
RIC/REAP Microenterprise & **Small Business Loan Fund Policy**

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0.0 Introduction

The purpose of this Loan Policy Manual is to establish the policies and procedures for the Rural Investment Corporation (RIC) - Rural Enterprise Assistance Project (REAP) lending department. This document will cover the lending process, approval process, risk management, loan monitoring and documentation. It will also cover all forms required to complete a loan package so that a loan decision can be rendered.

Non-Discrimination Policy

The Rural Investment Corporation (RIC), a wholly owned Subsidiary Corporation of the Center for Rural Affairs and the Rural Enterprise Assistance Project (REAP) a program of the Center for Rural Affairs are EQUAL CREDIT OPPORTUNITY LENDERS and will not discriminate in providing services to individuals on the basis of race, color, religion, sex, national origin, age, marital status, family status, or physical or mental disability.

Statement of Mission

The Mission and Purpose of the Rural Investment Corporation is: Providing of financing and technical assistance in support of community development, including startup and expansion of small businesses, creation of jobs and other community assets, improving access to services and ownership opportunities especially for low-income or otherwise disadvantaged people.

Portfolio Structure

The RIC/REAP Loan Fund currently consists of one loan portfolio (Microenterprise Loan Fund). Internally, the portfolio where funds are disbursed from will be transparent to the borrower. It is possible that RIC/REAP may offer an additional loan portfolio in the future that could possibly be a loan portfolio that offers loans above the Microenterprise Loan Fund level. This new loan portfolio might be called the "Small Business Loan Fund" portfolio. If this would happen, the RIC/REAP Loan Fund would then consist of two loan portfolios. At that time, the portfolios would be managed separately and funds disbursed from each portfolio would be transparent to the borrower. The amount financed would determine the portfolio to be used in funding a loan.

Microenterprise Loan Fund

- Microloans are designed for startup or existing small businesses with 10 or fewer employees. Typically, the borrower has received intensive technical assistance including one-on-one counseling and workshops.
- Exposure: Loans up to \$50,000.

Small Business Loan Fund

- When established, this portfolio will be designed for existing businesses and experienced entrepreneurs. Typically, the business would have to generate financial information (internal/external) to document at least two years of existence.
- Exposure: TBD

1.0 LOANS

1.1 Eligibility - RIC/REAP Microenterprise Fund Portfolio

Each loan fund within the RIC/REAP **Microenterprise** Fund Portfolio has various eligibility requirements. Listed below are the basic requirements in order to obtain financing through RIC/REAP.

- Any for-profit entity (individual, firm, partnership, or corporation) legally doing business within the State of Nebraska. Non-profit childcare centers are eligible to borrow under this program. But, no other non-profit business is.
- **Currently**, REAP can place loans anywhere in Nebraska except for Lincoln and Omaha. The only REAP loans currently placed in Lincoln and Omaha are through the Quick Grow Express loan program through the GROW Nebraska program.
- The business must be located in the State of Nebraska.
- The business must be owned or controlled at least 51% by U.S. citizens or persons legally admitted for permanent residence.
- The business must be structured legally in the form most suitable to the business.
- Business activities must be of a legal nature and be in accordance with local, state and federal laws.
- The business owner must not be on probation or parole.
- The business owner must be able to demonstrate a need for financing.
- The business owner must be able to project sufficient income to repay principal and interest within the terms of the loan.
- The startup or existing business must have 10 or fewer employees.
- **SBA Microloan Basic Eligibility Requirements:** Microborrowers must be eligible to receive financial assistance under Section 7(a) of the Small Business Act and Parts 120 and 121 of SBA regulations, which discuss SBA business loan policy and small business size regulations. In every case, the following eligibility requirements must be met by the Microborrower (including any affiliates, if any): 1) Be a startup, newly established, or growing for profit small business concern or, a non-profit child care center. 2) Be located within the Intermediary's approved service area. 3) Meet type of business eligibility standards at the time of application for the Microloan. 4) Be considered small under 7(a) business loan size requirements. Reference 13 CFR 121.201 for applicable Size Standards. 5) If a franchise, follow the guidance for franchises provided in 13 CFR Part 121 and SOP 50 10 5.
- **RMAP Microloan Basic Eligibility Requirements:** A sole proprietorship located in a rural area or a business entity, located in a rural area, with not more than 10 full-time-equivalent employees. Rural microenterprises are businesses employing 10 people or fewer that are in need of \$50,000 or less in business capital and/or in need of business based technical assistance and training. Such businesses may include any type of legal business that meets local standards of decency. Business types may also include agricultural producers provided they meet the stipulations in this definition.

- **BIA-FA Microloan Basic Eligibility Requirements:** A microenterprise for-profit business entity with not more than ten full-time equivalent employees. BIA-FA loan capital must be used in a Distressed Area. A Distressed Area means a municipality, a county with a population of fewer than one hundred thousand inhabitants according to the most recent federal decennial census, an unincorporated area within a county, or a census tract in Nebraska that a) has an unemployment rate which exceeds the statewide average unemployment rate, b) has a per capita income below the statewide average per capita income, or c) had a population decrease between the two most recent federal decennial censuses ("Distressed Area"). BIA-FA loan must not exceed \$50,000, must be made to Microenterprises for Eligible business purposes, used by Microenterprises for Eligible purposes, and can only be placed in Distressed Areas and low-income regions of the State of Nebraska.

1.2 Eligibility - RIC/REAP **Small Business** Fund Portfolio

Each loan fund within the RIC/REAP **Small Business** Loan Fund Portfolio has various eligibility requirements. Listed below are the basic requirements in order to obtain financing through RIC/REAP.

- TBD

1.3 Ineligible types of business and purposes and uses - RIC/REAP **Microenterprise** Fund Portfolio

Each loan fund within the RIC/REAP **Microenterprise** Loan Fund Portfolio has various ineligible purposes and uses. Listed below are the basic ineligible types of businesses and purposes and uses.

- **SBA Microloan Basic Ineligible Types of Business and Purposes and Uses:** **1)** Any nonprofit business other than a nonprofit childcare center; **2)** Any financial business primarily engaged in the business of lending; **3)** Life insurance companies; **4)** Any business located in a foreign country; **5)** Any pyramid sale distribution plans; **6)** Any business deriving more than one-third of gross annual revenue from legal gambling activities; **7)** Any businesses engaged in illegal activity; **8)** Any private club or business that limits membership for reasons other than capacity; **9)** Government-owned entities (except for businesses owned or controlled by a Native American tribe); **10)** Any businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting; **11)** Consumer and marketing cooperatives; however, the following types of cooperatives may be eligible if they meet all other SBA eligibility requirements: Producer Cooperatives, Agricultural Marketing Cooperatives, and Worker Cooperatives, (see the SBA Microloan Program SOP for further definitions); **12)** Loan packagers earning more than one-third of their gross annual revenue from packaging SBA loans; **13)** Any business in which the Intermediary or any of its Associates owns an equity interest; **14)** Any businesses with an Associate who is incarcerated, on probation, on parole, or is currently under indictment for a felony or a crime of moral turpitude; **15)** Any business that presents live performances of a prurient sexual nature; or derives directly or indirectly more than 5 percent of gross revenues through the sale of products or services, or the presentation of any depictions or displays,

of a prurient sexual nature; **16)** Any business that has caused a Prior Loss to the Government unless the Delinquent Federal Debt or Prior Loss to the Government is fully satisfied. The Intermediary must document its file as to how the debt or loss has been fully satisfied; **17)** Small Business Concerns that have Delinquent Federal Debt, other than an SBA Microloan, that is more than 90 days past due; **18)** Any business primarily engaged in political or lobbying activities; **19)** Any speculative business (such as oil wildcatting); **20)** Any businesses located in a Coastal Barrier Resource Area (as defined in the Coastal Barriers Resource Act); **21)** Any businesses owned or controlled by an applicant or any of its Associates who are more than 60 days delinquent in child support under the terms of any administrative order, court order, or repayment agreement; **22)** Any businesses in which an Associate is an undocumented (illegal) alien; or **23)** Any business owned or controlled by an applicant or any of its Associates who are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation by any Federal department or agency. **Note:** SBA Microloan proceeds may not be used for the following purposes (including replacement of funds used for any such purpose): **a)** Payments, distributions, or loans to an Associate of the applicant except for compensation for services actually rendered at a fair and reasonable rate; **b)** Refinancing debt owed to an SBIC; **c)** Floor plan financing; **d)** Investments in real or personal property acquired and held primarily for sale, lease, or investment; and **e)** Payment of delinquent taxes including payroll taxes, sales taxes, other funds payable for the benefit of others. However, payment of delinquent income taxes may be permitted if the applicant has an approved payment arrangement with the IRS.

- **RMAP Microloan Basic Ineligible Types of Business and Purposes and Uses:**

1) Construction costs; **2)** Any amount in excess of that needed by a microborrower to accomplish the immediate business goal; **3)** Assistance that will cause a conflict of interest including but not limited to: **a)** Financial assistance to principals, directors, officers, or employees of the microlender, or their close relatives as defined, and **b)** Financial assistance to any entity the result of which would appear to benefit the microlender or its principals, directors, or employees, or their close relatives, as defined, in any way other than the normal repayment of debt. **4)** Distribution or payment to a microborrower when such will use any portion of the microloan for other than the purpose for which it was intended. **5)** Distribution or payment to a charitable institution not gaining revenue from sales or fees to support the operation and repay the microloan; **6)** Microloans to fraternal organization; **7)** Any microloan to an applicant that has an RMAP funded microloan application pending with another microlender or that has an RMAP-funded microloan outstanding with another microlender that would cause the applicant to owe a combined amount of more than \$50,000 to one or more microlenders under this program. **8)** Assistant to USDA Rural Development employees, or their close relatives, as defined; **9)** Any illegal activity; **10)** Any project that is in violation of either a Federal, State, or local environmental protection law, regulation, or enforceable land use restriction unless the microloan will result in curing or removing the violation; **11)** Microloans to lending and investment institutions and insurance companies; **12)** Golf courses, race tracks, or gambling facilities; **13)** Any lobbying activities as described in 7 CFR part 3018; **14)** Lines of credit; **15)** Subordinated liens; and **16)** Use of an USDA Rural Development funded loan to pay debt service on a previous Agency loan.

- **BIA-FA Microloan Basic Ineligible Types of Business and Purposes and Uses:**

In particular, BIA-FA may not be used for any activities that relate to acquiring or holding passive investments, such as commercial real estate ownership, the purchase of securities, or lobbying activities. Program Funds also may not be used to: repay delinquent federal or state incomes taxes; repay taxes held in trust or escrow (e.g. payroll or sales taxes); reimburse funds owed to any owner, including any equity injection or injection of capital for the continuance of a Microenterprise; or to purchase any portion of the ownership interest of any owner of a Microenterprise.

1.4 Ineligible types of business and purposes and uses - RIC/REAP **Small Business Fund Portfolio**

Each loan fund within the RIC/REAP **Small Business** Loan Fund Portfolio has various ineligible purposes and uses. Listed below are the basic ineligible types of businesses and purposes and uses.

- TBD

1.5 Use of Loan Proceeds - RIC/REAP **Microenterprise Fund Portfolio**

Each loan fund within the RIC/REAP **Microenterprise** Loan Fund Portfolio has various loan proceed uses. Typically, RIC/REAP **Microenterprise** Loan funds can be used by startup or existing small businesses for working capital, inventory, supplies, furniture, fixtures, machinery, and/or equipment. Listed below are the basic loan proceed uses through the RIC/REAP **Microenterprise** Loan Fund.

- **SBA Microloan Basic Loan Proceed Uses:** Microloans may be used for purchase of furniture, fixtures, supplies, materials, equipment, and/or working capital. Microloans may not be used for real estate. Microloan program funds should not be used to improve any part of a private home unless that part is specifically dedicated to the funded business. Intermediaries may choose, at their discretion, to refinance Microborrower debt. However, this should only be considered when it will improve the debt position/cash flow of the Microborrower.
- **RMAP Microloan Basic Loan Proceed Uses:** REAP RMAP Loan funds may be used to make microloans for any legal business purpose not identified in the ineligible purpose and uses list. REAP RMAP Loans may make microloans for qualified business activities and expenses including, but not limited to: **1)** Working capital; **2)** Furniture, fixtures, supplies, inventory or equipment; **3)** Debt refinancing; **4)** Business acquisitions; and, **5)** Purchase or lease of real estate that is already improved and will be used for the location of the subject business only, provided no demolition or construction will be accomplished with the program funding. Neither interior decorating, nor the affixing of chattel to walls, floors, or ceilings are considered to be demolition or construction.
- **BIA-FA Microloan Basic Loan Proceed Uses:** Eligible Business Purposes include, but are not limited to: start-up costs; working capital; franchise fees; equipment; inventory; and purchase, construction, renovation or tenant improvements of an eligible place of business that is not for passive real estate investment purposes ("Eligible Business Purposes").

1.6 Use of Loan Proceeds - RIC/REAP **Small Business** Fund Portfolio

Each loan fund within the RIC/REAP **Small Business** Loan Fund Portfolio has various loan proceed uses. Typically, RIC/REAP Venture Loan funds can be used by startup or existing small businesses for **items TBD**. Listed below are the basic loan proceed uses through the RIC/REAP **Small Business** Loan Fund.

- TBD

1.7 Description of Loan Products - RIC/REAP **Microenterprise** Fund Portfolio

The *REAP Rapid Loan* and *REAP Direct Loan* are part of a family of loan products available from the RIC/REAP **Microenterprise** Loan fund Portfolio and is designed to fill a gap, with or without other lenders, for financing needs of startup and existing small businesses in rural Nebraska.

The *REAP Rapid Loan* offers loans up to \$10,000 with a unique application process. Borrowers fill out form .029R which is available with online application capabilities or can be filled out manually. Form .029R serves as a completed application for the *REAP Rapid Loan*.

All potential RIC/REAP borrowers have access to the *REAP Rapid Loan* product. REAP Rapid Loan borrowers will receive an interest rate reduction of 2% on *REAP Rapid Loans*. This interest reduction only applies to the *REAP Rapid Loan* product.

All RIC/REAP loans require collateral. Subsequent larger loans can be obtained through the RIC/REAP Direct Loan Program, RIC/REAP Venture Loan Fund (TBD) and/or other existing micro lending organizations in Nebraska.

The *REAP Direct Loan* offers loans up to \$50,000. Borrowers fill out form .029R which is available with online application capabilities or can be filled out manually. Form .029R serves as the pre-application for the *REAP Direct Loan* and also serves as a completed application for loans up to \$20,000. If the pre-application is approved, the borrower will complete a REAP Business Plan or equivalent for the final loan review. Please see the REAP Direct Program Outline for further information.

The *REAP Rapid Loan* and *REAP Direct Loan Pre-Application* can be filled out online at www.cfra.org/reap, download the documents at www.cfra.org/reap and send in, or contact your area REAP Loan Specialist to receive the application forms.

1.8 Description of Loan Products - RIC/REAP **Small Business** Fund Portfolio

Loan products for the RIC/REAP **Small Business** Loan fund Portfolio are TBD.

1.9 Diversification of Risk

RIC/REAP **Microenterprise & Small Business** Loan Fund Portfolio: The total amount of a loan or loans outstanding to any one or group of borrowers at any time will not exceed:

- \$50,000 for loans from the REAP Microenterprise Loan Fund Portfolio.
- \$ **TBD** for loans from the REAP Venture Loan Fund Portfolio.
- Spouses may have separate loans, at the same time, if each is engaged in a totally separate business.
- A business may have multiple loans at one time, with a balance due being no more than their present maximum loan level.

1.10 Loan Terms - RIC/REAP Microenterprise Fund Portfolio

Loan terms for RIC/REAP Microenterprise Loan Fund loans up to \$50,000 are typically 6 years or less. In certain circumstances, loans may be amortized at 10 years based on the need for a longer term and based on availability of lending capital through the RIC/REAP Microenterprise Loan Fund Portfolio that allows for loan terms up to 10 years. The term will be determined by the need of the business, the use of financing and the collateral being used to secure the loan. Currently, only RMAP and BIA-FA loan capital have the ability to be amortized at a maximum of 10 years.

1.11 Loan Terms - RIC/REAP Small Business Fund Portfolio

Loan terms for RIC/REAP Venture Loan Fund loans is TBD.

1.12 Interest Rates - RIC/REAP Microenterprise Fund Portfolio:

1. The prime interest rate shall be determined monthly through the *Wall Street Journal* on the first business day of each month.
2. The interest rate shall be fixed for the term of the loan.
3. Interest will accrue daily on the balance of the loan.
4. *The interest rate for the *REAP Rapid Loan* and *REAP Direct Loan* is prime + 4% or SBA maximum limit – whichever is lower.
5. *RIC/REAP borrowers will receive reduced rates for *REAP Rapid Loans*, the interest rate is 2% less than the current *Direct Loan* rate. This rate reduction is only applicable to the *REAP Rapid Loan* product.

1.13 Interest Rates - RIC/REAP Small Business Fund Portfolio:

TBD

1.14 Collateral Requirements

All RIC/REAP loans, regardless of size or lending program utilized, will be secured by sufficient collateral. Each loan will be evaluated on a case-by-case basis to determine the collateral requirements. Legal security documents will be filed with the State of Nebraska and with the respective county. Examples of acceptable collateral for loans include Real Estate (Business or personal), Business Equipment, Vehicles, etc.

Co-signers and guarantors will be considered to strengthen an overall loan request as needed.

1.15 Environmental Policy

Loans that involve real estate as collateral may necessitate that the staff ask the borrower to answer the questions on an environmental questionnaire. If the potential for the borrower to incur environmental liability exists in any form, the possible risk to RIC/REAP/Center for Rural Affairs will be weighed against the expected benefits and the Loan Review Committee will make a decision whether to make the loan.

The environmental questionnaire will provide an indication of what step(s) should be taken next. The questionnaire will be a standard lender's environmental questionnaire format. If the questionnaire raises any doubts, a Phase 1 audit by an independent inspector will be ordered prior to loan approval or disapproval. In the event of contamination, RIC/REAP may:

- Deny the loan request,
- Determine the contamination risk is slight and take a security interest in the property, or
- Require the borrower to clean up the contamination prior to loan closing

The applicant is responsible for any fees related to Phase 1 audits or other.

Note: Refer to the Loan Product Sheet in the attachments for further details on loan terms for each offered loan product.

2.0 APPLICATION & APPROVAL

2.1 Application Requirements - RIC/REAP Microenterprise Loan Fund Portfolio:

1. A borrower has several options in completing loan documentation for the REAP Rapid Loan and REAP Direct Loan Pre-Application. 1) Go to www.cfra.org/reap and fill out the application online, 2) Go to www.cfra.org/reap and download the documents, fill out and send to area Loan Specialist, or 3) Call your area REAP Loan Specialist and have them mail or email loan documents. The area REAP Loan Specialist is available for one-on-one technical assistance help in completing the loan documentation.
2. The borrower will complete the loan application:
 - a. REAP:029R for all REAP Rapid Loan applications. (Also serves as completed application for Direct loans up to \$20,000)
 - b. REAP:029R for all REAP Direct Loan pre-applications, followed by REAP Business Plan or equivalent for all REAP Direct Loan applications.
3. If completing online, the borrower's loan documentation will be received via the web and forwarded to the area REAP Loan Specialist. If completing manually, the borrower will mail or email the completed loan application or Business Plan to the RIC/REAP office in Lyons or their REAP Loan Specialist. RIC/REAP will discuss the content with

the borrower prior to presenting the loan to the Loan Review Committee (LRC). Follow up technical assistance will be established if needed.

Much of the needed documentation is in the above listed applications, but not all. Below is a list of the basic documents that must be provided to obtain financing from RIC/REAP.

- RIC/REAP Business Profile and Participant (LMI) Certification sheet.
- Completed RIC/REAP loan application .029R
- Completed Business Plan or Equivalent for loans above \$20,000.
- Credit Check form signed by applicant.
- Articles of Incorporation and other documents in the case of corporations.
- Partnership agreement, if applicable.
- Other documentation as required or requested by REAP.

2.2 Application Requirements - RIC/REAP **Small Business Loan Fund Portfolio:**

TBD

2.3 Loan Approval Process

The process for loan assessment and review begins when the entrepreneur has completed the necessary RIC/REAP loan application paperwork. Usually a RIC/REAP staffer has worked with the applicant during the development process.

The appropriate RIC/REAP staffer works directly with the applicant and will determine when the application is ready to continue on to one of the following loan approval processes:

2.4 Loan Disbursement

Process for Loan Disbursement:

- 1) Loan Review Committee authorizes the disbursement after approving the loan by signing the loan application approval sheet and marking the space marked "Approved". All members of the loan review committee are listed on the loan approval sheet with the REAP staffer whom is presenting the loan initialing and dating by the loan review committee names and listing that the review was done by telephone.
- 2) The REAP Loan Specialist has the borrower sign the appropriate documentation. The documentation and loan application will be delivered to the RIC/REAP office in Lyons by the REAP staff.
- 3) The RIC/REAP office in Lyons will write out the loan check to the borrower and send to the appropriate REAP Loan Specialist or as other designated for the loan closing.

2.5 Repayment Procedures

- 1) The borrower's loan payment will be made on the 15th of each month starting in a month as determined by the REAP Loan Specialist not to exceed 120 days from closing date. If the

15th of the month falls on a weekend or holiday or other day when the bank is closed, the bank due date becomes the first business day following. There is a 10 day grace period for REAP payments, provided borrower contacts REAP by 10th of the month.

- 2) RIC/REAP loan payments are made monthly using Automated Check Handling (ACH). An automatic deduction of the loan payment amount is made to RIC/REAP from the borrower's bank or savings account on a regular monthly basis, (15th of each month) until the loan is paid in full.
- 3) RIC/REAP will send a loan repayment report to the REAP Loan Specialist. If a loan payment did not go through and has become delinquent, then the REAP Loan Specialist should discuss and contact the borrower to get the loan situation back on track.
- 4) Incentive for Early Payments
 - a. RIC/REAP calculates interest on a daily basis. If extra payments are made in addition to the regular ACH monthly payment, the borrower will realize interest savings. The final loan payment will be reduced by all accumulated savings on interest.
 - b. There will be no penalty for early loan pay-off.
- 5) The loan payoff figure will be calculated by RIC/REAP. The amount may be larger or smaller than the last payment on the amortization schedule depending on when loan payments are made since interest is accrued daily.

3.0 LOAN UNDERWRITING

3.1 REAP Microenterprise & **Small Business** Loan Fund Guidelines

- 1) The prospective borrower meets eligibility requirements.
- 2) The business is feasible. It has access to the market, money and management resources it needs to achieve its business goals.
- 3) The business is viable. Its products or services have the potential of a long-term connection to the marketplace.
- 4) The application and/or business plan identifies the need for financing and demonstrates the ability of the business to service the debt.
- 5) The staff of the business has demonstrated they have the **capability** of doing the work of the business based on prior experience and/or education.
- 6) The application and/or business plan demonstrates that the business has the **capacity** with this financing to achieve the projections.
- 7) The business owner has demonstrated **character**, i.e. having the business personality to function comfortably and effectively in their marketplace.
- 8) The business/business owner, through historical and projected performance, is demonstrating **commitment** to a long-term market relationship.
- 9) The business owner/business has a demonstrated performance of debt service as an indication of **credit worthiness**. A bad credit history is not a reason to deny a loan,

unless the prospective borrower has not taken steps or is unwilling to repair their credit past.

10) The business/business owner has tangible assets that can be pledged as **collateral** against this loan.

Personal and business collateral that is available must be pledged as a sign of commitment. The business owner's capability, character, commitment and creditworthiness are also a large part of the equation. Any security used for a loan should **typically** be valued as follows allowing for fair market value:

- Land & Building: Up to 90%
- Equipment: 50% to 75%
- Inventory and Accounts Receivables: 25% to 50%
- Personal Property: 50% to 75%

11) The business owner/business has developed a contingency plan to repay the loan in case the market does not produce sales as projected, cash flow is not sufficient to service the debt, or the business fails. Contingency plans should be described in the business plan.

3.2 The 5 C's of Credit

The RIC/REAP Loan Fund exists to generate additional earned income for programs offered by RIC/REAP. Banks look at customers in the same way. They are in business to make money. Consequently, when the RIC/REAP lends money it wants to ensure that it will be paid back. The Fund must consider the 5 "C's" of Credit each time it makes a loan.

Capacity to repay is the most critical of the five factors. RIC/REAP will want to know exactly how the customer intends to repay the loan. We will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships - personal and commercial - is considered an indicator of future payment performance. We also will want to know about the customers contingent sources of repayment.

Capital is the money a customer personally has invested in the business and is an indication of how much they will lose should the business fail. RIC/REAP and other investors will expect a customer to contribute their own assets and to undertake personal financial risk to establish the business before asking lenders to commit any funding. If a customer has a significant personal investment in the business they are more likely to do everything in their power to make the business successful.

Collateral or guarantees are additional forms of security customers can provide REAP and other lenders. If the business cannot repay its loan, RIC/REAP wants to know there is a second source of repayment. Assets such as equipment, buildings, accounts receivable, and in some cases, inventory, are considered possible sources of repayment if they are sold for cash. Both business and personal assets can be sources of collateral for a loan. A guarantee, on the other hand, is just that - someone else signs a guarantee document promising to repay the loan if the customer can't. REAP will typically require such a guarantee in addition to collateral as security for a loan.

Conditions focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? RIC/REAP will also consider the local economic climate and conditions both within the customer's industry and in other industries that could affect a customer's business.

Character is the personal impression a customer makes on a potential lender or investor. RIC/REAP decides subjectively whether or not the customer is sufficiently trustworthy to repay the loan or generate a return on funds invested in the customer's company. The borrower's educational background and experience in business and in their industry will be reviewed. The quality of their references and the background and experience of their employees will also be considered.

4.0 COLLECTIONS

From time to time, borrowers run into problems, both business and personal, that makes them unable to make their payments on time. The RIC/REAP Loan Fund will work with a borrower as long as the borrower is making a sincere effort with the business and demonstrates their commitment to succeed. Above all, it is important to remember that all borrowers must be treated with respect and courtesy at all times.

4.1 Default

Default on a loan account occurs when a borrower fails to make a regularly scheduled monthly payment by its scheduled due date.

4.2 Delinquency

Delinquency for reporting purposes is calculated after one payment cycle of the loan period; e.g. 30 days for a monthly payment. An account will remain delinquent until all contractually past-due payments have been paid or the loan has been restructured.

4.3 Past-due Payment Collection Procedures (soft delinquency)

The REAP Loan Specialist will generate a reminder call within three (3) days of a missed payment. The borrower may be contacted at home or at their place of business, provided that the employee does not disclose the RIC/REAP Loan Fund's name or reason for the call to a third party not signed on the loan agreement. Be sure to determine the following three items:

- 1) The reason for the missed payment.
- 2) When will the borrower make the payment?
- 3) How will they be making the payment, i.e. by mail, etc.

4.4 Past-due Payment Collection Procedures (hard delinquency)

If there is no response to the above collection procedures, the REAP Director and the REAP Senior Loan Specialist will be notified for further follow up. The REAP Director or the REAP Senior Loan

Specialist will then call the borrower for arrangements and a workout plan to bring the account up to date. A letter of understanding is sent to the borrower verifying the arrangements of the workout plan with specific dates of performance. If the account maintains a delinquent status and the borrower fails to perform as promised in a delinquency work out or fails to communicate with RIC/REAP, a letter of default must be sent. The entire principal balance plus interest may be called due in full 20 days after the written default notice letter is sent to the borrower. If the borrower does not cure the default, repossession and/or legal action must be considered. Please see section 4.11 for a complete timeline of collection procedures.

4.5 Options for Bringing Past-due Accounts Current

There are different options that can be used to bring a borrower's account up to date. These are to be used only when the borrower is unable to pay the account current. The borrower must show a sincere intention, willingness and effort to repay the debt. These options are designed for the borrower who may be more than one payment past due, or who is making regular monthly payments but does not have the resources to pay the account current in one lump sum. They may also be used when certain problems arise which make the borrower unable to make to make their monthly payment.

- a. In the case of partial payments, the borrower is required to contact RIC/REAP to discuss future loan payments.
- b. RIC/REAP may choose to reschedule a delinquent note.
- c. The amount of a rescheduled note shall include all accumulated late fees as part of the principal, in addition to all unpaid principal and interest. The interest rate will be the same as the original note.
- d. A fee will be charged for the first rescheduling. Any subsequent rescheduling on this loan or following loans will also have a rescheduling fee.

4.6 Rescheduling

Past due loans are re-structured only when the borrower is not able to become current on their own and the ability of the borrower to successfully complete the loan in the future is evident. When restructuring is considered, an update on the borrower's business must be provided by the appropriate REAP Loan Specialist so that the REAP Loan Department has a full picture of the borrower's current financial condition. The following is the policy to be used when granting a reschedule.

1. All reschedules require REAP Program Director approval.
2. All reschedules must be signed by at least one of the borrowers signed on the promissory note and the original must be retained in the customer's loan file. The customer must receive a copy.

4.7 Non-accrual or Workout Rates

Loans may be placed on non-accrual when it becomes evident to the RIC/REAP Loan Fund staff that the borrower, for personal or business reasons, is not able to service the loan. When non-

accrual is considered, an update on the borrower's business must be provided by the appropriate REAP staffer so that the RIC/REAP Loan Department has a full picture of the borrowers current financial condition. In certain circumstances, RIC/REAP may choose to offer a borrower a "workout" rate if it is deemed appropriate. Typically workout rates will be no lower than 6%.

4.8 Repossession & Legal Action

- a. Collections are the last source of repayment and will begin immediately when a loan is in default. Every reasonable effort will be taken to recover the money owed by the borrower for the REAP Loan note. Collections are pursued in accordance with the following guidelines.
 - i. RIC/REAP Staff or Designated Agent (s) will recover collateral from the borrower that was used to secure the loan and arrange for its sale.
 - ii. Judgments may be filed against the borrower for the balance of the loan owed after the sale of collateral.
 - iii. The Program Director/Loan Specialist tracks defaulted loans and seeks opportunity for repayment. An example would be rescheduling a loan.

The balance of collected money will be used to pay RIC/REAP for the balance due on the loan.

4.9 Loan Charge-Offs

Loan accounts will be charged off when they are deemed uncollectable for when the cost of keeping the account in the active loan portfolio outweighs the cost of collecting the account back as bad debt. The REAP Director and REAP Senior Loan Specialist decide when loans, if any, will be written off as bad debt. Such actions are reported to the Board of Directors at the subsequent meeting.

4.10 Delinquency and Default Timelines

- 1) The loan is considered delinquent (late) if the loan payment was not made on its due date. A late fee will be charged to the borrower for each late payment.
 - a. Month #1 - Borrower does not make payment on the due date (account has insufficient funds to cover the loan payment on the 15th).
 - i. RIC/REAP's Role – RIC/REAP will generate a reminder notice or call within three days of a missed payment. If there is no response the REAP Loan Specialist will be notified for further follow-up. The REAP Loan Specialist will determine if assistance is needed for the borrower's business. Questions of possible solutions will be developed in conjunction with all parties. Note: If determined that the RIC/REAP may be in danger of losing a collateral position or other, the default notice may be sent at anytime depending on the situation.

- b. Month #2 - Borrower has not made the previous month's loan payment, nor this month's loan payment on its due date.
 - i. RIC/REAP's Role – A letter will be sent to the borrower from the Program Director /Senior Loan Specialist. The letter will state that if payment or arrangements are not made before the next due date, REAP will consider the loan in default. The Program Director /Loan Specialist will continue to make direct contact and continue to seek solutions in conjunction with all parties.
- 2) The loan is considered to be in default if no payments have been made for 3 months (90 days) or as determined to be in default by RIC/REAP.
- a. Month #3 - Borrower has not made the previous two months' payment, or this month's payment on its due date, nor is willing or able to work with REAP in rescheduling the loan. The loan is now considered to be in default at this point.
 - i. RIC/REAP's Role – REAP will continue to make contact with the borrower and seek delinquency solutions. The Program Director/Senior Loan Specialist will send a default letter to the borrower when the debt maintains a 90-day delinquent status. The loan will be defaulted if the entire principal balance is unpaid thirty (30) days after written default notice is sent to the borrower. REAP will immediately begin collection procedures to recover the unpaid balance of the loan.
- 3) Delinquency Solutions
- a. In the case of partial payments, the borrower is required to contact REAP to discuss future loan payments.
 - b. RIC/REAP may choose to reschedule a delinquent note.
 - c. The amount of a rescheduled note shall include all accumulated late fees as part of the principle, in addition to all unpaid principal and interest. The interest rate will be the same as the original note.
 - d. A fee will be charged for the first rescheduling. Any subsequent rescheduling on this loan or following loans will also have a rescheduling fee.
- 4) Default
- a. If the Collection Agency is successful in collecting the defaulted loan:
 - i. The collection agency will retain 33-50% of the collected money for their fee.
 - ii. The balance of the collected money will be used to pay RIC/REAP for the balance due on the loan.

4.11 Insufficient Funds Procedures

1. With the first occurrence of non-sufficient funds (NSF) or a returned check, the RIC/REAP office will immediately contact the borrower. The REAP Loan Specialist will also be contacted and exercise technical assistance and follow-up as needed.
2. With the second occurrence of a non-sufficient funds (NSF) or a returned check, the RIC/REAP Lyons office will again contact the borrower. The REAP Loan Specialist will also be contacted.
3. There will be a fee charged for each occurrence of a non-sufficient fund account or returned check.

4.12 Fees Charged - RIC/REAP **Microenterprise** Fund Portfolio

1. Late Payments
 - a. Borrower's payment is late - \$10.00
 - b. Insufficient funds or bounced check - \$10.00 per occurrence.
2. Rescheduled Loans
 - a. First time rescheduling - \$10.00
 - b. Second time and subsequent rescheduling - \$20.00
3. Extension Fee
 - a. First time extension - \$10.00
 - b. Second time and subsequent extension - \$20.00
4. Loan Processing
 - a. REAP Rapid Loan fee - \$35.00
 - b. REAP Direct Loan fee - \$100.00
5. Other Fees
 - a. Borrower is responsible for all fees in cases where real estate is used as security for the loan. Borrower is responsible for fees relating to title and lien searches. The amount required can be made part of the loan or paid directly to REAP from the borrower.

4.13 Fees Charged - RIC/REAP **Small Business** Fund Portfolio – TBD (Loan fees, Origination Fees-if any, Annual Service Fees-if any, etc.)

5.0 Loan Product Sheets

RIC/REAP **Microenterprise** Fund Portfolio **Products:**

5.1 REAP Rapid Loan (page 28) (include info on sources – SBA, RMAP, BIA-FA)

5.2 REAP Direct Loan (page 29) (include info on sources – SBA, RMAP, BIA-FA)

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1. Loan Product: **REAP Rapid Loan**

Loan Product	REAP Rapid Loan
Portfolio	RIC/REAP Microenterprise Fund Portfolio
Eligible Borrowers	Applicants: Please view Eligibility Requirements in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.1
Eligible Uses	Applicants: Please view Eligible Uses in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.2
Maximum Amount	\$10,000
Loan Term	Equivalent to the useful life of the asset purchased to a maximum term of ten years, although six years is the typical length of term depending on loan source and loan use. Please view Loan Terms in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.10
Interest Rate	The interest rate for the <i>REAP Rapid Loan</i> and <i>REAP Direct Loan</i> is prime + 4% or SBA maximum limit – whichever is lower. RIC/REAP borrowers receive reduced rates for <i>REAP Rapid Loans</i> , the interest rate is 2% less than the current <i>Direct Loan</i> rate. This rate reduction is only applicable to the <i>REAP Rapid Loan</i> product. Please view Interest Rates in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.12
Fees	Basic REAP Rapid Loan Fee is \$35. Please view Fees Charged in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 4.13
Repayment	Please view Repayment Procedures in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 2.11
Collateral	All RIC/REAP loans, regardless of size or lending program utilized, will be secured by sufficient collateral. Each loan will be evaluated on a case-by-case basis to determine the collateral requirements. Legal security documents will be filed with the State of Nebraska and with the respective county. Examples of acceptable collateral for loans include Real Estate (Business or personal), Business Equipment, Vehicles, etc. Co-signers and guarantors will be considered to strengthen an overall loan request as needed.
Target/Eligible Area	Generally, RIC/REAP can lend on a statewide basis with a major emphasis in the rural areas of Nebraska. Please view further information about Target/Eligible Areas in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.2
Technical Assistance Product	REAP one-on-one counseling and training is available for both pre and post loan assistance.
Job Creation Requirement	Job creation requirements vary by loan source.
Loan Source Items	Please view further information about Loan Source Items in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.9
Elsewhere Test	Microborrowers will generally be subject to a “credit elsewhere” test so that the microlender will make loans only to those borrowers that cannot obtain business funding of \$50,000 or less at affordable rates and on acceptable terms. Denial letters from other lenders are not required.

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2. Loan Product: **REAP Direct Loan**

Loan Product	REAP Direct Loan
Portfolio	RIC/REAP Microenterprise Fund Portfolio
Eligible Borrowers	Applicants: Please view Eligibility Requirements in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.1
Eligible Uses	Applicants: Please view Eligible Uses in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.2
Maximum Amount	\$50,000
Loan Term	Equivalent to the useful life of the asset purchased to a maximum term of ten years, although six years is the typical length of term depending on loan source and loan use. Please view Loan Terms in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.10
Interest Rate	The interest rate for the REAP Direct Loan is prime + 4% or SBA maximum limit – whichever is lower. Please view Interest Rates in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.12
Fees	Basic REAP Direct Loan Fee is \$100. Please view Fees Charged in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 4.13
Repayment	Please view Repayment Procedures in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 2.11
Collateral	All RIC/REAP loans, regardless of size or lending program utilized, will be secured by sufficient collateral. Each loan will be evaluated on a case-by-case basis to determine the collateral requirements. Legal security documents will be filed with the State of Nebraska and with the respective county. Examples of acceptable collateral for loans include Real Estate (Business or personal), Business Equipment, Vehicles, etc. Co-signers and guarantors will be considered to strengthen an overall loan request as needed.
Target/Eligible Area	Generally, RIC/REAP can lend on a statewide basis with a major emphasis in the rural areas of Nebraska. Please view further information about Target/Eligible Areas in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.2
Technical Assistance Product	REAP one-on-one counseling and training is available for both pre and post loan assistance.
Job Creation Requirement	Job creation requirements vary by loan source.
Loan Source Items	Please view further information about Loan Source Items in the RIC/REAP Microenterprise & Venture Loan Fund Policy (Borrower Version) in section 1.9
Elsewhere Test	Microborrowers will generally be subject to a “credit elsewhere” test so that the microlender will make loans only to those borrowers that cannot obtain business funding of \$50,000 or less at affordable rates and on acceptable terms. Denial letters from other lenders are not required.