

REVOLVING LOAN FUND (RLF) PROGRAM FOR SOUTHWESTERN WISCONSIN

PART I THE RLF STRATEGY

The Southwestern Wisconsin Regional Planning Commission will capitalize a regional revolving loan fund under the Economic Development Administration (EDA) Special Adjustment Assistance Program, authorized under EDA's Sudden and Severe Economic Dislocation (SSED) program under Title IX of the Public Works and Economic Development Act of (PWEDA) of 1965, as amended. The area to be included within the program's service territory are the counties of Grant, Green, Iowa, Lafayette, and Richland, the area comprising the Southwestern Wisconsin Economic Development District, designated by EDA on August 4, 1986.

Assistance has been requested for \$330,000 from EDA, to be matched by \$75,400 (18.6% of fund) from local sources. The local matching funds are being requested from lending institutions within the five participating counties. This manual describes the purpose and justification of the Revolving Loan Fund, as well as the standards and policies of the proposed fund, and how it will be administered.

A waiver of a portion of the local match (normally 25% of total project--\$101,350 in this case) has been requested. The total capitalization of the fund will be \$405,400, which is intended for the purpose of making loans to businesses which were directly impacted by flooding, or indirectly impacted by virtue of loss of sales as a result of flooding by customers or suppliers. Several directly impacted businesses within the region may be candidates for loan funds to assist them in recovering from the Great Midwestern Flood of 1993.

A re-use plan for the targeting of funds in the revolving stage of this program will be submitted to EDA within two years of the date of the grant award. The re-use plan will identify more long-term economic development problems and issues, and broader-based goals to address for the region, which further the economic adjustment objectives of Title IX of PWEDA.

ECONOMIC ADJUSTMENT PROBLEMS TO BE ADDRESSED:

Southwestern Wisconsin is the most agriculturally oriented area of the State of Wisconsin. The region relies heavily on agriculture for a source of personal income, tax base and employment. This sector of the economy, however, exhibits rather fluctuating trends from year to year, since it is so dependent upon pricing policies, financial markets and weather conditions, over which there is no measure of control. The economy of southwestern Wisconsin is hit even harder when natural disasters such as the Great Flood of 1993 occur. Southwestern Wisconsin communities, and the businesses which are a part of them, are severely impacted by a loss of farm income when flooding occurs. The area is prone to periodic flash flooding due to the relatively steep terrain throughout the region. A portion of the area is affected due to the presence of the Mississippi River along the western boundary of the area.

Farm income has lagged substantially behind the growth in overall wages and salaries. Total farm income in the region in 1991 was only twice what it was in 1969. Non-farm income, on the other hand, grew at a rate nearly five times as much. Although this proposed project does not directly benefit the farm sector, it does serve to benefit many businesses with which farmers do business--those that may offer needed credit to farmers for the purchase of machinery, equipment and supplies. The proposed project will, it is expected, provide mostly working capital loans to businesses in the agri-business and tourism related sectors. A waiver of the requirement that no more than 50 percent of the portfolio can go for working capital loans is being requested. This waiver would pertain only until it is determined that there is no longer a need to target flood-impacted firms.

CONFORMANCE TO THE ADJUSTMENT STRATEGY AND O.E.D.P.:

The proposed revolving loan fund has been identified in both the Long-Term Flood Recovery Strategy for the Counties of Grant, Green, Iowa, Lafayette and Richland, and the Overall Economic Development Program for Southwestern Wisconsin as a priority project.

The Long-Term Flood Recovery Strategy for the region was a special initiative of the Southwestern Wisconsin Regional Planning Commission to assist in recovering from the Great Flood of 1993 and to help communities avoid recurring problems faced after the periodic flood events of the past, especially in localized areas of the region. The plan is broad-based in the types of activities it addresses. This RLF plan is to implement activities and problems addressed within the Flood Recovery Strategy as they relate to the financing needs of flood-impacted businesses, and the impact of flooding on the agricultural sector and the subsequent impacts on the agri-business community, as well as the impacts on tourism.

Gaps in delivering SBA Economic Injury Loan assistance was apparent within the region, as some borrowers had difficulty in finding information about the program, or did not react in a timely enough fashion to meet deadlines. Aid distributed to farmers in the five county area totaled nearly \$7.6 million for crop disaster assistance and livestock feeding program. These payments were estimated by the ASCS as covering only about 35 to 40 percent of the loss. Total losses not covered, therefore, were in the neighborhood of \$19.0 million to \$21.7 million. Also, many farmers in low lying areas lost up to one-half their hay crops. This amount of loss represents ten percent of all farm income for the year 1991, the most recent data available. The effect on other sectors of the economy which depend on that farm income must be substantial.

The University of Wisconsin Extension Business Management Education Agent for southwestern Wisconsin indicated that the economy of the area would be affected in the following ways:

- Businesses that dealt with farmers, such as implement dealers or other suppliers, experienced a period of time when farmers could not pay their bills because of flood-related losses. Lines of credit were extended to farmers by agriculturally related businesses were not paid, thus creating indirect or secondary impacts on those businesses.
- In the case of the dairy industry, liens were placed on their profits, effectively reducing the farmer's future cash flow and ability to recover losses.
- Many farmers subsequently developed poor credit ratings, and their borrowing power was reduced substantially, adversely affecting businesses they would normally deal with.
- In the attempt to deal with loss in cash flow, it has been predicted that there will be an increasing trend toward farm consolidation. There was also a prediction of an increase in the number of foreclosures. There was a recognizable trend in the number of farm auctions in the Spring of 1994.

The Long-Term Flood Recovery Strategy of the Region identified a number of activities which were directed toward the City of Darlington in Lafayette County. The regional Revolving Loan Fund, however, is directed toward any areas or businesses within the five-county region which have been directly or indirectly impacted by flooding as substantiated by a loss of sales as a result of flooding.

In southwestern Wisconsin, there are approximately 460 firms employing more than 3,700 workers that are ag-based, and more than 630 hospitality-tourism businesses.

IDENTIFIED FINANCING GAPS:

Financing gaps include, but may not be limited to, the following. A brief explanation of how the regional Revolving Loan Fund will assist in alleviating these gaps is provided where appropriate. These gaps are not specific to flooding problems, but are more general in nature.

Limitations relating primarily to financial institutions:

- (1) A shortage of lending capital among many of the area's smaller banks due to (a) regulatory lending limitations, (b) limited experience with other lending programs, (c) limited experience with a correspondent bank relationship, and (d) competition with other investments in which the institutions are engaged.
- (2) The high degree of involvement of area lending institutions, many of whom are agricultural lenders, in providing financing for farmers which have run into financial difficulty, leaving these institutions in a poor position to provide capital for community economic development, even though they may wish to do more.
- (3) The lack of adequate deposits in some institutions which severely limits their ability to participate in commercial and industrial ventures. Some banks carry relatively high Loan to Deposit ratios. Regional RLF participation will tend to free up bank funds which can then be used to make loans to other potential borrowers.
- (4) Conservative lending practices on the part of many lending institutions which are often willing to provide financing only for businesses with which they have a familiarity, and an unwillingness to lend within industries where there is no prior experience by the lender, or within smaller industrial categories where it is difficult to find information on typical operational characteristics.
- (5) The lack of availability of long-term, fixed rate loans for commercial and industrial projects. Lending institutions tend to provide shorter term loans with "look-in" provisions to enable them to change the interest rate if economic conditions change, creating uncertainty for borrowers. The regional RLF will provide fixed rate financing at favorable interest rates. Terms will generally be linked to the life of the assets being financed to the extent possible, but may be subject to other financing requirements.
- (6) The requirements of area lending institutions for borrowers to provide high down payments on loans. Minimum equity requirements may be as high as 30% on guaranteed loans for start-up businesses and 25% for well established firms, with higher requirements for loans which are not guaranteed. The regional RLF will seek to reduce these requirements by its participation when this is the sole barrier to the lending institution making a loan.
- (7) The tendency of lending institutions to require very high amounts of collateral on projects in which they participate, leaving little security which can be attached in the future when additional financing is required. Subordinated financing provided by the regional RLF can reduce the exposure on a bank loan, thereby reducing collateral requirements.

Limitations relating primarily to borrowers:

- (8) The simple lack of seed capital, either debt or equity, for new business ventures. These projects

are often difficult to show they are feasible. The regional RLF is an ideal source for smaller amounts of capital which is often unavailable from any other source.

- (9) The tendency for cash flow problems to arise in firms which provide unsecured credit to farmers or other agri-businesses. Other businesses are a key source of short term funds for many enterprises, and such credit may become unavailable during difficult times.
- (10) Frequent requests from potential borrowers for loans which represent too high a percentage of the total cost of a given project, causing the lending institution to turn away the borrower because of too little equity. The regional RLF may be able to reduce high equity requirements through its participation as a subordinating lender.
- (11) The lack of adequate collateral to support a requested loan. Banks sometimes look at the "belly up" value of a business when determining the feasibility of a loan request, which makes some projects difficult to finance through strictly conventional sources. The regional RLF will look primarily at a firm's ability to repay the debt when evaluating loans.
- (12) A poor credit history on the part of the borrower. Depending on the nature of the history, credit problems in and of themselves will not automatically cause rejection of an application to the regional RLF.
- (13) Poor business planning due to a lack of experience or education in developing plans, especially marketing plans and financial analysis. Educational opportunities will be provided through the University of Wisconsin Extension's Area Business and Management Education Agent for southwestern Wisconsin. Opportunities to learn about how to prepare business plan, as well as on how to read one will be provided for those interested.
- (14) A lack of profitability or poor cash flow on the part of the business. This is a difficult limitation to overcome, and depending on the seriousness of the problem, no amount of debt financing may overcome it. Lower cost financing, combined with lenient terms (such as deferrals), may be able to effectively assist in some situations. Here, the inherent nature of the business in question and management's abilities to overcome problems will be key factors in screening projects.

REVOLVING LOAN FUND GOALS AND OBJECTIVES:

GOAL: Initial Primary Goal: To provide assistance to individual business establishments that have been adversely impacted by direct flooding or a loss of income due to flooding. Examples of businesses that have been indirectly impacted by flooding are agriculturally dependant firms that has lost sales due to a loss of business with the farming community, or tourism related businesses that lost sales as a result of the perception by the traveling public that the business was closed due to flooding.

Future Secondary Goal: To provide assistance to selected types of establishments in the region that are ascertained as having the greatest overall economic impact on the area, and thereby improving the economy of southwestern Wisconsin by bringing new income into the region, leveraging private capital from financial institutions and the business community, and creating new employment opportunities, especially for the long-term unemployed and underemployed.

PRIMARY OBJECTIVES:

- (1) To leverage private debt financing by reducing the risk for lending institutions through RLF participation in selected projects requiring such assistance, and to leverage equity from private firms and individuals who might not otherwise be able to finance activities without regional RLF participation.
- (2) To provide gap financing with attractive terms as an inducement to private sector lender participation, and to alleviate cash flow problems among retail, wholesale and service businesses which have provided unsecured credit to flood-impacted farmers.
- (3) To reduce the high collateral requirements of lending institutions on higher-than-average risk projects through RLF participation, when such participation eliminates or substantially reduces the risks otherwise perceived.
- (4) To provide long-term, fixed rate financing at below market rates of interest for the types of businesses which are targeted for assistance.
- (5) To directly create new jobs and save existing jobs in southwestern Wisconsin by participating in projects which could not otherwise be funded without such assistance.
- (6) To provide employment opportunities for persons most in need of gainful employment--the unemployed, the underemployed, and the economically disadvantaged--through linkages with employment and training providers and agencies serving the area.
- (7) To increase the business management skills of entrepreneurs through linkages with business management assistance programs serving the region.

SECONDARY OBJECTIVES (future):

- (8) To meet the needs of area entrepreneurs by reducing the cost of starting new businesses thus increasing their chances for survival, or otherwise providing financing not available from other sources for the purpose of starting new businesses.
- (9) To reduce the area's reliance on imported goods and services by encouraging the substitution of local capacity to produce these products and services.
- (10) To facilitate the local processing of raw materials and intermediate manufactured products which are currently exported to other areas for processing.
- (11) To support economic activities which will provide a high degree of value added by manufacture.
- (12) To expand the economic base of southwestern Wisconsin by the diversification of export-related businesses.
- (13) To facilitate the expansion of young businesses in their early growth stages when additional capital is needed, but difficult to find.
- (14) To help area lending institutions improve their ability to underwrite non-traditional

commercial loans, and to help them create new business customers for servicing now and in the future.

ELIGIBLE LOAN ACTIVITY:

- (1) Working capital loans for the start-up of new businesses, or for the use of existing businesses in need of such assistance. It is requested that during the initial round of lending, the 50% limitation on the maximum use of working capital loans be waived. Subsequently the limitation on working capital loans would revert back the 50% rule, but may be adjusted, with EDA approval, depending on the quality of the RLF portfolio and the financing needs of the area.
- (2) Fixed asset loans for the acquisition, and/or improvement of land, buildings, machinery and equipment, including new construction or renovation of existing facilities, demolition and site preparation.
- (3) An eligible debt finance mechanism will be the use of loan guarantees with any funds available from sources other than EDA (including any required local match). Loan guarantees may, however, be made with second generation (recycled) funds as a means to reduce the risk of a private lender, thereby leveraging financing that the lender would otherwise not have provided. Prior to using loan guarantees, a re-use plan will be submitted to EDA for its written approval, which details the maximum guarantee percentage allowable, maximum percentage of the RLF portfolio to be used for such purposes, reserve requirements, detailed terms to be incorporated in agreements, responsibilities of the various parties and interest income, if any, to accrue to the RLF.
- (4) For the initial round of lending (obligation of all available funds from the grant and the local match, or until it is determined that there is no longer a need for targeting flood impacted businesses, whichever is later), an eligible finance mechanism will be the restructuring of debt with the use of RLF funds. The purpose of such activity will be solely for the purpose of saving existing jobs. Requests for this type of assistance will be entertained only at the initiation of private lenders, and must be fully substantiated by both lenders and borrowers that there is a need, and that such assistance will enable the business enterprise continue. If refinancing is requested, a stringent and detailed financial analysis will be required which covers a period of up to five prior years and at least two years in the future, as well as recent monthly statements and other current information. Such requests will require more careful scrutiny as to the risk for the RLF fund. (See (8) below under "Ineligible Loan Activity").

INELIGIBLE LOAN ACTIVITY:

- (1) Speculative activities, such as land banking or construction of "spec" buildings by private parties will not be eligible.
- (2) Loan activities which result in economic benefits located outside the eligible area (loan service area) are not eligible for assistance. RLF assistance must be withdrawn if for any reason the activity financed is moved from the eligible area. Any outstanding debt in these cases will become due immediately.
- (3) Loans which would assist in the relocation of jobs from one labor market area to another (reasonable commuting distance of 25 miles) will be strictly prohibited. Loans which would assist a borrower in the relocation of jobs from one community to another within the labor market area will also not generally be allowed. There may be occasions, however, when there are overriding economic reasons for such a move which are in the best interests of the region. Provisions will be made for written objections from the governing body of an affected

community, which when taken into consideration, could prevent such assistance from being provided.

- (4) RLF capital cannot be used to enable a borrower to acquire an interest in a business, unless the need for RLF financing is sufficiently justified and documented in the loan write-up (such as to save a business from imminent foreclosure, or to acquire it to expand employment).
- (5) Also, RLF funds cannot be used to provide the minimum equity contribution required of any federal loan program.
- (6) Loans for the purpose of investing in high interest accounts or other investments not related to job creation or retention will be prohibited.
- (7) RLF capital cannot subsidize interest payments on existing loans.
- (8) After the initial round of lending (full obligation of original grant and local match, or until is in determined that there is no longer a substantial need for targeting flood impacted businesses, whichever is later), RLF capital will not be used to refinance loans made by other lenders, unless there is sound justification and documentation that the RLF is not replacing private capital solely for the purpose of reducing the risk of loss to an existing lender(s), or for the purpose of lowering the cost of financing to a borrower. (See number (4) above under "Eligible Loan Activity").
- (9) Loans which would create a conflict of interest for any officer or employee of the grantee (SWWRPC), or any current or former member of the grantee's Loan Administration Board or staff who reviews, approves, or otherwise participates in decisions on RLF loans will be prohibited. Loan activities which directly benefit these individuals or people related to them by blood, marriage, or law are not allowed.

THE RLF PORTFOLIO: STANDARDS AND POLICIES:

Size of Revolving Loan Fund: The fund is intended to be \$405,400. Of the total, \$330,000 will be provided from EDA funds. The remainder of \$75,400 will come from lending institutions. A partial waiver of the typically required local share of 25 percent of the total fund has been requested. The \$75,400 represents approximately 18.6 percent of the total fund.

Number of Loans and Average Loan Size: The initial round of loans is expected to accommodate between 10 and 14 projects, with the average size loan to be about \$30,000 to \$40,000. There is no absolute minimum or maximum loan amount, as the greatest degree of flexibility possible is needed to ensure that the program is not "number driven" more than is necessary to achieve the desired results. Other program requirements will effectively limit the amounts and percentages that will be borrowed from a single business.

Maximum/Minimum Interest Rates: The minimum interest rate shall be four points below the prime rate as quoted by money centers in the Wall Street Journal, except that it may not be less than 4.0 percent. The maximum rate will not exceed 10.0%, even if the prime rate should exceed 14.0%. Interest rates will float with the prime rate to keep in tune with other capital markets, and to meet EDA standards. The policy will tend to meet several objectives, including the need to meet certain standards contained in this section, while maintaining the maximum flexibility possible in operating the program.

Interest rates to be in effect are shown on a one page chart at the end of Part I. The chart shows the

interest rate for any given project. The interest rate policy is intended to assist in conserving RLF capital by invoking a somewhat higher interest rate than the minimum allowed when a borrower requests relatively high amounts of RLF funds as a percentage of the project. Higher than minimum interest rates will occur only when RLF requests exceed 35% of the proposed project at a prime rate of 8.0 or above, and when the RLF request is above 35-50% of the project when the prime rate is below 8.0.

Most borrowers, due to the fund's overall requirements on private leveraging, will receive RLF interest rates that are at the minimum allowed. All loans which carry an interest rate higher than the minimum will still achieve bank/RLF "blended rates" which are close to the prime rate, except when the prime rate is very low, in which case the "blended rate" will be between prime and prime plus two points.

Loan Terms: Any loan term which truly meets the needs of the borrower, and which returns capital to the RLF for re-lending at the earliest possible time may be provided. Loan terms may be subject to other financing in the project, and as may be recommended by private lenders. Terms will generally not exceed twenty (20) years for real estate, however a shorter term is more desirable. Terms for machinery and equipment will be tied to the expected life of the assets being financed. Working capital loans may have terms of up to seven (7) years.

Flexibility in Establishing Initial Terms and Conditions; Loan Restructuring: Flexibility as to the terms and conditions of the repayment of loans will be provided for. Examples of such include: delaying the first payment for up to 90 days, granting a deferral on the repayment of principal for a period of up to six months, the setting of quarterly instead of monthly payments, and other actions which may meet the needs of the borrower. These considerations will be given when necessary and shall not constitute normal policy. Special consideration will be given to action taken by the primary lender, or the lender's recommendations as to terms of the RLF loan.

When there is a demonstrated need, the Loan Administration Board may temporarily modify the terms of the loan agreement in order to ensure repayment, subject to compatibility with other RLF guidelines.

Leverage Ratio: At least \$2.00 of private funds for every \$1.00 of RLF funds will be maintained by the RLF portfolio as a whole. It is desired that this minimum standard be exceeded, as the RLF will strive to fund only that portion of the identified financial need which represents the minimum amount required, or the "gap" in the financing package. It is necessary, during the initial stages of the project, to maintain the maximum flexibility possible with respect to this issue, given the goals of the program. This policy will be reviewed at least annually, and will be adjusted to invoke a higher leverage of private dollars if such a change will enhance the program in the revolving stage. Also, if the 2:1 ratio proves to be too restrictive for the fund, approval may be requested of EDA to allow a change in this standard.

Prohibition Against Substituting RLF Capital for Available Private Financing: There is a prohibition against replacing private financing which is available for a project with RLF funds. This capital substitution will be avoided by (1) communication with local lenders so that the best solutions can be determined, and (2) requirements for documenting within the application why the RLF funds are needed for the project. Such written documentation will be requested of both borrowers and participating lenders. The fund will be allowed to participate at levels higher than one-third of the project cost only when there is a demonstrated need for such assistance in order to make a viable proposed project to go forward, and when the fund's rule on leveraging private dollars is not broken.

Cost per Job Ratio: The fund will have an overall goal of one job created or saved for every \$20,000 of RLF funds. The Loan Administration Board will annually review this policy and may

adjust this amount downward (i.e., require a greater number of jobs created or saved than this policy requires). The job/cost ratio will not be greater than \$20,000 per job calculated on a full time equivalency (FTE), and applies to the RLF portfolio as a whole.

Equity Requirements: The minimum equity requirement to satisfy the RLF will normally be 10 percent of the total cost of the project, and will typically be cash. Participating lenders will normally require greater amounts of equity on projects that they finance. The RLF may seek to reduce these normal requirements through its participation with the lending institution when this is a barrier to proceeding with an otherwise viable project. The RLF may also require equity participation that is more than or less than 10 percent, to be determined by the L.A.B.'s "comfort level" on the project. Required borrower contributions to a project that are in a form other than cash will be considered, especially for working capital loans.

Collateral Requirements: The RLF will seek adequate security for all loans. Generally, collateral must be more than sufficient to cover the loan amount. For fixed asset loans, the weighted average of the useful life of the assets being financed should equal the term of the loan. The RLF will take a subordinate position to existing liens of record and when necessary, the loans of private lenders who are participating in financing the project. The RLF will normally obtain collateral on the assets being financed, as well as other assets of the company, such as liens on inventories and receivables, and security in the form of assignments of patents and licenses, personal guarantees, etc.

Business Plan Requirement: All businesses which seek loans from the RLF must have a current business plan in place which addresses issues which are pertinent to the project to be undertaken. The plans do not have to be complex, but should address such basic issues as the nature of the business and a brief history, goals that have been set, its customer base, competition, marketing plan, evaluation of past performance, forecasts, etc.

Benefit to Long-Term Unemployed and Job Training Partnership Act Eligible Persons: To the extent possible, the jobs which will be created will be directed toward the long-term unemployed, and JTPA eligible persons. Based on the eligible population as a percent of UC covered employment in the Service Delivery Area, it is the goal that 25 percent of the jobs be created for persons that are JTPA eligible based on income. The goal will be accomplished by establishing a working relationship with area Job Centers operated by Wisconsin Job Service, the S.W. Wisconsin Private Industry Council, and Technical Colleges, and refer borrowers to the Job Centers for any assistance needed. Data to substantiate the extent to which JTPA eligible persons benefit will be sought from the Job Centers as to services they are providing to loan recipients. Employers will be contacted for job impact information as part of a semi-annual written monitoring report.

Time Frame for Closing of Loans During Initial Round of Lending: All of the funds provided from the initial capitalization shall be obligated within two years of the grant award. The L.A.B. may, however, set goals which exceed these program requirements for a faster disbursement if that is possible.

Capital Utilization Standard: During the revolving phase, it is necessary to manage repayment and lending schedules to maximize the amount of capital loaned out or committed at all times. An amount equal to at least 75 percent of the RLF's capital should be in use. (RLF income earned during the current period is not considered as RLF capital.) EDA may make exceptions when there are RLF plans that call for loans that are large relative to the capital base. This "excess funds" rule will require careful monitoring and reporting to EDA.

INTEREST RATE CHART HERE

PART II OPERATIONAL PROCEDURES

RLF Management: The Southwestern Wisconsin Regional Planning Commission will assign a staff member which will be responsible for working with the Loan Administration Board. The Economic Development Planner on the staff has received certification from the National Development Council (NDC) as a Certified Economic Development Finance Professional (CEDFP). As needed, staff will seek to attend post-certification courses that are advantageous to the program.

The Commission will undertake activities to market the Revolving Loan Fund and educate the public as to its purposes. It will also issue reports to the public on its use and the benefits derived. The staffing shall be provided by the Regional Planning Commission. Progress and financial reports will be submitted to the Economic Development Administration as so directed by the agency, meeting all monitoring requirements identified in Section XI of the Title IX Revolving Loan Fund Administrative Manual and the Standard Terms and Conditions, dated March 15, 1993.

Administrative Expenses: Administrative expenses include such things as legal fees, credit analysis, fees to financial institutions for services rendered, insurance, loan closing costs, clerical and professional support for program implementation, monitoring and reporting including salaries and fringe benefits, RLF-related training, travel expenses, portfolio management, and general administration including materials and supplies, rent, audits, etc. based on a prorated usage. The Commission separates its administrative costs into direct and indirect costs. Direct costs can be identified directly with the RLF program. Indirect costs are incurred jointly with all other programs and accounts of the Commission and are not readily assignable. All costs charged against RLF income will be supported by formal accounting records and source documentation, and are supported by a cost allocation plan approved by the U.S. Department of Commerce.

Administrative expenses will be provided from RLF income, and will be used for such purposes during the 12 month period in which it is earned. Any income not used for administration will be returned to the RLF capital base for re-lending. It has been necessary to request of EDA that up to 100 percent of program income in the form of interest earned be made available for administrative expenses during the first two years, when such revenue is low. Thereafter, up to 50 percent of the interest income will be used for such expenses, with the remainder returned to the fund for re-lending.

It is the desire that administrative processing fees not be invoked upon borrowers, other than direct costs passed on that have been charged the Commission for services rendered. The Commission reserves the right to charge a small processing fee which covers part of the costs incurred in processing applications and in monitoring activities. Banks will be requested to provide assistance in packaging loan applications when they can save costs for the RLF.

Loan Administration Board: There will be at least seven persons on the Loan Administration Board. One person representing each of the following interests will be sought: lending, accounting, legal, employment and training, economic development, general purpose local government, and the regional planning commission. The accounting or legal representation may be filled by the lending profession. One member of the Board will be one of the fifteen members of the Regional Planning Commission. Broad geographic representation of the region will be sought, with each of the five counties having at least one representative on the Board. There will be no more than ten persons on the L.A.B. A quorum will constitute the following: A seven or eight member Board shall require a quorum of five, and a nine or ten member Board shall require a quorum of six. In either case, four affirmative votes will be required to approve an application, except that at least 51% of members present must approve an application.

The L.A.B. will be appointed by the Chairman of the SWRPC, with concurrence of the fifteen members. A selection process will be used that enables interested persons to come forward. Recommendations will also be sought from the sectors which are to be represented. An application form requesting a statement of qualifications, as well as the reasons for being interested in the appointment will be provided. Appointments will be made for one year with a possible reappointment for an additional year. It is desired that appointments be made in such a way that there is not a 100 percent turnover in a given year. It is also desired, however, that a variety of persons be given an opportunity to serve on the L.A.B. if they are interested and qualified in doing so. All appointments will be voluntary and unpaid. Reimbursement for travel expenses may be made as provided for in the Bylaws of the SWRPC and the Commission's policies, but subject to the express approval of the Commission.

Coordination with Other Activities and the Mobilization of other Resources: There are a number of financing programs which the RLF can coordinate its activities with. These include: the Small Business Administration (SBA), Wisconsin Business Development (SBA "504" Certified Development Company), Wisconsin Housing and Economic Development Authority (WHEDA), and the Wisconsin Department of Development's Community Development Block Grant Program, and other local RLF's.

The Job Training Partnership Act (JTPA) administered by the Southwestern Wisconsin Private Industry Council, Inc., can assist with job training, screening, recruitment and placement activities in cooperation with Job Service, and area Technical Colleges who are participants in the Southwestern Wisconsin Job Center (one-stop shopping), which directs assistance to dislocated workers and the economically disadvantaged.

The Area Business Management Education Agent of UW-Extension, County Resource Development Agents, and the Small Business Development Centers of the University of Wisconsin Extension will provide business counseling and workshops for small businesses. Southwest Technical College and Blackhawk Technical College can provide Self-Employment Training classes, etc. and the University of Wisconsin-Platteville and the UW Center-Richland may provide educational roles.

Various programs administered by the Wisconsin Department of Development and other agencies will be recommended when appropriate in the course of events. Special attention will be paid to such potential funding sources as the SBA "504" Certified Development Company (Wisconsin Business Development), other SBA programs, and the Wisconsin Housing and Economic Development Authority (WHEDA), which may provide financing or guarantees in conjunction with local private lenders.

OTHER REQUIREMENTS:

Refer to the APPENDIX for copies of the application form and other relevant forms required to process an RLF loan.

Loan Servicing: Loan servicing includes the collection of loan repayments, the maintenance of accurate accounting records of loan transactions and the disposition of delinquent accounts. These functions will be handled by the primary lending institution participating in the loan transaction as a single loan package for the borrower. The bank will transmit collected RLF loan repayments to the RLF. If the participating banks require compensation for these activities, a service fee may be provided to cover such costs.

If the borrower should become delinquent in making his/her payments, the RLF Loan

Administration Board may upon demonstrated need, restructure or modify the terms of the loan in order to insure repayment. In the event of a borrower's default on an RLF loan agreement, the Board may determine it necessary or desirable to take actions to protect or further the interests of the RLF, including taking actions to sell, collect, liquidate or otherwise recover on the loan.

Responsibility for monitoring special provisions of the RLF relating to program objectives such as job creation, civil rights, environment, etc., will be conducted by the Southwestern Wisconsin Regional Planning Commission (SWRPC) staff. This activity will be carried out semiannually through a written reporting process with the borrower. Monitoring reports will be provided to the RLF Loan Administration Board to review. Borrowers are required to provide access to information to ascertain compliance and permit on site compliance reviews. In addition, other overall program monitoring and reporting tasks connected with the RLF program will be performed by the SWRPC staff.

Failure of a borrower to comply with the terms and conditions of an RLF agreement can be grounds for recalling the loan, and if necessary, to sell, collect, liquidate or otherwise recover on the loan.

Sources of Funding to Cover Administrative Costs: RLF program administrative expenses will be financed using: up to 100% of the interest received from RLF loan repayments for the first two years and on any unobligated loan funds on hand; interest earnings from the account holding the initial unobligated local matching funds; and only if necessary, service fees and SWRPC funds. After the first two years of operation, the Commission will limit to 50 percent the amount of program income from interest earnings that will be used for administrative expenses.

Recapitalization Strategy: The RLF may be recapitalized through several sources, including the following: 1) repayment of principal on loans, 2) repayment of interest on loans and interest on unobligated loan funds not used to pay for administrative costs; and 3) contributions received from local units of government (including contributions from local revolving loan funds capitalized through the Community Development Block Grant Program if approved by the Wisconsin Department of Development), lending institutions, public utilities, foundations, local development organizations, businesses and individuals, and other grants or loans if there is compatibility concerning policies and guidelines.

Other Requirements: The following requirements will also be implemented as part of the RLF program:

- **Civil Rights:** It will be an RLF program policy to assure that no person shall be excluded from participation in, be denied the benefits of or be subjected to discrimination under any program or activity receiving financial assistance on the basis of race, color, national origin, religion, age, handicap or sex. The RLF Loan Administration Board will ensure that RLF loans are made available on a non-discriminatory basis and that borrowers will not discriminate against employees or applicants for employment. Borrowers will be required to sign non-discrimination assurances (Form ED-503) and provide information on employment and employment practices (Form ED-612). If the RLF Loan Administration Board finds that a borrower is in violation of this policy, the RLF loan is subject to recall.

An outreach program designed to assure fair access for all potential applicants to information concerning the RLF program will be implemented. It will include publicity through all regular media, and information directed to commercial lending institutions, communities, local development organizations and other relevant channels.

- **Environment:** It is a policy of the RLF program to assure that proper environmental assessment of loan fund projects takes place, that adverse environmental impacts are mitigated or avoided to the extent possible, and that there is a proper balance between environmental enhancement and the goals of economic development. Loan applicants will be required to provide environmental impact information on proposed projects during the application process. As a general rule, RLF loans will not be approved for projects which will adversely impact without mitigation the following: floodplains, wetlands, significant historical or archeological properties, drinking water resources or non-renewable natural resources.

The RLF Loan Administration Board will not approve projects which would result in construction other than underground utilities in the 100-year floodplain as defined by the Federal Emergency Management Agency unless all capacity removed from such floodplain is to be restored by excavation or other appropriate means. Also, no project will be approved which would result in alteration of any wetland or in any adverse impact on any wetland, without prior consultation with, and consent of, the U.S. Department of the Interior Fish and Wildlife Service.

SWRPC staff will assist applicants in providing the necessary environmental review information and analyze impacts from proposed projects. The State Historic Preservation Office (SHPO) will be notified as a part of the environmental review process and asked to submit comments on the impact on historic or archeological properties when the activity to be financed involves construction activities. Where necessary, assistance from the Wisconsin Department of Natural Resources will be requested for complex environmental analyses. Borrowers will be required to comply with all applicable local, state and federal environmental laws. Failure to do so can serve as a basis for recall of an RLF loan.

- **Relocation:** All RLF eligible projects must be located within the five-county target area of Grant, Green, Iowa, Lafayette and Richland counties. If the borrower moves the business from the area, the loan will be recalled (immediately due and owing). Businesses relocating jobs from another labor market area (more than twenty-five miles) are not eligible for RLF loans. Loan applicants will be required to sign an Employer's Certification of Non-relocation form to assure that the RLF does not assist an employer in moving jobs from one labor market area to another.
- **Flood Hazard Insurance:** When the environmental review record shows that a borrower's project is located in a flood plain, flood hazard insurance will be required. This will be accomplished through a stipulation in the RLF loan agreement.
- **Access for the Handicapped:** If an RLF loan is used to help finance a building construction project to which the public will have access, the borrower will be required to ensure accessibility to the handicapped. The borrower will also have to comply with any ADA requirements pertaining to access of disabled employees.
- **Davis-Bacon:** Construction financed in whole or in part by RLF loan funds must meet the requirements of the Davis-Bacon Act, as amended (40 U.S.C. 276a - 276a-5).

Provision for Changes: The RLF Loan Administration Board may amend the Revolving Loan Fund Administrative Plan to accommodate changing conditions and future needs, subject to the Economic Development Administration's (EDA) approval.

RLF LOAN PROCESS:

The steps below provide a description of the functions, responsible parties and schedule for the RLF loan review and approval process

Step 1

- **Publicity, advertising and explanation of RLF program**
- By staff & lending institutions

Step 2

- **Preapplication conference - initial discussion of loan request proposal, compare RLF standards/policies with proposal** (i.e., job cost ratio, leveraging, interest rates, non-relocation, environmental, etc.)
- By staff, lending institution, borrower

Step 3

- **Prepare & submit application, including business plan**
- By borrower. T/A may be provided by staff, financial institution

Step 4

- **Review of application to ensure completeness**
- By staff and lending institution

Step 5

- **Review application & formulate comments**
- Lending institution performs credit analysis including spread sheets with comparative ratios, comments on balance sheet & operating statement, comments on proforma & earnings, debt service capacity, comments on adequacy of collateral, management and Dunn & Bradstreet or other credit report
- Staff reviews for completeness, consistency with RLF requirements, program impact, environmental review, non-relocation, civil rights & credit analysis review, may do own financial spreadsheet analysis
- RLF Loan Administration Board reviews above materials from lending institution & staff and makes a decision which:
 - a) approves application,
 - b) rejects the proposal, or
 - c) requests additional information. Another meeting to review the application is set.

Step 6

- **Loan closing** (standard terms & conditions, security agreements & disbursement)
- By lending institution, staff & borrower

Step 7

- **Monitor implementation of the project**
- By staff and lending institution

**LOAN APPLICATION
SOUTHWESTERN WISCONSIN REGIONAL PLANNING COMMISSION
REVOLVING LOAN FUND**

Part I - Identification of Applicant

Name of Person Making Application: _____

Home Mailing Address: _____

Telephone: (home) _____

Check one: Corporation _____ Partnership _____ Sole Proprietorship _____

Name: _____

Mailing Address: _____

Telephone: (work) _____

Names, Addresses and Positions of All Company Owners/Partners/Corporate Officers:

1. _____
2. _____
3. _____
4. _____
5. _____

Part II - Project Description

Describe the Proposed Project: (Attach additional pages, drawings, maps, as necessary.)

A business plan must be submitted with the application

Part III - Financing

Proposed Financing Structure of the Project:

A. Projected Total Cost of the Project: \$ _____
(Include property purchase, costs of building or remodeling, costs of equipment, starting inventory and any other costs.)

B. Cash to be Contributed by the Owner, the Company or by Investors: \$ _____
Name(s) of Source(s): _____

C. Funds to be Borrowed From Commercial Lenders such as Banks: \$ _____
Name of Lender: _____
Describe Completely and Specifically all Security to be Given to the Lender for Their Loan: _____

D. Funds From Any Other Financing Sources: \$ _____
Source: _____
Security: _____

E. Requested Amount of RLF Funds: \$ _____

F. Proposed Security to the RLF (Be Specific as to the Nature and Location of the Collateral and the Priority Which the RLF Will Have in Each Item of Collateral):

Repayment Provisions. RLF Staff will provide assistance in filling out this section:

- A. Do you understand the RLF interest rate policy?: _____ The rate will be: _____/annum.
- B. Payment Amount(s): _____
- C. Due Dates of Payments: _____
- D. Date of Final Payment or Balloon Payment: _____
- E. Any Other Provisions Regarding Repayment: _____

Part IV - Employment Factors. Job Retention/Creation Related to the Proposed Project:

- A. Existing Jobs Retained: _____ # of New Jobs to be Created: _____
- B. Describe Each Job in Terms of the General Nature of the Job, the Projected Wage/Salary, Full-Time or Part-Time, Number of Hours per Week, and Employer Paid Benefits:

Examples:

Production Worker - \$7.00 per hr. - full time - 40 hrs/week - 1 week paid vacation

4 Counter persons - \$5.15 per hr. - part time @ 20 hrs/week - no benefits

Jobs to be Retained (Attach additional sheets as needed)

Job Title	Wage/Salary	Full/Pt.	Hours/Wk.	Benefits

Schedule for the Job Creation (Attach additional sheets as needed)

Job Title	Wage/Salary	Full/Pt.	Hours/Wk.	Benefits

Identify How Many and Which Jobs Will be Filled by the Borrower, Borrower's Spouse or Other Family Members: _____

AGREEMENTS, COVENANTS AND CERTIFICATIONS OF APPLICANT

1. Applicant shall not discriminate against any person on the basis of sex, race, creed, color, class, national origin or ancestry in any employment or construction contract or activity related to the use of funds received from the Southwestern Wisconsin Regional Planning Commission (SWRPC) Revolving Loan Fund.
2. Applicant shall use the proceeds of any SWRPC Revolving Loan Fund monies to pay the cost of goods and services related to and necessary to complete the project described in the application for which the revolving loan funds were awarded. Any use of such loan proceeds for any purpose other than the completion of such project shall constitute a default, and the entire loan may, at the option of the SWRPC, be declared immediately due and payable.
3. Applicant shall permit inspection by persons authorized by the SWRPC Revolving Loan Fund Loan Administration Board (L.A.B.) of all projects and properties purchased and/or improved with SWRPC Revolving Loan Fund monies. Included in this right of inspection are related project materials, including by way of illustration contracts, billings, receipts, materials, equipment, payroll records and conditions of employment. Any such request for inspection shall be in writing. Access should be granted within three working days and during regular business hours.
4. Applicant shall keep such records concerning the project as may be requested by the SWRPC Revolving Loan Fund L.A.B., and such records shall be kept and maintained for at least three (3) years after the project for which loan funds were awarded has been completed and until the loan funds are fully repaid.
5. Applicant shall maintain fire and extended insurance coverage on the project property, including all real estate and personal property purchased or improved in whole or in part with SWRPC Revolving Loan Fund monies, until the full loan amount has been repaid.
6. Any property interest given as security for the repayment of all SWRPC Revolving Loan Fund monies as agreed, or made as a condition of the granting of the loan shall be provided and maintained unimpaired until the entire loan amount has been paid back. All documents necessary to establish and protect such security interest(s) shall be executed and delivered to the Revolving Loan Fund prior to release of any loan funds.
7. Every loan of SWRPC Revolving Loan Fund shall be subject to any applicable provisions of the

Federal Truth in Lending Act and the Wisconsin Consumer Act.

8. Certain information such as personal financial statements may be required to evaluate a loan application. Omission of an item from any financial statement shall be grounds for denial of an application or for non-consideration thereof. Material misrepresentation of any fact in such financial statements shall be grounds for the SWRPC to declare the outstanding balance of the loan immediately due and payable in full.
9. Applicant hereby authorizes disclosure of any information submitted in support of this application to any financial institution which has agreed or which has been requested by applicant to participate in the project as a co-financier. Applicant further hereby authorizes disclosure by any financial institution or other person or entity of any information disclosed on any balance sheet or income and expense statement submitted in support of this application to the Revolving Loan Fund L.A.B. or its authorized agents for purposes of verification of the accuracy of such information.
10. Failure by an applicant to comply with the terms and conditions of the loan agreement may be reviewed on a case-by-case basis by the SWRPC Revolving Loan Fund L.A.B.. Such failure, if substantiated, may result in the imposition of one or more penalties. The imposition of any such penalty or sanction may be appealed by the applicant to the SWRPC. Sanctions and penalties may include but are not limited to: an increase in the rate of interest, acceleration of the due date of the scheduled repayment, foreclosure on assets and actions on guarantees.
11. Applicant agrees to abide by all applicable laws and codes of the United States, the State of Wisconsin and the County and municipality in which the funded activities are located in carrying out the project for which the loan funds are awarded.
12. As consideration for any management and/or technical assistance that might be provided, applicant waives all claims against the Southwestern Wisconsin Regional Planning Commission, the SWRPC Revolving Loan Fund L.A.B. and its consultants or agents, whether such claim is based upon negligence, contract or strict liability.
13. Applicant certifies that it has not paid, shall not pay and need not pay any sum of money nor transfer anything of value to anyone connected with the Southwestern Wisconsin Regional Planning Commission, Revolving Loan Fund L.A.B. for any help in securing the applied-for financial assistance.
14. **Applicant agrees to pay for or to reimburse the SWRPC Revolving Loan Fund for any services, including attorneys fees for the preparation of closing documents, that are performed by persons who are not an employee of the SWRPC or the SWRPC Revolving Loan Fund.** The applicant also agrees to pay any administrative processing fee (if one is in effect) at the time of the submittal of the application or the disbursement of loan funds, as may be required. Such fees, if any, may be added to the loan amount and amortized over the life of the loan, but deducted from the loan proceeds at the time of loan closing to cover a portion of administrative costs. **NOTE: A processing fee is not in effect for initial flood-recovery projects.**
15. All information contained in this application and all exhibits hereto and other documents submitted in support of this application are true to the best of my/our knowledge. It is understood and agreed that, in the event a material error is discovered in any such information, the applicant shall transmit corrected information to the SWRPC Revolving Loan Fund L.A.B. as soon as possible.

16. The foregoing agreements, terms and conditions shall bind the applicant, its heirs, successors, assigns, personal representatives, and any other person who succeeds to the applicant's interest.

I UNDERSTAND THAT THE SOUTHWESTERN WISCONSIN REGIONAL PLANNING COMMISSION L.A.B. MAY APPROVE A LOAN, BUT MAY MAKE ITS APPROVAL SUBJECT TO TERMS DIFFERENT THAN THOSE PROPOSED IN THIS APPLICATION. SUCH A DIFFERENCE MAY BE IN THE AMOUNT LOANED, THE INTEREST RATE, DUE DATES OF PAYMENTS, CHANGES IN THE PAYMENT SCHEDULE PERTAINING TO DEFERRALS, IF ANY, OR THE SECURITY FOR THE LOAN. I MAY THEN ACCEPT OR REJECT THE TERMS OF THE LOAN OFFERED. IF I CHOOSE TO ACCEPT THE TERMS OF THE LOAN OFFERED, AND THOSE TERMS ARE DIFFERENT FROM THOSE PROPOSED BY ME IN THIS APPLICATION, THE TERMS OF THE SWRPC REVOLVING LOAN FUND LOAN APPROVAL SHALL BE CONTROLLING.

 Typed/Printed Name of Owner/CEO Name of Business

 Title

By: _____
 Signature of Owner/CEO

Date: _____

List of Exhibits for Attachment to RLF Application (Some may not be applicable)

- Application, including an employment schedule
- Statement of Assurances
- A Business Plan
- Maps and Plans
- List of assets to be purchased
- Feasibility Study
- Management Qualifications
- Financial Statements, historical and current
- Forecast of Sales, with assumptions
- Cash Flow Statement
- Prior Years Tax Returns
- Aging of Accounts Receivable and Payable
- Schedule of Notes and Mortgages Payable
- Appraisal Reports
- Offer to Purchase, Purchase Agreement, copy
- Articles of Incorporation
- Resolution Authorizing Corporation to Borrow
- Civil Rights Assurance
- Employer's Certificate of Non-Relocation
- Other materials as may be requested

Materials to be provided in loan file:

- Loan Write-up to include justification and Environmental information
- Documentation of Loan Board Decisions
- Notification to borrowers
- Miscellaneous correspondence
- Notes on site visits, telephone calls
- Copies of Insurance Certificates
- Copies of security instruments, as required (signed documents placed in fire-proof safe)
- of Lease/RLF Agreement
 - Chattel Security Agreement
 - Business Note
 - General Business Security Agreement
 - Personal Guarantee
 - Mortgage
 - Spousal Consent Agreement
 - UCC Filings with Secretary of State and Register of Deeds

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