

# Nishnabotna Valley Rural Electric Cooperative

## *REVOLVING LOAN FUND PLAN*

### ***INTRODUCTION AND OBJECTIVE:***

Nishnabotna Valley Rural Electric Cooperative (REC) has played an active role in the development of rural Iowa. Through its board and staff, the REC has provided not only leadership but financial participation in economic and community development efforts. Through the operation of a Revolving Loan Fund (RLF), the REC is seeking to improve the quality of life in rural areas by contributing to the long-term improvement in the economy, including job creation and retention, diversification of the economy, improving the education and skills of the rural workforce, and upgrading the public infrastructure to improve the health, safety, and/or medical care of rural residents.

### ***POLICY STATEMENTS:***

- The REC will accept and consider applications for loans from the RLF for projects that will significantly benefit rural areas, without restriction to the REC's service area.
- The RLF seeks to minimize its financial participation in all projects. The RLF is not intended to compete with other public and private lenders. The RLF will collaborate with other lenders to provide the financial package necessary to advance the project, but at the same time to minimize the RLF financing component.
- The Board of Directors of the REC is the sole authority for approval or denial of loans from the RLF and is responsible for all decisions and actions of the RLF. The RLF will be operated and maintained solely by the REC.
- To avoid potential conflicts of interest, or the appearance of a conflict of interest, an RLF loan will not be made to any board member, officer, general manager, or supervisory employee of the REC or close relative thereof, or to any REC subsidiary or affiliated organization in which the REC has a financial interest.
- The REC will not condition the approval of a loan from the RLF with the requirement that the prospective recipient purchase electrical or telephone service from the REC or any other electrical/telephone utility.
- Amendments to this Rural Development Plan will require the approval of the REC board of directors. However, no action will be taken to amend this plan without the prior written approval of the Rural Business Cooperative Service (RBS), its successors or assigns.
- The REC RLF is an equal opportunity lender and requires loan recipients to adhere to all equal opportunity laws.
- All information regarding RLF loan requests will at all times be kept confidential by the members of the REC board, the loan review committee, and REC staff. If necessary, the RLF may seek the advice and counsel of outside consultants and sources in order to adequately perform due diligence regarding the project.

### ***REVOLVING LOAN FUND MANAGEMENT:***

#### ***Administration of the Revolving Loan Fund***

Management of the RLF will be "in house" by REC staff in addition to their regular responsibilities, although other community resources may be used. With prior written approval of RBS, up to, but, not more than 10% of the grant funds received shall be used for RLF administration.

### ***Loan Review Committee***

The REC board of directors has appointed a Loan Review Committee (LRC), consisting of both cooperative and community leaders, to review all RLF loan applications. The LRC will perform necessary credit analysis and due diligence in order to make a written recommendation to the REC board of directors, which has final authority regarding all actions of the RLF. The LRC will meet on an as needed basis under the terms of the application procedures listed below.

The Loan Review Committee serves on a volunteer basis. The LRC will have a minimum of 3 members and a maximum of 7 members. If a member of the LRC has a financial interest in the project being reviewed, he/she will abstain from the loan review/recommendation to the REC Board of Directors. Members of the LRC will serve indefinite terms. However, the REC board of directors has the right to replace members of the LRC in the event of resignation or other necessary circumstances.

The Loan Review Committee members were chosen, in part, because of their experience with lending and/or economic and community development projects. Members of the Loan Review Committee at the time this RLF is adopted include:

	<u>Name</u>	<u>Company</u>
1.	Darrell Stamp,	NVREC
2.	Bill McKim	CEO NVREC
3.	Kevin Campbell	Shelby Co. State Bank
4.	Cindy Constable	Great Western Bank
5.	Terry Knapp	Knapp Real Estate
6.	Todd Valine	Shelby County Chamber and Industry
7.	Bruce Nuzum	Iowa Area Development Group

A current and up to date roster of the members of the LRC will be attached to this RLF Plan as new members are appointed. These committee appointments do not reflect an amendment to the RLF Plan and therefore do not have to be approved by USDA.

## **REVOLVING LOAN FUND GUIDELINES**

### **Initial Loan**

The initial loan of "Federal Funds" can be made to eligible entities for qualifying community development or community facility projects in rural areas of the State of Iowa.

**Eligible entities** for initial funds include: non-profit organizations, public bodies, or Federally-recognized Indian Tribes.

**Qualifying projects** include community development or community facility projects which correspond to one or more of the following targets:

- Create or save employment; are open to and serve all rural residents; and are owned by the ultimate recipient of funds.
- Business Incubators.
- Facilities and equipment which provide education and training to residents of rural areas which will facilitate economic development.
- Facilities and equipment to provide medical care to residents of rural areas.
- Projects that utilize advanced telecommunications or computer networks to facilitate medical or education services or job training.
- Project feasibility studies and technical assistance.

**Interest Rate:** The initial loan of the Federal Funds will be made at zero percent.

**Administration Fee:** An annual loan servicing fee of up to 1% of the unpaid principal loan balance may be charged for loan administration.

### **Subsequent Loans / Revolved RLF Funds:**

In general, eligible projects for subsequent loans can include any business venture, governmental public body, or non-profit entity involved in a community or economic development project that creates or saves jobs and/or provides needed community facilities that benefit rural areas in the State of Iowa.

#### **Eligible Applicants include:**

- Corporations
- Limited Liability Companies
- Partnerships
- Sole Proprietorships
- Cooperatives
- Nonprofit Entities
- Governmental Units, including: Local Townships, Municipalities, County Government, Regional Authorities, School Districts, and City or County Hospitals
- Federally-recognized Tribal Authorities

**Application projects** must create or retain employment or provide needed community facilities and services such as:

- Industrial/Commercial Development
- Small Business Expansion or Startup
- Business Incubators
- Community Infrastructure
- Community Facilities
- Medical Facilities
- Training/Educational Facilities
- Tourism Projects

### **Loan Purposes**

Uses of RLF loan proceeds may be for land, buildings, manufacturing machinery and equipment, office and work equipment or infrastructure improvements. Working capital loans will only be considered in conjunction with the purchase of other assets as previously specified with a target limit of 15% or less of the overall project.

In an effort to promote National energy priorities, energy efficiency upgrades / renewable energy projects at commercial businesses are an eligible purpose for revolved RLF funds.

### **Special Loan Limits—Residential Housing Projects**

Recognizing the link between economic development, workforce availability and housing development and in accordance with USDA program limits, up to 20% of the RLF (an amount equal to the REC “matching funds”) may be used for residential housing projects. Please note, consumer financing of a residence is not permitted.

### **In-Eligible Uses of RLF Funding:**

- Refinancing of existing debt, or payment to business owners or partners;
- Projects without any supplemental financing;
- Activities determined to be for investment purposes;
- General improvement loans related to normal replacement needs of a business and unrelated to business expansion/job creation unless related to energy efficiency as stated above;
- Projects that would result in the transfer of existing employment or business activity more than 25 miles from its existing location;
- Agricultural production except where the project is a farmer-owned cooperative or similar, and the agriculture production is part of an integrated business that processes the agriculture products, and the agriculture production portion of the loan will not exceed 50% of the loan amount;
- Projects that are primarily working capital with limited security and/or without other capital purchases as part of the project;
- Construction projects of an individual residential nature;
- Vehicles used for general purposes or that may be considered for personal use;
- Illegal activities, any gambling activities or other activities that in the opinion of the Board of Directors adversely affect RLF interests;
- Projects in which any director, officer, general manager, or supervisory employee of the Intermediary, or close relative thereof, has a financial interest; projects in which any subsidiary or affiliated organization of Intermediary has a financial interest; or projects which, based on the judgment of the Board, would create a conflict of interest, potential for conflict of interest, or any appearance of a conflict of interest.

**Minimum / Maximum Loan Amounts**

The minimum RLF loan will be \$15,000 and the maximum allowable RLF Loan will be the total amount of funds available in the RLF. However, the RLF will generally make loans of \$150,000 or less.

**Supplemental Financing Requirements**

Greater leveraging of outside resources will enhance the approvability of an RLF loan request. At a minimum, RLF projects must include 20% of project funding from other sources.

**Interest Rate**

Interest rates on all subsequent RLF loans will not exceed the prevailing prime rate as published in the Wall Street Journal on the day of loan closing and will be determined based on the evaluation of the applicant’s ability to repay and the necessity of below market financing to advance the project. Interest earned on any RLF loan must stay in the fund for use in making additional RLF loans.

**Administration Fee**

In addition to the interest rate charged, an annual loan servicing fee of up to 1% of the unpaid principal loan balance may be charged for loan administration. However, this fee must be specified in the Loan Agreement signed at closing.

**Closing Costs / “Out of Pocket” Expenses**

The RLF may charge loan recipients for loan closing costs, attorney’s fees, filing fees, etc., as necessary to complete loan documentation. All loan fees will be addressed in the Loan Agreement between the RLF and the loan recipient.

**Loan Terms**

The term of an RLF loan shall not exceed 10 years and may be less than 10 years as determined by the REC Board. Loan deferments may be considered on a project-by-project basis but are not encouraged.

“Balloon notes” (where the loan amortization term is longer than the actual term of the note) are allowable and may also considered on a project-by-project basis. However, the term of the balloon period cannot exceed 10 years. This special provision will be used on a very limited basis and the REC will work with the borrower to ensure they recognize that by program regulation, the RLF cannot refinance any remaining balance when the balloon note comes due.

The Loan Review Committee will make a recommendation concerning the term of the loan and payment frequency (monthly, quarterly, etc.) depending upon project need, the expected life of the security, and the applicant’s ability to repay. The term of the loan will not exceed the expected life of the asset being used as collateral.

While not mandatory requirements, the following maturities will be used as a general guideline:

Building	10 Years
Real Estate	10 years
Equipment	2 to 7 Years
Computers	2 Years



### **Security / Collateral**

The Intermediary will work with the potential loan recipient to obtain security that is adequate for the term of the loan. The nature of the collateral pledged shall be determined by the loan committee on a project-by-project basis. If the same collateral is used in joint financing, the RLF will seek a parity position with other lenders. Types of security may include:

- Mortgage Lien on Real Property
- Machinery and equipment which have a developed market;
- Letter(s) of credit from acceptable financial institution(s);
- Securities issued by the Federal government or its agencies.
- Accounts receivable and inventory for short-term loans; and

The loan recipient will be required to maintain fire insurance, and flood insurance if necessary, on secured assets. In some cases, credit life or key man insurance will be required with the RLF as loss payee.

Personal guarantees from partners, directors or majority stockholders may be required for all corporate or partnership borrowings.

### **APPLICATION PROCEDURES**

All applicants for RLF funding will be required to complete an application form and provide a corresponding business plan with verifiable data which demonstrates that their proposed projects are economically feasible, sustainable, and will provide benefits to rural areas, either through job creation or infrastructure improvements. A copy of the application which includes a list on supporting information is attached to this plan.

1. Applications will be accepted for review when the RLF has a minimum balance of \$15,000.
2. Applications will be accepted at the REC office during normal business hours. The REC is located at 1317 Chatburn Ave, Harlan, IA.
3. REC staff will review applications for completeness and present complete applications to the loan review committee. An application is not considered complete until all required information has been submitted to the REC staff as listed on the attached application.
4. The loan review committee will analyze each project and make a written recommendation to the REC board of directors.
5. The REC Board of Directors will normally review RLF applications at their scheduled monthly Board Meeting. However, if needed and at the Board's option, the Board may call a special meeting to review a loan application.
6. The REC board of directors shall have final authority to approve or deny RLF loan requests, and to determine appropriate terms and conditions.
7. For approved loans, a loan agreement addressing all of the terms and conditions, including monitoring procedures, repayments, delinquencies, defaults and remedies for that project will be prepared by the RLF. In addition, the RLF shall have prepared all notes, mortgages, security agreements, UCC filings and other legal documents necessary to close the loan. The RLF will use appropriate note, mortgage, and other forms which are approved by the State of Iowa Bar Association.

8. Before RLF funds can be disbursed to the loan recipient, all requirements and terms of the loan agreement must be met, and supplemental financing must already be contributed or verified ready to contribute to the project.

### **Review Criteria**

The basis for determining the eligibility/approvability, loan amount, interest rate, and terms and conditions of a revolving loan fund request, and general RLF operational procedures, are as follows:

The loan review committee and REC board will consider the financial need of the project, the probability of success, the security offered, and the overall benefits of the project to rural areas, including the number of jobs to be created or retained, diversification of the economy, the extent of the upgrading of the skills of the rural workforce, the quality of the jobs in terms of pay scale and benefit package, and, for community development projects, improvements to the community infrastructure, facilities, and/or acquisition of equipment that improves the education, health, safety, and/or medical care of rural residents.

### **Loan Monitoring**

The REC board of directors and/or the loan review committee shall monitor all RLF loans to ensure that loan proceeds are spent as identified in the RLF application, that all other sources of financing have been committed to the project, and that the benefits of the project, such as job creation, are accomplished as stated in the RLF application. The REC board and/or LRC shall ensure that RLF lien positions and loan collateral are secure

This loan monitoring will require regular reporting by the loan recipient.

Annual income statements and balance sheets will be collected from the loan recipient. Depending on the nature of the project and security arrangements, the Intermediary reserves the right to require the submission of annual financial reports as audited by a certified public accountant.

The Intermediary will also conduct periodic site visits to meet with the loan recipient, verify collateral and collect any information as required.

At the option of the Intermediary, periodic management information reports may be required of the loan recipient. Management reports may be required on a semi-annual basis beginning six months after the advance of RLF funds and continuing semi-annually thereafter for a period of 3 years or until completion of the project, whichever is the later period. If requested, management reports will include:

- information on the number of jobs created or retained during the reporting period;
- a comparison of accomplishments during the reporting period to the objectives established for the project,
- a description of any problems, delays, or adverse conditions which will materially affect the attainment of planned project objectives and a statement of action taken or contemplated to resolve the situation.

The Intermediary reserves the right to require these reports on a more frequent basis if it is determined to be in the best interest of the RLF.

An annual review and report of the outstanding loans of the RLF, including job creation/retention totals and community benefits, will be compiled by the loan committee for presentation to the REC board of directors.



## **Collection Procedures**

The REC Staff is charged with the responsibility for loan collections and related workouts, collection of charged-off loans, management and disposal of other real estate owned and any other activities related to delinquent accounts.

As part of this responsibility, the REC Staff shall have authority to initiate foreclosures, and collection suits after consultation with the REC's legal counsel. The REC Staff will advise the board of such action at their next regular meeting.

1. Past due notices will be generated and sent to the loan recipient according to the following schedule:
  - First notice sent on the 10<sup>th</sup> day after a note or payment is due.
  - Second notice sent on the 20<sup>th</sup> day after a note or payment is due.
2. If the delinquent account becomes 30 days delinquent, the REC Staff will make phone contact with the loan recipient to inquire about the situation and arrange appropriate corrective action.
  - As a prudent lender and at the intermediary's sole discretion, a one-time corrective action/workout of a delinquent account is permitted. As part of the workout, loan terms may be modified by deferral, reamortization and/or balloon payments. However, the term of the modified loan cannot exceed a 10-year period from the date of the original loan closing.
3. If the delinquent account is not taking steps to cure default and the account becomes 60 days delinquent, a written 30 day Notice to Cure will be issued and sent to the loan recipient via certified, first class mail with a return receipt requested.
4. If the delinquent account does not respond to the Notice to Cure by paying the amount stated in the cure notice, the file will be forwarded to REC's legal counsel to start foreclosure actions.
  - As mentioned earlier, up to 10% of Rural Development Grant funds may be applied toward operating expenses of the RLF over the life of the fund. Operating expenses include the costs of administering the RLF and technical assistance provided to loan recipients by independent providers. Under the authority of this section, costs of administering the RLF includes any costs related to collections and/or foreclosure of a delinquent account.
  - The Intermediary will maintain an aggregated total of any and all related collections / foreclosure costs which are charged against this 10% allowance.



## ***File Retention***

All RLF files will be retained for a period of not less than 3 full years after the loan has been paid in full. After 3 years, the files will be destroyed by shredding or incineration. Files will be secured in a locked, safe place and access will be limited to Intermediary staff with RLF responsibilities. Other security measures will be initiated as needed to protect confidentiality of loan documents.

After review and official action, this RLF Plan is adopted by REC on April 24, 2020

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Secretary Bryan Greve