Dakota CDC's Main Street Loan Program

Purpose:

The purpose of the Dakota CDC Main Street Program is to encourage the creation and stability of small businesses in North Dakota. The Main Street Program will provide financing in participation with a local economic development entity to assist start up and/or emerging small businesses as well as support their job retention mission. Dakota CDC intends to be an integral part of the economic growth and development of North Dakota.

The Main Street Program is designed to supplement local economic development funding with loans up to $24,999. The emphasis of the Main Street program is to assist in financing businesses in rural communities and/or areas. Establishment and retention of new businesses is vital to North Dakota's economy and quality of life. Dakota CDC will maintain flexibility in the evaluation of borrowers and projects that the Dakota CDC Main Street Program supports.

The Main Street Program is intended to provide financial assistance in cooperation with local economic development entities, however in unique situations a Main Street Loan could be the only source of financing.

The loan(s) will be short-term and the repayment terms will have a fixed interest rate with fixed payments.

All loan requests must be accompanied by a business plan and pro forma financial statements. If the proposed borrower needs assistance with developing a business plan they should be referred to the North Dakota Small Business Development Center (SBDC) representative serving their area.

Background:

Dakota CDC will dedicate $220,000 to a Pilot Project labeled the Dakota CDC Main Street Loan Program. The program is a derivative of the SBA Micro Loan Program. The Micro Loan was repaid to SBA and the Dakota CDC Board of Directors has chosen to maintain its commitment to the North Dakota small business community with the Dakota CDC Main Street Loan Program.

Dakota CDC's Main Street Program

To be Eligible:

- The business operation must be located in North Dakota.
- The principal must be at least 18 years of age.
- The borrower can be a for-profit business entity, non-profit corporation or a producer cooperative.
- The borrowing entity must be legal in nature.
- Applicants must present cash flow projections that at the discretion of the Dakota CDC credit committee indicate the business can meet business expenses, owner's draw and all debt obligations from the earnings of the business.
- Applicants must have the technical and administrative experience to successfully operate the business or access qualified accounting and management personnel.
- Applicants must have a reasonable amount of equity in the business. The equity injection is determined on a case-by-case basis but applications requesting more than 90% financing will not be considered.
- The principals' net worth cannot exceed $200,000. An exception to this policy may be considered on case-by-case basis upon a written request for a review by the Dakota CDC Board of Directors.

Projects that are not eligible:

- Production Agriculture entities.
- Consumer and Marketing cooperatives.
- Speculative purposes; i.e. energy exploration, real estate investment, lending, research and development.
- Projects must comply with all licensing requirements (local & state) applicable to the particular business(s).
- Projects that do not have a commercial application or are personal in nature.
- Businesses that do not meet environmental requirements.
- Government owned entities.
- Charitable and educational institutions, churches, or fraternal organizations.
- Businesses primarily engaged in political or lobbying activities.
- Businesses that have defaulted on a government loan (local, state, or federal).
- Private clubs and businesses which limit membership for reasons other than capacity.
- Projects that include refinancing.
- Businesses with an associate who is incarcerated, on probation, on parole, or has been indicted for a felony or a crime of moral turpitude.

Dakota CDC's Main Street Program

Program Parameters:

A loan that is not supported by adequate or accurate financial information and is not adequately secured or the principals cannot demonstrate the ability to repay the loan is considered an undesirable project for a Main Street Loan. Principals of businesses are subject to a background evaluation and must have an acceptable credit history.

The maximum Main Street Loan amount is $ 24, 999.

The maximum interest rate will be limited to two percent (2%) over NY Prime. The interest rate will be based on the NY Prime rate as published in the Wall Street Journal at the time Dakota CDC received the application. The interest rate will be fixed for the term of the loan and will be set at the time of loan approval.

The Main Street Loan term can range from six (6) months to sixty (60) months.

Dakota CDC will require a shared first lien position on assets being acquired with loan proceeds.

Collateral is required to provide a reasonable expectation that the loan will be repaid. Each loan is evaluated on its feasibility and nature of collateral.

There is a one-time loan fee of two percent (2%). Loan fees for a Main Street loan can be included in the loan request.

The local economic development entity submits the application to Dakota CDC.

The Main Street Program may be used in conjunction with other loan programs, grants or other financing; including other Dakota CDC financing.

Terms and Conditions:

The borrower must agree to terms and conditions which may include, but not be limited to the following:

1. The borrower will be required to meet with a SBDC representative at least quarterly for the first year of operation.
2. Each borrower will be required to submit quarterly financial statements to be reviewed by the Dakota CDC staff for the first three (3) years. Borrowers will also be required to submit business and personal year-end tax returns.

3. The borrower will be required to maintain liability and hazard insurance as deemed appropriate by Dakota CDC.

Dakota CDC’s Main Street Program

Terms and Conditions (cont’d):

4. Pay the Dakota CDC loan payment as stated in the terms of the loan.

5. Maintain, insure and pay all taxes on the property used as collateral. Insurance will include hazard insurance, liability insurance, worker's compensation insurance and flood insurance (if appropriate).

6. Maintain its legal existence.

7. Pay the closing costs associated with the loan.

8. Notify Dakota CDC of any default on loans associated with this project.

9. Maintain all terms listed in the Note and Loan Agreement.

The borrower may not engage in the following actions without prior written consent of Dakota CDC:

1. Encumber the assets used as collateral.

2. Sell the assets used as collateral.

3. Change the ownership composition of the business and/or assets.

4. Change the project's scope as outlined in the application.

5. Borrow additional funds for the project.

6. Alter the terms and conditions of other project financing.

Dakota CDC's Main Street Program

Closing Procedures

The following applicable conditions must precede the loan transaction:

1. Execution of Note and Loan Agreement.
2. Execution and filing of any Security Agreement or Financing Statement.
3. Perfection of liens and mortgages.
4. Provide unlimited personal guarantees of principals.
6. Execution of all required loan documents and documentation.

If a borrower is a non-profit or for-profit corporation, partnership or cooperative they must provide:

1. Execution and Certification of a Board Resolution or Certificate of Partners to borrow from the Dakota CDC.
2. Execution and Certification of a Board Resolution naming the "President" to sign on behalf of the borrowing entity.
3. Submission of copies of the entities corporate, partnership or organizational papers.
4. Certificate of Good Standing or Certificate of Fact must be submitted by the borrowing entity.

Dakota CDC's Main Street Program

Loan Monitoring

Loan monitoring will be primarily the responsibility of the participating local economic development organization but should be inclusive of all lenders participating in a project. Dakota CDC will determine the amount of risk involved on its portion of the project and act when and if a problem with a loan is identified. Most losses result from failure to act at the proper time, in the proper way and with the proper determination.

The foundation of any relationship is familiarity and trust. The better we know our borrowers and lending partners the better chance we have of being aware if they are experiencing problem. Familiarity will also increase communication between the borrower and lender(s) (to include Dakota CDC).

It is the intent of Dakota CDC to cooperate with the lending partner(s) to resolve problems with a borrower with the ultimate goal of preserving the business entity. If it is determined that the business cannot be preserved then Dakota CDC will work with the borrower and the participating lenders to minimize the loss.

An indicator of a potential problem loan is a request for a modification to the loan terms and/or conditions.

The initial servicing action should be followed up by a visit to the borrower followed up by a field visit report submitted to Dakota CDC. The purpose of the visit is to ascertain the condition of collateral. A contact for the lending consortium should be identified so as to encourage a proactive relationship.

A field visit report should be submitted to all participating lenders within sixty days of the loan servicing action being completed.

Prior to granting a modification to a loan it must be determined that the borrower is in compliance with all loan covenants.

Deferments: A deferment is an action to alleviate anticipated or realized temporary cash flow issues. Deferments will be limited to three (3) months. If there are operational shortcomings a deferment will not solve the cash flow issue but only delay addressing the underlying problem. Ultimately management will have to increase its emphasis on managing the business operations (accounts receivable, inventory management and controlling expenses).

A deferment should be considered only after all lenders have had an opportunity to review the financial statements with supporting accounts receivable aging and accounts payable aging. An analysis of the components of the operating cycle (inventory, accounts receivable, and accounts payable) must be done to confirm it is a temporary issue as well as to determine management diligence to operations or if the deferment is necessary to address the operating environment. The analysis should include comparison

of current to projected and/or historical inventory turnover, accounts receivable turnover and accounts payable turnover.

Further a review of the accounts should be done to determine if the business principals are withdrawing funds through a receivable. At a minimum the principals should be required to bring their account(s) current as a condition of the deferment.

Adverse trends in collection or inventory management should be brought to the attention of all participating lenders and management.

All participating lenders should defer their loans to the borrower.

Referral to the nearest SBDC is appropriate.

Subordination: Subordinations for a working capital loan may be an indicator of a business experiencing collection or inventory problems; it is prudent to determine if there are extenuating circumstances.

A business that has exhausted its' vendors patience may have lost the ability to buy inventory or supplies on account, thus increasing the pressure on cash.

Subordinations should be considered only after all participating lenders have had an opportunity to review the financial statements along with supporting accounts receivable aging and accounts payable aging.

If a loss is imminent we do not want to lessen our collateral position.

Collateral Release: Before granting a release of any collateral an analysis of the business operations is appropriate. We (participating lenders) must also determine the reason for the request. If the borrower wants the release of collateral to use the collateral as security for another loan we must determine why they are using this avenue to get operating funds. Subordinating may be more appropriate and be a better alternative for the borrower as well as involve less documentation.

Exchange of Collateral: In particular an exchange of guarantors may be a precursor to problems.

It is essential that the new guarantor be at least as strong financially as the guarantor being released.

We should also determine what the impetus is for the collateral exchange. Are there operational issues that the guarantor requesting release is aware of or is there discord amongst the management team? If there are issues, an analysis of the loan is in order as management was a determined to be an important component to the loan approval.

The loan agreement will list the conditions, which constitute a default. A default in the Loan Agreement

allows the lenders to accelerate repayment and demand immediate full payment of all outstanding principal and accrued interest or restructure loan repayment. Events of default include but are not limited to the following:

Exchange of Collateral (cont'd):

1. Non-Payment of the Dakota CDC loan
2. Non-Payment of any other loans in the project
3. Incorrect representation or warranty
4. Default in any covenant
5. Insolvency either voluntary or involuntary

Equal Credit Opportunity Lender

Be it policy that the Dakota CDC will not discriminate against any applicant in aspect of a credit transaction on the basis of race, color, religion, national origin, sex, marital status, disability or age provided the applicant has the capacity to enter into a binding contract. The DCDC will not discriminate against any applicant on the basis of the fact that all or part of the applicant's income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act or under the law of any state which has been exempted from the requirement of the Equal Credit Opportunity Act. These requirements apply to every aspect of a credit transaction and include all lending transactions.

As modified June 25, 2009

Dakota CDC Main Street Loan Program

Borrower Visit Report

COMPANY NAME: ____

ADDRESS: ____

____

____

Contact: ______________________________ Tel. No.:__________________

Date: __________________

1. ***Collateral:***

2. ***Items inspected (include description & serial no., model, etc.):***

3. ***Describe the appearance of the physical operation in detail:***

Dakota CDC Main Street Loan Program

Borrower Visit Report

4. ***Comments, concerns and/or recommendations:***

Was all collateral inspected? ***YES - NO***

Is the borrower preserving the collateral? ***YES - NO***

Were the borrower's business records available? ***YES - NO***

Are photographs attached? ***YES - NO***

Is borrower in compliance with all loan covenants? ***YES - NO***

Explanation of "NO" answers: ____

5. The following documents must be received annually. If the document has not been received, the documents are to be collected during the site visit.

Annual Financial Statements:
Date Last Received:___________ Collected During site visit? YES NO N/A

Property Taxes Last Verified? _________ Certified during site visit? YES NO N/A

Proof of Insurance:

Insurance good through: ________ Received during site visit? YES NO N/A

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Report Completed By:

____Date_________________