

BEFORE THE MORROW COUNTY COURT
OF MORROW COUNTY, OREGON

In the Matter of Amending Policies)
And Procedures for the Morrow)
County Equity Fund)

RESOLUTION NUMBER R-3-2009

THIS MATTER having come before the Morrow County Court, sitting as the governing body for Morrow County, Oregon, during its regularly scheduled meeting of 07-23-08; and WHEREAS, the Morrow County Court signed on May 14, 2003, Resolution No. R-8-03 In the Matter of Establishing Policies and Procedures for the Morrow County Equity Fund.

NOW THEREFORE, BE IT RESOLVED:

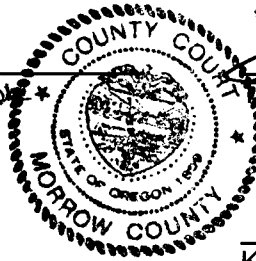
1. The Morrow County Court hereby amends the Morrow County Equity Fund Policies and Procedures by deleting the limit for proposed loan amounts.
2. The Policies and Procedures for use of the fund are attached hereto and incorporated by reference.

Dated this 18th day of February, 2009.

ATTEST:

MORROW COUNTY COURT:

Bobbi Childers by
Theresa Crawford Deputy
Bobbi Childers, County Clerk



Jerry K. Tallman
Jerry K. Tallman, Judge

Ken A. Grieb
Ken Grieb, Commissioner

APPROVED AS TO FORM:

Ryan Swinburnson, County Counsel

ABSTAIN (NOT A COMMISSIONER)
Leann Rea, Commissioner

Morrow County

Equity Fund

POLICIES AND PROCEDURES

The following policies and procedures are used as a guideline when reviewing loan applications. It will be the duty of the Loan Review Committee (Committee) to determine eligibility and propose a loan to the Morrow County Court (Court) for final approval that is within the fund guidelines.

A. FINANCING POLICIES

The Equity Fund will be guided by the following financing policies:

1. All loans will fall within the parameters of the "Morrow County Equity Fund" document that was provided to the Oregon Legislature for the purpose of securing the \$500,000 to fund this program and which is attached to these Policies and Procedures and by this reference incorporated herein.
2. All loans will be made in conjunction with primary financing from a traditional financial institution. In addition to the Morrow County loan application the participating financial institution and borrower will provide copies of their loan analysis, including pro-forma financial data, credit reports and any other relevant information, to the Loan Review Committee for their consideration and review.
3. Working capital loans will not exceed 50% of the total loan portfolio.
4. Interest rates will be determined by the Court.
5. Loan terms for each project will be recommended by the loan review committee. However, no loan shall exceed 10 years.
6. The Court will have the authority to approve special financing, such as deferrals of principal or interest payments or both, to meet a borrower's need for high-risk financing and to leverage financing from conventional borrowers. The Court may also forgive or postpone loan payments due to special circumstances or unanticipated difficulties. When considering requests for postponement of payment obligations, the Court will consider the request on its merits alone and will base its decision on a thorough analysis of the business's financial statements, especially historical and projected cash flows. Deferrals on principal payments will be granted for businesses that can evidence the ability to achieve a positive cash flow within a specified time.

7. With regard to collateral, the Court will consider the merits and potential economic benefits of each request. When appropriate, liens, assignments, and guarantees will be secured in accordance with the following principles:
 - a. To encourage the participation of other lenders and investors, Morrow County's lien position may be subordinated and made inferior to liens securing other loans made in connection with the project.
 - b. Collateral for working capital loans will normally be liens on inventories, receivables, fixed assets or other available assets of the borrower. Such liens will be subordinated only to existing liens of record.
 - c. The Court may also require security in the form of assignment of patents, licenses, and other assets with a realizable value.
 - d. Life and/or disability insurance may be required on each owner or key person(s) of the business or corporation with 20% or more ownership. Such policies will be assigned to Morrow County in the amount of the original loan.
 - e. Hazard or liability insurance will be required on all businesses and policies will have Morrow County listed as loss payee.
 - f. Flood insurance will be required on properties located in the flood plain.
 - g. Personal guarantees will be required from principal owners when the Court determines that sufficient collateral is not available for the loan. Personal guarantees will be required for any person owning twenty percent or more of a corporation that will borrow from the fund.
 - h. A minimum of 1:1 collateral coverage is required. The discounted value of the collateral will be determined by the Court. The following loan to value guidelines are used: real estate – 90%, new equipment, furniture and fixtures – 80%, used equipment, furniture and fixtures – 50%.
8. A loan application fee of 1% of the loan amount will be charged for all loans, up to a maximum of \$500. This fee shall be non-refundable.
9. A Loan Review Committee will be appointed by the Court to provide an initial review and recommendation of all loan requests to the Court. The Committee will be comprised of a representative of each of the two financial organizations in the county, those being Bank of Eastern Oregon and Banner Bank, a member of the Willow Creek Valley Economic Development Group, an at large member representing the interests of the cities of Boardman and Irrigon and the Morrow County Finance Director.
10. The Greater Eastern Oregon Development Corporation (GEODC) shall act as the loan administrator for the Fund on behalf of the County and, under the terms of that agreement, shall service the loans made by the Fund. Under said agreement GEODC shall collect all costs associated with loan closings from the borrower(s).
11. There will be no construction phase financing.

12. In very rare circumstances, the Morrow County Court may agree to forego the procedures set forth in this policy and procedures when the Court makes a finding that the applicant's requested loan is reasonably requires an expedited process based on the facts and circumstances surrounding the need of the loan. A determination to forego the procedures set forth in this document shall only be made upon the unanimous affirmative vote of the County Court Commissioners present at the meeting in which the decision is made. Additionally, the County Court Commissioners shall record the basis for their decision in writing. A loan granted under this subsection shall not exceed \$100,000.

B. PORTFOLIO STANDARDS AND TARGETS

1. Type of Businesses/Activities Assisted

Priority for loan assistance will be given to projects that retain and/or create employment, existing businesses that are expanding, and businesses that show a clear need for gap financing. Businesses that receive more than 50 percent of their gross sales from gaming, or that use multi-level marketing strategies are not eligible for assistance. All loans will provide financing that is otherwise not available. All loans will meet the targets identified in the Morrow County Equity Fund document.

2. Use of Funds

Eligible uses include the purchase of fixed assets, working capital, or debt restructure. No more than 50% of the total loan portfolio will be allocated to working capital. All loans shall meet the Investment Criteria as outlined in the Morrow County Equity Fund document. Specifically, loan funds capital may not be used to:

- a. acquire an equity position in an existing private business;
- b. subsidize interest payments on an existing loan;
- c. enable an Fund borrower to acquire an interest in a business, either through the purchase of stock or through the acquisition of assets, unless the need for Fund financing is sufficiently justified, and documented in the loan write-up. Acceptable justification could include acquiring a business to substantially save it from imminent foreclosure or acquiring it to expand it with increased investment. In any case, the resulting economic benefits should be consistent with the strategic objectives of the Fund;
- d. refinance existing debt *unless*:
 - (1) there is sound economic justification and the loan write-up states that the Fund is not replacing private capital solely for the purpose of reducing the risk of loss to an existing lender(s).
 - (2) a Fund uses Fund income sources and/or recycled Fund funds to purchase the rights of a prior lienholder during an in-process foreclosure action in order to preclude a significant loss on an Fund loan. This action may be undertaken only if there is a high probability

of receiving compensation within a reasonable time period (18 months) from the sale of assets sufficient to cover the Fund's expenses plus a reasonable portion of the outstanding loan obligation.

Ineligible loan purposes include the following:

- a. Assistance in excess of what is needed to accomplish the purpose of the third party recipient's project
- b. Distribution or payment to owners, partners, shareholders or beneficiaries of the third party recipient or members of their families when such persons will retain any portion of their equity in the third party recipient
- c. Charitable institutions that would not have revenue from sales or fees to support the operation and repay the loan such as churches, organizations affiliated with or sponsored by churches and fraternal organizations
- d. Assistance to government employees, military personnel or principals or employees of Morrow County or organizations for which such persons are directors or officers or in which they have ownership interest of 20% or more
- e. Agricultural production
- f. The transfer of ownership unless the loan will keep the business from closing or prevent the loss of employment opportunities in the area or provide expanded job opportunities
- g. Any illegal activity
- h. Any project that is in violation of either 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 a violation
- i. Lending and investment institutions and insurance companies
- j. Race tracks or gambling facilities

PART TWO: EQUITY FUND OPERATIONAL PROCEDURES

A. LOAN APPLICATION REQUIREMENTS

1. Standard Loan Application Requirements

All loan applicants must complete GEODC's application form. Additional information required to complete the application process includes the following:

- a. Personal financial statement
- b. Information release form
- c. Business plan
- d. Historical financial information for last three years
- e. Personal and business tax returns for three years
- f. Twelve month cash flow projection

- g. Current and proforma balance sheet
 - h. Resumes of key personnel
2. Additional loan application requirements (if applicable to the project)
- a. Appraisals - will be required for land and building offered as collateral and they must be less than six months old. This requirement may be waived if the applicant can verify the value of the land and building in some other form (an alternative may be a real estate valuation, prepared by a qualified person or tax assessed value).
 - b. Lease agreements - will be required for projects leasing property for the business. In addition, copies of lease agreements are necessary if the applicant is or will be receiving lease income on property involved in the project.
 - c. Buy/sell agreements - will be required if the project includes the purchase of property, an existing business, or any other fixed asset that may be used as collateral.
 - d. Construction estimates - will be required if the project includes construction.
 - e. Bank commitment letter - will be required for projects with bank financing.
 - f. Corporation papers - including articles of incorporation, by-laws, and certificate of good standing from the Secretary of States office will be required.
 - g. Personal financial statements will be required for personal guarantee(s).
 - h. Corporate resolution - authorizing the corporation to borrow the loan funds and designating specific officers as signatories.
 - i. Business licenses
 - j. Bonding

B. LOAN REVIEW COMMITTEE

1. Organizational Structure

The Loan Review Committee will be appointed by the Court to provide an initial review and recommendation of all loan requests to the Court. The Committee will be comprised of a representative of each of the two financial organizations in the county, those being Bank of Eastern Oregon and Banner Bank, a member of the Willow Creek Valley Economic Development Group, an at large member representing the interests of the cities of Boardman and Irrigon and the Morrow County Finance Director.

2. Duties

The duties of the Finance Committee will be as follows:

- a. Review complete loan applications and establish if each loan request has sufficient collateral, financial feasibility, and sound management.

- b. Evaluate projects for economic impact. The following criteria will be used to determine if the project will have a positive impact on the economy:
 1. Provide value-added processing of local resource based commodities.
 2. Provide for a diversification of the local economy in a sector not currently present or by providing goods or services not locally available.
 3. Provide employment opportunities to the local workforce and/or attract new employees to the county.
 4. Provide wages that are industry competitive in the regional market.
 5. Provide the opportunity to export goods or services outside of Morrow County.
 6. Provide for economic or community development consistent with local objectives.

- c. Attend the Committee meeting and make a loan recommendation based on the committee's findings. The committee can make the following decisions:
 - Recommend approval with recommendation
 - Recommend approval with recommendation and special conditions
 - table for additional information
 - Recommend denial

- d. Review loans with a default status and determine if foreclosure proceedings should begin.

3. Committee Meetings

Committee meetings will be scheduled and held on a demand basis. Meeting dates will be established by the committee, depending on the schedules of each member.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. Preparation of Loan Agreement and Verification of Contingency Items

Upon approval of the loan by the Court, GEODC will prepare the loan agreement. The loan agreement will describe the terms of the loan, collateral for the loan, events of default, and other requirements directly related to the project and the committee's approval. If the borrower is married, the loan agreement and other loan closing documents will be executed by both the borrower and spouse. During the time it takes GEODC staff to prepare the loan agreement, the Borrower will be asked to provide information and documentation for any contingencies included in the committee's approval that are not included. Contingencies may include life insurance, hazard/liability insurance, flood insurance, workman's compensation insurance, vehicle titles, bank approval letters, other financing approval letters, signed buy/sell agreements, corporate

resolutions authorizing the borrowing of funds and owner's signature(s). Other items may be requested and not included in the above listed items.

2. Loan Closing Documents and Procedure

Once the loan agreement has been prepared and contingency items have been verified or provided, a loan closing date will be scheduled. Loan closings will ordinarily take place at GEODC, unless otherwise setup by GEODC staff. The following standard documents will be required:

	Type of Loan		
	Real Estate	Machinery, FF&E	Working Capital
Promissory Note	X	X	X
Deed of Trust/Mortgage	X		
Security Agreement		X	X
UCC Financing Statement		X	X
Loan Agreement	X	X	X

Other loan documents may be required, but will be directly related to the loan and the committee's contingencies for approval. Other items include the following:

- a. Personal Guarantee(s)
- b. Corporate Guarantee
- c. Lease Assignments
- d. Vehicle Liens
- e. Contract Assignments

3. Loan Fund Disbursement

Borrowers must submit a letter of request for loan funds. The letter should describe the exact use of the funds. Copies of invoices, receipts, or a list describing the use of working capital and the period of time in which the funds will be spent, may be attached to the request letter. Loan funds will be disbursed directly to vendors for direct purchases. Loan funds used for working capital will be disbursed as the borrower submits receipts. The first working capital disbursement can be made without receipts, but the amount will not exceed 20% of the total working capital amount. Subsequent working capital disbursements will not be approved until receipts have been presented to and approved by staff for the first disbursement.

E. LOAN SERVICING PROCEDURES

1. Loan Payments

Borrowers will make payments to GEODC in accordance with the loan agreement and promissory note, executed at loan closing. All loan payments will be remitted to Morrow County. Late payments will be handled in the following manner:

- a. Late fees in the amount of 5% of the payment amount, up to \$100.00 will be assessed on payments received on or after the 15th day past the scheduled payment date.
- b. A telephone call will be made and a letter will be sent to Borrowers who have not made their payment on or after the 15th day past the scheduled date.
- c. If payment is not received within 30 days from its scheduled due date, GEODC staff will schedule an appointment to meet with the Borrower to assess the situation.
- d. If payment is not received after 60 days from its scheduled due date and the Borrower has failed to communicate with GEODC staff, a letter of default is issued to the Borrower.
- e. If payment is not received after 90 days from its scheduled due date and the Borrower has failed to communicate with GEODC staff, a recommendation for foreclosure procedure will be made to the Court.

2. Loan File Monitoring

GEODC staff will maintain commercial loan software and a database tickler system in order to track the performance of each loan. The following items will be specifically monitored by staff:

- a. Financial Statements and Tax Returns - Financial statements will be collected in accordance to the loan agreement and tax returns will be requested annually.
- b. Life Insurance Verification - Life Insurance will be required and verification that the policy is assigned to GEODC will be checked annually.
- c. Hazard/Liability Insurance Verification - One of these types of insurance will be required and verification that the policy has GEODC listed as loss payee will be checked annually.
- d. UCC filings - UCC filings must be filed with the Secretary of State's office and a continuation statement filed prior to the fifth year anniversary of the initial filing.
- e. Property taxes – are to be paid current and GEODC will verify with the county tax collectors annually.
- f. Other renewal items - Some loans will have other renewal items, such as liens on livestock brands, flood insurance and workman's compensation

insurance. These items will be monitored as well and continuations filed when applicable.

3. Borrower Site Visits

The staff will conduct annual reviews at the Borrower's place of business. During the site visit, staff will verify employment numbers, inspect collateral, and answer questions the Borrower may have concerning their loan with Morrow County.

4. Loan Restructuring

GEODC staff will review the payment status of loans, monthly. Borrowers with past due, delinquent or defaulted loans will be considered for restructure if the Borrower is in contact with staff and a benefit to the business can be made by restructuring.

GEODC staff will evaluate the following to determine the restructuring benefit to the business:

- a. cash flow available for debt service
- b. aging of accounts payable
- c. aging of accounts receivable
- d. existing debt service
- e. historical and current trend of sales and expenses

All restructures will be submitted to the funding agency for final approval.

PART THREE: ADMINISTRATION

A. LOAN WRITE-OFFS

Loan write-offs will be recommended by GEODC staff to the Court. Write-off recommendations will be made when all reasonable workout possibilities have been attempted and have failed. Final loan write-off decisions will be made by the Court.

B. LOAN RECOVERY

Payments received from written-off loans will be returned to Morrow County for re-lending.

C. ADMINISTRATIVE COSTS

The administrative cost of the Fund program will be paid as outlined in the Loan Servicing Agreement with GEODC. Any costs incurred by the County maybe paid from the application fee or interest earned.

D. RECAPITALIZATION STRATEGY

The Court has adopted a policy requiring all principal payments received from the loan fund be re-lent.