HOOD ECONOMIC ALLIANCE

Clackamas, Hood River, and Wasco Counties

Board Meeting
December 17, 2021
9:00 – 10:00 a.m.

Remote Only with Zoom Link:
https://us06web.zoom.us/j/84393404936?pwd=YlVXUlFENEJzeklLSFlVS1l3K3F5Zz09
Or call: 253 215 8782
Meeting ID: 843 9340 4936
Passcode: 174359

AGENDA

Topic	**Estimated Time**	**Item**
Call to Order, Introductions		
Minutes *August 20, 2021*	5 minutes	Approval
November 2021 Financial Report	5 minutes	Acceptance
MHEA Revolving Loan Fund Plan	30 minutes	Approval
Funded Loan Updates	5 minutes	Decision
Executive Session per ORS 192.660 (f) (Exempt Documents) *Regular Session Reconvened*		
Loan Actions	5 minutes	Decision
Pipeline Updates	5 minutes	Information
Other New Business, Good of the Order		
Adjourn		

The meeting location is accessible to persons with disabilities. If you have a disability that requires any special materials, services or assistance please contact MCEDD at (541) 296-2266 at least 48 hours before the meeting so arrangements for appropriate accommodations can be made.

Executive Session Protocol
Mount Hood Economic Alliance (MHEA) Board

After discussion agenda items are presented in open session by MHEA staff, the MHEA Chair will state the following: "Pursuant to ORS 192.660(f), Exempt Documents, I call the Executive session of the Mount Hood Economic Alliance to order”

MHEA Chair asks all non-staff and non MHEA members to leave the meeting. Staff will explain to visitors where they can wait and that they will be invited into Executive Session when their agenda item will be discussed.

For each discussion item on the agenda for Executive Session, the MHEA Chair will follow the following procedural steps:

1. Invite the loan applicant (or their representative) into the Executive Session for the presentation of their loan request. MHEA Chair requests a brief presentation from MHEA staff on a summary of the loan proposal or other discussion item.
2. After presentation of information by staff, the MHEA Chair asks if there are any questions for the loan applicant or MHEA staff.
3. Following questions and discussion by the MHEA, the loan applicant (and/or their representative) is asked to leave Executive Session with instruction that they will be invited into the Open session when Executive Session is adjourned.
4. MHEA Chair asks MHEA members if there is any discussion related to loan request that needs to take place before inviting the next loan applicant or other persons in to Executive Session for the next discussion item.
5. Additional discussion between the MHEA members takes place then Steps 1-5 are repeated for each following discussion item for Executive Session.

At the end of discussion, the MHEA chair will close the Executive Session. The MHEA moves back to open session. At this point, the MHEA Chair can ask for a motion of the decision items in open session. Open session is when the MHEA can make decisions on agenda items.

MOUNT HOOD ECONOMIC ALLIANCE
BOARD MEETING MINUTES
FRIDAY, AUGUST 20, 2021
REMOTE VIA ZOOM

ATTENDANCE

MHEA Members: Mike Wells, Renate Mengelberg, Ken Bailey, Michael Friend, Bob Degnan, Jerry Smith, Bob Benton, Matt Lorenzen
Staff: Jessica Metta (Executive Director), Israel Ayala Guevara (Loan Fund Manager), Jill Brandt (Administrative Assistant)
Guests: Carson and Melvin Frei

CALL TO ORDER/ INTRODUCTIONS/CONFLICT OF INTEREST DISCLOSURES

Chair Mike Wells called the meeting to order at 9:03a.m. A quorum was present. Mike called for disclosure of any conflicts of interest. No responses were noted. A round of introductions took place.

MINUTES

Ken Bailey motioned to approve the July 16, 2021 minutes as presented. Jerry Smith seconded the motion. All voted in favor, and the motion passed unanimously.

FINANCIAL REPORT

Jessica Metta asked for questions on the July Financials. There were no questions or comments.

Bob Degnan motioned to approve the July Financials as presented. Renate Mengelberg seconded the motion. All voted in favor, and the motion passed unanimously.

To follow up on last month's Financials, **Bob Degnan motioned to approve** the June Financials as presented at last month's meeting. Renate Mengelberg seconded the motion. All voted in favor, and the motion passed unanimously.

LOAN REQUEST: GRIT MMA, LLC

Israel Ayala introduced the loan applicants, Carson Frei and Melvin Frei. Carson gave a brief statement explaining his passion for mixed martial arts. He emphasized his wide range of experience coaching different age ranges and levels of competitors. Carson thanked the Board for considering his application.

Renate Mengelberg brought up the renewed outbreak of COVID-19 cases, noting gyms were closed down last year, and the restrictions could be reinstated at any time. She asked if the Frei's had plans to address this possibility. Carson replied that he does not plan to open his business until the pandemic is over. He explained he and his team are in the process of the preparatory work. Melvin added that he and Carson are in the beginning stages of negotiations on the lease. There are still issues to be resolved, and he and Carson may have to continue to search for the right lease to secure. Melvin added that he is aware there may be a condition for a copy of the lease before any loan funds are released. Melvin explained approval for an MHEA loan is not immediately necessary to open the business, and the team does not expect to receive any funds until the business is open. He noted the MHEA loan is planned to be working capital once the business opens. In the proposal, the initial timeline was opening in the first two weeks of October.

Michael Friend asked if securing the lease depends on approval of an MHEA loan. Carson replied no. Melvin emphasized that opening the business is not contingent upon receiving an MHEA loan. Israel Ayala confirmed that loan approval will include funds release contingent upon receipt of a lease agreement.

Renate asked for further details on the two FTE positions outlined in the proposal. Carson explained the employees will be himself and his wife, Hayley. Carson explained that both he and his wife have regular wage-earning jobs and do not intend to quit these jobs until the gym is up and running and can support them.

Bob Degnan asked about the popularity of this particular sport in the area. He noted that there are many gyms already open and asked for specifics on the plan to build demand for their gym. Carson stated that mixed martial arts has been the fastest growing sport in the world for the past decade and ranks first in popularity as a combination of martial arts for self-defense. Carson stated that his personal connection with the younger generation is the basis of his advantage in the market. He currently has a crew of teens that he will be bringing to a tournament at the end of the month. His experience with the younger generation has shown that the gyms operating in the area have not connected with many younger, health-conscious individuals who are hungry to learn. Melvin agreed that 24-hour Fitness and other gyms are a totally different type of gym. He stated that the GRIT group looks at COVID as an opportunity since closures have opened up the market at this time. Renate noted that there are five MMA facilities in the Clackamas County area and asked if there has been any comparative analysis. Carson responded that he was familiar with all of the other MMA gyms in the area. He stated that the biggest factor for success is creating a positive, inclusive environment for members. Carson's plan is for the kids to have the whole gym's support in competitions so the environment is geared more towards community support instead of individual workout experiences. Carson stated that his main asset is his flexibility -the ability to work with kids, cardio kickboxing, personal training as well as coaching experienced pro fighters.

EXECUTIVE SESSION

Per ORS 192.660 (f) Exempt Documents, the Mt. Hood Economic Alliance moved into Executive Session at 9:12 a.m.

Regular session was reconvened at 10:02 a.m.

LOAN ACTION: GRIT MMA, LLC

Ken Bailey motioned to approve the loan as recommended by staff with the conditions noted below. Bob Degnan seconded the motion. All voted in favor, and the motion passed unanimously.

- Loan amount: $20,000.00
- Interest Rate: 5%
- Loan Term: 48 months (6 months of interest only payments followed by 42 monthly payments and the balance due on the 48th month)
- Loan Payment: $520.00
- Loan Fee: $300.00

1. The vehicle will not be assigned as collateral.
2. Guarantors Melvin and Christine Frei will provide financial statements to staff.

OTHER NEW BUSINESS/ GOOD OF THE ORDER

Cindy Moore from Clackamas County brought up the original IGA between Clackamas, Hood River and Wasco Counties that comprise the MHEA territory. This was brought up in the process of Matt Lorenzen's selection to the board and the renewal of the other Clackamas County appointees. Cindy noted this is a great opportunity to revisit the IGA to clarify the rules and responsibilities of each county towards appointment of members as well as each county's oversight of the Board. Cindy explained that committee member recruitment process for Clackamas County representatives has been changed by the Clackamas County Commissioners. The Commissioners would like the MHEA Board to run their own recruitment and appointment process independently with the intention to empower the board and remove the need for Clackamas County to be in the middle of the process.

> *Discussion: Ken Bailey asked if other counties would need to use this structure or if just Clackamas County would make this change. Bob Benton noted that the MHEA has had board openings for an extended period of time. Empowering the MHEA Board with recruitment would make the process more streamlined, but all three counties should be consulted for approval to be equitable. Board members felt that all three counties would have to agree to this change with a new IGA. Ken suggested that Jessica contact each county commission to ensure they are aware of the change and have the opportunity to comment. Jessica will let the Board know of any comments at the next MHEA meeting.*

Ken asked for clarification on general policies and the guidelines used to approve or disapprove loans. He noted there needs to be more consistency. Renate Mengelberg stated that having policies available to distribute to applicants is helpful. Mike Wells stated that it will be important for MHEA to not restrict its abilities. Renate asked about the policy on interest rates, noting the rate should be based on creditworthiness and merits of the project. Jessica said she is continuing to work on a Revolving Loan Fund Plan for MHEA to consider and will have it ready for the next meeting.

ADJOURNMENT

Mike Wells adjourned the meeting at 10:15 a.m.

Respectfully submitted by Jill Brandt, MCEDD Administrative Assistant

MHEA Financials
November 2021

Revenues						
	Budget	To Date	Balance	% of Budget	Projected Year End	
7/1/21 Relending Fund Balance	169,538	404,826	0		169,538	Decreased by 3456.25 to reflect 6/30 Admin Charges
Loan Principal Payments	82,090	49,871	-32,219	61%	223,726	
Loan Relending Revenues	251,628	454,697	203,069	181%	393,264	
Administration Revenues						
Investment Account Interest	2,500	895	-1,605	36%	2,400	
Loan Fees	1,500	24	-1,476	2%	1,500	Includes Late Fees
Interest Payments	38,839	7,880	-30,959	20%	26,638	
2021-2022 Admin Revenue	42,839	8,798	-34,041	21%	30,538	
Expenditures						
Relending Funds						
New Loans	150,000	0	-150,000	0%	150,000	
Total New Loans	150,000	0	-150,000	0%	150,000	
Administration Expenses						
Audit	2,500	2,620	120	105%	2,450	
Bank Fees	100	18	-82	18%	100	
Legal Fees	1,000	0	-1,000	0%	1,000	
Loan Expenses	1,000	0	-1,000	0%	1,000	
State Ethics Commission	350	0	-350	0%	375	
Website	20	3	-17	17%	450	
Administration	18,000	8,050	-9,950	45%	19,000	November Admin not invoiced as of 12/10/21
Total Admin Expenses	22,970	10,691	-12,279	47%	24,375	
Ending Cash Balance	121,497	452,804	331,307	373%	249,427	

Memorandum

To: Mount Hood Economic Alliance Board of Directors
From: Jessica Metta, MCEDD
Date: December 13, 2021
Re: Revolving Loan Fund Plan

Overview

At the request of the MHEA Board, staff has developed a draft Revolving Loan Fund (RLF) Plan that would help provide process and policy guidance on the use of MHEA's loan funds. I used the Oregon Investment Board RLF Plan as a template and incorporated MHEA materials about the purpose and intent of the fund. This may be more complicated than what the Board is looking for, but we can start with everything and then cut out what you think is unnecessary. Chair Wells and Board Member Ken Bailey reviewed a draft of the plan with staff and this version reflects their comments.

Request

MHEA Board Members are asked to review the plan and provide feedback at the December 2021 Board Meeting. If comfortable, the plan could be approved at that meeting.

Mount Hood Economic Alliance Revolving Loan Fund Plan

Clackamas • Hood River • Wasco Counties

Adopted: DATE

This page intentionally left blank.

Table of Contents

Introduction

The Mount Hood Economic Alliance (MHEA) Revolving Loan Fund Plan provides a policy structure for the management of the MHEA loan program. It is adopted by the MHEA Board.

Program Establishment:
MHEA was formed through an intergovernmental agreement in 2005 between Clackamas, Hood River and Wasco Counties. Originally the conduit for management and investment of one of Oregon's lottery fund programs—Regional Strategies—the Alliance now focuses exclusively on providing gap financing loans for local businesses. MHEA provides secondary financing for businesses unable to secure (enough) financing through conventional banking means. MHEA's loan fund is currently capitalized at about $900,000.

The primary work conducted by the MHEA Board is the provision of low-interest loan funding for business development projects that create jobs and leverage additional investment in Clackamas, Hood River and Wasco Counties. Areas of emphasis include: Agriculture, recreation equipment and tourism; technology, including software for both for training and job development; and small business manufacturing and communications. Funding priority is on traded sectors that bring in dollars to the region and those that expand expenditures by local residents. Both new business and expansion of current business activities is targeted.

Administration:
The MHEA Board is comprised of 12 voting members: six from Clackamas County, and three members each from Hood River and Wasco Counties. (When the MHEA was established with Regional Strategies funding, Clackamas County's per rata contribution was approximately double that of Hood River and Wasco counties combined shares, thus the additional board members). Clackamas has two alternate slots and Hood River and Wasco Counties each have one alternate. One of the Wasco County seats is designated for the Confederated Tribes of Warm Springs. Board members are appointed by their respective County Commissions to two-year terms.

MHEA contracts for staffing administration of its program. Mary McArthur was the contractor from the start of the program until 2020 when she retired. At that time, the contract moved to Mid-Columbia Economic Development District (MCEDD). MCEDD staff adheres to the MHEA adopted Revolving Loan Fund (RLF) Plan to manage the program.

FUND STRATEGY

MISSION

The MHEA Loan Program provides flexible loan funding for business development projects that create jobs and leverage additional investment in Clackamas, Hood River and Wasco Counties.

PLAN GOALS

Minimum Funding Criteria:

The Board has the authority to approve exceptions to the below minimum funding criteria, which are listed as goals:

1. Project creates/retains at least 1 job for every $25,000 of MHEA funding received.
2. Project leverages a minimum of $1 for every $1 of MHEA funding received.
3. Project is located in and benefits residents living in Clackamas, Hood River or Wasco Counties.
4. Project is ready to go, with job creation to be completed within two years of a signed contract.
5. Project is part of a specific community business development strategy or private business plan.

Project Review Considerations:

- What is the quality of jobs being created? (Wages, career development)
- How much additional funding is being leveraged?
- Does the project benefit the region's economic development? Does the business sell goods or services outside the region?
- What other funding options have been pursued?

Additional Project Funding Decision-Making Guidelines

Focus of the business development loans are on economic development projects that:

- Achieve an average wage level at or above the county average wage.
- Demonstrate readiness to proceed (eg, land use, permitting, financial commitments in place)
- Demonstrate financial need and feasibility, and return on investment (tax base increase, state tax revenues generated, new sales generated, community economic impacts, etc).
- Benefit the economy of the region or multiple firms/entities in the region.
- Demonstrate ongoing sustainability.
- Demonstrate other unique characteristics, such as achieving average wage level of jobs created, firm size of companies receiving benefits, businesses benefited that are minority-owned, businesses benefited that are woman-owned, and number of Oregonians benefiting.

Loan Award Funding Guidelines:

Applicants must demonstrate that they have been unable to acquire conventional financing for the full project. MHEA can be used to provide gap financing in partnership with conventional financing.

- Applicants must sign a personal and corporate (if applicable) guarantee for the funds.
- Loans should be fully collateralized, although MHEA can take a secondary position to another lender.
- Annual reporting and documentation of project progress, job creation, funds leveraged, budget and achievement of performance measures are required of all funded projects. Job creation must be documented with payroll records, and reported quarterly through Oregon Employment Department Quarterly Reporting forms. The Board may request more frequent reporting as needed.

FINANCING POLICIES

1) Loan Related Fee Policy

The following fees will be charged to the loan clients. Any of these fees may be waived or modified at the discretion of the MHEA Board.

- An up-front loan fee of 1.5%.
- All third-party fees associated with each individual loan, such as title insurance, appraisals, credit reports and filings fees, etc.
- All fees associated with collection of past due loans or loans in default.
- All fees associated with other financing obtained through sources outside of MHEA.
- A loan modification/restructuring fee may be charged.
- A prepayment penalty fee may be charged. A minimum prepayment fee could be $250, if charged, and could generally be 0.5% of the outstanding loan balance.

2) Interest Rate Policy

Interest rates will be set by the MHEA based on recommendations from staff that are based on cash flow analysis and risk. Interest rates will generally be fixed for the term of the loan. MHEA does not provide a variable or floating interest rate. Rates may vary between individual loans, or be stepped to allow for specific circumstances. Interest rates will generally be set by the MHEA

- Interest Rate - based on risk of project.

MHEA Staff Risk Category	**Margin**	**Index** – WSJ Prime Rate*	**MHEA Interest Rate***
Low	2.0 to 4.5%	4.5	6.5 to 9.0%
Medium	4.0 to 6.0%	4.5	8.5 to 10.5%
High	5.5 to 7.5%	4.5	10 to 12.0%

*The Wall Street Journal Prime Rate is subject to change. When the WSJ Prime rates changes, so do MHEA interest rates.

Default Interest Rate: Upon default, including failure to pay upon final maturity, the interest rate on a loan agreement may increase by up to five (5) percentage points per annum based upon a year of 365 days.

Performance Interest Rate: As a performance incentive, the MHEA may authorize a reduction in the interest rate over the course of the loan, provided all loan payments are made on time, as agreed and all other loan requirements are met. This rate reduction option will generally be used with loans that are scheduled at a higher interest rate due to their risk rating since regular loan payments, communication with MHEA staff and the lending relationship with MHEA may mitigate factors initially contributing to a higher risk rating and higher initial interest rate.

3) Equity Policy

The MHEA Board has flexibility in requirements for equity or cash infusions in a particular project. The MHEA Board will consider the financial strength of the borrower, other collateral, strength of guarantors, and other important and pertaining factors when varying from general guidelines. This equity can be in capital (or lien free assets) added to the project from the borrower or investor sources.

The general guidelines for equity or cash infusions are as follows:

- For fixed asset loans to existing companies, a minimum of 10% (percent) of the project must generally come from the borrower. This can be in capital (or lien free assets) added to the project from the borrower or investor sources.
- For loans to start-up companies, a higher percentage of 25% (percent) will usually be required.
- For working capital loans 25% is required.
- For real estate loans 25% or more is required if the Loan to Value percentage is 75% or more. 10% or more is required if the Loan to Value percentage is less than 75%.
- Assets may be adjusted to reflect Fair Market Value.

4) Standard Repayment Terms Policy

The term of the loans will not exceed the useful life of the assets being financed. The ability of the borrower to repay will also be taken into consideration. When possible, shortest terms possible without detracting from the initial and ongoing success of the borrower rather than longer terms will be set to recycle funds faster to make more loans and to reduce the risk to the RLF. Generally terms will generally range from 1 to 5 years but may be amortized over a longer period and include balloon payments. The MHEA Board may grant deferral of principal payments for up to one year when necessary for the success of the project. During principal deferral period, the borrower must continue to make payments of the interest due on a monthly basis on the scheduled payment due date of their loan; unless otherwise decided by the MHEA Board.

5) Collateral Policy

The MHEA will secure each loan to the maximum extent possible in the judgment of the MHEA Board and require collateralization, excepting only in cases determined by the MHEA Board to warrant the greater risk of loss inherent in less collateral protection. Security interests will be taken in available assets, both business and personal, taking the best lien obtainable in any equity the borrower has, might have or might later gain in all such assets. In addition, MCEDD/ MHEA will obtain personal guarantees of owners with

20% or larger interest, corporate guarantees of related entities, and assignments of leases and insurance policies including hazard, flood, key man or other life policies naming MCEDD/ MHEA as loss payee as appropriate. Such collateral and other security may be subordinate to existing liens of record and/or liens securing other loans involved in the project. Personal guarantees may be collateralized with assets of the guarantor. The amount and type of collateral will be negotiated between MCEDD/ MHEA and the borrower. Generally, if a borrower has multiple loans with MCEDD/ MHEA from separate funds sources, the loans will be cross collateralized.

Combined Loan To Value Ratio (CLTV) requirements will be determined on an individual loan basis depending on the strength of the financial position of the borrower and the project. The gap financing this program provides often requires that MCEDD/ MHEA lend a higher dollar amount or at a higher loan to value percentage than ideal on physical assets to allow borrowers to have adequate cash to meet MCEDD/ MHEA working capital requirements. MHEA loans will most often be in a subordinate lien position, therefore sufficient cash flow for debt service is considered to be of greater importance than set "loan to value" ratios. Optimum goals for maximum CLTV percentages are as follows:

Real Estate	90%
Equipment, furniture and fixtures	80%
Leasehold improvements*	60%

*(term limited to less than period of lease)

Methods of valuation of assets used for collateral will be objective. Real estate will be valued by an approved licensed appraiser or by county assessor office. If a lead lender obtains an appraisal, MCEDD/ MHEA may accept valuation from a valid or true appraisal rather than requiring another. Other asset types will be valued by methods that adequately show market value by use of objectively obtained market comparisons, appraisals by qualified and approved persons, or by MCEDD/ MHEA staff valuation. The valuation will take into consideration book value discounted according to useful life and condition. In all cases, valuation will need to show due diligence and objective evidence in addition to values provided by the borrower. Documentation of collateral values will be required in the loan file.

Working capital (current) assets will not be considered as collateral for long-term debt.

6) Cash Flow

An applicant must demonstrate sufficient cash flow for debt service.

7) Loan Size Policy

The MHEA Board may determine the loan size minimum and maximums on individual loans, within the constraints of funds available to lend. Loans generally range from $5,000 to $200,000.

8) Construction Loan Guidelines

The following guidelines apply to MHEA loans funding construction and remodel projects, but typically will be implemented on loans that exceed $15,000.

- Borrower will provide staff with a "Contractor Final Waiver and Release of Lien and/or Claim" or "Affidavit for Partial Payment" signed, notarized and executed by each contractor, sub-contractor, supplier, vendor or business providing more than $5,000 of products or services to the construction project financed by the MHEA loan. Staff may obtain a title report or conduct other types of lien searches, at the expense of the borrower, to determine who needs to provide a Waiver/Release or Affidavit.
- Each loan will have a construction disbursement period not to exceed six (6) months. The MHEA may approve extensions of this period as needed. The final loan principal amount will equal the sum of all authorized loan fund disbursements and will have terms and conditions as approved by the MHEA.
- Monthly interest-only loan payments will be made during the disbursement period with principal and interest payments beginning according to the loan terms approved by the MHEA.
- Each loan disbursement must be approved by staff and the borrower with a signed disbursement authorization form and supporting invoices of the work done or to be done on the project.
- MHEA will have the discretion to approve a contingency amount for each construction loan; typically this amount will be 10% – 25% of the construction project amount. Contingency funds may be used for, but are not limited, to the following areas of higher than anticipated project costs: labor, permits, supplies, environmental issues, contractor error, contractor dismissal, weather, building site issues and changes in building code and laws. Contingency funds will be disbursed when funds from a project budget category are fully dispersed and additional funds are requested by borrower and the request is approved by MHEA staff. If there are remaining undisbursed contingency funds after the completion of project, these unused/undisbursed contingency funds will not be disbursed to the borrower unless approved by staff; if applicable the loan amount will be reduced by the amount of undisbursed funds.
- MHEA will approve a holdback amount to be disbursed after completion of the project is verified by staff and permanent occupancy documentation is provided, as applicable. The holdback amount typically will be 10% – 25% of the construction project amount (not including contingency funds). Undisbursed approved funds will not be included in the final MHEA loan amount.
- Staff will inspect a construction project to ensure that the construction work is proceeding according the construction project budget. Appropriate documentation will be maintained in the loan file.
- Other terms and conditions related to construction loans may be approved by the MHEA on an individual loan basis.

LOAN SELECTION CRITERIA

1) **Eligible Applicants**
To be eligible an applicant must be a private for-profit firm or a public or private non-profit organization.

Applicants will be required to demonstrate that the funds are not otherwise available or are not taking the place of private financing on terms, which in the opinion of the MHEA, will permit the accomplishment of the project.

Applicants must show a reasonable assurance of repayment of loans. Among other things, this will be judged by standards of character, capacity, collateral, conditions and capital.

Applicants may not have delinquent federal, state or local government debts or liens or judgments filed against them or their property. These types of debts and liens may be allowed if an approved workout/repayment plan is in place.

Applicants are not required to be U.S. citizens or have legal permanent residency. Applicants may be those with an Individual Taxpayer Identification Number (ITIN).

2) **Eligible Projects**
Eligible projects may be for expansion, start-up or retention of a business that will meet the goals of the MHEA. Loans may be for fixed assets or working capital. Loans must be for community development projects, the establishment of new businesses, expansion of existing businesses, creation of employment opportunities, or saving existing jobs. Loans may include, but are not limited to:

a. Eligible fixed asset loans may include:
   - Land purchase costs, including engineering, legal, grading, testing, site mapping and related costs associated with acquisition and preparation of land.
   - Building construction or acquisition, including related costs for engineering, closing costs, etc.
   - Machinery and equipment costs including delivery, installation, engineering, and associated related costs.
   - Other costs contributing to the value of the project fixed assets, such as taxes and interest on interim or construction financing.
   - Infrastructure costs.
   - Debt consolidation and/or refinancing of loans, if new loan will produce favorable business environment and meet MHEA goals. (personal debts can be included if it can be documented that the personal debt funds were used for business purposes).
   - Business acquisitions.
   - Pollution control and abatement.

b. Eligible working capital loans may include:

- Inventory purchases.
- Accounts receivable financing.
- Operating expenses.
- Other non-capitalized assets.
- Debt consolidation and/or refinancing of loans, if new loan will produce favorable business environment and meet MHEA goals. (personal debts can be included if it can be documented that the personal debt funds were used for business purposes).
- Feasibility studies.
- Interest and reasonable fees.

c. Eligible businesses and entities may include, among others:
   - For-profit enterprises, not otherwise precluded in the list of ineligible loan activities listed below
   - Nonprofits with economic activity which demonstrate a capacity for repayment of a loan.
   - Cooperatives.
   - Transportation services.
   - Hotels, motels, tourist homes, bed and breakfast establishments, conventions and other tourist and recreational facilities.

3) Ineligible Loan Activities and Purposes

Ineligible loan activities and purposes include the following:

- Loans to entities outside Clackamas, Hood River or Wasco Counties if neither the entity nor the project is located in those three counties and the loan cannot be shown to provide benefit to the economy of those three counties.
- Loans which have the direct effect of relocating jobs from one place to another within Clackamas, Hood River or Wasco Counties unless jobs would be lost to an outside area.
- Loans for the purpose of investing in accounts or securities.
- Loans to lending or investment institutions or insurance companies. (*Note*: this does not include insurance agents. They are eligible to seek a loan)
- Loans to an entity where the major purpose of the business is gambling or pornography.
- Pyramid sales plans.
- Projects that would adversely (without mitigation) impact flood plains, wetlands, significant historic or archeological properties, drinking water resources, or nonrenewable natural resources without mitigation.
- Any project that is in violation of a Federal, State, or local environmental protection law or regulation or an enforceable land use restriction unless the assistance given will result in curing or removing the violation.
- Assistance in excess of what is needed to accomplish the purpose of the borrower's project.

- Personal debt payment, consolidation or refinancing, if not associated with business.
- Any illegal activity.
- Loans to employees or board members of MHEA or to organizations for which said persons are directors or officers or in which they have ownership of 20 percent or more.
- Loans that would create a conflict of interest.

PERFORMANCE ASSESSMENT

MCEDD/ MHEA will assess performance by comparison with the portfolio standards and targets. Other loan portfolio and individual fund data to be measured and reported include:

- Number and dollar amount of loans.
- Number of loans and outstanding loan balances performing as agreed compared to:
    - Number of and dollar amount of outstanding balances of delinquent loans 30 or more days past due,
    - Number of and dollar amount of outstanding balances of loans in default
    - Number of and dollar amount of outstanding balances of loans written off
- Degree of leveraging of private dollars to loan dollars
- Degree of leveraging of public dollars to loan dollars
- Number of jobs created and/or retained

Performance of the MHEA portfolio will be assessed continuously. Reports will be provided monthly to the MHEA Board.

Revolving Loan Fund Operational Procedures

ORGANIZATIONAL STRUCTURE

1) Administration

MCEDD will maintain an office open for business during regular business hours for the purpose of administering the revolving loan fund. The office is located at 802 Chenowith Loop Road, The Dalles, Oregon 97058 and the telephone number is: (541) 296-2266. Records of all loans shall be kept at the office as well as the administrative rules, procedures and other records. Professional staff services are provided at the office including business assistance, advisory services and referral for prospective borrowers and borrowers. All loan processing, documentation, monitoring, analysis, compliance and all other required professional and record keeping functions of the MHEA are handled in this office.

The staff positions of MCEDD that work with the MHEA loan program consists of the Executive Director, Assistant Project Manager, Loan Fund Manager, Finance and Operations Manager, Office Administrator, and Administrative Assistant. A third party auditor will have access to and work with the RLF and its files.

2) MHEA Board

The MHEA Board is the governing body of the MHEA revolving loan fund program. The Board has the power to administer the program, under an Intergovernmental Agreement signed by Clackamas, Hood River or Wasco Counties in 2005. The MHEA has been delegated authority by the IGA to make loan policy and make all major loan decisions including loan approvals and subsequent loan modifications and foreclosures. The principal activities of the MHEA, with respect to the Revolving Loan Fund, are as follows:

- Reviews, amends and adopts the Revolving Loan Fund.
- Makes decisions on final applications for loans and any subsequent loan modifications except as delegated to staff.*
- Decides whether to call delinquent loans.
- Decides whether to liquidate assets held as collateral.

*The MHEA has delegated routine decisions on loan modifications to staff, provided that the modification(s) would not adversely impact the MHEA's position with regard to collateral secured for a loan. For instance, the following would qualify as routine decisions:

- Approval for release of collateral if funds received from proceeds of the sale are applied against the balance of the loan and the amount of the sale is equal to or greater than the staff assessed value of the collateral.
- Subordination of MHEA's collateral position to allow for refinance of a pre-existing prior-position loan, if the balance does not exceed the amount to which MHEA had previously subordinated and the new terms will place the loan client in a stronger financial position.

LOAN APPLICATION PROCESSING PROCEDURES

MCEDD/ MHEA is an equal opportunity lender and treats all applicants equally and fairly. Each applicant will be subject to the following procedures and requirements.

1) Standard Loan Application Requirements

All applicants for loans from the MHEA shall be required to fill out a standard MHEA or MCEDD application form and supply the following additional items:

- Business Plan (required if applicant is a start-up business or less than 1 year in operation)
- Business history and forecast (include management team, industry statistics, marketing niche, etc. Note: A formal business plan is preferred)
- Resumes of owners, partners or key officers, and key personnel
- Balance sheets and income statements for the last three years
- Complete IRS returns - both business and personal for the last 3 years
- Current interim balance sheet and income statement (not over 90 days old)
- Personal financial statements for each proprietor, partner or shareholder with 20% or more ownership. May also be required of any individual guarantors.
- Cash flow projections and income statement projections for 3 years (1st year monthly)
- Schedule of long-term debt
- List of collateral offered
- Bank commitment or denial letter
- Authorization to disclose business information

If applicable, the following are also required:

- Site plan
- Aging of accounts payable and/or accounts receivable
- Copy of equipment/working capital list and bids
- Earnest money agreements, financial agreements, contract agreements, lease/rental agreements
- Environmental questionnaire
- Copy of bids or cost estimates by contractor
- Schedule for construction start and completion
- Appraisal
- Legal description of property
- Evidence of acceptable zoning/land use compliance
- Articles of incorporation, by-laws and certificate of good standing if a corporation/partnership agreement/LLC organization documents
- List of any affiliates and current financial statement for each affiliate

2) Credit Reports

Credit reports will be obtained on applicants. Other evidence of credit worthiness documented (i.e., indication from participating bank that they have a good credit report in file or that they have good credit record with the bank or documentation of making loan payments as agreed) may be considered if an applicant has no credit references or limited credit references or negative reporting on their credit report.

3) Appraisals

Appraisals may be required on real estate pledged for collateral, as determined by the MHEA. If the financing is less than $100,000, a real estate valuation from a qualified source may be substituted, such as a county property tax statement valuation. Appraisals done for a participating bank or another third party may be accepted if they are done by a licensed appraiser, who is also MCEDD/ MHEA approved. Appraisals are valid for 6 months after date of appraisal. Appraisals older than 6 months from the date of the appraisal may be updated by original appraiser and used as a current appraisal or accepted if approved by MCEDD/ MHEA staff.

4) Collateral and Equity Requirements

Loan proposals will be evaluated as they adhere to the collateral and equity requirements listed in this revolving loan fund plan.

5) Loan Proposals

Loan proposals will be produced by MCEDD staff for each loan and provided to the MHEA Board prior to the loan decision. The loan proposal may include, but is not limited to the following:

- **Overview** – the company's history, product, capacity and management and market/competitive environment.
- **Financing** - Uses and sources of project financing and collateral.
- **Collateral-** Description of available collateral, position and valuation.
- **Principals** – Background and experience of owners, credit summary and analysis of personal financial condition
- **Financial Analysis** – An analysis of the business profit and loss, projections and repayment ability.
- **Goals-** Staff analysis on the MHEA goals the proposed loan will address.
- **Summary** – Summary of strengths and weaknesses of the proposed loan and whether or not the proposal meets basic loan criteria.
- **Recommendation** – Staff recommendation to the MHEA including proposed terms and conditions.
- Other topics that may be discussed in a loan proposal are collateral, jobs, MCEDD/ MHEA and funding source agency criteria, strengths and weakness of application.

6) Procedures for Loan Decision

A loan decision can only be made in accordance with the MHEA Bylaws Article III: Meetings and Article IV: Decision-Making. Loans can be approved, denied, or tabled for future meetings. A quorum of the MHEA Board must be present. Alternates shall vote in the absence of a voting member from their county. Board members will take into consideration interests of non-voting members. Decisions of the Board shall be by affirmative vote of the majority of the total members of the Regional Board, and must include at least one representative from each of the three counties to be effective. The minutes of the meeting will be kept in the permanent file. The decision of the MHEA Board will be communicated to the applicant as soon as is practical by MCEDD/ MHEA staff.

- Approvals
  Approvals of loan applications are granted when so voted by the MHEA Board. Applicants will be notified in the form of a loan commitment letter specifying the terms, structure and conditions of the loan and time period of the commitment. Other forms of notification, including electronic communication, may be used on individual loans and will be recorded in the client's loan file by staff. Each loan approved will utilize prudent lending practices.

- Denials
  Denials of loan applications are made when so voted by the MHEA Board. Applicants will be notified in the form of a denial letter, specifying the reasons for denial. It may include available recourses for the benefit of the loaner's request. Other forms of notification, including electronic communication, may be used on individual loans, and will be recorded in the applicant's loan file by MCEDD/ MHEA staff.

  Loan applications that are withdrawn by the applicant are considered a denied loan.

- Procedure To Appeal Loan Decision
  An applicant may appeal the Loan Decision by stating their intent to appeal the loan decision in writing within 45 days of the date on the loan decision letter. This written statement must list new additional relevant information. The appeal will be presented to the MHEA Board at the next regularly scheduled MHEA Board meeting. MCEDD/ MHEA staff may assist applicant in preparing a written statement of intent to appeal. MCEDD/ MHEA staff will prepare and submit a staff report and recommendation based on new additional relevant information. A loan decision on this appeal will be made by vote of the MHEA Board. The applicant will be informed of this decision in a written letter. The loan decision by the MHEA Board is final without any other appeal options available.

LOAN CLOSING AND DISBURSEMENT PROCEDURES

1) **General Closing Requirements**
   Evidence of the borrower equity injection shall be documented in the file prior to closing. A commitment letter from the private lender will be required as well, if applicable.

2) **Loan Closing Documents**
   Required on all loans will be the Contract/Loan Agreement, Security Agreement and Promissory Note (or Note). For loans secured with real estate, a Trust Deed/Deed of Trust will be required. For loans using other collateral, a UCC filing will be required along with lien searches both before and after filing showing MCEDD/ MHEA as lien holder in the desired position approved by the MHEA Board. For licensed vehicles, a title showing MCEDD/ MHEA as a security interest holder or lien holder will be required. Insurance policies covering collateral will be obtained by borrower with MCEDD/ MHEA listed appropriately as additional insured, loss payee or other designations or assignments with documentation of insurance provided to MCEDD/ MHEA prior to or at loan closing.

3) **Loan Disbursements**
   Prior to disbursement of RLF loan proceeds, the borrower must provide evidence that the purpose for which the loan was made is what the proceeds are being used for. In the case of purchase of physical assets; invoices, orders or delivery documentation will be acceptable types of evidence. For construction loans, invoices or work orders or statements of work completed will be provided and completion of work verified prior to disbursement. Disbursement prior to work being completed must be approved by Executive Director. With a loan for construction when a MCEDD/ MHEA loan is for permanent replacement financing, a construction lender will provide evidence that the project is complete and all terms and conditions of the construction loan are satisfied prior to any MCEDD/ MHEA loan fund disbursements. MCEDD/ MHEA will obtain title insurance ensuring that there are no construction liens on the property. The size of, and disbursement schedule for, working capital loans will be determined by MCEDD/ MHEA based on schedules provided by the borrower prior to loan closing.

LOAN SERVICING PROCEDURES

1) **Loan Payment and Collection Procedures**
   Borrowers will make loan payments directly to MCEDD/ MHEA at MCEDD's principal office or via electronic funds transfer. All payments are logged in and marked with the date of receipt, along with any other checks received that day, by the employee handling the mail. Each payment by cash or check is given to the Office Administrator or other appropriate MCEDD/ MHEA staff to deposit into the bank

account for the MHEA. A copy of the check and deposit record is given to the loan department staff for posting to the borrower's Payment Record Ledger.

Each loan will be individually and separately maintained in the MCEDD loan portfolio software and loan payments will be recorded for each loan. This record will be referred to as the "Payment Record Ledger." The payment will be posted to the borrower's Payment Record Ledger showing the date and amount of the payment along with the breakdown of principal and interest and the new balance. Each loan client will be invoiced for each payment due and a record of the previous payment will be provided to each loan client showing the application of loan payments to fees, interest and principal.

Each month MCEDD/ MHEA accounting records are reconciled with MCEDD Loan portfolio records to verify that the ledger posting account and amount and the deposit account and amount are correct. This reconciliation is done by loan department staff and accounting staff.

2) Loan Monitoring Procedures

A tickler system is used to remind loan staff of insurance expiration dates, UCC renewals, annual site visits, financial statements due or other requirements that have regular or expiring terms. Financial statements are generally required on an annual basis for all existing loan clients, and usually more frequently for loan clients that are start-up businesses. Annual reporting and documentation of project progress, job creation, funds leveraged, budget and achievement of performance measures are required of all funded projects. Job creation must be documented with payroll records and reported quarterly through Oregon Employment Department Quarterly Reporting forms. Additional reporting to MHEA by the borrower may be requested on a loan-by-loan basis.

3) Late Payment Follow-up Procedures

Borrower's Payment Record Ledgers for each loan are checked on a regular monthly basis to find any late payments. A loan that has a monthly loan payment more than 30 days past due is in technical default, although a loan that has a monthly loan payment less than 90 days past is referred to as "delinquent" or "past due." If a payment is late, the borrower, all signators and any additional guarantors to the loan are notified by staff that the payment is late. A late fee is assessed as per the terms listed in the borrower's loan agreement and security agreement. If a payment is two months late, the borrower, all signators and any additional guarantors receive a second notification from MCEDD/ MHEA staff. Notification may be verbal, written or electronic communication. If verbal, a follow-up message in written or electronic form will be sent to the Borrower/Guarantors/Signators and a record of the correspondence retained. If a payment is three months late, a letter is sent or other notification made indicating that the loan is in default and possible actions may be taken. In addition, a personal telephone call or visit will be initiated by MCEDD/ MHEA staff within 30 days of initial delinquency and subsequently as appropriate. Every effort will be made to work with the borrower to resolve the delinquency.

Modification of the terms of the loan will be used only when it can be demonstrated that the modification will improve the ability of the borrower to repay. A record of communication with a Borrower, signators and guarantors regarding late payments will be retained.

4) Procedures for Handling Loans Over 90 Days in Arrears (Past Due)

If a loan becomes 90 days delinquent, this loan referred to as in default. Staff will make a recommendation to the MHEA Board on actions to be taken, such as repossession of collateral, foreclosure, etc. The MHEA Board makes decisions on such actions. Staff will ensure that all documentation is in order and will contact an attorney if necessary. Notification will be sent to all guarantors indicating their liability. Other lenders will be notified.

When monies are received by MCEDD/ MHEA on defaulted MHEA loans, these proceeds shall be applied in the following order of priority:

1. First, towards any cost of collections.
2. Second, towards any outstanding penalties and fees.
3. Third, towards any accrued interest to the extent due and payable.
4. Fourth, towards any outstanding principal balance.

5) Restructures

MCEDD/ MHEA staff may recommend terms to the MHEA Board for restructuring a loan that is delinquent, in default or has the potential for delinquency in order to increase the likelihood of repayment of the loan. The MHEA Board shall have the authority to authorize all restructures.

6) Write-off Procedures

If a loan or portion of a loan remaining after liquidation of collateral is determined to be uncollectable, it will be written off. The direct write off method of accounting is used. However, collection efforts will continue after the loan is written off until it is determined by the MHEA Board that such efforts are no longer cost effective.

ADMINISTRATIVE PROCEDURES

1) Procedures for Audits and Accounting:

Financial audits shall be conducted annually through a third-party and a written report shall be provided to the MHEA. An independent, established professional auditor shall be retained to conduct the audit. MCEDD shall employ recommended generally accepted accounting principles (GAAP) and accounting procedures to record and report all financial transactions. The accounting system will use a double entry system. Monthly financial reports shall be provided to the MHEA. Income and expense line items are accounted for separately from principal repayments and loans made.

2) **Procedures for Loan Files and Loan Closing Documentation**

Each loan file must contain all of the documentation on that loan or provide reference as to where the required documentation is stored. Included in each file are all documents relevant to the loan including all of the following as they apply to the loan:

- Application and any other documents submitted with application (see "standard loan application requirements on page 16 of this plan).
- Loan proposal.
- Minutes from the loan board meeting approving the loan and minutes from meetings taking significant action related to the loan.
- Commitment Letter.
- Amortization schedule.
- MHEA contract (Loan agreement/security agreement).
- Promissory Note (or Notes).
- Borrowing Resolution.
- Business Guarantees.
- Personal Guarantees.
- Trust Deed(s)
- Vehicle Title(s)
- UCC filings and searches.
- Insurance certificates (liability, asset, life, auto, etc)
- Copies of required permits and licenses.
- Collateral information and valuation information.
- Loan Fund disbursement authorization form and disbursement documentation.
- Amendments
- Private and/or traditional lender loan commitment.
- Financial statements, tax returns, job reports, correspondence, servicing/site visit notes and any other documentation regarding the loan.

The loan files are kept in a fireproof filing cabinet when not being used by MCEDD staff. Closed loan files and related documents and computer records and all other related records must be maintained over the term of the approved loan and for a three year period from the final date of the loan or according to the requirements of the State of Oregon, whichever is the longest period of time.

Denied or withdrawn loan applications and supporting documentation and MCEDD/ MHEA created documents and forms associated with a denied or withdrawn loan will retained for a period of one (1) year after the date of denial or withdrawal loan or according to the requirements of the State of Oregon, whichever is the longest period of time.

3) **Confidentiality**

Confidentiality regarding financial information will be guarded at all times. Confidential information provided to MCEDD/ MHEA will not be disclosed without the written permission from the client; this includes third party information obtained in confidentiality by client that is not public information.   Clients may sign an authorization to release information for marketing purposes which could include, but not be limited to MCEDD newsletters, press releases or Chamber of Commerce articles. No MHEA Board or staff member will use his or her official position or office to obtain confidential information or in any other way obtain financial gain for himself other than salary and/or reimbursement of expenses, or for any member of his household, or for any business with which he, or a member of his household, is associated.