# HOOD ECONOMIC ALLIANCE

***Clackamas, Hood River, and Wasco Counties***

**Board Meeting**
**March 18, 2022**
**9:00 – 10:00 a.m.**

Remote Only with Zoom Link: https://us06web.zoom.us/j/88597833542
Or call: 253 215 8782
Meeting ID: 885 9783 3542

**AGENDA**

| **Topic** | **Estimated Time** | **Item** |
|---|---|---|
| Call to Order, Introductions | | |
| Minutes<br>*December 17, 2021* | 5 minutes | Approval |
| February 2022 Financial Report | 5 minutes | Acceptance |
| Loan Modification Request<br>Full Circle, LLC | 10 minutes | Decision |
| ***Executive Session per ORS 192.660 (f)*** (Exempt Documents)<br>*Regular Session Reconvened* | | |
| Loan Actions | 5 minutes | Decision |
| MHEA Revolving Loan Fund Plan | 30 minutes | Approval |
| 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, except that representatives of the news media are allowed to attend but cannot disclose any information. 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, December 17, 2021**
**REMOTE VIA ZOOM**

## ATTENDANCE

*MHEA Members:* Mike Wells, Renate Mengelberg, Ken Bailey, Bob Benton, Matt Lorenzen, Michael Friend

*Staff:* Jessica Metta (Executive Director), Ami Beaver (Loan Fund Manager), Jill Brandt (Administrative Assistant)

*Guests:* Anna Osborn (The Next Door, Inc.)

## CALL TO ORDER / INTRODUCTIONS / CONFLICT OF INTEREST DISCLOSURES

Chair Mike Wells called the meeting to order at 9:02 a.m. A quorum was present.

Mike congratulated Ami Beaver on her promotion.

## MINUTES

**Ken Bailey motioned to approve** the August 20, 2021 minutes as presented. Michael Friend seconded the motion. All voted in favor, and the motion passed unanimously.

## FINANCIAL REPORT

Jessica Metta called for any questions with the financial report. She said the loan portfolio software that MCEDD uses now offers clients the ability to pay online and to institute automatic payments on their loan account. Jessica and Ami added this new feature to the MHEA's loan clients in order to make payments easier and also to solve issues with missed payments. Renate Mengelberg asked about the account balance adjustment entry for Lost Lake. The entry noted the correction in Portfol, and Renate asked for clarification on what Portfol is. Jessica explained that Portfol is the database software that MCEDD uses to track loan client funds. She explained that the entry for Lost Lake was the result of the audit, which found that a payment from Lost Lake had not been recorded. The change in the balance for Lost Lake was the result of adding that payment back into the record.

**Ken Bailey motioned to approve** the November Financials as presented. Renate Mengelberg seconded the motion. All voted in favor, and the motion passed unanimously.

## REVOLVING LOAN FUND PLAN

Jessica Metta said that over the last few meetings the desire to have a plan for more structure around the loan program had become evident. The OIB's RLF plan was the basic template for this document with some added statements that are specific to the MHEA. This draft was reviewed by Mike Wells and Ken Bailey prior to bringing before the full Board today for edits. Jessica asked Anna Osborne with The Next Door to be present to address the need for lending within our Latinx community for business owners without a social security number. Jessica said the other MCEDD loan funds are Federal monies that require applicants to have citizenship. This need has been brought to this Board because the

MHEA's funds do not have these restrictions. In this RLF document, applicants are not required to be full US citizens, they are eligible to apply with a taxpayer ID number.

Anna introduced herself with a brief intro on The Next Door, which has offices in both Hood River and The Dalles and serves primarily Latino communities and Latino businesses. There are 77 businesses on The Next Door's caseload, and approximately ten to fifteen of these have owners who do not have a social security number. The Next Door supports these business owners with technical assistance, access to capital, creating business plans and obtaining any licenses that might be required. The Next Door's caseworkers are Latino themselves and have a realistic perspective on the barriers for Latino business owners in the community. Barriers for undocumented business owners in our community include not only access to loans, but also access to other basic public services including SNAP benefits and childcare assistance because applying for any of these services can affect immigration status. The fear and uncertainty of their situation makes accessing loans both challenging and scary for these business owners. Currently The Next Door sends their business clients to MESO in Portland or with CASA to have IDA. Anna commended the Board for their openness and willingness to address this need. Having a local loan fund that serves the Latino community's needs is a great stride forward.

*Discussion: Ken Bailey voiced his support and said he was pleased to help serve the needs of our communities in both Hood River and The Dalles. He said the only difference was that an applicant may not have a social security number, and that the Board's standards for an applicant's collateral, assets, and qualifications remain the same.*

*Renate said the MHEA requires businesses to provide proof of jobs created, and that unemployment records are used to document this. She asked how MHEA will have proof that jobs are created? Anna responded that she would check in with MESO to see how they manage this.*

*Mike Wells stated that while he was generally in favor of not putting new restrictions in, Renate's point about proof of jobs created was valid. He added that there must be a way to get that information without making an issue. He agreed with Ken -"If it's a good loan, it's a good loan!" Mike also expressed concern that the Board did not want to find itself in the situation of maintaining seven to eight $8,000-$10,000 loans.*

*Ken asked if the Board needed to vote to approve lending to non-citizens specifically. He reminded the group that the current MHEA guidelines do not eliminate these applicants, referring to the page in the document where the requirement for a social security number was referenced. Page19 of the packet or Page 11 of the RLF draft document, where it outlines eligible applicants. It is clearly stated that a taxpayer ID is required, and not a social security number.*

*Bob Benton asked for clarification on the potential liability. He agreed that there is need and expressed his support to meet the need. He requested consulting with a lawyer to be certain that the Board's legal reporting responsibility was covered. He asked how the MHEA loan is covered if the client is picked up by ICE?*

*Matt Lorenzen asked if there was any precedent on the other loan boards or other organizations who work with undocumented business owners.*

*Jessica replied that she would ask the liability question to the staff at MESO. She will also explore legal options for MHEA if a loan client gets picked up by ICE. She stated that she will try to have this info for next meeting.*

*Renate felt that it was prudent to ascertain if these applicants have any existing banking relationships. Since the MHEA would be taking a risk lending to a business owner without a social security number, are there any other assurances that the MHEA can require that will ascertain that these applicants have solid, respectable enterprises? Anna said she will research this.*

*Ken stated that as the MHEA guidelines are written now, the MHEA can lend to non-citizen applicants. Mike Wells said this as a fantastic opportunity to help our Latino communities. He noted that they are paying between 12-18% interest to private lenders who are taking advantage of the situation. The MHEA can both provide economic opportunity in our community and stop exploitation.*

*Bob Benton asked for more information on MESO.*

*Michael Friend noted that this document is setting up guidelines that we are willing to give loans under and that it does not say that we have to approve loans.*

*Ken remarked that this document is long, but it gives a lot of guidance to staff so that the board does not have to scrutinize every detail when an application comes in. Having a broad plan is necessary, and the Board has the option to delete or change parts of this document in future as needed, and the Board has final decision to approve each individual application.*

*Renate agreed that this document provides staff direction, and that it also functions to inform loan applicants of the MHEA's purpose and guidelines, providing the information on the program and how to apply.*

*Matt asked if there has ever been any formal criteria guidelines to date for how the fund is managed? Jessica responded that no, there has not been a formal guiding document for this Board. There are some documents that talk about the purpose of the fund, and some that loosely define the role the MHEA Board plays with the funds. There is also an application that outlines what documents are needed in a loan request. Matt stated that this document is important to have. Mike said in the past Mary McArthur researched all of the required detail work, so a formal guiding document never came to the board for approval. Mike agreed that having this document for staff to use as a guide is the most important feature. Most of the board members have not referred to the MHEA's guiding documents for many years.*

*Renate noted the section on Page 5 of the document (Page 13 of packet) in the Introduction where the document states that Board members are appointed by county commissions. She stated that this is no longer true and suggested rephrasing this sentence to read that Board Members are appointed by the Board as needed. Jessica said this process was asked to be changed for Clackamas County Board members but not the other counties . Ken suggested that* *the Board approve this document as is and adjust it when the other counties assign a new memorandum of understanding.*

*Renate thanked Jessica for the detail, clarity and thoroughness of the document as a whole. She asked about the financing policies on page 7 to clarify the prepayment penalty clause. She opposes a prepayment penalty and proposed eliminating it. Jessica said the prepayment penalty clause also came up for discussion with the MCEDD Loan Board's RLF. She has never seen it used and it can be removed if the Board votes to strike it. Bob Benton said in his history on the MCEDD Loan Board, this clause was not used as a penalty, but rather as insurance to cover costs in the situation of a complex loan that was approved and then paid off immediately. He also stated that use of this clause was intended to be discretionary by the Board in a case-by-case basis.*

*Renate questioned the interest rate policy in the document. She said MHEA has traditionally used 4% for loans. This document gives an interest range of 6.5% to 9%. She asked how this range compares to what a bank offers. Jessica explained that the increased risk justifies making the rate higher than what a bank charges because there is a higher likelihood of default. Jessica said this document provides a starting place for board discussion.*

*Jessica said interest rates are based on the WSJ Prime. Mike Wells recalled that the interest rate discussion came up approximately 6 months ago when the Board decided not to stay fixed at 4% but would let the rate follow both the marketplace and the risk. At that time the Board decided to give staff flexibility in recommending the rate. Mike approved of the flexibility that the Board adopted 6 months ago.*

*Renate wondered if 6.5% as the lowest rate offered would affect how many people would be interested in the MHEA's program. She said it shouldn't be so high that there are no applicants. Jessica suggested offering a range of low (0-2%), med (2-4%), high (4-6%) and adding that the rate will be subject to discretion of the Board.*

*Bob Benton agreed with Renate that lower rates are preferred. He noted that other loan boards have higher rates to encourage applicants to go to the bank first.*

*Mike said the MHEA considers the banks to be allies, and that the program exists as a backup resource for the banks. The program needs the banks to share business. The MHEA is a resource to offer an applicant when they cannot meet the banks' requirements. Mike pointed out that the MHEA has had better relationships with the banks in the past, and he would like to see renewed relations going forward.*

*Matt liked the provision that the Board keeps the option to reduce the interest rate as a reward for strong performance. He wondered if there should be more specificity about when applicant can request a reduction in their interest rate. Renate suggested six months to one year of good reporting and performance could qualify. Matt agreed and suggested that this benefit could be offered after a full year's performance.*

*Mike reminded the Board of the recent example wherein the client Whippersnappers business ended overnight when the pandemic hit. No payments were made for 18 months, and this loan is still on our books now.*

*Jessica said there is always flexibility for the Board to respond. Mike agreed that there is a lot of flexibility for the Board in this document. He asked if a motion was needed to accept this document. Jessica replied that she would amend this document with the changes discussed and bring it back for approval once cleaned up.*

*Renate suggested removing the construction loan guidelines, pointing out that the MHEA had not done construction loans. Mike said a construction loan was given to the Grateful Vineyard, to build their tasting room.*

*Matt questioned how the jobs creation was defined and measured. Bob Benton stated that the client generally self-certifies how many jobs are created. Matt said he has a potential applicant who wants to purchase the building they are currently leasing. He added that purchasing the real estate would put the business in a stronger position but was not necessarily seen as a strategy for growing the business. Matt was unclear if the job creation qualification would be part of this application, but the loan would be a huge benefit. Mike said the loan guidelines also include the purpose of jobs retained. He cited the client Independent Diesel trucking. The MHEA loan let the client buy their building, with the result that those jobs are still in the community.*

*Ken agreed that the intent includes both job creation and retention. He said MHEA is not restricted by Federal guidelines on the use of funds. The Board is free to set and adjust standards because the funds have revolved out of the government's oversight.*

*Renate pointed out that businesses are having difficulty these days with both finding and retaining employees.*

*Jessica said staff will clean up the document and bring back findings on the research with MESO as requested in the discussion.*

**EXECUTIVE SESSION**

Per ORS 192.660 (f) Exempt Documents, the Mt. Hood Economic Alliance moved into Executive Session at 9:50 a.m.

**FUNDED LOAN UPDATES**

Ami reported on Grit MMA and Full Circle.

*Regular session was reconvened at 9:55 a.m. No action was taken.*

Ami said the newly proposed payment option in Portfol will allow clients to initiate payments online as well as set up auto payments. She has been talking to a daycare provider and an electric bike tourism business and hopes to have applications for the board to review in the next quarter.

**OTHER NEW BUSINESS/ GOOD OF THE ORDER**

Ken Bailey asked about the status on proposed change for the ratification of new board members. Jessica said Commissioner Kramer has been in discussion with his fellow commissioners in Clackamas County as to why they are asking for the change that Cindy Moore brought to the past meeting. Jessica said she will continue to follow up on this. Renate said the Clackamas County process has always been very involved and burdensome for them. She thinks their intent is to streamline the process and make it less cumbersome. Jessica noted that they had first asked for the board to submit their recommendations, and then they changed it to letting the board decide. Mike admitted that Cindy has rubberstamped the renewals every two years. Bob Benton added that Hood River County has done the same thing. Bob stated that he would support the process that has been put forward by Clackamas County. He asked if the Board was supposed to come up with names on its own. Mike stated that Clackamas County has been historically extremely slow with the process of putting forward any names, and then getting the commission's approval.

Jessica said this change will have an effect on liability. Right now, the board is covered by County insurance because the county appoints the members. With this change, the organization would have to buy its own insurance so that Board members would be protected if the organization was ever sued.

Matt asked if there was any inclination to hold in person meetings in the near future. Renate and Mike both agreed that meeting in person is preferable, but that for now it is not safe. Jessica replied that there was one in-person meeting last summer, and then covid ramped up again. The meeting was hybrid so folks could still participate with zoom. Mike heartily endorsed the zoom option for its flexibility. Matt asked if the in-person venue ever rotates. Responses indicated past meetings have been held in Ken's cherry processing facility, at the client Grateful Vineyards in Parkdale, at Cascade Locks as a central location for the Board members and the staff. Mike said that the conference room at the Troutdale airport has also been used as a good location in the past.

**ADJOURNMENT**

Mike Wells adjourned the meeting at 10:04 a.m.

*Respectfully submitted by Jill Brandt, MCEDD Administrative Assistant*

**MHEA Financials**
**February 2022**

| | | | | | | |
|---|---|---|---|---|---|---|
| **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 | 79,761 | 150,946 | 71,185 | 189% | 223,726 | |
| **Loan Relending Revenues** | 249,299 | 555,772 | 306,473 | 223% | 393,264 | |
| | | | | | | |
| **Administration Revenues** | | | | | | |
| Investment Account Interest | 2,500 | 1,368 | -1,132 | 55% | 2,400 | |
| Loan Fees | 1,500 | 476 | -1,024 | 32% | 1,500 | Includes Late Fees |
| Interest Payments | 38,839 | 12,290 | -26,549 | 32% | 26,638 | |
| **2021-2022 Admin Revenue** | 42,839 | 14,134 | -28,705 | 33% | 30,538 | |
| | | | | | | |
| **Expenditures** | | | | | | |
| | | | | | | |
| **Relending Funds** | | | | | | |
| New Loans | 150,000 | 20,000 | -130,000 | 13% | 150,000 | |
| **Total New Loans** | 150,000 | 20,000 | -130,000 | 13% | 150,000 | |
| | | | | | | |
| **Administration Expenses** | | | | | | |
| Audit | 2,500 | 2,620 | 120 | 105% | 2,450 | |
| Bank Fees | 100 | 28 | -72 | 28% | 100 | |
| Legal Fees | 1,000 | 0 | -1,000 | 0% | 1,000 | |
| Loan Expenses | 1,000 | 33 | -967 | 3% | 1,000 | |
| State Ethics Commission | 350 | 44 | -306 | 13% | 375 | |
| Website | 20 | 3 | -17 | 17% | 450 | |
| Administration | 18,000 | 13,035 | -4,965 | 72% | 19,000 | |
| **Total Admin Expenses** | 22,970 | 15,763 | -7,207 | 69% | 24,375 | |
| | | | | | | |
| | | | | | | |
| **Ending Cash Balance** | 119,168 | 534,143 | 414,975 | 448% | 249,427 | |

**Memorandum**

**To: Mount Hood Economic Alliance Board of Directors**
**From: Jessica Metta, Executive Director**
**Date: March 10, 2022**
**Re: Revolving Loan Fund Plan**

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The MHEA Board met in December 2021 to review a first draft of a Revolving Loan Fund (RLF) Plan for the organization. Staff has incorporated comments received at that meeting into a second draft, using track changes, highlights and comments to note the edits. Staff also spoke with MESO (Micro Enterprise Services of Oregon) as directed at the December 2021 meeting to learn about their business lending programs for immigrants. MESO does not lend to those without documents but has experience lending to those who are not citizens of the US but with certain status (DACA, immigrants/visa, etc.). In those cases, they require a US-based guarantor, physical collateral, and rely on developing a strong relationship with the individual so that they understand how the business and lender both rely on each other.

<u>Request</u>
Provide any additional feedback on the RLF Plan. If comfortable, adopt the RLF Plan.

# Mount Hood Economic Alliance Revolving Loan Fund Plan

**Clackamas • Hood River • Wasco Counties**

Adopted: DATE

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# 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.

**Commented [JM1]:** Update this once things are decided with Clackamas County.

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.

**Commented [JM2]:** Left as is, since it says "may"

### 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 | 0.0 to 2.0% | 4.5 | 4.5 to 6.5% |
| Medium | 2.0 to 4.0% | 4.5 | 6.5 to 8.5% |
| High | 4.0 to 6.0% | 4.5 | 8.5 to 10.5% |

*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. Clients could request this one-time rate reduction after at least twelve (12) months of on-time payments and reporting.

### 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.

**Commented [JM3]:** One suggestion had been to remove this section.

## 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), Deferred Action for Childhood Arrivals (DACA), or a Visa.

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.

- <u>Approvals</u>

  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.

- <u>Denials</u>

  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.

- <u>Procedure To Appeal Loan Decision</u>

  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.