

USDA RURAL DEVELOPMENT INTERMEDIARY RELENDING PROGRAM FACT SHEET

Area of Operations

The South Central Tennessee Development District will utilize Intermediary Relending Program Loan Fund to assist business located in its primary area of operations. SCTDD serves the following counties:

Bedford, Coffee, Franklin, Giles, Hickman, Maury, Marshall, Moore, Lawrence, Lewis, Lincoln, Perry, and Wayne

IRP Loan funds are to be used to assist businesses in rural areas only. Currently at the time of this update to the operating plan there is not an area in SCTDD's service area identified above that does not qualify as a rural community defined as having a population greater than 50,000. IRP loan funds may be used to assist an eligible business located anywhere within this defined area of operations.

Eligibility of Applicants

(1) Ultimate recipients may be individuals, public or private organizations, or other legal entities, with authority to incur the debt and carry out the purpose of the loan.

(2) To be eligible to receive loans from the IRP revolving loan fund, ultimate recipients;

(a) Must be citizens of the United States or reside in the United States after being legally admitted for permanent residence. In the case of an organization, at least 51 percent of the outstanding membership or ownership must be either citizens of the United States or residents of the United States after being legally admitted for permanent residence.

(b) Must be located in a rural area of a State and fall within SCTDD's area of Operations as defined in this plan.

(c) Must be unable to finance the proposed project from its own resources or through commercial credit or other Federal, State, or local programs at reasonable rates and terms.

(d) Must, along with its principal officers (including their immediate family) hold no legal or financial interest or influence in the intermediary. Also, the intermediary and its principal officers (including immediate family) must hold no legal or financial interest or influence in the ultimate recipient. However, this paragraph shall not prevent an intermediary that is organized as a cooperative from making a loan to one of its members.

(3) Any delinquent debt to the Federal Government, by the ultimate recipient or any of its principals, shall cause the proposed ultimate recipient to be ineligible to receive a loan from Agency IRP loan funds. Agency IRP loan funds may not be used to satisfy the delinquency.

Eligible uses of funds

Loans from the intermediary to the ultimate recipient using the IRP revolving fund must be for community development projects, the establishment of new businesses, expansion of existing businesses, creation of employment opportunities, or saving existing jobs. Such loans may include, but are not limited to:

- (1) Business and industrial acquisitions when the loan will keep the business from closing, prevent the loss of employment opportunities, or provide expanded job opportunities.
- (2) Business construction, conversion, enlargement, repair, modernization, or development.
- (3) Purchase and development of land, easements, rights-of-way, buildings, facilities, leases, or materials.
- (4) Purchase of equipment, leasehold improvements, machinery, or supplies.
- (5) Pollution control and abatement.
- (6) Transportation services.
- (7) Start-up operating costs and working capital.
- (8) Interest (including interest on interim financing) during the period before the facility becomes income producing, but not to exceed 3 years.
- (9) Feasibility studies.
- (10) Debt refinancing.
 - (i) A complete review will be made by the intermediary to determine whether the loan will restructure debts on a schedule that will allow the ultimate recipient to operate successfully and pay off the loan rather than merely take over an unsound loan. The intermediary will obtain the proposed ultimate recipient's complete debt schedule which should agree with the proposed ultimate recipient's latest balance sheet; and
 - (ii) Refinancing debts may be allowed only when it is determined by the intermediary that the project is viable and refinancing is necessary to create new or save existing jobs or create or continue a needed service; and
 - (iii) On any request for refinancing of existing secured loans, the intermediary is required, at a minimum, to obtain the previously held collateral as security for the loans and must not pay off a creditor in excess of the value of the collateral. Additional collateral will be required when the refinancing of unsecured loans is unavoidable to accomplish the necessary strengthening of the ultimate recipient's position.
- (11) Reasonable fees and charges only as specifically listed in this paragraph. Authorized fees include loan packaging fees, environmental data collection fees, management consultant fees, and other fees for services rendered by professionals. Professionals are generally persons licensed by States or accreditation associations, such as engineers, architects, lawyers, accountants, and appraisers. The maximum amount of fee will be what is reasonable and customary in the community or region where the project is located. Any such fees are to be fully documented and justified.
- (12) Hotels, motels, tourist homes, bed and breakfast establishments, convention centers, and other tourist and recreational facilities except as prohibited by § 4274.319.
- (13) Educational institutions.

Ineligible Uses of Funds

Agency IRP loan funds may not be used for payment of the intermediary's administrative costs or expenses. The IRP revolving fund may not be used for:

- (1) Assistance in excess of what is needed to accomplish the purpose of the ultimate recipient's project.
- (2) Distribution or payment to the owner, partners, shareholders, or beneficiaries of the ultimate recipient or members of their families when such persons will retain any portion of their equity in the ultimate recipient.

- (3) Charitable institutions that would not have revenue from sales or fees to support the operation and repay the loan, churches, organizations affiliated with or sponsored by churches, and fraternal organizations.
- (4) Assistance to government employees, military personnel, or principals or employees of the intermediary or organizations for which such persons are directors or officers or in which they have ownership of 20 percent or more.
- (5) A loan to an ultimate recipient which has an application pending with or a loan outstanding from another intermediary involving an IRP revolving fund if the total IRP loans would exceed the limits established in § 4274.331(b).
- (6) Agricultural production.
- (7) The transfer of ownership unless the loan will keep the business from closing, or prevent the loss of employment opportunities in the area, or provide expanded job opportunities.
- (8) Community antenna television services or facilities.
- (9) Any illegal activity.
- (10) Any project that is in violation of either a Federal, State, or local environmental protection law or regulation or an enforceable land use restriction unless the assistance given will result in curing or removing the violation.
- (11) Lending and investment institutions and insurance companies.
- (12) Golf courses, race tracks, or gambling facilities.
- (13) Revolving lines of credit.

Loan Purposes

Loans applications will fall into one of four purpose categories: Start-up; Expansion; Acquisition; or Working Capital. Applicants will be requested to choose which category best describes their particular situation. Loan purposes will be subject to the aforementioned eligibility criteria.

A Start-up company shall be defined as one that has never operated or has been operating two years or less. An Expansion shall mean a logical progression of organic business growth of a business that has been operating for more than two years and can provide two years of federal tax returns. An Acquisition may be considered a Start-up or an Expansion, but is segregated to test for eligibility. Working capital may be defined as any soft costs associated with business related activities that are not specifically for the purchase of a tangible asset intended to be capitalized such as Real property or Equipment.

Loan Terms

Loans made by an intermediary to an ultimate recipient from the IRP revolving fund will be scheduled for repayment over a term negotiated by the intermediary and ultimate recipient. The term must be reasonable and prudent considering the purpose of the loan, expected repayment ability of the ultimate recipient, and the useful life of collateral.

Terms may be based on the life of the asset securing the loan. Terms for loans may not exceed twenty (20) years. Loans secured by assets of more than one class may take the useful life of the asset class representing the majority of the project. Payments will be required to be made on a monthly basis. All borrowers will be requested to Authorize their payments to be made via ACH draft.

Loan Fees

SCTDD will not charge an application fee in order to encourage participation in the program. SCTDD will impose an origination fee of 1% for all loans, payable at the time of the funding. The origination fee will cover administrative expenses associated with packaging the application, document preparation, and loan closing activities performed by SCTDD staff. This and other closing fees including attorney's fees, title search, title insurance, recording fees and taxes for security instruments and document prep required by counsel to demonstrate conditions or covenants of the loan approval outlined in the committee's approval letter to the borrower are all eligible to be rolled into the loan, however, they are the responsibility of the borrower.

Interest Rates

Interest rates will be based on the Prime rate and will have a floor of 5% and may not exceed Prime plus 4%. Rates will be fixed for the life of the loan. Any deviation will be at the discretion of the SCTDD Loan Review Committee.

Security

The IRP loan program may be used in conjunction with other programs. Unless otherwise documented in the loan agreement, and determined on an individual basis, SCTDD will seek to participate the program on projects with other loan programs administrated by SCTDD. Participation of the loan program helps to diversify the portfolio risk and shield it from large hits in the event there is a default. In instances when funds from other programs are unavailable, the program may participate a portion of the loan with an area lender. It is preferred for the program to share a prorata first position interest whenever attainable as opposed to taking a junior position to another program or lender.

Equipment and Personal Property

SCTDD will file and maintain a Uniform Commercial Code filing which places other lenders on notice of the security position taken by the SCTDD Revolving loan funds for all personal property taken as collateral for IRP Loans. Typically, SCTDD will not require a title opinion on personal property. Equipment purchased with loan proceeds will be valued at cost (LTC) for valuation purposes and will require a Purchase Money Security Interest (PMSI). Personal Property pledged as an abundance of collateral to bridge a shortfall or absence of project collateral will be discounted to arrive at a loan to value.

Real Property

Real property will be secured by a Deed of Trust. Values for real properties may be attained from an opinion of value, an appraisal, or from the evaluation for tax purposes done by the local jurisdiction property assessor. An opinion of title and title insurance will typically be required as a closing item when real estate is involved in the transaction.

Personal Guarantees

A Personal Guarantee of all owners of 20% of the operating concern benefitting from the proceeds of the loan will be required. Guarantees may be limited to the individual's prorata share of interest in the company, but will be joint and several in most instances. When real estate is taken as collateral that is not project property, in most cases, it will be used to secure the personal guarantee of the owner(s).

Abundance of collateral properties

In the event there is a shortfall between the discounted assets of the company combined with the project property and the loan amount requested, additional collateral may be required to secure the loan. Abundance of collateral may include but is not limited to and additional guarantor(s), letter(s) of credit, or the assignment of a key-man life insurance policy satisfactory to make the program whole in a liquidation scenario, or identifiable and quantifiable intangible assets such as trademarks, copyrights, patents, or other amortizable non-physical property.

Loan Limits

Loans from intermediaries to ultimate recipients using the IRP revolving fund must not exceed the lesser of:

- (1) \$250,000; or
- (2) Seventy five percent of the total cost of the ultimate recipient's project for which the loan is being made.

APPLICATION PROCESS

The Application

A complete application will consist of the following items at a minimum.

- _____ 1. Completed Application Form
- _____ 2. Personal Financial Statement current within 90 days
- _____ 3. Federal Tax Returns for the three most recent years of the Operating Company
- _____ 4. Federal Tax Returns for the three most recent years of each individual owning 20% or more of the Operating Company
- _____ 5. An interim financial statement current within 90 days signed by the applicant
- _____ 6. Personal Credit Inquiry Release (Authorization to pull credit)
- _____ 7. Cost Document(s)

(Cost documents are project specific. Examples may include, but will not be limited to the following: invoices, receipts, project scope and/or cost estimates from a contractor, engineer, architect, or other professional, or other asset valuation support such as an appraisal, opinion, or evaluation for tax purposes, etc.)

After initial review, additional items may be required. Additional items may include, but are not limited to a business plan including a five year forward looking proforma, appraisal or opinion of value for project or abundance

of collateral property proposed as security for the loan, agings of payables and/or receivables of the operating concern, debt schedule, resumes and/or statements of personal history from principals or key management of the operating concern, disclosure of tax returns and creation documents of affiliate companies or entities a principal has interest in, and creation documents/state registration/certificate of existence documents for the applicant operating concern or any other document which may add clarity to a question that improves the applicant's chances of having a successful application.

Underwriting

Information submitted along with the application will be compiled into a "Credit Memo" and analyzed by the Loan Officer of SCTDD. Points of the credit memo may include, but will not be limited to *Purpose of Loan and Description of Project, Financing (Sources and Uses of Funds), Management and Employee Impact, Collateral Analysis, Cash Flow and Historical or Proforma Financial Analysis, and Recommendation based on Character and Credit, Cash Flow, and Collateral*. Additional narrative may be included or excluded from the memo depending on the characteristics of the individual project.