemed favorable has been reached.

### *Administrative Procedures*

#### **Loan Files**

Loan files will include; at a minimum;

- Loan Application;
- Commitment Letter;
- LAC and/or Executive Committee meeting minutes and resolution approving the SBLF loan;
- Promissory note;
- Security agreement(s) and/or collateral filings;
- Deed of trust or mortgage (as applicable)

Additional materials within the file can include business plans, payment histories, insurance certificates, private lender loan agreements (if applicable), financial statements, site visit reports, annual reports from borrower and a correspondence log.

The LCLGRP will maintain loan files in compliance with the LCLGRP Records Retention Policy for non-permanent files. All loan files are kept in a fire-proof container.

#### **Write-Offs**

Write-offs of loans are initiated by the LCLGRP staff during a LAC meeting. The history of the loan and its default beyond salvaging are discussed and the LAC makes a recommendation by a simple majority vote (4 people) to write off the loan. Once the recommendation is made, it is brought to a LCLGRP Regular Meeting of the Board of Directors for discussion and a vote. A simple majority vote from the Board of Directors (8 people) approves the write-off of a loan. Once the Board has voted, LCLGRP staff inform the bank that the loan is no longer active, and it is written off the books as a loss.

#### **Interest Bearing Account**

All SBLF funds are deposited in separate interest-bearing accounts.

#### **Small Business Loan Fund Income**

SBLF income is utilized in two ways; (1) it is placed in the SBLF Capital base and used for the purpose of making loans; or (2) utilized by the LCLGRP to cover eligible administrative costs for the SBLF's operation. The anticipated maximum usage of income for administrative costs is 75%.

#### **Evidence of Fidelity Bond Coverage**

The LCLGRP maintains Fidelity Bond Coverage under a Non-Profit Organization Directors and Officers Liability Policy underwritten by Travelers Insurance Company. Individuals authorized to handle funds under the Small Business Loan Fund are covered by this policy.

## **Accounting Principles**

The LCLGRP Small Business Loan Fund utilizes the modified cash basis method of accounting to maintain its financial records. Under this method, revenue is generally recognized when paid rather than when incurred. At the end of each calendar year, the financial records are converted to the accrual basis method of accounting and financial statements are prepared in accordance with generally accepted accounting principles (GAAP). These year-end financial statements include an allowance for loan losses. Management determines the amount of the allowance based upon a review of each outstanding loan. Consideration is given to recent payment histories, quality of collateral, historical default percentages and economic conditions.

The LCLGRP maintains accurate records on the use of SBLF funds and follow generally accepted accounting principles including those prescribed in OMB Circulars A-87 and A-133. LCLGRP accounts are audited under a Single Audit annually, including the SBLF. The findings of the annual audit will be submitted to the LAC, LCLGRP Board of Directors, and the Federal Audit Clearinghouse.

## **Performance Assessment**

The performance of the SBLF is evaluated by LCLGRP staff in a variety of ways. The designated bank for the loan funds provides a weekly loan remittance report to the LCLGRP staff on a quarterly basis. Information utilized in the assessment includes number of active loans, monies lent, number of default loans, number of delinquent loans, and loan payment histories for each active loan. A spreadsheet with this information is also provided to the Loan Review Committee and discussed quarterly at SBLF meetings. The overall health of the funds is discussed, along with information on specific loans, current enforcement and repossession actions, and payment activity.

The LCLGRP SBLF Management Plan is reviewed on a yearly basis by staff at the LCLGRP. Any necessary updates are noted and brought to the attention of the LAC during the last meeting of the year. The document is then updated with the comments provided by the LAC and LCLGRP staff and sent to the LCLGRP Board of Directors for approval.