

NORTH STAR ELECTRIC COOPERATIVE
 441 State Hwy 172 NW, PO Box 719, Baudette, MN 56623 ph. 218-634-2202

Revolving Loan Fund Application

Business Name _____

Contact Person _____

Business Address _____

Business Phone _____ Other Phone /Email _____

Fax Number _____ Business Type - Sole Prop. _____ Corp. _____

Partnership _____ Other _____

Federal Tax ID # _____

Amount of RLF Loan Request \$ _____

Proposed Project Site _____

Brief Description of Project

Uses of Financing		Sources of Financing	
Land	\$ _____	Bank	\$ _____
Building	\$ _____	NSEC RLF	\$ _____
Construction/ Renovation*	\$ _____	Pubic Sources	\$ _____
Equipment	\$ _____	Other _____	\$ _____
Inventory/ Working capital	\$ _____	Other _____	\$ _____
Other _____	\$ _____	Equity (min. 10%) *	\$ _____
Total	\$ _____	Total	\$ _____

Sources and Uses must balance. RLF funds cannot be used to refinance existing debt.

* Equity: Defined as an amount or % of capital (or lien free assets) that is required to be added to a project from borrower or investor sources.

What collateral are you offering as security for this loan? Include estimated market values and details on any existing liens.

Ownership Composition

Name	Title	Percentage	Phone Number
_____	_____	_____%	_____
_____	_____	_____%	_____
_____	_____	_____%	_____
_____	_____	_____%	_____

(Typically, personal financial statements are required for individuals holding 20% or more ownership.)

Job Projections

	Existing Jobs		Projected in 2 yrs		Avg. Wage	Benefits?
Professional/Managerial	____ FT	____ PT	____ FT	____ PT	\$_____/hr	_____
Technical/Skilled	____ FT	____ PT	____ FT	____ PT	\$_____/hr	_____
Unskilled/Semi-skilled	____ FT	____ PT	____ FT	____ PT	\$_____/hr	_____

Professional Services/References

Bank _____ **Phone** _____

Address _____

Contact Person _____ **Email** _____

Attorney _____

Address _____

Phone _____ **Email** _____

Accountant _____

Address _____

Phone _____ **Email** _____

REQUIRED:

- A commitment letter from a participating bank/ primary lender stating the loan terms, the **maximum amount** to be extended by the bank, and the need for the North Star’s participation (or other gap lenders); and/or
- Bank rejection letter (s) listing the proposed loan terms.

.....

I certify that the contents of this application and attachments are true and correct to the best of my knowledge. I authorize NORTH STAR ELECTRIC COOPERATIVE and its contracted loan reviewer to make inquiries regarding my credit history and statements contained in this application and attachments. I also authorize other lenders and my professional partners as listed above, to release information to the NORTH STAR ELECTRIC COOPERATIVE as necessary to process my application.

DATE

Authorized Signature of Borrower

Authorized Signature of Borrower

NON-DISCRIMINATION STATEMENT

In accordance with Federal law and U.S. Department of Agriculture policy, this institution is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability. (Not all prohibited bases apply to all programs).

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, SW, Washington, DC 20250-9410, or call (800)795-3272 (voice) or (202)720-6382 (TDD).

REQUIRED SUPPORTING DOCUMENTATION

Along with the application, please include the following list of documents as it pertains to your project:

___ Business Plan – detailing description of the project, business history, ownership, scope of business, & marketing plan.

___ Historical Financial Information –

- Business Tax Returns (3 yrs)
- Business Financial Statements (3 yrs),
- Interim Financial Statements

___ Financial Projections – 3 to 5 years

___ Ownership Information –

- Personal Tax Returns (3 yrs)
- Personal Financial Statements
- Resume of Borrower/Owners
- Copy of Driver's License (name on UCC must exactly match driver's license)

___ Business Structure –

- Corporate/Partnership Authorization to borrow
- Articles of Incorporation
- Partnership Agreement

___ Rent Roll

___ Accounts Receivable Aging

___ Accounts Payable Listing

___ Equipment List

___ Debt Schedule (creditor, payment amt., balance owing, terms)

___ Real Estate Documents

- Legal Description
- Abstract location _____
- Appraisal
- Realtor _____
- Purchase Agreement
- Environmental Checklist/ Study
- Survey

NORTH STAR ELECTRIC COOPERATIVE

Rural Economic Development Revolving Loan Fund Policy

Adopted by the Board of Directors on

POLICY OBJECTIVES

The North Star Electric Cooperative's Revolving Loan Fund has been created to provide loan funds for economic development projects in north central areas of Minnesota. The main objectives of the fund are to assist in the creation or retention of jobs, diversify the area's economy and enhance the quality of life in Northern Minnesota.

The RLF funds were provided through the USDA's Rural Economic Development Grant and are governed by such program requirements.

North Star Electric Cooperative's (NSEC) Board of Directors is the sole authority for the approval or denial of loans from the Revolving Loan Fund, and is responsible for all decisions and actions of the Revolving Loan Fund.

NSEC will accept applications from eligible applicants for projects to be located in the vicinity of Baudette, Littlefork, Int'l Falls, Big Falls, Williams, Roosevelt, Kabetogama, and Ray in the Minnesota counties of Lake of the Woods, Koochiching, Roseau, and St. Louis.

NSEC will consider applications from eligible applicants regardless of who provides their electrical services.

It is the intent of NSEC that funds from the Revolving Loan Fund Program serve as seed money to generate economic development. NSEC will work with local lenders and others to maximize the leverage of Revolving Loan Fund dollars so that the result is the maximum possible economic development. It is further intended that use of the Revolving Loan Fund supplement, but not compete with other local sources of capital. There must be evidence that the RLF is necessary to make the proposed project feasible.

ELIGIBLE APPLICANTS

All businesses and individuals residing in the designated counties are eligible to apply. This includes corporations, partnerships, sole proprietorships, cooperatives, government units, tribal authorities, and private non-profits.

ELIGIBLE PROJECTS

Projects must create or retain employment or provide needed community facilities and services such as:

1. Small business expansion or startup
2. Business Incubators
3. Medical Facilities

4. Training/Educational Facilities
5. Tourism

INELIGIBLE USES

The RLF was generally not established to finance the following projects:

- Refinance of existing debt (unless refinancing construction financing), payment to business owners or partners, or to pay off previous debt.
- Projects without any supplemental financing; also, if supplemental financing does not provide a firm commitment to ensure total project completion
- Activities determined to be for investment purposes;
- General improvement loans related to normal replacement needs of a business and unrelated to business expansion or job creation;
- Agricultural production costs (i.e. cultivation, production, harvesting);
- Vehicles used for general purposes or that may be considered for personal use;
- Projects that are primarily working capital with limited security;
- Illegal activities and legalized activities that in the opinion of the Board of Directors adversely affect the RLF interests;
- Projects in which any director, officer, general manager, or supervisory employee of North Star Electric Cooperative or the REDLG Loan Committee, or close relative thereof, has a financial interest, or projects which based on the judgment of the Board, would create a conflict of interest, potential for conflict of interest, or any appearance of a conflict of interest.
- Area-wide planning
- Construction projects of an individual residential nature

TYPES OF FINANCING AVAILABLE

Fixed Asset Financing

- Land, building, improvements, equipment

Working Capital Financing

- Available in a limited amount given collateral is sufficient and it is in conjunction with other RLF financing.
- Technical assistance for private business enterprises

LOAN TERMS

LOAN AMOUNT

The RLF funds shall not exceed 25% of the total project costs. The maximum amount of a single loan may not exceed \$80,000 with a minimum loan amount set at \$20,000.

Applicants must provide either a commitment letter from a participating lender stating the loan terms approved and identifying the financing gap or a bank denial letter listing the requested terms.

INTEREST RATES

The maximum interest rate for loans made from the RLF will not exceed the Prime Rate as published in the Wall Street Journal on the date of loan closing. Loans will be evaluated based on risk, equity contributions, and community impact among other factors while determining the rate. The interest rate will generally be fixed for the term of the loan. The minimum interest rate will typically range from 3% to 5%.

REPAYMENT TERMS

Generally, loan terms will be based on the life of the assets being financed and the borrower's cash flow needs. Loans can be amortized over the lesser of seven years or the life of the security. The Loan Committee shall determine the term.

If the borrower is a member of the cooperative, loan repayments will be included on the electric bill and past due loan payments will incur the same late fees as past due electric bills. NSEC may require repayments via ACH/bank draft.

EQUITY CONTRIBUTIONS

To assure an adequate level of borrower commitment, new businesses will typically be required to provide a minimum of 10% equity investment into the total project costs. The amount of equity required of established businesses will be determined individually dependent upon perceived risk and management ability of the owner. Some in-kind equity may be allowed.

COLLATERAL/SECURITY

All loans shall be secured. The loan must be secured by adequate and appropriate collateral sufficient to protect the assets of the RLF. Security shall consist of the best lien available on real estate, equipment, inventory, etc. The discounted value of the security (using typical lender discount rates) shall equal or exceed the value of the loan. The Loan Committee may require personal guarantees and/or co-signors.

As a gap financier, the RLF will commonly accept a subordinate lien position to the primary lender. A shared lien position with other gap lenders may be requested. Unconventional forms of security may be required including, personal guarantees, assignments of life insurance, letters of credit, and securities. The loan recipient will be required to maintain proper insurance coverage on assets held as collateral and list NSEC as a loss-payee.

OTHER LENDING CRITERIA

- If the business relocates from its original place of business as reflected in the application materials, the Loan Committee may require immediate pay off of the loan should it be determined by the Loan Committee that such relocation causes ineligibility under the guidelines of this revolving loan fund plan.
- The proposed project must be presented to the Loan Committee by the prospective business owner or her/his representative.

- The Loan Committee may require written feasibility studies, business plans, market studies, etc. as appropriate for the business type.
- An application fee of \$150 shall be submitted with each application. Costs associated with processing the application (e.g. credit report fees, UCC and lien search fees, filing security documents, filing legal documents fees, etc.) shall be the responsibility of the applicant. The Loan Committee may recommend a waiver or amendment of this fee structure for consideration of the Board of Directors without further approval from the grantor.

CLOSING COSTS

Borrowers will be assessed a 1% origination fee based on the dollar amount of the loan, which shall be used to offset administration costs in connection with operating the RLF. Other closing costs including but not limited to legal fees, filing fees, and appraisal/title costs will be passed on to the borrower to be paid at closing.

APPLICATION PROCESS

All applicants for RLF funding will be required to complete an application form, providing verifiable data which demonstrates that their proposed projects are economically feasible, sustainable, and will provide benefits to rural communities through job creation and economic growth.

Parties interested in applying for a RLF loan shall contact the North Star Electric Cooperative office for an Application Form. This form will determine project eligibility under the RLF Policy and provide a brief summary of the financing need and scope of the project. If deemed eligible, the applicant will be asked to submit a full loan application with supporting documentation.

NSEC will contract with _____ for the review of applications and due diligence work. This contractor's staff will meet with applicants and gather pertinent information to prepare a thorough review and recommendation to the loan committee. The loan committee shall consist of a sub-committee of the Board of Directors and selected NSEC staff. The loan committee will meet as needed to review applications. The committee will forward its recommendation for approval to the full Board of Directors, providing a brief overview of the request and recommended loan terms. The Cooperative's Board of Directors will maintain authority to deny applications without Board action to provide confidentiality and timely response to applicants.

Decisions on applications will be communicated via a phone call and formal letter to the applicant following the meeting. If approved, a commitment letter will be prepared by the cooperative's contractor on behalf of NSEC detailing the loan terms and identifying any contingencies. The applicant will be asked to return a signed copy to NSEC to confirm agreement with the terms as presented. Upon receipt of the signed commitment letter the Finance Manager shall reserve the approved loan amount as committed funds, pending loan closing.

LOAN CLOSING

The staff of the cooperative's contractor will assure required documentation has been received and contingencies are met prior to scheduling a loan closing. NSEC shall enlist the services of a business law attorney for preparation of loan documents. Loan documentation shall include at a minimum a promissory note, loan agreement, security agreement/mortgage/UCC financing statement, and other pertinent documents recommended by the attorney. The closing will whenever possible be coordinated with other lenders on the project. The borrower will be responsible for paying the origination fee and out-of-pocket expenses, such as filing fees and attorney fees at loan closing. Financing such fees may be made on an exception basis. Loan documents shall be signed by the either PBTRC's CEO/General Manager or Finance Manager.

LOAN MONITORING

PORTFOLIO MAINTENANCE

NSEC will maintain a loan file for each borrower. Original loan documents shall be kept in a fire safe cabinet. A tracking system for loan payments will be maintained by NSEC staff. Payments shall be set up on ACH, when possible. To insure borrower compliance with loan covenants, a loan monitoring system shall be implemented to track receipt of insurance, UCC filing statements, financial statements, jobs reports, etc. As deemed necessary, NSEC may contract with the _____ to provide the loan monitoring and annual reviews of borrowers in the portfolio.

Borrowers will be required to complete a management report semi-annually detailing:

1. Job numbers for the reporting period;
2. Progress on any project(s) defined in the loan agreement, and
3. A description of any problems, delays, or adverse conditions, which materially affect the attainment of planned project objectives and a plan of action to resolve the situation.

At a minimum, semi-annually each borrower will be contacted via telephone to review performance and discuss any issues of concern. On-site visits will be conducted annually to verify and evaluate use of RLF funds. All contacts will be documented in borrower loan files.

Annually, a portfolio summary will be presented to the loan committee and the Board of Directors detailing the job creation totals, and overall health of the portfolio.

Generally, requests for loan modifications shall be reviewed by the staff of the cooperative's contractor with a recommendation for action presented to the loan committee and ultimately the Board of Directors for approval as necessary.

FILE RETENTION

All RLF files will be retained for a period of not less than five full years after the loan has been paid in full. After five years, the files will be destroyed by shredding. Files will be secured in a locked, safe place and access will be limited to staff with RLF responsibilities only to protect the confidentiality of the loan information.

COLLECTION EFFORTS

NSEC staff will monitor payment status of borrowers. A letter of past due status should be sent after 15 days of the payment due date, which will be at the end of the typical 15 day grace

period. NSEC staff should follow this with a phone call to the borrower. If further collection action and/or legal remedies are required, NSEC staff, with assistance from their contractor shall pursue such matters as advised by the loan committee or legal counsel, keeping the Board of Directors informed on such matters.

NON-DISCRIMINATION STATEMENT

In accordance with Federal law and U.S. Department of Agriculture policy, this institution is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability. (Not all prohibited bases apply to all programs).

To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, SW, Washington, DC 20250-9410, or call (800)795-3272 (voice) or (202)720-6382 (TDD).

AMENDMENTS TO POLICY

Amendments to this loan policy will require approval of the Board of Directors. No action will be taken to amend this plan without the prior written approval of USDA's Rural Development office.

Applicants are encouraged to contact their regional SBDC for FREE help to complete this application. North Star Electric Cooperative will have your application reviewed by an outsider who will make a recommendation to the North Star board regarding approval or denial.

SBDC Contact Info:

Jenny Herman
SBCD Northeast Regional Center
Koochiching Ec. Dev. Authority
405 3rd St, PO Box 138
Int'l Falls, MN 56649
218-283-8585
jenny@businessupnorth.com

Grant Oppegaard
NW SBDC
201 3rd St. NW
Bemidji, MN 56601
218-755-4255
nwsbdc@d.umn.edu