



NORTHWEST LOAN FUND

# **LOAN POLICY**

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## Northwest Loan Fund Loan Policy

### **DEFINITIONS**

Board shall refer to the Region 12 Revolving Loan Fund Corporation (R12 RLFC) dba Northwest Loan Fund (NLF) Board of Directors which is one and the same with the Northwest Colorado Council of Governments (NWCCOG) Council.

Approved shall mean

- (a) approve loans and loan structure for submission to the Office of Economic Development and International Trade (OEDIT) for final approval under the Open Grant contract and,
- (b) approve loans and loan structure of loans made with Revolved Funds.

Open Contract shall refer to funds directly from the Community Development Block Grant (CDBG) and its Micro-Enterprise Program (MEP).

Revolved Funds shall refer to funds that have been repaid from a CDBG Open Contract.

Business Loan Officer shall refer to the Director of Business Lending and Business Loan Officer

### **OBJECTIVES**

- To improve the economic base of and/or bring new wealth into the nine Northwest Colorado Counties by providing loans to businesses that will create or retain jobs (CDBG – at least 51% of the jobs have to be persons from low to moderate family income households (LMI)).
- To provide access to capital for business expansion, retention, or start-up to low and moderate income persons.
- To bring a value added product or fill a niche in the local economy not currently being filled.
- To bring revenue from outside the Northwest counties.
- To encourage financial and economic self-sufficiency of business clients toward eventual move to traditional sources.

## Northwest Loan Fund Loan Policy

### **SOURCES OF FUNDS** for the NLF include:

- Community Development Block Grant (CDBG)
- Community Development Block Grant (CDBG)-Micro-Enterprise Loan Program – Loans \$100,000 or under (MEP)
- Revolved Funds (Funds repaid from a CDBG loan)
- Other Funds, as appropriate (example: U.S.D.A.)

### **USE OF LOAN FUNDS**

- Business assets
  - Equipment/machinery
  - Inventory
  - Raw materials
  - Purchase of existing business
  - Renovation/fixtures of business occupied building
  - Business occupied building purchase
  - Construction of new facility
- Working Capital
  - Payroll
  - Accounts Receivable financing

### **INELIGIBLE USE OF FUNDS**

- Pyramid or Networking Sales Enterprises
- Gambling or gaming operations
- Real Estate development
- Land purchase
- Franchises (with CDBG funds)
- Production agriculture
- Marijuana related businesses

## Northwest Loan Fund Loan Policy

### **LOAN COMMITTEE (LC)**

The LC shall be appointed by the Board and shall be comprised of one member from each county served by the NLF, as available. Service on the LC is voluntary. If an appropriate member cannot be recruited from a County, it is acceptable to recruit from a neighboring County.

### **LC Duties**

The Loan Committee (LC) shall:

- (a) review loan package and recommendations as presented by Business Loan Officer
- (b) recommend loans and loan structure to the Colorado Office of Economic Development and International Trade (OEDIT) for approval under the Open Grant Contract and,
- (c) approve loans and loan structure of loans made with Revolved Funds.

### **LC Composition**

It is the goal to have one member from each county with at least one person having business loan making experience, one having business legal experience and one having commercial real estate experience; the other members will be or have been business owners. The Executive Director of the Northwest Colorado Council of Governments (NWCCOG) will be an ex officio, non-voting, member of the Loan Committee.

Candidates will be presented to the Board for approval.

### **LC Term**

The term of five LC member is two years, and the term of four LC members is one year. After the first term, all terms shall be two years.

A person appointed to fill a vacancy will serve to the date of expiration of the term being filled.

There is no limit to the number of terms a committee person may serve. The LC committee shall appoint a chair and vice-chair from among the members.

### **LC Meetings**

Meetings may be attended in person or by telephone or video conferencing. Meetings will be scheduled for one time per month and may be called as needed.

## **Northwest Loan Fund Loan Policy**

Special Meetings may be called with non-simultaneous email votes due by a specified date and time.

LC Packets will be sent via confidential email; it will be the goal to have packets out one week prior to the meeting. Meeting will be run by the Chairperson. It will be the goal to have minutes distributed one week after a meeting. It is the goal that LC members attend at least 50% of regularly scheduled meetings. Email votes will constitute attendance.

### **LC Quorum**

A quorum shall be a simple majority of total members (5).

Votes must be documented in LC meeting minutes denoting vote in person or by email. Email votes will be maintained in an electronic file.

Two objections by committee members will cause the loan to be re-presented on a future agenda.

### **CONFLICT OF INTEREST**

#### **Definition**

A conflict of interest includes advising, approving, recommending or otherwise participating in the business decisions of the loan recipient, such as agents, advisors, consultants, attorneys, accountants or shareholders.

#### **Disclosure**

Verbal disclosure is required of any conflict of interest with a borrower, guarantor or other party to the transaction. The LC member will not place a motion or a second, and must abstain from voting.

Conflicts of interest will be reported to the Board.

## Northwest Loan Fund Loan Policy

### **LOAN APPROVAL**

1. A quorum of LC may approve a loan application.
2. Loans of \$25,000 or less upon recommendation of the Business Loan Officer, can be approved by a quorum (simple majority) via non-simultaneous email votes by a specified date and time.
3. Approvals will be documented by Roll Call of LC members.
4. Approve provisions for technical assistance for MEP applicants
5. Approved loans will be reported to the Board/NWCCOG Council at regularly scheduled meetings.

### **LOAN UNDERWRITING GUIDELINES**

1. The minimum loan amount is \$5,000
2. The term may vary based on use of funds and collateral but not to exceed 10 years.
3. Interest rates and Fees will vary based on loan size and risk.
4. Costs related to closing will be paid by the borrower.
5. All loans will be collateralized by all business assets.
6. Personal guarantees, of individuals with 20% or more ownership, will be required.
7. The Business Loan Officer will make a site visit prior to presenting the loan to LC (any exceptions will be documented and noted by LC). Upon the decision, by the Business Loan Officer, to present the loan for LC approval, LC members are encouraged to make a group site visit. In particular the member from the county in which the prospect is located, is encouraged to make a site visit. Should the LC Member from the county be unable to do a site visit, it is permissible for a LC Member from another county to do the site visit.
8. Monthly payments of principal and interest are the norm; adjustments will be made for seasonal businesses

### **THE THREE C's – Character, Collateral, Credit**

## Northwest Loan Fund Loan Policy

It is intended that NLF loan analysis be more reliant on Character, Collateral, general feasibility and ability to repay rather than on Credit.

The following CHECKLIST is revised from time to time and posted at

[www.NorthwestLoanFund.org](http://www.NorthwestLoanFund.org)

### LOAN APPLICATION CHECKLIST

<b><u>1</u></b>	<ul style="list-style-type: none"> <li>• Northwest Loan Fund - Loan Application</li> </ul>
<b><u>2</u></b>	<ul style="list-style-type: none"> <li>• Business Plan: History, Company Description, Products and Services, Marketing Plan &amp; Competition, Management of key functions &amp; Resumes, Suppliers &amp; Terms</li> </ul>
<b><u>3</u></b>	<ul style="list-style-type: none"> <li>• Projections:               <ul style="list-style-type: none"> <li>• Cash Flow projections, with explanation of assumptions, by month for 1<sup>st</sup> year, then by quarter</li> <li>• Profit/Loss projections, with explanation of assumptions, by month for 1<sup>st</sup> year, then by quarter</li> <li>• Breakeven (Sales required to cover costs)</li> </ul> </li> </ul>
<b><u>4</u></b>	<ul style="list-style-type: none"> <li>• Business Financial Statements* (BFS) Balance Sheets &amp; Profit and Loss Statements including most recent month end</li> </ul>
<b><u>5</u></b>	<ul style="list-style-type: none"> <li>• Business Tax Returns * (BTR) April or after, include prior year end</li> </ul>
<b><u>6</u></b>	<ul style="list-style-type: none"> <li>• Business collateral:               <ul style="list-style-type: none"> <li>• Equipment (Description, Age, Condition, Value)</li> <li>• Equipment to be purchased – contracts or bids</li> <li>• Inventory (Description, Value)</li> <li>• Accounts Receivable (Customer, Invoice Date)</li> </ul> </li> </ul>
<b><u>7</u></b>	<ul style="list-style-type: none"> <li>• Personal financial statement with schedules &amp; K-1's (PFS) for ownership of 20% or more</li> </ul>
<b><u>8</u></b>	<ul style="list-style-type: none"> <li>• Personal Tax Returns* (PTR) for ownership of 20% or more</li> </ul>
<b><u>9</u></b>	<ul style="list-style-type: none"> <li>• Articles of Incorporation, by-laws, trade name affidavit or franchise agreement</li> <li>• Documentation of who is authorized to borrow</li> </ul>
<b><u>10</u></b>	<ul style="list-style-type: none"> <li>• Copy of Lease</li> </ul>
<b><u>11</u></b>	<ul style="list-style-type: none"> <li>• Copy of commitment letters from other financing sources</li> </ul>
<b><u>12</u></b>	<ul style="list-style-type: none"> <li>• Job Creation Statement including existing staff</li> </ul>
<b><u>13</u></b>	<ul style="list-style-type: none"> <li>• For Real Estate collateral: Copy of Owners Title Policy or Warranty Deed, Appraisal if available, Environmental review if available</li> </ul>



## Northwest Loan Fund Loan Policy

<u>14</u>	<ul style="list-style-type: none"><li>• For Business Acquisitions – Contract detailing what is being purchased at what price</li></ul>
<u>15</u>	<ul style="list-style-type: none"><li>• Other information as requested</li></ul>

***Please send all items on the checklist at one time and in order of checklist.***

\*Three years PTR, BTR, BFS, all signed and dated unless business life is less than 3 years.

## Northwest Loan Fund Loan Policy

### **CONFIDENTIALITY**

Financial information on the businesses and their owners will be kept confidential. Note: LC Packets will be sent via confidential email. LC members will sign a Confidentiality/Conflict of Interest Agreement. Borrowers will be informed of this with the initial loan package.

Confidentiality Agreements have been signed by Loan Committee members, staff and the NWCCOG I.T. contractor who will or may come in contact with confidential information. A Telecommuting agreement signed by Anita Cameron provides for security of confidential information during travel/off site work. Secure print will be used to protect confidential documents. Security for laptop and smartphone are set on 'high'.

Laptop and smartphone access will be protected by Passcodes and Log Off. Passwords will be changed at least quarterly. Social Security numbers will be protected, by black out, when not essential for the recipient.

### **CLOSING DOCUMENTATION**

Closing Documents checklist (Exhibit B) with 'NEED' items marked, will be presented in LC packets as part of the loan approval. At closing, the Business Loan Officer shall initial the 'HAVE' column and prior to funding, an additional person shall confirm documentation and initial 'HAVE'.

### **LOAN SERVICING**

It will be the goal of the NLF to maintain contact with each customer. A site visit is preferred. A memo of customer contact/visits will be placed in the loan file or be part of LC Minutes.

### **DEFAULT PROCEDURES**

Loans delinquent 30 days or more will be reported to the LC monthly and Board bi-monthly (in Portfolio and/or Program Update) with comments on collection actions.

The Business Loan Officer is authorized to offer a Loan Modification/Extension agreement as needed to keep the business operating and to avoid costly legal action. .

Modifications/Extensions will be reported to the LC and Board. Where possible, accrued interest will be collected extending any loan payments.

After period of appropriate collection activities, recommendations to place a loan on non-accrual or to write off the balance, may be made by the Business Loan Officer or LC, and approved by the Board.

## Northwest Loan Fund Loan Policy

### **ALLOWANCE FOR LOAN LOSS RESERVE**

The NLF will maintain an Allowance for Loan Loss (ALL) as an estimate of potential loan losses as a footnote to NLF Loans Receivable. A Colorado Housing and Finance Authority (chfa) Credit Reserve Account may be used as ALL and reported as a footnote to NLF Loans Receivable.

Each loan will be graded and a percentage allowance set aside for each risk class. Loan grading will be updated semi-annually with loan grades reported to the Board.

Loan Grades and percentage reserve:

-Satisfactory – 1% reserve

-Watch – 10% reserve

-Substandard – 30%

-Doubtful – 60%

## Northwest Loan Fund Loan Policy

### **Exhibit A Northwest Loan Fund - Communities Served**

#### Eagle

Avon  
Basalt  
Eagle  
Eagle-Vail  
Edwards  
El Jebel  
Gypsum  
Minturn  
Red Cliff  
Vail

#### Garfield

Battlement Mesa  
Carbondale  
Glenwood Springs  
New Castle  
Parachute  
Rifle  
Silt

#### Grand

Fraser  
Granby  
Grand Lake  
Hot Sulphur Springs  
Kremmling  
Winter Park

#### Jackson

Walden

#### Moffat

Craig  
Dinosaur  
Maybell

## Northwest Loan Fund Loan Policy

### Page 2 Northwest Loan Fund - Communities Served

#### Pitkin

Ashcroft  
Aspen  
Basalt  
Meredith  
Redstone  
Snowmass  
Snowmass Village  
Woody Creek

#### Rio Blanco

Meeker  
Rangely  
Rio Blanco

#### Routt

Clark  
Hayden  
Oak Creek  
Steamboat Springs  
Yampa  
Phippsburg  
Toponas

#### Summit

Blue River  
Breckenridge  
Dillon  
Dyersville  
Frisco  
Heeney  
Keystone  
Montezuma  
Silverthorne