JEFFERSON COUNTY LOCAL DEVELOPMENT CORPORATION
LENDING/COLLECTION POLICY AND PROCEDURES

Adopted 10/07/10
Amended 09/06/12
09/04/14
11/6/14
3/5/15
12/3/15
12/5/19
6/6/24
6/5/25

1. GENERAL STATEMENT

The Jefferson County Local Development Corporation (JCLDC) functions, among other activities, as a lending institution, making loans for economic development purposes to qualified applicants. Loan procedures will be reviewed periodically to ensure that all rules and regulations are being complied with.

The JCLDC will review applications for the need of JCLDC funds, appropriateness of the project, and ability to attain the stated goals.

The Board of Directors (BOD) has the ability to approve exceptions to the lending policy in order to enhance the agency's ability to stimulate economic development and help spur job creation/retention.

2. LENDING AREA

The loans will be made to businesses and industries situated in or having a significant positive economic impact in Jefferson County.

3. TYPES OF LOANS

The JCLDC may lend funds to businesses and/or non-profit entities for the following purposes:

- Working Capital
- Fixed assets
- Inventory

There must be a positive economic benefit to Jefferson County as defined by:

a. job creation
b. job retention
c. community redevelopment
d. community enhancement
e. generate positive net cash flow as defined – businesses that generate a substantial portion of their revenue from sales outside the County

4. DESCRIPTION OF LOAN PROGRAMS

The loan program is defined in Exhibit A.

5. EQUITY CONTRIBUTION OF BORROWER and/or Guarantor (s) ("Borrower")

A minimum equity contribution of 10% of the total eligible project costs is required of the Borrower. The equity contribution required for a start-up business may be greater, depending upon the circumstances. The equity contribution can be in the form of cash or substantial equity in collateral being offered.

6. INTEREST RATES AND REPAYMENT TERMS

Interest rates on the JCLDC loans will be determined by the Board of Directors. The interest rates will generally range from prime minus 3 to prime plus 2 and will generally be on a fixed rate basis adjusted every 5 years, when applicable. Staff will review interest rates on January 1 of each year to determine if an adjustment should be made. Recommendations will be made to the Loan Review Committee for applicable loans.

7. CLOSING FEES

The Borrower shall pay all costs connected with the issuance of the loan.

Specific fees are outlined in Exhibit A for each loan program.

8. DOCUMENTS

The JCLDC will require the completed written business plan and application to include three years of personal financial statements, three years of tax returns and/or business financials. Closing documents necessary to perfect its security interest are required by its commitment letter to fully comply with all Federal regulations and will include personal guarantees.

9. RESPONSIBILITY OF THE LOAN REVIEW COMMITTEE

The Chairman will appoint a minimum of three representatives of the Board to serve on this Committee for the purpose of initially determining the eligibility of a prospective loan and analysis of the application for presentation to the Board. Upon completion of this analysis, the committee will provide a recommendation to the Board at the next scheduled meeting.

10. RESPONSIBILITY OF THE BOARD OF DIRECTORS

The Board will maintain an active Loan Review Committee. The Board will act on the recommendations of the Committee at its regularly scheduled meetings. The Chief Executive Officer will prepare a letter advising the Borrower of the Board's decision. If approved, the letter, among other things, will set forth the general and specific terms and conditions under which the JCLDC is willing to grant the loan, such as the interest rate, repayment period, expected collateral, etc. The letter will also advise the proposed Borrower that they will be obligated to pay all costs incurred by the JCLDC in connection with their application, even if the loan does not close as expected. The letter must include an acceptance within two weeks.

The offer shall expire in 120 days from the date of the letter, allowing a reasonable time for the proposed Borrower to meet the terms and conditions of the loan. An extension of the letter must be approved by the Board of Directors. For JCLDC loans for projects that will have construction financing, the commitment shall be for the anticipated construction period plus two months, and the construction must start within 180 days. The Board of Directors must approve an extension of the commitment. The Chief Executive Officer will present to the Board a written report of all delinquent accounts for the Board's review.

11. COLLECTION PROCEDURE

Any collection and/or delinquency correspondence will be sent to the borrower and all guarantors.

The following collection policy will be administered by the JCLDC:

A. 15 days delinquent

When a loan is 15 days delinquent, a late payment notice is sent by the staff to the Borrower requesting the loan be brought current or may otherwise be placed in default. A late payment fee will be due, as stated in the Note.

B. 30 days delinquent

When a loan is 30 days delinquent, a telephone call is made to the Borrower from the JCLDC staff in order to define the reason for the delinquency. A second delinquent letter will be sent requesting that the loan be brought current, and it is subject to being placed in default. A late payment fee will be due, as stated in the Note. **The JCLDC Staff reserves the right to submit any delinquency to a nationally accredited Credit Reporting Agency if a delinquency has not been cured within 30 days following transmittal of the default letter.**

C. 60 days delinquent

When a loan is 60 days delinquent, a third delinquent letter will be sent indicating the account is in default. The letter should indicate that a meeting with JCLDC is necessary to set up a schedule to correct the default, which will be presented to the Board of Directors for consideration. Further, the Borrower must be advised that if a repayment schedule is not adhered to, the CEO shall have the discretion and authority to turn the account over to the JCLDC attorney with instructions to begin legal proceedings to collect the full amount of the debt.

12. REPORTS TO BE KEPT

The original loan documents should be kept in the office of the JCLDC. In addition to these, the following reports are to be kept and updated as needed:

1. Annual financial statements and/or personal financial statements and tax returns
2. Evidence of insurance (includes hazard insurance and flood insurance, if required by the loan documents) – updated annually
3. Life insurance (if applicable)
4. UCC-1 Financing Statements – updated every five years

5. Annual Employment Report
6. Periodic site visits

It is the responsibility of the JCLDC staff to attempt to receive and update the above documents. Once received, they are to be reviewed, summarized, and analyzed for future trends. Any irregularities or questionable trends would be brought to the attention of the Loan Review Committee for further consideration.

13. ENVIRONMENTAL RISK CONSIDERATION

To reduce the JCLDC's potential environmental liability, the JCLDC may require an Environmental Site Assessment that satisfies the standards set forth by the United States Environmental Protection Agency's "All Appropriate Inquiry" Final Rule, 40 C.F.R. Part 312 prior to closing on loans secured by real estate. The assessment shall be paid for by the applicant, conducted by an outside consultant, and reviewed by the CEO and reported to the Loan Review Committee. Any environmental risk factors resulting from the assessment must be fully disclosed to the Board of Directors before the loan is closed.

14. APPRAISALS

The loan amount cannot exceed the appraised value of real estate or equipment without Board approval. All real estate loan requests will require an acceptable appraisal report provided by the Lender and/or project applicant. The appraisal will be completed by a qualified appraiser and provide an estimate of the current market value. The Loan Review Committee will determine if the report is acceptable. All loan requests that involve the purchase of machinery or equipment must include the invoice showing the value of the machinery and equipment.

15. SPECIFIC VALUATION RESERVE

The CFO shall review the status of the loan portfolio on an annual basis using the adopted Internal Loan Review/Risk Rating system:

The Jefferson County Local Development Corporation's (JCLDC) Internal Loan Review/Risk Rating Program has been established to play an integral part of the "safety and soundness" of the organization as well as being a foundation upon which its credit policies and procedures are based. It is designed to provide concise and accurate assessments of the quality of the overall loan portfolio and of concentrations of credit risk.

The Internal Loan Review Program provides an "early warning system", a means of identifying those credits that warrant special handling and/or a greater degree of monitoring for deteriorating situations.

The loan rating definitions have been written to resemble those used by Banking Institutions and Federal and State regulators. As such, the loan rating system provides outside auditors with a method of measuring the JCLDC's asset quality and adequacy of the Allowance for Loan Losses.

In order to maintain and properly administer the Internal Loan Review/Risk Rating Program, the CEO and CFO are required to monitor their loans on an annual basis at 12/31 and discuss with the Loan Review Committee and make changes to the existing risk ratings (when appropriate), in accordance with the JCLDC Risk Rating Format.

GENERAL RISK RATING DEFINITIONS:

In assigning a risk rating, it is important to note that not all or even most of the criteria must apply in order for a loan to fall into a loan-rating category. Certain specific criteria deserve more attention than others and therefore should have a greater influence on the overall risk rating. It is often possible that a certain single criteria such as cash flow, delinquency or industry conditions could influence the upgrading or downgrading of a credit.

The loan rating definitions are as follows:

<u>1 – SATISFACTORY:</u>
The borrower is responsible for the credit. Loans rated 1 would be included in the "Pass" category. The definition of this rating is as follows:

a. Financial statements are current, of good quality and in adequate detail.
b. Financial condition is generally on par with the industry average.
c. Earnings are generally profitable; however, occasional losses may occur. The rating would also apply to properly capitalized and liquid start-up company that has yet to establish a track record of profitable operations.
d. Cash flow has been and is expected to be sufficient to meet debt service requirements.
e. Borrower consistently adheres to repayment schedule for principal and interest.
f. Borrower generally adheres to all loan covenants; however, occasional requirements for waivers, modifications or amendments may occur but liquidity and capitalization remain acceptable.
g. Industry outlook is generally acceptable.
h. Both the integrity and the ability of management (or the individual) are good, with ability to be proven.

i. Collateral offers comfortable support and is typically somewhat better than policy guidelines. Guarantors add tangible support.

<u>2 – WATCH:</u>
Assets in this category contain higher risk profiles but not to the point of justifying a classification of Substandard due to the fact that the credit is generally current and paying as agreed. Loans rated 2 would be included in the "Pass" category. The definition of this rating is as follows:

a. The financial statements may be missing, seriously outdated, of poor quality, or lacking in important details. If this is the case, the CFO must investigate whether the non-receipt of financial statements on a timely basis is a meaningful red flag indicating the borrower is in trouble. If the statements have not been received six months after date of fiscal year end, the CFO must prepare a brief file entry justifying the continuation of the existing rating, if appropriate based on other sources of knowledge of the credit or initiating a downgrade to whatever rating the CFO believes is warranted based on their findings.

b. Financial condition is below the industry average and/or needs improvement.

c. The borrower is experiencing negative trends and/or erratic or unstable financial performance relative to industry norms. The borrower may have suffered a substantial loss in a recent period or moderate losses over a period of more than 18 months; however, losses have not been to the degree to have adversely affected the balance sheet.

d. Cash flow has generally been adequate but if existing trends continue, may be potentially inadequate to meet projected debt service requirements. On an exception basis, the CFO may consider a Watch (rather than lower) rating based upon an adequate secondary source of cash flow. Reliance on a secondary source can be used to justify a Watch rating only when that source is liquid, when its continuing availability has been verified, and when the JCLDC has legal rights to it.

e. Borrower generally adheres to repayment schedule for principal and consistently for interest. On an exception basis, a loan with delinquent payment(s) and/or maturity date missed may continue to qualify for a Watch rating if a well-defined plan to bring the payment(s) current within a reasonable timeframe. If the plan calls for a takeout or payoff of the loan, the source of repayment must be a reliable one.

f. Borrower may have violated one or more financial or other covenants, liquidity and/or capitalization may need improvement.

g. Industry outlook may be unfavorable.

h. The integrity of management (or individual) remains good.

i. Collateral offers moderate coverage and is typically at policy limits. There is perhaps some reliance on soft assets. Guarantors add nominal financial support.

j. Borrower closes business but makes loan payments.

3 – SUBSTANDARD:

A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the JCLDC will sustain some losses if the deficiencies are not corrected.

A general rule of thumb is that a relationship that previously required the normal degree of monitoring begins to absorb an inordinate amount of the CFO's time for servicing and/or to incur an increasing amount of carrying costs. The existence of any of the following conditions warrants consideration for a substandard rating:

a. The financial statements may be missing, seriously outdated, of poor quality, or lacking in important details. If this is the case, and there are other reasons to believe that the financial condition of the borrower has deteriorated, then the CFO should strongly consider classifying the relationship as Substandard.

b. Financial condition is less than satisfactory.

c. The borrower is experiencing negative trends and losses.

d. The primary source of repayment is inadequate to meet current debt service requirements, and, unless present conditions improve, it is potentially inadequate to meet projected debt service requirements. The borrower may have reached the point of employing its secondary source of cash flow. Although the secondary source may be difficult to quantify, it must appear supportive based on reasonable analysis and be generally marketable under normal conditions.
e. Borrower inconsistently adheres to repayment schedule for principal and interest. The Substandard rating may also apply when interest is current, but the principal is delinquent and a defined plan to resolve the situation within a reasonable timeframe has not yet been established.
f. Borrower may have violated one or more financial or other covenants, resulting in unsatisfactory liquidity and/or capitalization.
g. Industry outlook may be unfavorable.
h. Either the integrity or the ability of management may be in question.
i. Collateral may not provide sufficient protection. Guarantors add minimal financial support.
j. Borrower closes business.

EXHIBIT A

JCLDC Loan Program

Jefferson County Local Development Corporation (JCLDC) Revolving Loan Fund (RLF)

Purpose:	The loan fund targets manufacturing and eligible service businesses.
Area of Availability:	Businesses in Jefferson County.
Eligible Activities:	Manufacturing businesses, either start-up or expanding; however, deviation for service-based businesses will be addressed on a case-by-case basis. Also, entities that will enhance the community and economic development initiatives of the County.
Employment Eligibility:	None.
Funding Uses:	Fixed assets, working capital, and inventory.
Funding Limitations:	Loans generally range from $25,000 to $250,000 or 40% of the total project costs, whichever is less. Multiple loans can be made with a maximum aggregate amount not to exceed $500,000.
Equity Participation:	Equity participation of at least ten (10) percent of the total project costs.
Interest Rate:	Generally, interest rates range from Prime minus 3% to Prime plus 2%. Rates are determined on a project-specific basis.
Repayment Terms:	Will be determined on a case-by-case basis. Amortization of the loan shall not exceed five (5) years. Applicant agrees to provide timely repayment of any loan associated with this application according to the terms and conditions found in the Loan Documents and as agreed to by participating parties. Staff reserves the right to submit any delinquency to a nationally accredited Credit Reporting Agency if a delinquency has not been cured within 30 days following the transmittal of a default letter.
Application:	A fully completed loan application, including schedules and attachments, and 3 years of financial statements or tax returns must be submitted. Also, financial projections for 3 to 5 years are required with the application.
Application Deadline:	Must be submitted 30 days prior to the Loan Review Committee meeting, which is held on the fourth Wednesday of the month.
Fees:	Application fee of $250.00 is payable to the JCLDC at the time the application is submitted. A loan closing fee of 1.5% is due at the time of closing. A ½% fee for any modification request is due at the time of request.
Point of Contact:	Chief Executive Officer 800 Starbuck Avenue, Suite 800 Watertown, NY 13601 315-782-5865