

ADMINISTRATIVE GUIDELINES GOVERNING FREDERICK COUNTY SMALL BUSINESS LOAN FUND

I. LOAN PARTICULARS

Management of the Fund:

The establishment of the FREDERICK COUNTY SMALL BUSINESS LOAN FUND (FCSBLF or Fund) was the direct result of action by the Frederick County Board of County Commissioners (BOCC), which earmarked \$250,000 for the program. The County Commissioners leveraged these funds and secured a matching State grant from the Maryland Economic Development Assistance Fund, for an initial total of \$500,000 for the FCSBLF.

The FCSBLF is administered by the Frederick County Office of Economic Development (OED), which houses the Frederick County Small Business Development Center (SBDC), with financial control from the Accounting Department. OED and SBDC will solicit applicants, market the program, receive applications, assist applicants in completing the loan application, present applications to the Frederick County Small Business Loan Review Committee (Loan Review Committee or LRC) and participate as members of the LRC. The OED and the SBDC will jointly coordinate marketing. This coordination will allow the FCSBLF to reach out to a large number of small businesses in the County.

SBDC will serve as the primary contact for prospective FCSBLF clients. SBDC staff will meet with prospective clients, guide potential clients in the completion of a business plan, application and training plan. SBDC will receive and review all loan applications and training plans. A contracted servicing agent will perform due diligence in underwriting each applicant as well as prepare credit approval packages for the LRC. In working with prospective clients, the servicing agent will review financial data including personal financial statements, personal tax returns, company financial statements, company tax returns, and company financial forecasted statements to determine the overall credit risk of the prospective client and determine repayment ability as well as collateral valuation. In addition, the servicing agent will have the responsibility to obtain authorization to perform credit inquiries and will obtain individual credit reports on all applicants. Authorization for credit inquiries is granted when the applicant signs the loan application.

The Loan Review Committee approves or disapproves a loan. After loan approval, the application and attachments will be forwarded to the County Attorney or a contract attorney for loan documentation.

The Loan Review Committee will be comprised of nine (9) members, including 5 bank representatives, the Finance Director or designee of Frederick County, the Director of the Office of Economic Development, and 2 members of the Business Development Advisory Council. An attorney from the County Attorney's Office will be assigned to the LRC and will be consulted as needed. The LRC may also include up to 2 ex officio non-voting members with relevant knowledge and business experience.

All contracts for the contract servicing agent will be awarded according to the County procurement rules. The costs of contracted services to administer the FCSBLF will be charged to the Fund.

Initial Funding of the FCSBLF:

The State of Maryland (DBED) approved a matching grant of \$250,000. DBED funds have been combined with the \$250,000 in County funds. The initial balance of the Fund was \$500,000.

Purpose of the Fund:

The FCSBLF provides another source of financing for existing and aspiring small business concerns in Frederick County, Maryland. For existing businesses, the FCSBLF provides loans for growth-related expansion projects. For aspiring entrepreneurs - those starting or in business less than two years - the Fund can be used for the purchase of real estate, machinery, equipment, inventory, working capital and renovation of real estate. The FCSBLF provides direct financing and it is expected that the majority of the funds loaned will exist as stand-alone transactions. However, the Fund can provide gap financing and can be utilized in conjunction with participation from other lending sources. The FCSBLF aims at assisting businesses located in priority funding areas of Frederick County that have demonstrated the ability or potential to contribute to the economic growth of Frederick County. Economic Development goals will be established in the application process and will include number and category of jobs retained, number and category of new jobs created and level of capital investment.

Targeted Industries:

While the FCSBLF targets specific growth industries, it does not exclude applicants from non-target industries. Eligible businesses include small businesses with annual sales of under \$2.5 million in the manufacturing, industrial, advanced technology, biotechnology, agriculture, Hub Zone companies and export/import-related fields. Special consideration may be given to minority-owned business entities (as defined by State of Maryland) as determined by the Loan Review Committee. Only businesses specifically located in priority funding areas located throughout Frederick County are eligible. In addition, applicants must not be delinquent or in default on any federal, state or local taxes. The FCSBLF does not require that an applicant seek and be rejected for conventional bank financing before seeking assistance from the Fund. Rather, the Fund seeks to target those small but growing businesses that have a financing need of an amount that falls below the commercial lending threshold of most conventional lending institutions, or which would otherwise be directed to the retail bank portfolio.

Loan Terms:

The term of the loan will be based upon the following: (1) the use of proceeds, and (2) the estimated useful life of the collateral. General guidelines for loan terms are as follows:

- a. Working capital: 12-24 months
- b. New /Used Equipment/Real Estate: 3-7 years (based upon value, useful life)

Issues such as collateral and experience of the borrower will influence the term of the loan. Ultimately, therefore, the Loan Review Committee will decide upon lending terms.

Repayment terms generally will be monthly; however, the Loan Review Committee reserves the right to consider quarterly principal payments and principal moratoriums. Unless otherwise restricted by the servicing agent, both straight-line and mortgage amortization schedules will be considered, with the final determination left to the Loan Review Committee on a case-by-case basis. Single payment at maturity ("Bullet") loans will not be considered except for short-term working capital situations. No interest moratoriums will be granted.

Size of Loans:

The FCSBLF provides loans for start-ups as well as existing businesses. In no case shall the maximum loan amount exceed \$50,000. The FCSBLF will have a minimum loan amount of \$2,500.

Interest Rates/Fees:

All loans will bear interest at a fixed rate, based upon a predetermined index to be determined by the Loan Review Committee. Interest rate guidelines will be established by the Loan Review Committee and will be based upon the credit risk profile of the borrower, the loan term, the industry category and the available collateral value. Each loan application will be assessed independently to determine the rate of interest.

To cover processing expenses, each application must include a nonrefundable \$200.00 loan application fee. Additionally, all loans will be charged a 1% loan fee. The SBDC will collect the application fee at the time the application is executed and submitted for consideration.

Returned Check Policy: If the lender for any reason returns a check, the applicant(s) will be charged a fee of \$40.00, or the highest returned check fee allowed by applicable law, whichever is lower. This is to cover the \$25.00 fee to the County and \$15.00 for administrative costs of the Fund. This fee is to be paid immediately and in full only with cash, money order or cashier's check.

Borrowers may repay loans at any time prior to maturity and will not incur any prepayment penalty. Additional fees for filing liens will also be the responsibility of the borrower and will be collected at loan closing. On a case-by-case basis, the Loan Review Committee will consider rolling into the loan amount all or a portion of the fees. In no instance will the application fee be financed.

Equity Participation:

No pre-determined minimum tangible equity amount will exist; however, the applicant will be expected to contribute at least 15% of the project financing. Generally speaking, the FCSBLF will not finance 100% of an applicant's project costs. The Loan Review Committee will determine the amount of required equity financing at the time of the loan application's review.

Loan Security:

Funds received by the borrower in the FCSBLF program must be secured by pledged collateral. The FCSBLF will accept a variety of collateral types, including but not limited to fixed assets (residential property, commercial property, and commercial equipment), marketable securities, intellectual and patented property, etc. The nature of the collateral

and the amount required will be left to the discretion of the Loan Review Committee, based upon recommendation from the SBDC. When feasible, the FCSBLF will obtain a blanket first position lien on all business assets, rather than only on the asset financed. Appraisals (new or existing) may be required on real estate transactions and purchase orders or invoices will be required for non-real estate collateral. Situations may arise when the Loan Review Committee may accept the borrower's signature as security for the loan or accept personal or other guarantees. Upon recommendation of the County Attorney's Office, outside legal services may be contracted to perfect liens on collateral at the Courthouse and or search for existing liens.

Personal guarantees are recommended for all individuals with ownership interest of 20% or greater. In certain transactions, the FCSBLF may collateralize a personal guaranty with an Indemnity Deed of Trust.

Insurance:

All loans made by the FCSBLF may be insured by an appropriate commercial loan insurance agency. The fee may be passed on to the borrower. All borrowers will be required to maintain adequate levels of insurance coverage on collateral property and will be required to submit evidence of continuing insurance coverage.

II. PRE-APPROVAL STAGE

Business Loan Application:

All prospective loan applicants must provide information on the amount of funds requested, the intended use of the funds, available collateral for the loan and requested term of the loan. A standard loan application form, "FREDERICK COUNTY SMALL BUSINESS LOAN FUND Application" is to be completed by all applicants. In addition, applicants should submit with the application a \$200.00 nonrefundable application fee. See Appendix A for a draft of this application.

Submittal of the application is not an application to the loan fund but a prequalification or counseling tool and for discussion purposes only.

Co-op members' personal financial statements: If the co-op has been in business for several years and has many members, the tax documents will be enough to use as a starting place. If the co-op has a few members then the member's Personal Financial Statement can be asked for on a case-by-case basis.

Once the Small Business Development Center accepts the application the applicant(s) have six months from the date of the application to settle the loan. If the loan has not been settled the applicant must reapply and pay a new application fee.

The Small Business Development Center, located in the Frederick County Office of Economic Development facility, assists clients' completion of the loan application and assists with the preparation of necessary attachments, such as a business plan and financial projections. The SBDC Counselor establishes a training plan with the applicant to address entrepreneurial skills and weaknesses. The SBDC Counselor also suggests ways to strengthen the application so that the Loan Review Committee might favorably consider it. The servicing agent will seek to assess the likely value of the proposed

collateral and may consult with the SBDC to obtain additional collateral if the expected valuation is less than the requested loan.

The servicing agent is responsible for completing a credit check on the prospective borrower (business and individual as appropriate) and conducting a lien search or contracting with an outside agency to conduct the lien search. For companies incorporated in the State of Maryland, the servicing agent will access information on UCC filings from the State of Maryland State Department of Assessments and Taxation. Tax assessments may be used to value real estate in lieu of appraisals, unless the assessed value is insufficient. Additionally, the services of outside sources may be employed to conduct these functions in certain situations, including for any company that is not a Maryland corporation. The SBDC Counselor decides whether the prospective borrower's application is as complete and thorough as it can possibly be and all requests for information from the servicer have been answered and/or documentation provided. Then SBDC will have the application and the accompanying "Loan Approval Package Checklist" Appendix C forwarded to each member of the Loan Review Committee one week prior to when the Loan Review Committee meets to actually decide on the loan request.

Loan Application Checklist for Underwriting:

The Loan Application Checklist accompanies every FCSBLF application and serves two purposes. First, it provides evidence of gathering information by the SBDC. Secondly, it serves as an objective-scoring document for the purpose of considering or modifying the application. See Appendix B for a copy of the Loan Application Checklist.

Loan Review Committee:

The Loan Review Committee oversees the administration of the FCSBLF and establishes policy guidelines for the FCSBLF. The Loan Review Committee also liaisons with the Frederick County Commissioners to report on fund balances and achievements. The Loan Review Committee participates in the preparation of recommendations to the Frederick County Commissioners for additional funding for the FCSBLF, review of Department of Business and Economic Development (DBED) grant applications and any other issues relevant to the operation of the FCSBLF.

The Loan Review Committee is comprised of 5 local bank representatives, the Director of Finance, the Director of Economic Development, and 2 Business Development Advisory Council members. The LRC may include up to 2 ex officio non-voting members with relevant knowledge and business experience. The local bank representatives and any ex officio non-voting members will be recommended by the LRC with the affirmative vote of a simple majority of the Loan Review Committee members, with final appointment by the BOCC. The LRC members will not be subject to term limits.

The Loan Review Committee serves as the approval authority for the loan application. All eligible loan applications will be presented to the Loan Review Committee for final approval. The Loan Review Committee may approve, decline or defer an application. Decisions of the Loan Review Committee are final. Approval of an application will require a simple majority vote of the Loan Review Committee.

Rules for Commitment Level of Members:

1. Members should have relevant experience.
2. A majority of the LRC members should be present at the meetings all of the time.
3. Members are allowed to miss 3 meetings per year.
4. After the 3rd missed meeting members are subject to removal by majority vote of remaining members of the LRC after prior notice.
5. Members are expected to read the packet of materials before the meeting.
6. No active prospecting of applicants for their own bank, as this would be a conflict of interest.
7. Local bank representative members are expected to make their applicants aware of the Frederick County Small Business Loan Fund.
8. Members of the LRC should reclude themselves from consideration of loan for which they may have a conflict of interest.

The Loan Review Committee will meet monthly to review pending applications. Personal and financial information on applicants and borrowers will be kept confidential in accordance with the public information laws. The public will be able to access information regarding the borrower's company name, amount of loan, general information on how the funds will be used and the number of jobs expected. In the event that there are no pending applications or other business, the Loan Review Committee will not meet that month.

In addition to approving pending applications, the Loan Review Committee will also review performance of the FCSBLF on a quarterly basis through quarterly reports prepared by the Accounting Department, the SBDC, the OED and any contracted servicing agent. These quarterly meetings and minutes will be open to the public. During these quarterly meetings the Loan Review Committee will review:

- Fund balance
- Trends
- Loan loss reserve/non-performing loans/past due loans
- Industry concentration if any
- Profitability
- Marketing

The Loan Review Committee will designate the initial target industries defined in Section 1. This list of target industries will be reviewed and recommended annually by the Loan Review Committee.

III. APPROVAL STAGE

Approval Packages:

Upon completion of the credit analysis by the servicing agent, the SBDC will compile the loan approval package for each eligible applicant. Completed packages will be due to the OED. OED will then distribute a package to each Loan Review Committee member ten (10) days prior to a scheduled Loan Review Committee meeting so that they will have

one week prior to the meeting to review. Each package shall contain the following standard information:

- Copy of loan application with all owners' signatures
- Copy of Personal Financial Statement (PFS)
- Brief narrative on project, business history, use of proceeds, expected economic impact and training summary.
- Spreadsheet of key financial ratios, both historic and projected (cash flow coverage, leverage, current ratio, sales trend)
- Summary of Credit Bureau Report (Copies of report will be available at the meeting.)
- Description/valuation of collateral
- Training summary

Loan Documentation

FCSBLF will either: (1) utilize its own loan documents, or (2) utilize a contracted agent's or third-party's documents. If the FCSBLF uses its own documents, a third-party law firm with experience in commercial lending documentation will draft or review these documents.

Loan Correspondence

Any correspondence that makes financial commitments or arrangements for the fund shall be signed by the Executive Director of the Frederick County Office of Economic Development, the County Attorney, or the County Accountant. An email tracking procedure by all who have reviewed and responded to the correspondence shall stay with the loan becoming a part of the file.

Promissory Note - Installment and Promissory Note and Disclosure Statement:

Once the Loan Review Committee reaches a decision on an application, SBDC will communicate the decision (approval, decline or deferral) to the applicant. If approved, the applicant(s) has 90 days from loan approval date to accept or reject the offer. The loan must be funded within the 90 day period. If applicant waits more than seven (7) days to accept the loan, applicant(s) must sign an affidavit declaring that there have been no adverse changes in the financial or material standing of the business and the applicant(s). The underwriting can be revisited at acceptance and the loan decision revoked. After 90 days, the applicant(s) are subject to reapplication from the beginning. If the Loan Review Committee approves a loan, the SBDC will then meet with the applicant to convey the Loan Review Committee's affirmative decision and to sign all loan documents. Drafts of these documents will be appended as Appendix D and Appendix E, respectively. The final format and content of the disclosure statement and other loan documents will be approved by the County Attorney's Office.

The SBDC counselor will explain to the approved borrower repayment terms and procedures, such as to whom to mail payment, when payment is due and to whom to make checks payable. The SBDC/OED will invoice borrower monthly and handle processing all payment checks received by the borrower on a monthly basis through procedures established with Frederick County's Accounting/Finance Department. The SBDC/OED will also maintain an electronic database of all approved and denied FCSBLF

applicants. A paper file on each approved applicant will be maintained, as well as electronic versions.

Closing Loans:

A valid Driver's License and Social Security Card will be required at the time of settlement. The Patriot Act is part of the terrorist and money laundering reduction effort. Lending can be a form of money laundering. If ever there would be a situation where the FBI or any governmental agencies want to look at our loans we would want to have this information available. Documentation of above information will be in written format only.

Post-Loan-Care:

After the loan is approved, the SBDC will monitor on a monthly basis (at a minimum) the borrower's business to ascertain its ability to continue servicing its loan and compliance with any specific reporting requirements as required by the loan documents. Employing the skills of outside resources such as, but not limited to, the Frederick County Small Business Development Center, the Frederick County Chamber of Commerce (SCORE) and the Frederick County Entrepreneur Council, the SBDC will monitor the business growth as described in the training plan, and its ability to successfully pay back the loan. In cooperation with the borrower, the SBDC will assess the training plan and will make revisions as needed. The intent is to create a proactive mentoring and support network for the business to ensure that the borrower's loan remains current and to reduce the occurrence of loan defaults. Each loan recipient will be asked to complete monthly for the SBDC a Post-Loan Checklist detailing sales revenues, inventory levels, employee numbers, markets serviced, cash flow status, space/location plans, and any outstanding problem(s) with which assistance is required. On at least an annual basis, each borrower will be required to submit executed copies of financial information, including personal tax returns, company financial statements and projections if prepared. At the time of loan closing, the borrower will receive a copy of the Post-Loan Checklist. Please see Appendix F for a copy of the Post-Loan Checklist.

IV. LOAN SERVICING (COLLECTION PROCEDURES AND MANAGEMENT OF PROBLEM LOANS)

Monthly Servicing:

The contract-servicing agent will monitor receipt of interim and annual financial statement/tax return and other reporting requirements and annual review and analysis of continuing credit risk.

Procedures for Delinquent Accounts:

If a borrower is delinquent for 14 days, a letter from the OED/SBDC for the Frederick County Accounting Department will be forwarded to the borrower, requesting payment. There are penalties for late payments as stipulated in the Promissory Note. If an account is in arrears for more than 45 days, the delinquent account will be transferred to the County Attorney's Office for review. The County Attorney's Office may determine that the services of an outside collection agency are needed or that internal staff should handle the account collection.

Defaulted Loan:

Payment defaults will be handled as described in the preceding paragraph.

A non-payment or technical default can arise when a borrower fails to comply with certain provisions of the loan documents. Generally, defaults arise when a borrower fails to submit required information such as tax returns, financial statements, training plans, evidence of insurance etc. Additional technical defaults can arise when a borrower does something that is prohibited by the loan documents without notifying or receiving prior approval of the FCSBLF. Examples include selling business assets, merging, changing ownership, assuming additional debt or additionally encumbering assets. The SBDC will provide the initial screen for loan defaults and will, in consultation with the Loan Review Committee, coordinate its activities with the County's Attorney's Office.

Letters explaining non-payment or technical defaults and necessary action with deadline to remedy default status will be sent. If no adequate response/action, defaulted account will be forwarded to County Attorney's office.

V. FUND RECORD-KEEPING

Reporting to the Maryland Economic Development Assistance Fund:

The Frederick County Office of Economic Development will complete all necessary annual reports as required by the Maryland Economic Development Assistance Fund (MEDAF), including detailed information on all economic development projects. OED will certify which funded projects are located in a Priority Funding Area (PFA). The Director of OED will execute all annual reports prepared for submission to MEDAF.

Fund Accounting:

The Frederick County Office of Economic Development will determine streamlined procedures with the Frederick County Accounting/Finance Department to maintain a separate accounting system for the FCSBLF's revenues and expenses as well as its loan portfolio.

Annually, an independent party will review the FCSBLF to validate the solvency of the program as well as how the loan portfolio is performing.

*It is important to note that the Frederick County Board of County Commissioners may change the administrative detail regarding the operation of this FREDERICK COUNTY SMALL BUSINESS LOAN FUND with input from the Loan Review Committee. Any substantive changes will be forwarded to DBED for concurrence.

VI. APPENDICES

- A. FREDERICK COUNTY SMALL BUSINESS LOAN FUND Application
- B. FREDERICK COUNTY SMALL BUSINESS LOAN FUND: "Loan Application Checklist"
- C. FREDERICK COUNTY SMALL BUSINESS LOAN FUND "Approval Package Checklist"
- D. Promissory Note-Installment (not attached)
- E. Promissory Note and Disclosure Statement (not attached)
- F. Post-Loan Checklist

Post-Loan Checklist

Each approved borrower of the FREDERICK COUNTY SMALL BUSINESS LOAN FUND (FCSBLF) is required to submit information in the following areas to the Frederick County Fund Manager on a monthly basis for the life of the loan to proactively ensure that the business continues to maintain the capacity to service the loan.

- Sales to date

- Inventory levels to date

- Number of employees
 Changes/additions to management

- Product line and changes/addition to it

- Markets served
 Interest in penetrating new markets (i.e., government contracts, international markets)

- Status of cash flows
 Nature of outstanding accounts receivables

- Space/location status
 Expansion/relocation plans

- Training Plan update/changes.

- Specific problem areas that the business requires additional assistance.

Date Submitted: _____

Name of Business: _____

Signature of Borrower of a FCSBLF loan: _____