East Michigan Council of Governments
EDA CARES ACT RECOVERY ASSISTANCE Revolving Loan Fund Plan

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Submitted to the U.S. Department of Commerce
Economic Development Administration
by:

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PART I
REVOLVING LOAN FUND STRATEGY

EMCOG RLF Fund Establishment/History

The East Michigan Council of Governments (EMCOG) is a 14-county U.S. Department of Commerce, Economic Development District designated on March 13, 1970. In addition to its role as a Development District, the Region has responsibilities under Michigan Act 281 of 1945 as amended - Regional Planning Act – to provide member governments with expertise in economic and community development, transportation and logistics, integrated asset management, environmental, resiliency and sustainability program planning. The preceding list of program activities does not preclude the addition of other program areas which may be added from year to year depending upon the funding agencies.

A primary objective of the Region is to secure and maintain jobs and promote economic diversity. The Region annually updates, as part of its economic development program, the ***EMCOG Comprehensive Economic Development Strategy*** (EMCOG CEDS) to ensure compliance with the EDA Guidelines and the approved scope of work***.***

The EMCOG CEDS is a strategic plan that is intended to strengthen and diversify our regional economy and to guide economic development efforts for the East Michigan Council of Governments over a five-year period. The Plan presents a shared regional vision, a set of goals, and specific objectives and actions to accelerate the region's economic success. The Plan is structured around a single vision and five goals.

Vision: "The 14-county EMCOG Region will become a leading destination in the state for new jobs, investment, and innovation by leveraging its corporate, academic and community leaders to grow the regional economy and elevate the prosperity of the region's citizens."

CEDS Goals:

Goal 1: Economic development, marketing, and sustainability
Goal 2: Entrepreneurship & Innovation
Goal 3: Talent and Workforce development
Goal 4: Transportation & Infrastructure
Goal 6: Place-making, Equitable Development and Community Resiliency

A critical component of these efforts includes the use of the EMCOG RLF funds in identified economically distressed areas within the region. The EMCOG RLF Fund will be used in the 14 counties that comprise the East Michigan Council of Governments EDD. See Lending Area below.

The east central region of Michigan has historically been very dependent economically on the auto industry. The energy crisis and the introduction of lightweight vehicles and international competition in the 1970's forced the closure of auto-manufacturing plants and resulted in dramatic reductions in existing employment levels. The Region documented a loss of over 11,000 base jobs in the late 1970's and early 1980's. Unemployment rates averaged 14 percent in Saginaw County and 16.3 percent in Bay County in 1983. Historically, those areas of the state known as auto industry towns (Saginaw and Bay Counties, Wayne County, Detroit, Flint, Genesee County and Pontiac) are now referred to as the "I-75 Corridor."
In 1980, the Region began to address the sudden and severe economic job dislocation caused by the major contraction of this industry. Because of the devastating economic impacts of the job losses on Saginaw and Bay Counties, they were designated as the areas most affected by Sudden and Severe Economic

Dislocation (SSED) by EDA and the State of Michigan. It was under those circumstances that the East Central Michigan Revolving Loan Fund (EMCOG RLF) was created.

EMCOG RLF FUND BUSINESS STRATEGY

Currently, there are two RLF Plans within the East Michigan Council of Governments (EMCOG) region. The East Central Michigan Revolving Loan Fund (ECM RLF) Plan was established in the 1980's to assist manufacturing businesses within the two counties of Bay and Saginaw and continues to provide assistance to those counties under the guidance of a separate Plan. This new Fund shall be known as the East Michigan Council of Governments (EMCOG) EDA CARES ACT RECOVERY ASSISTANCE Revolving Loan Fund Plan. The Revolving Loan Fund (EMCOG EDA CARES RLF Fund) shall be guided by this Plan.

The purpose of the both EMCOG RLF Funds is to help mitigate the sudden and severe dislocation and financial distress caused by the novel coronavirus (COVID-19) within the 14-county EDD District. The RLF has gradually shifted from primarily assisting manufacturing businesses to assisting a variety of smaller businesses with their further development, job creation, resilience, and sustainability. This shift has been caused by changing economic conditions within the U.S., Michigan and the EMCOG region. With the passage of the 2020 Cares Act, which is designed to help support businesses affected by the pandemic, EDA is providing certain flexibilities to recipients of EDA funded Revolving Loan Funds (RLF) in light of impact of COVID-19. There is a need for RLF's to provide credit quickly and efficiently to their communities. These flexibilities will be in effect through the Disbursement Phase or the Award End Date, whichever occurs soonest. See Addendum.

RESPONSE TO COVID-19 PANDEMIC

The novel Coronavirus pandemic and the responses to it has created significant economic hardship, business closures, job losses and bankruptcies in Michigan as well as the EMCOG Region (the 14 counties detailed within the Plan). To date, Michigan has experienced 146,493 cases and 7,193 deaths. Within the EMCOG region, there have been 6,693 cases and 299 deaths.

The economic damage from this pandemic has yet to be fully determined and detailed at the state and regionwide level. This is one of the areas EMCOG will address as part of our companion EDA CARES Act work program.

The state and region's smallest employers indicate their biggest worry is lost sales. This is creating constant pressure on many small business owners. In April, early in the pandemic, 1 in 7 small business owners expressed concern about surviving the pandemic as well as getting through the winter of 2020. Part of this is due to the restrictions placed on how many persons can gather together in crowds and/or business and communal settings.

Virtually every employment sector in the state has been hit by this pandemic. The state's tourism industry which had reached $25 billion in sales in previous years lost more than 90,000 jobs in the spring of 2020 during the state's lockdown. Approximately 200,000 restaurant and hotel workers are still not working today despite re-hiring as some facilities reopened. The leisure and hospitality sector have been devastated by the COVID recession - more than other industries in the state and those are the types of industry sectors heavily represented in the EMCOG region. It appears that lower wage industries have lost far more jobs than high wage industries and this directly impacts the EMCOG region and its businesses as well.

The goal of this fund is to attempt to alleviate the economic injury suffered by small businesses within the EMCOG Region as well as assist those business in building sustainable economic resiliency. In many ways, everyone is finding their way in dealing with the pandemic. This is a once in a generation occurrence and few have definitive answers as to where to even start. Most actions/plans are realistically reactive at this point. If we can provide assistance to help our small businesses build stronger more resilient foundations, then we will have met our burden of proof.

LENDING AREA: The lending area for the new 14-county plan shall be: Arenac, Bay, Clare, Gladwin, Gratiot, Huron, Iosco, Isabella, Midland, Ogemaw, Roscommon, Saginaw, Sanilac, and Tuscola Counties. These counties make up the 14-county EDD also known as the East Michigan Council of Governments (EMCOG). The Fund shall be marketed within this service area.

The objectives of the EMCOG Revolving Loan Fund (EMCOG RLF Fund) are designed to help support businesses affected by the COVID-19 pandemic and to address economic development opportunities within "the Lending Area." The primary program objectives of the RLF is private-sector job creation, retention, and capital formation. In addition, the RLF seeks to increase the capacity of the local economy by providing local businesses and private entities a financing source to support economic activities that will create or retain jobs, create or add wealth, bring about higher wages, better quality of life and sustainability in the region. The EMCOG RLF objectives include but are not limited to:

The goals of the RLF are as follows:

1. The retention or expansion of existing businesses affected by COVID-19
2. Provide business loans to eligible businesses who meet the guidelines.
3. Small business development, including the start-up or expansion of locally owned businesses.
4. Attraction of new businesses, and business start-ups.
5. Redevelopment of blighted land contaminated and brownfield sites and vacant facilities for productive use.
6. Modernization and rehabilitation of existing industrial or manufacturing facilities.
7. Support for the use of new technologies, growth industries and/or high-tech firms and renewable energy companies.
8. Development of businesses owned and operated by minorities, women, veterans, disabled and members of other economically disadvantaged groups.
9. Diversification of economic activities.
10. To overcome specific gaps in local capital markets

11. To encourage greater private-sector participation in local economic development activities.

12. Ongoing marketing and promotion of the Area to cultivate its growth potential.

13. Support business activities for which credit is not otherwise available on terms and conditions that would permit completion and/or the successful operation of said business.

- **Examples:**
  a. Support for new technologies and growth industries
  b. Projects that provide quality employment in order to increase per capita income.
  c. Retention of existing commercial, manufacturing, agriculture, and service industries jobs.
  d. Modernization and rehabilitation of existing industrial or manufacturing facilities.
  e. Economic diversification
  f. Redevelopment of blighted land, contaminated and brownfield sites as well as vacant facilities for productive uses

FINANCING NEEDS

The Area's financing problems have been documented in the past by other institutions and studies. It is the intent of the RLF to provide the needed flexibility and "gap" financing for riskier loans, those of an entrepreneurial nature and those which result in the expansion and/or retention of employment. Loans will also be considered that do not have other lender participation or minimal, if any, equity participation during the Disbursement Phase. Business needs include but are not limited to:

- Access to financing for smaller or start-up businesses, working capital, equipment etc.
- Access to gap financing
- Access to potential partners for projects

The RLF will provide financing for the following business purposes:

1. Fixed assets: Machinery and equipment loans on specialized equipment in excess of the amount available from conventional sources secured by subordinated interest.
2. Inventory purchases
3. Working capital secured by a subordinated interest in land, buildings, and equipment.
    - Working capital loans for needs, such as, but not limited to vendor payments, utilities, rent, lease payments on equipment, insurances, etc.
4. Equipment loans on specialized equipment in excess of the amount available from conventional sources secured by subordinated interest.
5. Loans for equipment utilizing advanced technology in excess of that available from conventional sources.
6. Loans for equipment which would substantially improve productivity in excess of that available from conventional sources.

7. Loans for the purpose of identifying new markets or expansion of existing markets insofar as such loans can be structured to meet all of the requirements of the Revolving Loan Fund program.

All equipment purchases made with RLF Loan Funds would be a secured interest.

LOCAL CAPITAL MARKET

At this time, the local capital market in the area is competitive with interest rates at financial institutions being considered low. There are funds available to loan to local businesses for expansion that have a solid track record, experience, and sound financial measure in place. This is not necessarily the case for small or start-up businesses or small businesses suffering from impacts of the pandemic or pandemic related actions. The RLF remains committed to assisting any business that can grow our overall economy as well as those involve in manufacturing, technology, etc.

LENDING AREA

As defined within the RLF Award and RLF Plan, loans shall only be made within the EDA-approved lending area which is the 14 counties of the EMCOG Region.

TARGETING/LOAN PROJECT ELIGIBILITY STANDARDS

The RLF will provide loans in the 14 counties that comprise the EMCOG Region. Although Michigan's economic climate has improved along with the nation's, the economic situation in the lending area continues should be viewed cautiously due to the impacts of the pandemic and pandemic related actions.

Loans will be made primarily to small firms struggling with pandemic related issues. Loans will focus on working capital issues/needs and job retention due to the impacts of COVID 19. As the Fund begins to revolve, focus areas will include those with immediate expansion needs or plans, working capital or equipment needs and will create or retain jobs. The fund would like to work with companies and businesses with growth potential in the focus areas of manufacturing, commercial, small businesses, and micro-businesses. These standards will allow us to work toward our previously stated goals.

LOAN SELECTION CRITERIA/ALLOWABLE BORROWERS

Allowable borrowers for the EMCOG RLF include businesses affected by COVID 19 and those not able to obtain other financing. Attention will also be paid to start-up businesses, business expansions and retention, commercial, industrial, retail, service, office, and high-tech. It is preferred that allowable borrowers be able to obtain full financing from conventional methods; however it is recognized that because of COVID-19 impacts, this may not always be the case. Borrowers must be current with all taxes, fees, and licenses. The Borrower must be legally operating in accordance with all federal, state, and local permits and regulations.

The following criteria will be used in selecting eligible borrowers under the RLF.

1. Industrial or commercial activities including assistance to manufacturing and service industries, where opportunities for private sector jobs are the greatest.

2. Loans to attract new businesses, retain existing businesses and assist in the startup of new businesses.

3. Loans that emphasize direct job creation or retention by providing capital for the start-up, expansion, or retention of business.

4. Loans to companies affected by COVID-19 for retention of the business and jobs.

5. Indirect job creation will also be considered if Area conditions warrant this approach, i.e., commercial area revitalization if combined with public and private redevelopment efforts to attract or retain major employers.

6. Other activities which are consistent with the priorities of the U. S. Department of Commerce, such as export promotion, marine resource development, and minority business development, etc.

RATIO OF FUNDING

Ratio of other public and private funds to Revolving Loan Fund dollars. Priority will be given to those projects that have a high ratio of other funds to RLF dollars. The leveraging requirement, of at least two dollars for every one dollar (2:1) of RLF investment or more if deemed appropriate, will apply to the portfolio, rather than to individual loans and is effective for the life of the RLF.

If a loan is being made to a business affected by COVID-19, the leverage of 2:1 will be waived and a loan will be considered without any leverage through the Disbursement Phase or Award End Date, whichever occurs soonest. See Addendum.

A. RLF Leveraging:

1. RLF Loans must leverage additional investment of at least two dollars for every one dollar (2:1) of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF's operation. To be classified as leverage, additional investment must be made within 12 months of an RLF loan approval as part of the same business development project and may include:

   Capital invested by the borrower or others

   a. Financing from private entities
   b. The non-guaranteed portions and 90 percent of the guaranteed portions of any federal loan; or
   c. Loans from other State and local lending programs
   d. Private investment shall not include accrued equity in a borrower's assets

B. The following types of activities or borrowers will be considered eligible for funding:

   a. Private borrowers
   b. New companies/expansion/retention
   c. Small to mid-sized companies or businesses
   d. Industrial/commercial or service borrowers
   e. Traditional and new technology

C. The following activities and/or standards will be used to achieve economic objectives/benefits to the Area:

f. Minority enterprise development
g. Women's business development
h. Veterans and disabled owned business development
i. Growth potential of the borrower's company
j. Linkages to the Area's existing economy
k. Generation of tax revenue
l. Pollution abatement and other improvements to help firms meet environmental standards.
m. Other standards which reflect local conditions and priorities.

Specific targets for lending would include, but not be limited to, the following:

1. Working capital loans will be permitted after consideration of the experience, history, financials, employment, impact, equity, principals, and collateral. All working capital loans must be secured by a subordinated interest in land, buildings, and equipment.
    - If a company is or has been negatively impacted by COVID-19, working capital loans may be allowed to be unsecured.
2. Equipment loans on specialized equipment in excess of the amount available from conventional sources secured by subordinated interest.
3. Loans for equipment, in excess of that available from conventional sources, that would substantially improve productivity.
4. Loans for equipment which would substantially improve productivity in excess of that available from conventional sources.
5. Loans for identifying new markets or expansion of existing markets insofar as such loans can be structured to meet all the requirements of the Revolving Loan Fund program.
6. Loans for real estate acquisition or expansion.
7. Loans for acquisition for other entities and/or products.

All equipment purchases made with RLF Funds would be a secured interest.

LOAN SELECTION PROCESS

All applicants shall submit information in a format prescribed by the RLF. At a minimum, the application shall contain the following information:

1. The identity of the applicant, including the principal officers, directors, and owners. All persons owning twenty-five percent (25%) or more shall be listed.

2. The names and owners of other firms in which the applicant(s) own a principal share (e.g., 25%).

3. Financial statements/information, including the following:
   a. A balance sheet for the immediately preceding three years, if available.

   b. Statements of income and loss for the immediately preceding three years, if available.

   c. Personal history and current personal financial statement of any individual who is listed in Number 1 above.

   d. Current balance sheet dated for the end of the month preceding the month in which application was made, if available, but in no event no more than 90 days from the date of the most recent month end preceding the application.

   e. Profit and loss statement dated for the month preceding the month application was made, if available, but in no event more than 90 days from the date of the most recent month and preceding the application.
   f. Proof of equity injection unless the business is impacted by COVID-19 for a period through the Disbursement Phase or to the Award End Date, whichever occurs soonest. See Addendum.

   g. Commitment of letter from participating lender, if applicable.

   h. Credit report

4. A complete description of the project, including the following:
   a. Exact location of the project.
   b. Number and type of jobs created and/or retained.
   c. Narrative description of the project.
   d. Goals and objectives of the project.
   e. Time frame.
   f. Relevant market studies, plans, or financial projections.
   g. For working capital loans: copies of vendor invoice, utility payments, insurance payments and so forth. Payments will be made directly to the payee.

5. Total funds required for the project and the sources and uses of such funds and evidence of commitments of all required funds in addition to those to be provided by the RLF loan. COVID-19 loans will not require evidence of other funds committed. See Addendum.

6. A two-year pro forma balance sheet and income statements and a 12-month pro forma cash flow analysis showing projected revenues and expenses and suitable evidence of market demand to support the pro forma projections.

7. Completed standard application forms.

8. A list which contains the original date of the loan and amount owed, present balance, interest rate, monthly payment, maturity, security, and current status of all short and long-term debt. The list should show whether the loan is current or delinquent.

The loan application will be reviewed by RLF staff and professionals in consultation with other local economic development organization staff. An analysis will be made of the applicant's need, ability to repay, ability to secure the loan, and other factors as listed. Based on this analysis, a recommendation to the RLF Loan Committee for a final decision will be made.

LOAN CLOSING

When the RLF Loan Committee approves a loan application, the specific terms and conditions shall be written into a formal letter of commitment which will be sent to the applicant. The letter should be signed by an authorized representative of the RLF and the applicant. These signatures will signify the acceptance of the terms and conditions of the contract by both parties. RLF staff will assist potential borrowers in completing applications and assembling required documentation, where appropriate or necessary.

When the executed letter of commitment is returned, staff will begin preparing for closing on the loan. Staff will compile necessary signature forms and documents and provide same to legal counsel for final processing.

When finalized, these shall include, but not necessarily limited to the following:

1. Loan Application
2. Loan Agreement
3. Loan Committee meeting minutes approving the RLF loan
4. Promissory note with interest rate, date of first payment, term, amount of payments and maturity dates specified.
5. Security Agreements
6. Deed of trust or mortgage (as applicable)
7. Agreement of prior lien holder (as applicable)
8. Evidence demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed.
9. Mortgage, assignment, trust, or other instrument for the pledging of collateral of security required by the Board.
10. Title insurance whenever real property is pledged as security.
11. Proof of insurance agreement containing a standard mortgage clause assuring coverage for the lender on any assets pledged as security.
12. Personal guarantees of owners
12. Other forms and documents specified by the Board or required by EDA.

FEES

A fee of up to $1,000 will be collected on each loan prior to closing. The applicant will also pay any legal fees associated with the closing.

DEFAULT

When a default occurs, EMCOG RLF will provide formal written notice to the borrower that the loan is in default. EMCOG RLF, in its sole determination, may elect to enter into either a Waiver Agreement or a Forbearance Agreement in order to resolve the default. All such agreements shall be in writing and approved by the EMCOG RLF Loan Committee.

If an existing borrower is having difficulty with repayment of their loan they can request to have their loan payments deferred for a period of time as determined by the RLF loan officer, RLF attorney and staff. The borrower will enter into a forbearance agreement. See Addendum.

If the borrower commits any of the acts listed below, the balance of the loan shall become due and payable immediately and the interest rate on the unpaid balance shall become two percentage points over the interest rate on the loan.

1. A borrower relocates jobs from another labor market area to the Area.
2. A borrower moves from the target area.
3. A borrower fails to provide equal employment opportunity, semi-annual financial and job creation reports, and other reports required by the RLF.
4. A borrower fails to make payments for three (3) consecutive months.
5. A borrower fails to comply with the provisions of the Davis-Bacon Act for construction projects.

When the RLF receives proceeds on a defaulted or written off RLF loan, the funds must be applied in the order of priority, costs of collection and toward outstanding penalties and fees.

TYPES OF FINANCING/FINANCING TERMS OR USES OF THE FUND

The following uses are anticipated for the RLF Fund:

1. The objective of the RLF will be to maintain a portfolio with an average loan of approximately $25,000 - $125,000. The maximum loan cannot exceed 25% of the RLF capital base or $250,000. It is anticipated that average loan size will be in the $50,000 range. The relatively small average loan size will enable the RLF to have a maximum impact on the small, growing firms that are necessary to the economic readjustment and growth of the Area.

2. The EMCOG RLF will work to provide relief to those businesses adversely affected by COVID 19 which will include increased consideration of working capital loans.

3. Loan terms will be negotiable, with a maximum of five years for working capital; seven years for fixed assets and fifteen years for land and buildings. In no case shall the term exceed the economic life of the assets used as security for the loan.

4. **13 CFR 307.15: EDA Interest Rate Regulation**

Per 13 CFR & 301.15(b) Recipient may make loans to eligible borrowers at interest rates and under conditions determined by the RLF Recipient to be appropriate in achieving the goals of the RLF subject to the minimum interest rate requirement below.

The minimum interest rates an RLF Recipient may charge is four (4) percentage points below the lesser of the current money center prime interest rate quoted in the *Wall Street Journal*, or the maximum interest rate allowed under State law. In no event shall the interest rate be less than the lower of four (4) percent or 75 percent of the prime interest rate listed in the *Wall Street Journal*. However, should the prime interest rate listed in the *Wall Street Journal* exceed fourteen (14) percent, the minimum RLF interest rate is not required to be raised above ten (10) percent if doing so compromises the ability of the RLF Recipient to implement its financing strategy.

The interest rate will vary between the minimum and maximum according to the amount of the loan, the amount of outside funding of the project, the number of jobs created, the needs of the applicant and other factors. These interest rates are low enough to give borrowers the ability to finance capital expansions which would not otherwise be feasible.

For loans made within two (2) years of award date or until the funds are fully disbursed, the rate charged will be 75% of the WSJ Prime Rate. The rate charged at the start of the Revolving Phase or 2 years from the new RLF Award date whichever comes first, the EDA RLF regulations will apply. See Addendum.

5. Borrowers desiring a shorter term may be allowed to defer principal repayment for up to three years. In such cases, a repayment schedule will be graduated, calling at first for repayment of interest only, then interest plus increasing amounts of principal. Shorter terms are desirable, because the RLF may be recapitalized sooner.

6. Loan repayments will be used to recapitalize the fund. In addition, up to fifty percent (50%) of the interest portion of the loan repayments may be used for administration of the program with the balance being returned to the RLF for relending. Any loan origination fees will also be used by the RLF for administration of the program.

7. In determining collateral requirements, the following shall apply:
   a. RLF Loans will be secured by liens or assignments of rights in assets of assisted firms.

   b. To encourage financial participation in a direct fixed asset loan project by other lenders and investors, the RLF loan may be repayable after other loans made in connection with the project have been repaid in full. The lien position may be subordinate and made inferior to lien or liens.

   c. In projects involving direct working capital loans, the RLF will normally obtain collateral such as liens on inventories, receivables, fixed assets and/or other available assets of the borrower. Such liens may be subordinate only to existing liens of record and other loans involved in the project. For COVID-19 loans collateral requirements can be waived. See Addendum.

d. In projects involving guaranteed loans, the lending institution ordinarily will be required to maintain a collateral position, to which the RLF is subrogated, in the assets of the borrower and/or principals of the borrower such as by taking liens on inventories, receivables, fixed assets, and/or other available assets of borrowers.

e. RLF may also require security in the form of assignment of patents and licenses, the acquisition of hazard or other forms of insurance, and such other additional security as the RLF determines is necessary to support its exposure.

f. RLF loan requests submitted by closely held corporations, partnerships, or proprietorships will be expected to provide and assign to the RLF, life insurance on these key persons. Personal guarantees may also be required from principal owners, as appropriate.

8. Modification of any of the terms under which RLF financing has been extended may be approved by the RLF to enhance the capability of the RLF in achieving program objectives.

9. If the RLF determines that it is necessary or desirable to take action to protect or further the interests of the RLF, the RLF may take actions to, collect, liquidate or otherwise recover on loans extended by the RLF in accordance with its legal rights.

10. The standard job cost ratio will be that for every $25,000 loaned, the company will create or retain one (1) job.

11. These Plan guidelines also apply to the use of principal repayments, interest, collections, and liquidations which are returned to the RLF for relending.

The RLF **will not be used for** the following:

1. Speculative activities such as land banking and construction of speculative buildings.

2. Any loan request outside of the eligible area.

3. Loans which assist relocation of jobs.

4. Loans for the purpose of investing in high interest accounts, certificates of deposit or other investments.

5. Any loan with the potential for conflict of interest for any officer or employee of the RLF.

6. The RLF may waive the equity requirement (normally 15%) where a project has an unusually significant job creation potential, or the company has previously made a significant equity investment, or the business has been affected by COVID-19.

7.
    a. Acquire an equity position in a private business;

    b. Subsidize interest payments on an existing RLF loan.

    c. Provide a loan to a borrower for the purpose of meeting the requirements of equity contributions under another Federal Agency's loan programs.

    d. Enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF.

    e. Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit, or any investment unrelated to the RLF; or

    f. Refinance existing debt, unless:
        i. The RLF Recipient sufficiently demonstrates in the loan documentation a "sound economic justification" for the refinancing *(e.g.,* the refinancing will support additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia, constitute a

sound economic justification; or

ii. RLF Cash Available for Lending will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF funds may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within a reasonable time frame approved by EDA following the date of refinancing.

g. Serve as collateral to obtain credit or any other type of financing without EDA's prior written approval.

Support operations or administration of the RLF Recipient

ENVIRONMENTAL:

In accordance with 13 CFR § 307.10(a) and Part II, section D)7), of the RLF Standard Terms and Conditions, Recipient must adopt and the RLF Plan must include procedures for compliance with applicable environmental laws and regulations, including to review the impacts of prospective loan proposals on the physical environment.

Recipient will ensure compliance with applicable environmental laws and regulations, including but not limited to 13 CFR Parts 302 and 314, the National Environmental Policy Act of 1969 and all other Federal environmental mandates and will

► Determine whether the project will result in a significant adverse environmental impact. The application may be asked to submit additional documentation as necessary to make the determination. No activity shall be financed which would result in a significant adverse environmental impact unless that impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.

► Determine whether the project involves new above-ground development within a floodplain based on a review of the proposed development against FEMA Flood Insurance Rate Maps. No activity shall be financed which would result in new above-ground development in a 100-year floodplain, per E.O. 11988. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.

► Determine whether the project will be located within or adjacent to any wetland area. The applicant may be required to provide wetland delineation information, as necessary. No activity shall be financed which would result in alternation of any wetland or in any adverse impact on any wetland without consultation with the U.S. Department of the Interior Fish and Wildlife Service and, if applicable, a Section 404 Permit with the Army Corp of Engineers shall be obtained.

► The RLF Plan should indicate that the Recipient shall notify the State Historic Preservation Officer (SHPO) of each approved loan that involves significant new construction and expansion and request and receive comments on the effect of the proposed activity on historic and archaeological resources prior to closing of the loan. In cases where SHPO has recommended actions or has determined an adverse impact, the Recipient and loan applicant must work with the SHPO and EDA to address any issues identified before the loan is closed.

► The RLF Plan should indicate that all loan applicants are required to provide information regarding whether or not there are hazardous materials such as EPA listed hazardous substances (see 40 CFR 300), leaking underground storage tanks, asbestos, p polychlorinated biphenyls (PCB), or other hazardous materials present on or adjacent to the affected property that have been improperly handled and have the potential of endangering public health, If deemed necessary, loan applicant may be required to perform or provide evidence of performance of a Phase I Site Assessment to identify possible sources of contamination, a Phase II Site Assessment to test soil and/or groundwater samples, and a Phase III Site Remediation involving mitigation of applicable contaminants. No activity shall be financed which involve unresolved site contamination issues. Loan applicant shall be responsible for working with the appropriate state environmental agency office to resolve any outstanding issues before any loan can be approved for the affected site.

PART II

DIRECT OPERATIONAL FUNCTIONS & PROCEDURES

<u>LOAN ADMINISTRATION BOARD</u>

The EMCOG RLF Loan Committee is being reconstituted at this time to include new members. This is necessary as many area banks have either consolidated, left the area, or been purchased by other outside financial institutions. This process is expected to be complete by late 2020 or early 2021.

The new RLF will be governed by a 7-9 member RLF Loan Committee whose members will be appointed based on recommendations from economic development groups and/or banks and based on criteria established in the RLF Plan. All appointments shall be approved by the EMCOG Full Council (grantee and owner of the Fund). Representation will be reflective of the geographic area and interests of the Fund. The EMCOG RLF Loan Committee is empowered by the EMCOG Full Council to make loans within the prescribed Loan Fund lending area. Loans are subject to review and approval by the EMCOG RLF Loan Committee with semi-annual activity reports to be given to the EMCOG RLF Loan Committee and the EMCOG Full Council. The Loan Officer will work with staff, area EDO's, the RLF attorney and the RLF Loan Committee during the RLF loan review and approval process.

Criteria and make-up of the RLF Loan Committee shall consist of the following:

1. A member of the EMCOG Full Council
2. The EMCOG Executive Director

The remaining members of the EMCOG RLF Loan Committee will include at least one representative from each of the following categories until 7 or 9 members are attained.

3. An individual employed currently employed in banking or finance.
4. A business owner
5. A community-based representative; and
6. An economic development professional
7. An at-large member. This member may be chosen from the previously enumerated categories or from a category not previously mentioned.

TECHNICAL AND MANAGEMENT ASSISTANCE

Technical and management assistance can be as important to business expansion and survival as affordable capital. Such assistance will be provided to borrowers and others by EMCOG, Michigan Economic Development Corporation, CPA firms, universities, community colleges, Small Business Development Centers, lending area economic development agencies, and local financial institutions.

CONFLICT OF INTEREST

In order to eliminate any real or perceived conflict of interest, any transaction involving an employee, officer or board member of EMCOG or the EMCOG RLF Loan Committee will require that the employee, officer or board member remove him or herself from any position of influence or authority as it pertains to the transaction. This includes abstaining from voting on loan approval and re-assignment of duties (such as Loan Summary preparation and Loan Monitoring) as they pertain to the transaction. In no case shall EMCOG or the EMCOG RLF's relationship with an employee, officer or director provide a basis for deviating from the credit standards or repayment expectations identified in this policy.

In addition, EDA requires inclusion of the following:

1. **Definitions**
   a) An "Interested Party" is any officer, employee or member of the board of directors or other governing board of the Recipient, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of the Recipient, such as agents, advisors, consultants, attorneys, accountants or shareholders. An Interested Party also includes the Interested Party's "Immediate Family" (defined as a person's spouse or partner in a domestic relationship, parents, grandparents, siblings, children and grandchildren but not distant relatives, such as cousins, unless the distant relative lives in the same household as the person) and other persons directly connected to the Interested Party by law or through a business arrangement.
   b) A conflict of interest generally exists when an Interested Party participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests or there is an appearance that an Interested Party's objectivity in performing his or her responsibilities under the Project is impaired.

c) An appearance of impairment of objectivity could result from an organizational conflict where because of other activities or relationships with other persons or entities, a person is unable or potentially unable to render impartial assistance, services, or advice. It also could result from non-financial gain to the individual, such as benefit to reputation or prestige in a professional field.

2. **Conflicts of Interest Rules**

Recipient must adhere to EDA conflicts of interest rules set forth at 13 CFR § 302.17, including the following rules specific to RLFs:

a) An Interested Party of Recipient shall not receive, directly or indirectly, any personal or financial benefit resulting from the disbursement of RLF loans. A financial interest or benefits may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected for a subaward.
b) Recipient shall not lend RLF funds to an Interested Party
c) Former board members of Recipient and members of their Immediate Family shall not receive a loan from the RLF for a period of two (2) years from the date that the board member last served on the board of directors.

3. **Duty to Disclose**

Recipient must, in a timely fashion, disclose to EDA in writing any actual or potential conflict of interest.

4. **Written Standard of Conduct**

a) Recipient must maintain written standards of conduct to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of a personal or organizational conflict of interest or personal gain in the administration of an RLF Award.

b) Recipient must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts. See Section K , Other EDA Requirements, Subsection 4, Codes of Conduct and Sub-award, Contract and Subcontract Provisions, Subsection b), Competition and Codes of Conduct for Subawards.

5. Former RLF Loan Committee members and/or officers are ineligible to apply for or receive an RLF loan for a period of one year from the date of termination of his/her services.

STAFF CAPACITY

Existing staff and professionals tasked to the RLF will assist in the development of the application, as well as processing and servicing of loans. Legal, financial, market and credit counseling resources are also available within the RLF structure.

LOAN SERVICING

With the changing conditions brought on by the pandemic, loans may be prepackaged by area EDO's or Banks working in concert with the RLF Loan Officer. Loans will be serviced by the RLF Loan Officer, RLF attorney and EMCOG staff as appropriate, under terms set by the RLF Loan Board.

Repayment of the loans will be made to the EMCOG Revolving Loan Fund. RLF staff, Loan Officer and legal counsel will be responsible for ensuring that the terms and conditions of the loan are met. Periodic submission of financial statements from the borrowers such as quarterly or annually; insurance renewals, UCC lien extensions, if needed, site visits with the borrower annually and as needed depending upon the status of the loan; and additional monitoring activity as appropriate per loan will be required. EMCOG RLF Loan packaging and loan servicing staff will ensure that all Federal requirements of the RLF are adhered to including submission of all required and appropriate reports to EDA as stipulated.

All parties involved with the EMCOG RLF, including the EMCOG Full Council, the EMCOG RLF Loan Committee, RLF Loan Officer and legal counsel, shall comply at all times with all current EDA guidelines and reporting requirements in the administration of this Fund. These include but are not necessarily limited to semi-annual reports, GPRA, audit compliance, adherence to Generally Accepted Financial practices, etc.

ACCOUNTING/FINANCIAL MANAGEMENT

The EMCOG RLF agrees to operate the RLF in accordance with generally accepted accounting principles (GAAP) as in effect in the United States and the provisions outlined in the audit requirements set out as subpart F to 2 CFR part 200 and the Compliance Supplement, which is Appendix XI to 2 CFR part 200 as applicable. A separate bank account will be established for RLF funds, including repayments and interest income after the initial disbursement period and the Fund begins to revolve. The EMCOG RLF portfolio and funds will be distinguished from other EMCOG programs.

ALLOWABLE CASH PERCENTAGE

Effective January 2, 2018, EDA replaced the Capital Utilization Rate of 25 percent with region-specific Allowable Cash Percentage (ACP) that is updated annually. The ACP is the average cash available for RLF's in the Chicago EDA Region and is used for risk rating RLFs according to the Risk Analysis System.

Lending activity will be managed so that the cash available for lending is less than the current ACP in effect for the Chicago Region. However, if the Cash Available for Lending is greater than 50% of the RLF Capital Base for 24 consecutive months, EDA may take action to disallow the persistent excess cash.

EDA REPORTING

EMCOG RLF Fund will comply with EDA's RLF financial reporting requirements.

AUDITS

EMCOG RLF Fund will obtain an independent third-party audit of its RLF program in accordance with 2 CFR Part 200, Subpart F.

EAST MICHIGAN COUNCIL OF GOVERNMENTS

Staff Composition and Characteristics[i]

Name	**Title**	**Program**
Sue Fortune	Executive Director	EMCOG Administration EMCOG RLF Loan Committee/RLF Plan Administrator
Lynne Parker	Office Manager/Planning Assistant	EMCOG Programs (all)
Jane Fitzpatrick	Program Manager	Economic & Community Development Programs
Bill Ernat	Program Manager	Special Projects
David Engelhardt	Program Manager	Transportation

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[i] Ms. Fortune and Ms. Parker are tasked to the RLF as needed