

Franklin County First Fund (FCFF)

Direct Loans & Loan Guaranty

Program Guidelines

Franklin County Area Development Corporation

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Current as of January 1, 2008

Franklin County First Fund

DIRECT LOAN

I. Statement of Purpose

The Franklin County First Fund (FCFF) originated through a grant from the U.S. Department of Commerce, Economic Development Administration (EDA), and a local "match" from the Franklin County Area Development Corporation (FCADC). The FCFF is intended to foster the start-up, expansion, and retention of small businesses for the purpose of stimulating job creating economic growth throughout Franklin County, Pennsylvania. The FCFF provides low-interest loans to small businesses in conjunction with equity, bank financing, and/or other private and public sources.

The FCFF is administered by the FCADC staff, who is responsible for the marketing, packaging, and servicing of all loans.

II. Area Eligibility

FCFF borrowers must be located or agree to locate within Franklin County, Pennsylvania, prior to the disbursement of the loan.

III. Eligible Borrowers

To qualify for financing through the FCFF, a business must be for-profit, have one hundred (100) or fewer employees (including any related or affiliated businesses), and reflect a tangible net worth of less than \$2 Million Dollars at the time of application.

IV. Eligible Activities/Costs

A. Real Estate

Land...Those costs which include acquisition, site preparation, environmental testing, utilities, site mapping, legal, and other related costs.

Building...Those costs which include building acquisition, construction, rehabilitation, engineering, architectural, legal, and other related costs.

- B. Machinery and Equipment...Those costs which include the purchase delivery, and installation of machinery and equipment directly related to the operation of the business.
- C. Working Capital...Those costs which support business growth and expansion and include, but are not limited to, inventory purchases, hiring of new personnel, and training costs.

V. Ineligible Activities/Costs

Refinancing...The refinancing of existing debt is generally prohibited.

Investor-Developer...FCFF loans cannot be used for real estate speculation. The beneficial owner of the real estate of a project site must have an aggregate ownership in the industrial occupant of not less than seventy percent (70%).

Related Party Transactions...FCFF loans cannot be used for costs associated with a transaction where the buyer and seller are one and the same or are related to each other by blood, marriage or law.

Supplanting Private Sector Capital...FCFF loans shall not supplant private sector capital where such financing is readily available at reasonably available terms and conditions; *however, FCFF loans may be made which encourage private investment by reducing financing risk to such private lenders.*

VI. Loan Parameters

Loan Size...The minimum and maximum loan amounts shall be established by the FCADC Board of Directors and can be modified at their discretion. The minimum loan amount shall not exceed fifty percent (50%) of the eligible total project cost, and shall not be less than \$20,000; the maximum loan amount shall not exceed fifty

percent (50%) of the eligible total project cost, and shall not exceed \$50,000.

Private Sector Investment...FCFF loans will be made in conjunction with a private sector lender, equity from the owners or investors, or other private sources.

Equity Participation...The applicant is expected to make an equity contribution to the total project cost.

Subordination of FCFF Loans...The FCFF loan shall take a subordinated lien position to conventional lenders, including but not limited to, banks, state, and federal agencies.

Loan Security...All loans must be secured at the highest lien position available on one or more of the following assets: land; building(s); machinery; equipment; and/or other assets being financed. In addition, the FCFF will generally require a corporate guarantee or its equivalent, and may require personal guarantees of the principal(s) and spouse(s). The FCFF must have a collateral position on the assets being financed unless otherwise specifically waived.

Terms...Loans used for real estate will have a repayment period of up to fifteen (15) years. Those loans used for leasehold improvements to real estate will have a repayment term co-terminus with the term of the property lease, not to exceed ten (10) years. Loans for machinery and equipment will have a repayment period of up to seven (7) years. Loans for working capital will have a repayment period of up to three (3) years.

Interest Rates...The FCADC Board of Directors shall establish the FCFF interest rate. The interest rate shall be four percent (4%) or 75% of the current money center prime rate as quoted in the Wall Street Journal on the date of the loan approval, whichever is greater. In no event shall the interest rate be less than four percent (4%).

Deferrals...The FCADC Board of Directors may grant special deferrals of principal payments for periods up to six (6) months.

Fees...The FCADC will charge reasonable and customary fees as established by the FCADC Board of Directors for the processing and administration of FCFF loans. Such fees shall include, but not necessarily be limited to, an application fee and the reimbursement of FCADC legal expenses associated with closing the FCFF loan.

VII. Penalties

If a borrower falls two (2) payments in arrears, the interest rate on the remaining payments **can be** increased to the prime rate as quoted in the Wall Street Journal, and payments shall be recalculated to reflect the change.

The FCADC will charge the borrower a fee equal to its incurred bank charges, plus a \$10.00 processing fee for each occurrence of a returned check.

Failure to meet any of the terms and conditions of the loan may result in an increase in the interest rate as determined by the FCADC Board of Directors, however such increases shall not exceed two percent (2%) above the existing prime rate as published in the *Wall Street Journal*.

Any material misrepresentation may be cause for rejection of an FCFF application and may result in the applicant being referred to the appropriate authorities for criminal investigation.

VIII. Conditions of the Loan

A. Loan recipients, **with the exception of those businesses that require professional licenses to operate, i.e. accountants, engineers, cosmetologists, etc.**, must generate one (1) new full-time equivalent job, within three (3) years of the loan closing anniversary, for every twenty-five thousand dollars (\$25,000) borrowed from the FCFF. **Non-hospitality related retail businesses or those businesses requiring a professional license to operate must agree to create a minimum of four (4) full-time positions within three (3) years regardless of the amount of the FCFF loan.** (A full-time equivalent job is defined as 2,080 hours of compensated work per year.)

*Businesses engaged in production agriculture shall not be subject to employment thresholds.

- B. Matching private lending sources, which are subordinate to the FCFF lien position, must have equivalent or longer terms than the FCFF loan.
- C. An applicant may place orders, sign sales agreements, and make security deposits on machinery & equipment and/or real estate prior to FCADC approval without prejudicing the review of its application. **IN THESE INSTANCES, THE APPLICANT IS PROCEEDING AT ITS OWN RISK.**
- D. **An applicant may not receive more than the maximum loan amount established for the FCFF during the twelve (12) month period from the date of the last FCFF disbursement.**
- E. No more than forty-nine (49%) of the real estate portion of a project may be leased to an unrelated third party without prior *written* consent of the FCADC.
- F. The applicant and/or principal(s) should *not* be delinquent or in default on any existing private or publicly financed loan at the time of application.
- G. The applicant and/or principal(s) should be current in the payment of all applicable federal, state, and local taxes.
- H. Applicants are required to notify the FCADC staff of any material changes to the application that causes it to become inaccurate or misleading. If a project is approved, and it is subsequently determined that the application contained material misrepresentations, or that the loan proceeds were used for ineligible activities, the loan will be considered in default and subject to immediate recall. In addition, the borrower may be referred to the appropriate authorities for criminal investigation.
- I. Applicants who apply for or receive assistance through the FCFF, upon reasonable request of the FCADC, shall permit duly authorized

representatives of the FCADC to inspect the plant, books, and records of the business.

J. Waivers of policies may be considered on a case-by-case basis.

IX. Application Procedures

- A. The applicant will submit the FCFF loan application to the FCADC at 1900 Wayne Road, Chambersburg, PA 17201.
- B. The FCADC staff will review the application to ensure that it meets the basic eligibility criterion for the FCFF. The staff will perform an administrative review of each application to ensure completeness, eligibility, and conformance with statutes, guidelines, policies, and other matters related to the FCFF.
- C. The FCADC, through its Loan Review Committee, will conduct a thorough credit analysis, and make determinations of collateral security in accordance with commercially acceptable evaluation criterion.
- D. The FCADC will make every effort to approve or reject loan applications and formally notify applicants within 30 days of receipt of the completed loan application.
- E. Upon formal acceptance by the applicant, of the FCADC's commitment to loan funds, the funds shall be encumbered. A request for disbursement may then be made. (There can sometimes be circumstances in which the request for FCFF funds exceeds the current availability of such funds; in those circumstances, the borrower will be notified and the FCADC will assist in arranging for a six (6) month "bridge" loan with a conventional lender.)
- F. Ten days prior to the loan closing date, the borrower will certify to the FCADC that:
 - 1. All other sources of funding will be in place at the time of closing;
 - 2. The use of all funds remains as presented in the project

- application;
3. All parties agree to the collateral as approved by the FCADC;
 4. All other conditions of the commitment letter have been satisfied;
 5. The FCADC has the correct FEIN and Social Security numbers of the applicant, beneficial owner(s), and guarantors; and
 6. The location of the closing has been established.
- G. Any material changes requested by an approved applicant of collateral, or terms must be reviewed and approved by the FCADC Loan Review Committee. Depending on the nature of the change, the FCADC reserves the right to assess the borrower a reasonable and customary fee.
- H. The FCADC will close the loan using commercially accepted closing documents.

X. Disbursement Procedures

- A. Loans will be disbursed at the loan closing between the FCADC and Borrower, unless other mutually agreeable arrangements are made.
- B. Interest only will be charged for the period from the closing date to the first day of the next month. Principal and interest are due the first day of the following months thereafter.
- C. Prior to disbursement, the borrower must certify to the FCADC that all other sources of funding are in place and that the use of those funds remain unchanged from those identified in the commitment letter.

XI. Evaluation Criteria

- A. Business Evaluation...The historical performance of an existing business will be evaluated to assess its ability to repay the FCFF loan. Specifically, the evaluation will include:

Financial Performance Of The Business...This involves an evaluation of the prior three (3) years' financial performance,

including an examination of income statements, balance sheets, cash flow statements, and notes to the financial statements.

1. Financial statements should be prepared by an independent accountant. If the applicant's internal financial statements are submitted, the accountant's qualifications should be provided. Internally prepared financial statements should include appropriate notes. If the most recent year-end financial statement is more than six (6) months old, a more recent interim statement should be submitted.
2. Payment on notes payable to officers and investors who are applying for funds will be required to be subordinated and amortized at a term equal to or greater than the FCFF loan term. If the FCFF loan is in a delinquent or default status, the FCADC reserves the right to require suspension of payments to all officers, principals, or shareholders.
3. Notes receivable from officers and shareholders reflected on the applicant's balance sheet should be repaid prior to loan disbursement.

Financial Performance Of The Owners...This involves an evaluation of the current personal financial statements of any principals with at least twenty percent (20%) or greater ownership in the business. Personal financial statements should be signed and dated by both owner and *spouse*.

Market Performance...This involves an evaluation of the local and national market and the applicant's current and projected position or market share.

Management Ability...This involves an evaluation of the experience and skills of the proprietor, partners, or directors. Included in the evaluation is an assessment of the general business experience as well as specialized experiences in the particular industry. Resumes of all principals with twenty

percent (20%) ownership as well as company officers and plant managers should be provided.

Start-Up Businesses...Newly formed enterprises are eligible to apply as long as they meet all FCFF loan requirements and conditions. Applicants should be able to demonstrate management and industry experience or expertise, along with expectations for a strong potential market for their product or service, including a three (3) year pro-forma financial projection.

- B. Project Criterion...The merits of the proposed uses of funds will be assessed to determine the ability to repay the loan. Specifically, the evaluation will include:

Projected Sales and Revenues...This involves an assessment of the validity and risk of the sales and revenue projections.

Financial Statement Analysis...A thorough credit analysis will be performed using both historical and projected financial statements. Projections should be done for one complete twelve (12) month period following the anticipated closing date of the FCFF loan. (Start-up businesses must submit three (3) year projections.)

Value of the Assets and Collateral...Appraisals, when appropriate, will be required to assist the FCADC in evaluating its ability to secure the loan. All loans will be secured by lien positions on collateral at the highest level of priority which can accommodate the applicant's ability to raise sufficient security. The applicant must provide evidence to the FCADC that all collateral is covered with adequate insurance designating the FCADC as loss-payee and/or mortgagee. Projects involving the acquisition of existing buildings will generally be required to submit one current independent appraisal or an appraisal brief as prepared by a Pennsylvania certified real estate appraiser. In addition, a Phase I Environmental Assessment will generally be required, unless the applicant can certify that the land and building is free of

any environmental contamination. Loans will be secured with a lien position on the assets to be financed unless otherwise waived by the FCADC Loan Review Committee or Board of Directors.

Changes in Market Strategy and/or Management Strategy...
Any proposed significant changes in the business plan, market strategy, or management team prior to the FCFF loan disbursement must be reviewed by the FCADC Loan Review Committee.

Public Benefit Criterion...All applications will be evaluated to analyze the potential public benefit of the project, which shall include:

1. The total number of full-time equivalent jobs to be created and/or retained;
2. The number of full-time equivalent jobs to be created and/or retained per FCFF dollar invested;
3. The private investment to be leveraged as a result of the FCFF investment; and
4. The increase percentage of sales or receipts of the borrower.

XII. Important Notice

- A. The FCFF is funded solely through the repayment of outstanding loans. The demand for funds generally exceeds the current availability, and as a result, *it can take up to six months...and sometimes longer...to close loans.* The loans are closed in the order in which they are approved. To accommodate the situation, many lenders are willing to "bridge" the FCFF commitment until such time that the loan can be closed.
- B. The aggregate amount of outstanding FCFF Loan commitments awaiting closing shall not exceed \$500,000.

Franklin County First Fund

LOAN GUARANTY

Applications: Applications shall be developed and submitted by lenders. The application shall be presented to and approved by the FCADC Loan Review Committee. The application will be modeled after that used by the Small Business Administration.

Loan Guaranty Program:

- Loan Guaranty Amount...The FCFF Loan Guaranty shall be used to offset a portion of a lender's loss. The FCFF guaranty shall be 75% of the loan loss not to exceed \$100,000.
- Loan Interest Rate...To be determined by the lender.
- Loan Term...To be determined by the lender and acceptable to the FCADC Loan Review Committee.
- Loan Guaranty Fee...The FCADC shall charge an annual fee of 1% of the outstanding loan balance on the anniversary of the loan closing date. The Loan Guaranty fee shall be assessed and remitted to the FCADC by the lender. The borrower shall be responsible for any FCADC legal fees that may be required as part of a Loan Guaranty agreement.
- Loan Reporting...The FCADC reserves the right to require appropriate annual and interim financial statements for each loan.
- The aggregate amount of outstanding FCADC Loan Guarantees shall not exceed \$1,250,000.

Area Eligibility: FCFF borrowers must be located or agree to locate within Franklin County, Pennsylvania, prior to the disbursement of the loan.

Eligible Borrowers: To qualify for financing through the FCFF, a business must be for-profit, have one hundred (100) or fewer employees (including any related or affiliated businesses), and reflect a tangible net worth of less than \$2 Million Dollars at the time of application.

Eligible Activities/Costs:

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FEE STRUCTURE

FRANKLIN COUNTY FIRST FUND (FCFF)
DIRECT LOAN

Application (Non-Refundable)\$350

Legal Closing Costs \$500-\$650

Annual Administrative Fee\$150 per year (Until the Loan is Paid In Full)

***Should any changes take place to the proposed loan project
(i.e.; change in borrower name, collateral, guarantors, etc.)
after the approval of the application by the FCADC Loan Review Committee,
the FCADC will assess a fee of not less than \$100.00.***

I have reviewed the fee structure associated with the application and by my signature,
acknowledge that I am responsible for payment.

Name

Company Name

Date

Effective 01/01/08

FEE STRUCTURE

FRANKLIN COUNTY FIRST FUND (FCFF)
LOAN GUARANTY

Application.....\$150

FCADC Legal Closing Costs.....(If Applicable)

Annual Loan Guaranty Fee..... 1% of the outstanding loan balance on the date of the loan closing. The fee shall be remitted by the lender.

Should any changes take place to the proposed loan project (i.e.; change in borrower name, collateral, guarantors, etc.) after the approval of the application by the FCADC Loan Review Committee, the FCADC will assess a fee of not less than \$100.00.

I have reviewed the fee structure associated with the application and by my signature, acknowledge that I am responsible for payment.

Name

Company Name

Date

Effective 01/01/08