City of Muncie, Indiana

MUNCIE INDUSTRIAL REVOLVING LOAN FUND PLAN

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MUNCIE INDUSTRIAL REVOLVING LOAN FUND GUIDELINES

I. PROGRAM ELEMENTS OF THE PLAN

A. Goals and Objectives. The Muncie Industrial Revolving Loan Fund (MIRLF) was established with a grant to the City of Muncie from the Economic Development Administration (EDA) of the United States Department of Commerce in July, 1977. Due to the opportunities offered by the evolving MIRLF plan, the City of Muncie has been able to support local businesses with added funding support not currently available to them through conventional practices. It has also supported Start-Up's to allow for expanded business in Muncie and of course potential incoming expansion business, all that will define the future of Muncie, expand the available job market and rebuild the loss of industry Muncie was once known for. With one of the larger state universities located in Muncie, Ball State University is one of our greater resources for business start-ups. And, with the creation of the Makers Hub, known as the MadJax facility, our focus is growth through small home internet operations growing to develop jobs and manufacturing products, technology start-ups and business expansion through business management and training and redevelopment of our downtown business and residential capacity to attract these college students to stay in Muncie and begin their future here. Our plan is to refill old establishments that have been vacant for some time, rebuild adjacent neighborhoods that offer work, live, play environments and to surround the only high school left in the city. With this in place, the amount of business opportunity will grow substantially. Plus, with the loss of many of our larger industrial manufacturers over the past ten years, many of the smaller suppliers for those major manufacturers need other resources and other product lines to sustain in the current marketplace. Many of them will need financial support to re-tool or add additional equipment. The purpose of the revolving loan program is to provide support and guidance to those that need it the most. All of which will create permanent, private sector jobs for the city's unemployed workers, as well as, bring in potential new workers that can rebuild the city's declining population. The MIRLF is not intended to match or replace the capacity of banks, investment houses or other lending organizations. The MIRLF is designed to fill gaps in existing local financial markets and provide or attract capital which otherwise would not be available for economic development. The major difference between the MIRLF program and conventional financing (such as a bank provides) is the goal to be derived from lending money. For the conventional financing institutions, the goal is profit. For the MIRLF, the goal is private-sector job creation, Job Retention, Business Expansion and capital formation.

B. Identification of the Area's Financing Problems. Due to the impact from the loss of many of our major industrial manufacturers and the recent recession issues created in 2009, including stricter regulations on banks that made it more difficult for businesses to expand or even begin new, the City of Muncie has identified the direction that will allow for us to steadily restructure those losses with innovative techniques that will build on the small business, the vast entrepreneurship programs through the university and support the existing small businesses that need to re-tool or add new or update equipment. Our goal is not just to retain the remaining jobs we have but to add on to this opportunity by attracting new business, expanding business or growing the start-ups that we know we have already and encouraging newer start-ups. The MIRLF can offer the support to any of these businesses by offering an alternative alliance that may not be available through conventional sources or not enough is available through conventional sources to support current cashflow issues, inventory expansion issues, equipment and facility issues and employment issues.

C. Targeting Criteria. The MIRLF loan program should target all opportunities that would relate to the development of new business, allow for the expansion of existing business and would offer immediate sustainability to those currently employed or who can offer quality paying jobs to those who either have the ability to grow in their field, of which, allows for those positions to become available. We want to look highly at expansion, support and new starts. The objective is focused on those whose projects have potential but not enough financing, projects which have participation from conventional private lenders, and projects where there is a reasonable assurance of loan repayment. Projects funded by the MIRLF must be located within the City of Muncie corporate limits or within the industrial park located just outside of the corporate limits known as the Industrial Centre.

D. Standards for the MIRLF Portfolio. Applicants for loans from the MIRLF may be involved in any number of areas including manufacturing, production, wholesaling trade, technology, warehousing, property management, transportation, new start-ups and various service industries, as well as limited areas of commercial trade. Those that are prohibited from MIRLF action are acquiring an equity position in an existing business, subsidizing interest payments on an existing RLF loan, providing a loan for the purpose of meeting the requirements of equity contributions under another Federal Agency loan program, enable a borrower to purchase interest in a business either through stock or through the acquisition of asset, unless sufficient justification is provided in the loan documentation. Prohibited uses of the RLF include:

(c) Restrictions on use of RLF Cash Available for Lending. RLF Cash Available for Lending shall not be used to:

(1) Acquire an equity position in a private business;
(2) Subsidize interest payments on an existing RLF loan;
(3) Provide a loan to a borrower for the purpose of meeting the requirements of equity contributions under another Federal Agency's loan programs;
(4) Enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF;
(5) Provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit, or any investment unrelated to the RLF; or
(6) Refinance existing debt, unless: (i) The RLF Recipient sufficiently demonstrates in the loan documentation a "sound economic justification" for the refinancing (e.g., the

refinancing will support additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia, constitute a sound economic justification; or (i) RLF Cash Available for Lending will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF funds may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within a reasonable time frame approved by EDA following the date of refinancing.
(7) Serve as collateral to obtain credit or any other type of financing without EDA's prior written approval
(8) Support operations or administration of the RLF Recipient; or
(9) Undertake any activity that would violate the requirements found in part 314 of this chapter, including 9314.3 ("Authorized Use of Property") and $314.4 ("Unauthorized Use of Property").

The overall emphasis, however, will be on areas that will involve jobs creation and/or retention and business expansion, given the economic development plan for the community. As always, the primary purpose of this program is to create and/or save local jobs. The employment positions to be created by the program must be meaningful full-time permanent jobs. The program will invite borrowers to work closely with the local Indiana office of workforce development in employing displaced workers, the long-term unemployed and low-income persons.

The program has been designed such that a project should create and/or save one (1) job for every $10,000 of MIRLF funds injected into the project. Since all projects are different, the timeframe for the creation of any anticipated new jobs is to be decided for each loan on a case by case basis at the time each loan is being evaluated. Emphasis for decision making will be placed primarily on those jobs that are created, or retained in the first year, however, consideration will also be given on jobs created, or retained in subsequent years.

RLF loans must leverage additional investment of at least two dollars for every one dollar of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF's operation.

To be classified as leveraged, additional investment must be made within 12 months of approval of an RLF loan, as part of the same business development project, and may include:

(i) Capital invested by the borrower or others;
(ii) Financing from private entities;
(iii) The non-guaranteed portions and 90 percent of the guaranteed portions of any Federal loan; or
(iv) Loans from other State and local lending programs.
(2) Private investments shall not include accrued equity in a borrower's assets.

These standards are to provide criteria for decision-making as loan requests are being evaluated. It is recognized however, that no set of criteria can be considered valid for every application. Therefore, on occasion, certain guidelines can be waived by the MIRLF Board on any given loan depending upon the merits of the project and provided they will not conflict with EDA Federal

regulations.

E. Financing Policies. Justification of the need for MIRLF financing is required before any loan is made. The MIRLF shall require applicants to provide bank turndown letters or a list of banks contacted, funds requested and bank requirements. The MIRLF staff will obtain support documentation and prepare a written analysis to be placed in each loan file. This written analysis, which will take the form of a loan summary and recommendation, will provide evidence that enough conventional credit is not available on terms and conditions which would permit completion, and/or the successful operation or accomplishment of the project as planned. The maximum amount of the MIRLF's injection into any one project is $450,000. The minimum loan is $10,000. Loan proceeds may be used for acquisition and/or renovation of fixed assets including real estate, machinery and equipment, either updating or adding. Inventory and operating capital may be considered if, the end result is retaining jobs and/or expanding jobs, as well as, providing a competitive edge against business outside the community. Working capital loans will be limited to 50% of the total MIRLF portfolio. Although the program is designed to assist in the expansion of existing business, loans to start a business will be considered if the applicant meets the credit and job generation criteria of the program. Applications for funding must be submitted before the project begins (i.e. prior to signing construction contract or ordering equipment). Loan proceeds may not be used to refinance permanent loans. Loan proceeds may be used on existing debt if approved by the MIRLF Board prior to approval of any loan request (see above Section D. regarding existing debt). The effect upon the generation of tax revenues (i.e. real estate and personal-property tax) will be considered when selecting and approving loans. The term of the loan will be based upon the economic life of the assets acquired through the loan proceeds. Generally, the term on the MIRLF portion will be the same as the term of a private sector loan, if one exists. In no event will the term of the MIRLF loan exceed the term of a private sector loan.

The minimum interest rate the MIRLF may charge is four percentage points below the lesser of the current money center prime interest rate quoted in the Wall Street Journal. or the maximum interest rate allowed under State law. In no event shall the interest rate be less than the lower of four percent or 75 percent of the prime interest rate listed in the Wall Street Journal.

Should the prime interest rate listed in the Wall Street Journal exceed 14 percent, the minimum RLF interest rate is not required to be raised above 10 percent if doing so compromises the ability of the RLF Recipient to implement its financing strategy.

The collateral required to secure the MIRLF loan will be determined by the MIRLF Board on a case by case basis. Generally, the MIRLF will subordinate its lien position to a private sector loan. At a minimum, personal guarantee(s) of all owner(s) will be required for non-publicly held companies. Ownership of leasehold interest of assets purchased or improved with MIRLF financing may be transferred only with the prior written approval of the MIRLF Board. A borrower may prepay any or all outstanding principal to the MIRLF at any time and without penalty provided the participating bank approves. However, prepayment of the principal on the participating bank loan shall require a prorata prepayment of the principal on the MIRLF loan. The MIRLF, at its option, reserves the right to cancel an approved loan if the borrower fails to commence the project within a specified period of time from the loan authorization. A onetime processing fee of one and one-half percent (1½%) of the loan amount (minimum $250.00 and no maximum fee) will be charged to the borrower at the time of application. The fee will be used to offset administrative costs associated with the program. The fee is refunded if the application is turned down by the MIRLF, but is not refunded if the loan is approved, even if the applicant decides not to accept it. Any incidental costs incurred by either the applicant or the MIRLF with regards to the MIRLF loan will be the responsibility of the applicant. Such costs include but are not limited to recording fees, filing fees, legal fees, and closing costs.. The MIRLF reviews the financial statements of each applicant and attempts to fund only those projects with a positive projection for future sales growth and a strong potential for repayment of loan.

F. Time Schedule for Loan Closings. The City of Muncie Redevelopment Commission will assist loan applicants and see to the everyday operation of the MIRLF program as well as having other non-MIRLF related activities and responsibilities. On approved loans, every attempt is made to close in no more than thirty (30) days from the date of loan approval.

G. Related Activities. Firms needing assistance with marketing and management problems will be able to receive technical and management aid from the East Central Indiana Small Business Development Center. Applicants who are either ineligible under the MIRLF loan selection criteria or who may be able to receive help from private sources or other development programs (SBA, etc.) will be assisted with loan packaging by the MIRLF. When possible, applicants will be referred to the Small Business Administration, Small Business Development Center, and other entities as required. Firms are also encouraged to work with the local Indiana Department of Employment and

Training Services office and see that the unemployed job training program eligible individuals are targeted for new jobs when possible.

II. ADMINISTRATIVE ELEMENTS OF THE PLAN

A. Loan Administration Board. The composition of the MIRLF Board is decided on a yearly basis as the members' terms are for one year from January 1 through December 31. (See Appendix B attached hereto) This board will consist of seven (7) voting members and one (1) non-voting representative who is a Trustee Representative. This Trustee Member will be from the trust department where RLF funds are placed and the Trustee Representative will act as a support in evaluations on the application committee. The other seven members will have credentials sufficient to consider loans, must have a business background, will consist of representing different local organizations, (Chamber of Commerce, Minority Community, Economic Development Commission member, City Council Representative, Corporation Counsel, Labor Representative and a representative from the Community Development office and not have any Conflict of Interest related to the RLF Fund activities.

B. Staff Capacity. The MIRLF Administrator is the City of Muncie's Director of Redevelopment. The Administrator is the chief staff member to the Revolving Loan Fund program. The specific functions assigned to the Director include preparation of minutes of all MIRLF Board meetings the scheduling of meetings, the keeping of all official loan documents and Board records, preparation of loan agreements, and continual loan servicing and monitoring as well as maintaining a constant monitoring of the loan fund balance and continual marketing of the program to assure continuity and success of the program as an economic development tool for the City of Muncie. All present and future staff persons are encouraged to acquire as much training as possible in order to assure that the program is in the hands of a knowledgeable, capable and skilled staff.

C. Marketing Strategy. The strategy incorporated has been to make the program as widely known in the local community as possible. Visits are made with the local financial community, and, news of the Loan Fund and its activities are quite frequently the subject of stories in the local newspapers. The program is also marketed through the ongoing efforts of local economic development. This effort also has the participation of many other informal partners, including the City of Muncie, the Chamber of Commerce, the Convention and Visitors Bureau, local school corporations, surrounding small communities, Ball State University, a local private development corporation, the Downtown Development office, and local realtors and home builders as well as the organized construction industry (labor).

D. Loan Selection and Approval Process. The MIRLF Director forwards the applications to an MIRLF Finance Committee which shall be made up of as many as three (3) members of the MIRLF Board, the representative of the Trustee of the MIRLF funds and the MIRLF Administrator. The Finance Committee reviews the application and makes a credit decision based upon the financial information provided. An MIRLF meeting is called and the proposal is presented to the Board. The Board reviews the application considering the loan selection criteria such as number and types of jobs created, ratio of MIRLF funds, anticipated ability of applicant to repay loan, and impact of the project on Muncie. The Finance Committee or the Director of the MIRLF would make a recommendation to the Board to either support or deny the application and request based upon their credit decision. The Board then votes on the application.

E. Loan Servicing. Through the monthly monitoring of the status of the MIRLF accounts and monthly reports from the staff, the individual loans and the total portfolio of loans are serviced. When loans are made, any special provisions are tracked and monitored by staff accordingly on a case by case basis. Delinquencies and defaults are also tracked by staff and reported to the MIRLF Board. The agreements stipulate a 5% penalty for loan payments 15 days late and is considered part of the accumulated accrued interest due on the loan. At 30 days late, a phone call is made to determine if there are any issues or concerns and the payment is collected. If the payments go beyond 60 days, a formal letter will be sent requesting payment be made of the loan will be consider in default and further legal action could be taken. If not response from these actions, the board is asked to determine next steps, which could lead to legal action for default. The MIRLF Board dictates policies and procedures to handle these occurrences also on a case by case basis.

The loan review and approval process is as follows:

(1) Interested applicant contacts the Administrator of the MIRLF who explains the program and determines eligibility of project and of the applicant based on existing guidelines and criteria.

(2) The Administrator gives eligible applicant an application form and a copy of the City of Muncie RLF Plan.

(3) Applicant completes application form along with personal financial statements, past three (3) years business financial statements and a two (2) year income projection for the business. A description of the proposed project along with the cost breakdown is also supplied by applicant.

(4) Applicant obtains a commitment for the private sector portion of the loan or supplies a denial letter or a list of banks the applicant applied for financial assistance.

(5) Applicant submits loan application, exhibits described under 3 above, and a letter of commitment or denial from a bank, if necessary, to MIRLF Administrator.

Loan Closing Documents:

Loan Closing Documents: Documents required for the types of loans made under the EDA RLF include, but may not be limited to, the following:

- Original, signed loan application
- Documentation of credit not otherwise available (or equivalent)
- Driver's license
- Loan/borrower info
- Personal financial statement
- Credit Bureau release form
- Credit Bureau report
- Articles of incorporation
- Request for tax ID
- Business and personal tax returns
- YTD financial information

- Loan summary
- Loan score
- Proof of insurance
- Commitment letter
- Promissory note or business borrowing agreement
- Jury waiver
- Flood plain determination
- Proof of paid property taxes
- Appraisal or evaluation as appropriate
- Security agreement
- Automatic payment authorization
- Environmental

Loan Agreement Provisions:. Each loan agreement shall clearly state the purpose of the loan. RLF loan documents protect and hold the Federal government harmless from and against all liabilities that the Federal government incurs in relation to the RLF program. The loan agreement shall contain an amendment referencing the Federal and statutory requirements that apply to activities carried out with RLF loans. Instances of non-compliance shall trigger a loan call.

F. Sources of Funding to Cover Administrative Costs. The monies in the MIRLF are continually used to make low-interest loans. As the loans are repaid, the money reverts back to the fund and is used to make additional loans. Interest earned on the fund balance is also used for additional loans as well as for the administration of the MIRLF program. Per 13 CFR 307.12, RLF Income must be placed into the RLF Capital Base for the purpose of making loans or paying for eligible and reasonable administrative costs associated with the RLF's operations. RLF Income may fund administrative costs, provided:

(1) Such RLF Income is earned and the administrative costs are accrued in the same fiscal year of the RLF Recipient;

(2) RLF Income earned, but not used for administrative costs during the same fiscal year of the RLF Recipient is made available for lending activities;

(3) RLF Income shall not be withdrawn from the RLF Capital Base in a subsequent fiscal year for any purpose other than lending without the prior written consent of EDA; and

(4) An RLF Recipient shall not use funds in excess of RLF Income for administrative costs unless directed otherwise in writing by EDA.

G. Capital Management Strategy. Capital management of the MIRLF is undertaken by the First Merchant's Bank, N.A. of Muncie, acting as trustee to the MIRLF. This bank acts in the capacity of depository and investor of MIRLF funds, preparer of loan repayment schedules, and provides an MIRLF Board Member with expertise in finance, banking, and commercial loans. This Board member's position is as an ex-officio member and carries no right of voting to avoid any potential conflict of interest. This arrangement has been in effect since the inception of the local MIRLF program and was deemed acceptable to the EDA at that time.

H. Other Requirements.

(1) Civil Rights. The MIRLF ensures that loans will be made available on a non-discriminatory basis. No applicant will be denied a loan based on race, color, national origin, religion, age, handicap, sex or veteran status. In order to ensure that borrowers do not discriminate against employees or applicants for employment, the MIRLF will require that all borrowers will be required to file an Equal Employment Opportunity Statement.

(2) Environment. The MIRLF Board will consider the MIRLF environmental impact arising from each project when selecting and approving loans. Those projects that will have an obvious detrimental effect upon the environment will not be considered.

(3) Relocation. In order to ensure that borrowers do not move from one labor area to another, all borrowers will have to prove that the project to be undertaken will not adversely affect jobs in other labor areas.

(4) Flood Hazard Insurance. The MIRLF Board assures that, when applicable, borrowers will obtain required flood hazard insurance to protect against major loss in the event of a flood or flood related disaster.

(5) Access for the Handicapped. The MIRLF Board assures that when financing a construction project to which the public will have access the provision of accessibility to and use by the handicapped is guaranteed.

(6) Davis-Bacon. The MIRLF Board assures that construction which is financed in whole or part by the MIRLF will meet the requirements of the Davis-Bacon Act, amended (40 U.S.C. 276a - 276a-5).

(7) Conflict of Interest.

a) An "Interested Party" is any officer, employee or member of the board of directors or other governing board of Recipient, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of Recipient, such as agents, advisors, consultants, attorneys, accountants or shareholders. An Interested Party also includes the Interested Party's "Immediate Family" (defined as a person's spouse or partner in a domestic relationship, parents, grandparents, siblings, children and grandchildren, but not distant relatives, such as cousins, unless the distant relative lives in the same household as the person) and other persons directly connected to the Interested Party by law or through a business arrangement.

b) A conflict of interest generally exists when an Interested Party participates in a matter that has a direct and predictable effect on the Interested Party's personal or financial interests or there is an appearance that an Interested Party's objectivity in performing his or her responsibilities under the Project is impaired.

c) An appearance of impairment of objectivity could result from an organizational conflict where, because of other activities or relationships with other persons or entities, a person is unable or potentially unable to render impartial assistance, services, or advice. It also could result from non-financial gain to the individual, such as benefit to reputation or prestige in a professional field.

Conflicts of Interest Rules.

Recipient must adhere to EDA conflicts of interest rules set forth at 13 CFR § 302.17, including the following rules specific to RLFs:

a) An Interested Party of Recipient shall not receive, directly or indirectly, any personal or financial benefit resulting from the disbursement of RLF loans. A financial interest or benefit may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a sub award.

b) Recipient shall not lend RLF funds to an Interested Party.

c) Former board members of Recipient and members of their Immediate Family shall not receive a loan from the RLF for a period of two years from the date that the board member last served on the board of directors.

2) Duty to Disclose.

Recipient must, in a timely fashion, disclose to EDA in writing any actual or potential conflict of interest.

3) Written Standard of Conduct.

a) Recipient must maintain written standards of conduct to establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of a personal or organizational conflict of interest or personal gain in the administration of this RLF Award.

b) Recipient must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts. See Section K, Other EDA Requirements, Subsection 4, Codes of Conduct and Sub-Award, Contract and Subcontract Provisions, Subsection b), Competition and Codes of Conduct for Sub awards.

4) DOC Standard Terms and Conditions.

Recipient must also adhere to the requirements for conflicts of interest set forth at Part III of these RLF Standard Terms and Conditions, DOC Standard Terms and Conditions, Section F., Conflict of Interest, Code of Conduct and other Requirements Pertaining to DOC Financial Assistance Awards, Including Sub awards and Procurements Actions, Subsection .01, Conflict of Interest and Code of Conduct.

8) Allowable Cash Percentage. Effective Jan. 2, 2018, EDA replaced the Capital Utilization Rate of 25 percent with region-specific Allowable Cash Percentage (ACP) that is updated annually. The ACP is the average cash available for RLFs in the Chicago EDA region and is used for risk rating RLFs according to the Risk Analysis System. Lending activity will be managed so that the cash available for lending is less than the current ACP in effect for the Chicago Region. However, if the Cash Available for Lending is greater than 50% of the RLF Capital Base for 24 consecutive months, EDA may take action to disallow the persistent excess cash.

9) Risk Analysis System Reporting: EDA shall evaluate and manage RLF recipients using a Risk Analysis System that will focus on such risk factors as: capital, assets, management, earnings, liquidity, strategic results, and financial controls. Risk analysis ratings of each RLF Recipient's RLF program shall be conducted at least annually and will be based on the most recently submitted Annual ED-209 RLF report.

10) Audits: The MIRLF is subject to an annual audit in accordance with 2 CFR Part 200, Subpart F. The Administrator of the MIRLF must work with the City of Muncie regarding the annual audit and the Schedule of Federal Expenditures (SEFA).