
Loan Policy Manual

Approved by the CEDC
Board of Directors on
December 13, 2016



Choose Columbia
Columbia Economic Development Corporation

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COLUMBIA ECONOMIC DEVELOPMENT CORPORATION LOAN POLICY MANUAL

INTRODUCTION

Columbia Economic Development Corporation (CEDC) is a New York not-for-profit Local Development Corporation. It serves as the lead economic development organization in Columbia County, New York. Its mission is to strengthen the area's tax base through economic development and job creation, to assist businesses to locate and expand within the County, and to promote Columbia County as a premier spot for both business investment and personal opportunity. CEDC administers two small business loan programs:

CEDC Revolving Loan Program. Low-interest loans are offered to businesses that will create jobs in Columbia County. CEDC maintains a revolving loan fund that startup and expanding businesses can access providing that various criteria are met.

SBA Microloan Program. CEDC has been designated the U.S. Small Business Administration's intermediary lender for its Microloan program for Columbia and Greene Counties. CEDC makes SBA Microloans to small, medium, and even large businesses. In addition, CEDC conducts business seminars and provides microloan borrowers with free, SBA-funded Technical Assistance from CEDC staff and consultants.

OBJECTIVES OF THE LOAN PROGRAM

1. Promote development that provides fiscal benefit and economic stability to Columbia County.
2. Assist women, low-income, veteran, and minority business owners, as well as other individuals possessing the capability to operate a successful business, who are unable to obtain sufficient funds from traditional lending sources, such as banks.
3. Attract businesses that provide quality employment opportunities for the residents of Columbia County.
4. Encourage expansion and/or modernization of businesses that will further the county's competitive position in the region.

LOAN COMMITTEE

The Loan Committee is a standing committee of the Corporation that considers loan requests for approval. Each loan shall have a specific risk rating assigned to it, which will determine the initial loan loss reserve allocation for that loan. The loan committee typically meets at least quarterly, and in addition to loan approvals, the committee reviews quarterly Loan Status Reports prepared by the Bookkeeper.

From the Corporation's By-Laws:

"The Loan Committee may include residents of Columbia County, with preference given to those individuals possessing experience and expertise in business lending. The Loan Committee shall be comprised of at least five (5) Directors of the Corporation.

The responsibilities of the Loan Committee shall be limited to reviewing applications to the Corporation for loans from the loan funds administered by the Corporation and issuing recommendations to the Board with regard to proposed actions on such applications. The Board may from time to time modify the authority of the loan committee to approve or disapprove loans, including the amount thereof, by resolution duly adopted by the Board; provided, however that any such modification shall not be effective as to any loan approved or disapproved prior to the date of such Board action. A majority of the individuals then serving on the Loan Committee shall constitute a quorum for the transaction of business on any specified item of business by the Loan Committee. The vote of a majority of the individuals serving on the loan committee shall be the act of the Loan Committee. The Committee's meetings shall be open to the public in accordance with the salient provisions of the Open Meetings Law of the State of New York, as set forth within article 7 of the Public Officers Law."

It should be noted that a quorum requires a majority of voting members of the Loan Committee.

Loan proposals will go to the Board of Directors when either or both of the following occur:

1. The loan amount requested is greater than \$25,000, and/or
2. The loan is not unanimously approved by a quorum of the Loan Committee

The Board of Directors sets overall lending policies and may, at any time, modify such policies and change, modify or reverse any decision determined to not be in the best interest of CEDC.

BORROWER ELIGIBILITY

CEDC services two counties: Columbia County New York, and, for the purposes of making SBA Microloans, Greene County, New York. Borrowers must reside and/or own a business in one of these two counties.

LOAN PRODUCTS

CEDC has two loan products available to businesses:

1. SBA Microloans
2. CEDC Loans

The following table provides highlights of each loan program.

Product	Amount	Description	Interest Rate	Loan Term	Prepayment Penalty
SBA Microloans	\$2,500 to \$50,000	For-profit businesses only; see uses of funds below	5.25% minimum to maximum amt. allowed by the SBA*	1 to 6 years, payments due monthly	None
CEDC Loans	\$2,500 to \$100,000; higher amounts allowed on a case-by-case basis	For-profit and non-profit businesses; see uses of funds below.	3% minimum; no maximum	1 to 10 years; longer terms allowed on a case-by-case basis. Payments due monthly.	None

***SBA Microloan Maximum Interest Rates** (*From the SBA Microloan Program SOP 52 00*): Interest rates for Microloans are calculated based on the Intermediary's Cost of Funds:

1. The Intermediary may charge a Microborrower up to seven and three quarters percent (7.75%) over the Intermediary's Cost of Funds on a Microloan of more than \$10,000.
2. The Intermediary may charge a Microborrower up to eight and one-half percent (8.50%) over the Intermediary's Cost of Funds on a Microloan of \$10,000 or less.

Uses of Funds

1. SBA Microloans

SBA funds may be used for many verifiable and reasonable business expenditures including:

- a. Equipment
- b. Inventory
- c. Working capital
- d. Fit out of leased space
- e. Paying down higher interest debt
- f. Recuperation of owner's investment

Funds may not be used for:

- a. Real estate purchases or renovations
- b. Non-profit businesses, except child care
- c. Any business engaged in illegal activities

2. CEDC Loans

CEDC funds may be used for many verifiable and reasonable business expenditures including:

- a. Fixed assets
- b. Inventory
- c. Working capital
- d. New construction
- e. Renovations/additions to existing facilities
- f. Recuperation of owner's investment

Funds may not be used for any business engaged in illegal activities.

LOAN ORIGINATION

The table below shows the supporting documentation required for each Principal with at least 20% ownership in the business.

SBA Microloans	CEDC Loans
Loan application, signed	Loan application, signed
Personal Financial Statement (SBA Form 413)	Personal Financial Statement (SBA Form 413)
Statement of Personal History (SBA Form 912)	Statement of Personal History (SBA Form 912)
Certificate Regarding Debarment (SBA Form 1624)	N/A
Two years personal tax returns (federal only, all pages) including W-2s	Two years personal tax returns (federal only, all pages) including W-2s
Two years of business tax returns (federal only)	Two years of business tax returns (federal only)
Interim Financial Statements	Interim Financial Statements
Two months of business bank statements (checking and savings)	Two months of business bank statements (checking and savings)
Business plan (for startup businesses)	Business plan (for startup businesses)
Three years of financial projections, including a monthly cash flow statement for the first year	Three years of financial projections, including a monthly cash flow statement for the first year
Budget (how loan proceeds are to be used)	Budget (how loan proceeds are to be used)
Articles of incorporation, copy of DBA, or partnership agreement	Articles of incorporation, copy of DBA, or partnership agreement
Lease (if applicable)	Lease (if applicable)
Business permits, licenses, and/or certificates	Business permits, licenses, and/or certificates
Description of proposed collateral	Description of proposed collateral
Resume of each principal	Resume of each principal

Credit Reports

Credit reports are ordered and examined for all principals with at least 20% ownership, as well as for co-signers of loan applications. CEDC does not have a minimum credit score requirement.

Collateral

All loans must be secured. Collateral may include real property, equipment, receivables, and other business or personal assets. All loans require personal guarantees. Collateral is perfected by applicable filings with the Department of State, Department of Motor Vehicles, and county recordings.

Amortization and Repayment

1. SBA Microloans may be amortized up to six years. Although the longest allowable term is desirable in order to keep monthly payments low, the initial term should generally be five years. This allows for a 6-month deferment during the life of the loan, or other refinancing arrangements. The loan term may not exceed 6 years.
2. CEDC loans may be amortized up to 10 years. Longer terms will be considered on a case-by-case basis.

Interest

Interest shall be calculated on a 365-day year, actual number of days elapsed.

UNDERWRITING PROCESS

Staff members involved in the loan program are the primary originators of loans. Lending staff meet with clients and collect applications, financial statements and other relevant information, including credit reports. They provide guidance in fine-tuning a business plan. If appropriate, they refer to clients to technical assistance providers such as other CEDC staff, NYS Small Business Development Corporation staff, SCORE, or paid consultants who have a written agreement with CEDC to provide technical assistance to its clients. Once complete, lending staff prepares the Loan Request.

Loan Requests

The loan request must be reviewed by the President and CEO, or the chair of the loan committee before being sent to the Loan Committee. If approved, the Loan Request will be sent to the Loan Committee along with relevant supporting documentation. Every effort will be made to send the Loan Request at least three days prior to Loan Committee meetings.

Loan Requests will generally contain the following information:

- Date
- Applicant name
- Address of proposed project
- Guarantors
- Description of project
- Loan fund to be used
- Interest rate
- Term
- Monthly payment
- Collateral
- Project description
- Financial analysis
- Use of funds
- Jobs proposed
- Justification
- Proposed risk rating

Loan Committee Review

In Loan Committee meetings, appropriate lending staff will present loan recommendations. After presentation and discussion, which may include going into executive session, the Loan Committee may:

1. Approve the loan as is, or
2. Approve the loan with changes, or
3. Request further information, thus tabling a decision, or
4. Deny the loan

Loan Committee approvals of loans greater than \$25,000, or without unanimous approval, must be referred to the full Board for approval.

COMMITMENT LETTERS

Appropriate lending staff shall prepare commitment letters for all approved loans, per the terms and conditions approved at the staff level and by the Loan Committee, and, if applicable, by the Board of Directors.

The President and CEO shall sign all commitment letters. The President is authorized to make necessary adjustments to the commitment letter in order to close the loan per the general intent of the loan committee.

The commitment letter will itemize the terms of the loan, the guarantors, and any contingencies. Loan commitments will generally expire in 90 days, unless Lending Staff extends the term in writing.

LOAN CLOSING PROCESS

Loans secured by real property are closed by a CEDC-approved attorney. All other closings are handled by Lending Staff. For loans closed by Lending Staff, the following checklist will be used as a guideline.

- Photocopy driver's license(s) or other photo ID
- Obtain original signature on Commitment letter (if applicable)
- Obtain signature corporate resolution (if applicable)
- Obtain signature on Personal Guaranty
- Obtain signature on Promissory Note
- Obtain signature on Security Agreement in two places
- Photocopy all documents for client
- Collect closing fees
- Give check(s) and amortization schedule to client
- Discuss documentation required for Use of Funds
- Discuss Technical Assistance (for SBA Microloans)
- Discuss publicity
- Write memo on Inability to Obtain Funds Elsewhere, if applicable (for SBA Microloans)
- Print FEMA flood map for address of business (for SBA Microloans)
- Put loan on Capital Access Financial System within 7 days of closing (for SBA Microloans)
- File UCC with NYS Department of State, if applicable

SERVICING AND COLLECTIONS

Due Dates, Grace Periods and Late Fees

The first loan payment is due 30 days from the loan closing date. Subsequent due payments are due monthly on the same date. A ten-day grace period is provided. Payments received after the due date may be assessed a five percent (5%) late charge or \$25.00, whichever is greater. Late payments may be waived at the discretion of the Lending Staff, and should generally be waived if:

- It is the first time a borrower is late.
- Borrower contacts CEDC to notify them the payment will be late, and provides a valid reason.
- Borrower has a good repayment history.

Invoicing

Beginning in 2017, clients with outstanding loans will receive monthly invoices via email or U.S. mail. Coupon books will be discontinued once invoicing is in place.

Collections

- 16 days past due: a phone call is made or an email is sent to the client notifying them that their loan payment is past due and requesting payment.
- 30 days past due: the same is done, and immediate payment is requested.
- 60 days past due: a default letter may be sent, and a meeting with the client may be requested.
- 90 days past due: a demand letter will be sent, with 30 days to cure the default, and notice of intent to foreclose.

Lending staff will consult with the Loan Committee and /or Board of Directors regarding refinancing, deferments, foreclosure, write-offs or other alternatives. Decisions will be made on a case-by-case basis depending on borrower's payment history, borrower's communication with CEDC, amount of principal outstanding, and the collateral securing the loan.

Workouts

Every effort will be made to work with the borrower to mitigate loan losses and additional costs, such as attorney's fees. Options include:

- Interest-only period (maximum 6 months for SBA Microloans)
- Minimum monthly payments
- Regular monthly payment plus an additional amount toward back payments
- Loan restructuring: extending term (maximum 6 years of SBA Microloans) adding payments to end of loan, re-amortizing.

Bankruptcy

If borrower initiates bankruptcy proceedings, CEDC will receive "Proof of Claim", and collection efforts will cease, per law. CEDC's attorney will be notified of all bankruptcies.

Non-Accrual Status

Non-accrual status occurs when a loan is 120 days past due for interest and/or principal, or collection of the outstanding principal and interest is unlikely to occur.

Charge-Offs

The SBA requires loans to be charged off after 120 days. Neither Loan Committee nor Board approval is required, although it will be reported to both by Lending Staff. CEDC loans may be charged off at 120 days as well, if they are deemed uncollectable. Both Loan Committee and Board approval are required. After a loan is charged off, ongoing collection efforts will continue by Lending Staff and/or CEDC's attorney.

LENDING AUTHORITY

Lending Staff has the authority to deny loan applications, but not to approve them. Loan applications that do not receive unanimous approval by the Loan Committee must be brought to the Board of Directors for a decision.

All loan modifications are reported to the Loan Committee at least quarterly. SBA Microloans must be charged off after 120 days of non-payment per SBA regulations. Such charge-offs do not require staff, committee or board approval.

Please see the last page of this Manual for a chart illustrating lending authority limits.

PORTFOLIO MANAGEMENT

Risk Rating System

New loans are given an initial risk rating from 1 to 5 at the time of approval. Each loan outstanding will be reviewed by the President and CEO and all relevant staff members on a monthly basis. The Loan Committee and Board of Directors will review periodic reports of all loans outstanding with their corresponding risk ratings (with ratings highlighted if a rating change has occurred since last report).

Risk ratings are based on the following:

1. Payments are current; typically fully collateralized; no known problems. No loan is given a 1 rating at closing; a loan may become a 1 after one year of solid performance.
2. Payments are current; may be under collateralized and/or CEDC is not in first position; business may have some known risk. Likely initial rating for new loans.
3. Payments are current; may be under collateralized and/or CEDC is not in first position; may have recent late payments; business may have significant known risk. Initial rating for riskier new loans.
4. Payments are more than 60 days late; known risk threatening repayment; restructuring possible.
5. Payments are more than 90 days late. Collection procedures initiated.

Loan Loss Reserve Policy

For SBA Microloans, CEDC is required to maintain 15% of the outstanding balance in a Loan Loss Reserve Account (LLR) for each of the loans it has with the SBA. For CEDC loans, there is no requirement, but a minimum of 5% will be reserved for potential losses.

The chart below describes how the loan risk rating system is used to determine the appropriate amount to be allocated to the loan loss reserve account for each loan.

Rating	SBA Loan Loss Reserve	CEDC Loan Loss Reserve
1	15%	5%
2	20%	10%
3	25%	20%
4	50%	30%
5	100%	50%

Adjustments to the reserve may be made at any time based on the review of borrowers’ financial performance, payment history, and other facts regarding business operations. Loan loss reserve amounts are reported to the Loan Committee and Board of Directors at least quarterly. Only the Board of Directors has the authority to increase or decrease reserve amounts.

Reporting Requirements

SBA Microloans must be updated in the Capital Access Financial System monthly. Financials must be provided to the SBA quarterly.

A Loan Status Report will be generated by the CEDC Bookkeeper on a monthly basis. It will be reviewed by the Lending Staff and President & CEO monthly, and by the Loan Committee at least quarterly.

CONFLICTS OF INTEREST

Gifts

CEDC prohibits CEDC Staff, Committee Members and Board Members from accepting gifts of more than \$75 per section 805-a of the General Municipal Law.

Less than Arm’s Length Transactions

All Loan Policies and Procedures shall adhere to the CEDC Conflict of Interest Policy set forth in the Corporation’s by-laws, Section 801 of the General Municipal law, and any applicable provision of state or federal law.

Statement of Non-Discrimination

No person in the United States shall, on the basis of race, color, religion, age, national origin, gender, sexual orientation, disability, or marital status, be excluded from participation in, be denied the benefit of, or be subjected to discrimination under any project assisted with CEDC or SBA funds.

Appendix: Lending Authority Table

Decision	Approval Required Lending Staff	Approval Required President & CEO	Approval Required Loan Committee	Approval Required Board of Directors
New Loan Applications				
• Loans \$10,000 or less	-	-	yes	no
• Loans \$25,000 or less	-	-	yes	no
• Loans \$25,000-\$50,000	-	-	-	yes
• Loans over \$50,000	-	-	-	yes
Existing Loans				
Extension of loan maturity				
• One year or less	yes	no	no	no
• Greater than one year	-	yes	no	no
Renegotiate Payment Plan				
• Minor	yes	no	no	no
• Major	-	yes	no	no
Foreclosure/Collections				
• Charge-off loan	yes	yes	yes	no
• Pursue Foreclosure	yes	yes	yes	no
• Approve steps and fees during collection process	yes	yes	no	no
Loan Commitments/Pre-closing				
Increase in commitment amount				
• \$1,000 or less	yes	no	no	no
• Over \$1,000 to \$4,999	-	yes	no	no
Extension of commitment date				
• One month or less	yes	no	no	no
• Over one month	yes	no	no	no

Change in collateral:

- Same criteria as new loan application lending authority
- Miscellaneous changes (interest rate, repayment, maturity date, etc.):
- Same criteria as new loan application lending authority