Biomass Utilization Fund (BUF) Program Loan Application, Instructions and Policies

HOUSING AND COMMUNITY DEVELOPMENT CALIFORNIA

SIERRA NEVADA CONSERVANCY

RCAC
www.rcac.org

Biomass Utilization Fund (BUF) Program Loan Application, Instructions and Loan Policies

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This document contains BUF loan application and loan origination policies for all financial assistance provided by the BUF program and other RCAC sources. The BUF program will not provide 100% financing, applicants are expected to have equity in their proposed ventures and may bring other financing as part of their overall financing package. RCAC will work with applicants to structure their request to conform with the requirements of the program, to maximize the use of non-BUF funding, and to ensure that the final financial projections provide a fair rate of return to the applicant.

Applications are being accepted now and all applications received by June 12, 2020 will be given the same consideration. Applications received after June 12 will be evaluated based on the availability of funds. Recipients of Biomass Utilization Fund loans must document job creation and expend all funds by **April 30, 2022**.

RCAC will accept applications that are not complete and will work with applicants to complete all of the information to approve a loan request. As long as an applicant is responsive to requests for additional information, they will maintain their priority for consideration, if an applicant is deemed unresponsive another application may be moved to prior consideration.

Application

1. Loan application form (Please complete in detail and sign.)
2. Current Balance Sheet for Business and Principals with 20% or More Ownership Interest
3. Year-to-Date Profit and Loss Statement
4. Audited or Unaudited Financial Statements for Most Recent Three Full Operating Years:
    - Balance Sheet
    - Profit and Loss
    - Tax Returns
5. Pro Forma for new business
    - Sources and uses for business development
    - Operating pro forma—income and expense
    - Estimated cost of biomass used
    - Evidence of secured financing commitments for development and long-term
    - Equity investments
    - Desired rates and terms for financing sought
6. Business Plan (as per the suggested outline.) And with the following additions for the BUF Loan Program:

Job Creation: Public Benefit and National Objective

- New, permanent employment opportunities must be created
- Over fifty one percent (51%) of new full time jobs shall employ low- and moderate-income individuals living in the County
- Use the job tracking form in application to identify permanent jobs and for each job specify:
    - Salary each position will be paid
    - Benefits
    - What level of experience, education, or training is needed, and if such training will be provided
    - When the job is expected to start
    - Which jobs will be filled by low- and moderate-income workers
    - Provide a timeline for hiring new positions

Biomass Utilization

- The use of biomass by the project or borrower, to create wood products or energy, is a requirement to qualify for this program.
- If the business proposal is to supply biomass rather than use it, explain how your proposal will expand your ability to harvest additional material from the forest for beneficial use.
- Reliance on supply from the forests
- Any contracts in hand for biomass (attach)
- Use of other feed stock
- Price sensitivity of biomass

7. Instructions for Resolution to Borrow and Resolution to Borrow (RCAC form or equivalent)
8. Personal history/resume (for individuals with a 20% or greater ownership interest) If the applicant is a nonprofit, public entity or federally recognized Tribe talk about the experience of the senior staff who will oversee the business.
9. Board of Directors list including: name, address, phone numbers and experience that member brings to the Board, if applicable
10. Articles of Incorporation and Bylaws (including any amendments), or Certificate of Formation and Operating Agreement, if applicable
11. Copy of Fictitious Business Name Certificate or copy of DBA name filing as appropriate for state (if applicable)
12. Project status in Tuolumne County
    - Status of business development
    - Timeline for business to become operational
    - Ownership structure
    - Management structure of operating business

- Development team
- Site identification—location map, preliminary title report
- Documentation of site control
- Feasibility work completed/needing further work
- Architectural and Engineering status/timeline for completion
- Plans and specifications for work to be completed
- Third party cost estimates or pricing information
- Status of permit applications and completion
- Timeline for securing funding, starting construction/business preparation and placing business in operations
- Biomass contracts secured/in negotiation—attach copies of contracts

13. Environmental studies initiated/completed – once an application is submitted no "choice limiting action" can be taken until the project receives authorization, clearance, under CEQA and NEPA. RCAC has funds to assist in financing CEQA and NEPA reviews.
14. Uniform Relocation Act (URA) Acquisition Compliance: If the proposed project involves purchase, leasing, conversion or demolition of any existing occupied structures on the proposed project's site that will cause displacement of any "persons", URA requirements will apply. If URA applies, then application must describe how a project relocation plan will be developed and estimates of relocation costs and compliance requirements.
15. Federal Prevailing Wage / Labor Standards Compliance, will requested BUF funds be used for payment of any construction and/or equipment installation? If yes, applicant must provide details on how prevailing wage standards, both state and federal, are included in project cost estimates, or why they do not apply
16. Signed Certification of No Conflict of Interest
17. Signed Certification of No Job Pirating
18. Small Business Verification—applicant must meet the SBA definition of a small business and certify that it qualifies. If the applicant in a nonprofit or government entity the requirement around small business is waived. The regulation and size limits can be found at: https://www.ecfr.gov/cgi-bin/text-idx?SID=b919ec8f32159d9edaaa36a7eaf6b695&mc=true&node=pt13.1.121&rgn=div5#se13.1.121_1201

Notes to the Loan Application

As much as possible, applications should include all of the requirements listed above. If an application is not inclusive of all requirements listed above, RCAC will work with applicants to complete the application process as it underwrites the loan request. As long as applicants continue to respond to requests for additional information processing will continue. However, if an applicant does not respond in a timely manner, RCAC may place an application on hold and process another more responsive applicant ahead of an unresponsive applicant.

The following guidance is offered to help applicants better understand the information needed in order to fully underwrite an application.

2. Provide personal financial statements for the business and all principals, current to the end of the last quarter.

3. If the business, non-profit, public entity or Tribal venture is operational, provide a profit and loss statement, or equivalent, for the current year. If the business is a start-up provide data on the amounts you have invested already what the funds have been used for.

5. Pro forma financials

- Provide a capital development budget showing the anticipated costs of the development and the sources of funds that will pay for the different costs
- Provide an operating pro forma showing income and expense for the first 5 years of business operations (new or expanded), at least
- Show labor expenses in detail, positions hired, salary and benefit costs associated with each position and when you expect to hire the staff included in your proposal
- Show cost of biomass and other materials that will be used in the business on a cost per ton of bone dry tons of material.
- Explain the role of the investors, including the amounts of investment
- If there are existing financial commitments provide a list of the various sources and the status of each loan
- Explain how much CDBG loan you are requesting and the rates and terms that you would like to achieve (see hypothetical funding examples below in Attachment B)

6. Business plan—the applicant should follow the RCAC outline for the business plan and add two sections, one on low- and moderate-income Job Creation and the other on Biomass Utilization. If the business will not use but rather supply biomass, that is an eligible project. If there are items in the business plan which are not finalized, submit as complete a document as possible, additional information can be supplied as the review requires it. A mandatory application requirement is that the venture create new, permanent employment opportunities predominantly for low- and moderate-income individuals in Tuolumne County. Applicants should complete the worksheet provided in the application and be sure to show when new employees are expected to be hired. RCAC is responsible for monitoring the creation of jobs,

which it will do through an agreement with Mother Lode Job Training. Mother Lode's monitoring will continue until one year after the hiring of the last position.

12. Project status in Tuolumne County

- Provide a timeline for the development of the new/expanded business venture in Tuolumne County and showing operations starting no later than 4/30/22
- What steps in the process are complete?
- Describe the ownership and management of the new business
- Describe any permits that will be required for the business and the status of any permit applications
- Describe any environmental analysis conducted for the proposed business to date, if any. RCAC has dedicated funds that may be used to complete environmental review for eligible applicants.
- Describe permits required and timing of permits.
- Has a site for the new business/ business expansion been identified?
    - Is it owned or controlled via an executed lease agreement?
    - Is it currently, secured through an option to purchase, purchase contract or pre-lease option agreement
    - If yes provide a preliminary title report and the purchase/lease contract
- Provide any architectural and/or engineering drawings completed to date, and discuss the amount of work needed to complete the design work
- If biomass contracts have been secured provide a copy of the agreement(s) and/or discuss negotiations for biomass supply.

14. If some form of site control is in place, as described above, and there is a "Person" (household or other business, etc.) on the site that will be required to relocate for the project to move forward, then URA relocation requirements shall apply RCAC may have BUF funding available to assist with federal and state relocation requirement compliance.

15. If the project requires BUF funding to be used for any construction/installation work, then the applicant shall comply with the requirements of both federal and state prevailing wage laws. RCAC has BUF funding available to assist with labor standards compliance. Applicant must explain how any BUF construction estimates have taken these requirements into consideration.

16. Sign the certification that the project is not pirating jobs from another jurisdiction

17. Sign the certification that there is no conflict of interest in the application.

18. Complete the certification process and submit documentation.

Policy Attachments to the Loan Application

The following attachments lay out the loan fund policies for the BUF program. All applicants will be evaluated for financing from standard RCAC loan underwriting (see Attachment D) before being awarded funds under the BUF program. Applicants may bring their own financing in lieu of RCAC sources. However, should RCAC analysis suggest that the applicant needs additional non-BUF financing applicants will need to supplement their existing financing to meet program requirements.

Attachment A. BUF Loan Underwriting Criteria

Loan Application		• Normal business loan application components from RCAC website as modified for the BUF program.
Loan Size		• Not to exceed $8,000,000 for non-BUF portion and $15,000,000 for BUF portion, $23,000,000 maximum loan amount.
Interest Rate		• 3% interest BUF funds • Standard risk-based business loan interest rate matrix for other funds
Term		• Not to exceed 30 years
Fees		• Standard loan fees on non-BUF portion • No application or loan origination fees on BUF loans
Use of Funds		As authorized under the BUF loan policy Attachment.
Underwriting Standards		• Normal business underwriting standards will be used to create a funding package for the business. • To the extent feasible, non-BUF funds will be used first. • BUF funds will only be used to the extent that the internal rate of return to owner is reasonable and there is not undue enrichment. • The decisions on loan composition will follow the policies and processes described in the Loan Award Guidelines.
Eligible Applicants		• For profit businesses • Nonprofit businesses • Public Entities • Federally recognized Tribe

Attachment B: BUF Loan Policy

General
In addition to meeting all of the standard underwriting policies and procedures in the RCAC loan fund Policies (see Attachment D) applicants for funding under the Biomass Utilization Fund (BUF) will be required to meet the following requirements of the Community Development Block Grant National Disaster Resilience (CDBG-NDR)application and the general CDBG Economic Development regulations. BUF and CDBG are used interchangeably in the documents below.

1.1 ELIGIBLE COSTS
The BUF is funded by CDBG-NDR funds and as a result is non-discretionary and restricted to certain eligible costs. Specifically, CDBG ED activity eligible costs generally include:

- operating capital and inventory
- furniture fixtures and equipment (FF&E), with or without installation costs
- project site improvements, new construction or rehabilitation of leased space or owned building (some restrictions on exterior improvements)
- engineering and architectural plans
- local permits or fees, provided these costs are not choice limiting under the National Environmental Policy Act (NEPA)
- purchase of manufacturing equipment (with or without installation costs)
- refinancing of existing debt when done in conjunction with restructuring of other existing financing debt(s) and using BUF funds for other eligible costs
- purchase of real property, when it provides positive cash flow for new jobs
- relocation grants for persons displaced due to funding of the project
- purchase of existing business; public infrastructure in support of the project
- environmental review (RCAC may procure environmental consultants at no cost for eligible applicants.)

1.2 INELIGIBLE ACTIVITY COSTS
CDBG funds are non-discretionary, limited to certain eligible costs described in Section 3.1 above and there are also a large number of ineligible costs. Some ineligible CDBG project costs are:

- costs incurred prior to submittal of loan application and environmental review completion
- costs associated with residential housing development (mixed use project)
- costs associated with supporting "other" businesses the borrower has an interest in
- costs on a funded project NOT meeting a national objective
- personal expenses such as cars, home repairs, not directly associated with the business
- costs of paying off credit cards (personal or business)
- costs of paying off any personal debt not directly associated with business
- providing a revolving line of credit (LOC) is not eligible

- cash payments of any kind made directly to the assisted business owner(s) (wages or draws) from loan proceeds
- costs associated with a funded project when the owner(s) or business is found to be on federal debarred list
- research and development for future production (speculative)
- financing private "exclusive" recreational facilities

1.3 REQUIRED SIX CDBG UNDERWRITING STANDARDS

In addition to documenting that the project meets CDBG public benefit standard, the project must also be documented as meeting six HUD underwriting standards, per federal regulation 24 CFR Part 570.483(e). These underwriting standards are required because there are no federally mandated commercial underwriting standards to document "due diligence". The six HUD underwriting standards are general and qualitative and are supported by the commercial underwriting standards applied to application review.

The Six Underwriting Standards are:

- project costs are documented as reasonable (typically, third party cost estimates)
- all sources of funding for the project are documented with final commitments
- to the extent practicable, CDBG funds are not substituted for other available funds, financing or equity
- documentation that project is financially feasible (based on cash flow projections to support jobs and debt service, etc.)
- to the extent practicable, the return of the owner's equity investment is not unreasonable (based on level of equity and proposed CDBG loan terms); (N/A for CF loans)
- to the extent practicable, CDBG funds are disbursed on a pro-rata basis with other financing provided for the project

1.4 MEETING OTHER FEDERAL AND STATE REQUIREMENTS

There are a number of other federal laws and requirements that are triggered by use of CDBG funding. RCAC will ensure each project is documented as being in compliance with these regulations. Detailed information on federal requirements under the CDBG-NDR program are contained in the latest version of HCD's Grant Administration Manual (GAM).

- National Environmental Policy Act (NEPA) and California Environmental Quality Act (CEQA): Every project funded under the Program must be reviewed under HUD NEPA regulations 24 CFR Part 58 and HCD must sign and certify an Environmental Review Record (ERR) for it prior to HCD approval of loan fund disbursements. HCD is required to sign and certify the correct NEPA ERR, per the current Environmental Requirements. HCD or other public entities will also need to conduct a review under the California Environmental Quality Act (CEQA).

  The ERR level of review is based on the project's "aggregated" scope of work, which includes all proposed project funding. Any construction or equipment installation proposed will require a higher level of environmental review, which requires more work and time to finalize an ERR. The ERR will be started early in application process, as soon as the project is deemed eligible and scope of work is finalized. RCAC may retain an Environmental Consultant at no cost to the Borrower. Once a CDBG loan application is submitted, no project activities, especially construction or acquisition, can be undertaken until completion of the ERR, as this would be a "choice limiting action" under NEPA regulations.

- Prevailing Wage Compliance: If a project proposes to use CDBG funds to pay for any construction or equipment installation, then federal and state labor standards compliance must be documented. Davis-Bacon Act (40 USC 276a - 276a-5) and related laws are "triggered" when any CDBG funding is used to pay for any project construction costs. Lender will follow HCD guidance for prevailing wage compliance on funded projects. The project must also comply with California Prevailing Wage rules and requirements.

  Additional labor costs will be added to projects proposing to use CDBG to pay for new construction, rehabilitation or equipment installation. RCAC will work with loan applicants to ensure project compliance. The additional time and work required by prevailing wage regulations will be disclosed to the borrower as soon as possible. Any additional costs resulting from this regulation will be incorporated into the CDBG loan request.

  RCAC will retain a prevailing wage compliance consultant at no cost to the borrower to ensure that federal and state requirements are met.

- Acquisition and Relocation Laws: Projects that propose to use CDBG funds to pay some or all of real property acquisition will require documenting compliance with 49 CFR Part 24 Acquisition laws. These same regulations apply to any projects funded with CDBG that cause displacement of persons or businesses. RCAC will follow HCD guidance in current GAM for projects that trigger compliance with these laws.

  RCAC staff will work with loan applicants to ensure the business is in compliance with any state and federal acquisition /relocation laws triggered by the project, and inform them of any additional time, costs required due to acquisition or relocation regulations.

- Required Prohibition of Job Pirating Certification: RCAC will require all applicants to sign a certification of no job pirating. Job pirating is prohibited per CDBG federal regulation 24CFR 570.482 (h). Job pirating is defined as using CDBG public funds to facilitate the moving of a business and associated jobs from one jurisdiction to another (business attraction). As such, CDBG federal funds cannot be used to attract / subsidize a business to move from one labor market area to another or keep a business from moving out of a labor market by making a retention argument. Any questions regarding possible job pirating will be submitted to HCD for final determination.

- Required Conflict of Interest Certification: In accordance state and federal regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies (HCD, SNC and US Forest Service)) in connection with the planning and implementation of the BUF program shall directly or indirectly be eligible for this program. RCAC will require all applicants to sign a conflict of interest certification. Any questions regarding possible conflict of interest will be submitted to HCD from the RCAC's legal council for final determination.

- <u>Required DUNs number, federal debarred verification and demographic data:</u> RCAC will require all BUF program applicants to obtain a DUN's number, if they do not already have one. The DUN's number is free and can be obtained online. In addition, prior to loan approval, RCAC will document that the business being assisted, and all owners and affiliated business be verified as NOT on the federal debarred contractors list. HUD also requires that HCD and RCAC collect certain income and demographic data from the business and any new hires resulting from the investment of CDBG funds.

- <u>Public Benefit Requirement:</u> Every BUF project must be located in the County of Tuolumne. Each funded project must provide documentation of job creation. Specifically, project business plan must show that new jobs will be created and identify new full and part time positions. Project financials must show job creation cash flows to document project will achieve the proposed number of new jobs after BUF funding is expended. Jobs must be created by the funded entity, be permanent (exist for at least a year), can't be related to only project development process (interim construction jobs are not considered permanent).and must primarily be provided to county residents.

- <u>Required Benefit to Low- and Moderate-Income Individuals:</u> BUF projects must provide a benefit to low- and moderate-income individuals. With very limited exception, BUF projects will meet this requirement through the creation of permanent jobs that are filled by low- and moderate-income individuals. At least 51% of the jobs created must be filled by low- or moderate-income persons. Low-and moderate-income jobs are permanent jobs that provide on the job training for any special skills or do not require special skills that an on by acquired with substantial training; and do not require education beyond high school. Construction jobs are not considered permanent and therefore do not qualify. These jobs must primarily be provided to Tuolumne County residents.

- <u>Required Prohibition of Duplication of Benefit (DOB):</u> Part of the financial review is to ensure that CDBG funds are not duplicating or substituting for other federal assistance. RCAC will conduct an initial DOB analysis prior to HCD programmatic approval. RCAC will complete a final DOB analysis upon completion of the project.

1.5 DETERMINATION OF LOAN INTEREST RATE

Loan interest rates are three percent (3%). Borrowers will be required to use non-BUF funding if the BUF loan causes the business to have an excessive profit or high rate of return on investment (ROI). If the financial analysis determines that the borrower cannot afford to repay the proposed BUF loan amount at three percent interest, the lender may write down the interest and defer principal as necessary to achieve financing that makes the business feasible. (as further described in the examples in Attachment C.)

1.6 LOAN FEES

The BUF program provides administration funds to pay for all loan processing and servicing costs. No direct loan fees will be charged to the borrower on the BUF portion of any loan package. Also, there is no pre-payment penalty on the loans under this Program.,

1.7 PUBLIC BENEFIT AND NATIONAL OBJECTIVE

BUF funding will only be provided to borrowers who show public benefit by creating new jobs in Tuolumne County and utilizing biomass from the forests. In addition to be eligible for BUF funding the borrower must hire low- and moderate-income individuals to work in the new or expanded business. Failure to meet either of these requirements will result in BUF funds not being disbursed to the borrower, or the issuance of a demand for repayment of all funds previously disbursed.

Attachment C: BUF Loan Priorities and Processing

Applicants will be required to bring equity and their own conventional financing or apply for financing from RCAC through its small business loan products before qualifying for BUF assistance. Applicants will not be required to have leveraged financing, but all applicants will first be evaluated for the feasibility of financing a portion of their request with non-BUF funding. CDBG regulations require that federal funds not supplant conventional or other non-traditional financing. If the applicant has secured financing sources that will finance 100% of a project, then there is no need for BUF assistance, but to the extent that those other sources will not provide all necessary financing, BUF can fill the gap.

Once the BUF loan amount is approved, the applicant is free to use those funds during development of their business or venture. BUF funds used during development will bear interest at 3%, regardless of any subsidies which may be recommended for the long-term BUF loan.

RCAC will qualify the applicant for a maximum loan through its small business loan products before considering any BUF financing. An applicant who brings their own conventional or other financing will be considered to have met this requirement, unless the financial modeling shows that the applicant’s proposal can support additional debt.

Only once it is determined that all of the applicant’s financing needs cannot be met by other sources will RCAC provide financing through the BUF. All loans under the BUF will bear interest at 3% and have a maximum term of 30 years.

If the applicant cannot afford these rates and terms, based on a 1.15 debt service coverage (dsc) ratio, then the applicant may be eligible for either principal deferral or interest rate concessions or both.

Interest rate reductions will be the first concession, and the interest rate can be lowered to as low as 1% interest. If additional subsidy is needed, then some or all of the annual principal that would be due based on a 30 year amortization schedule can be deferred.

Annually, the borrower (applicant) will be required to provide certified financial statements that show the cash flow for the business, and the payments will be adjusted upward so that the minimum dsc of 1.15 is maintained, first increasing the principal payments to full amortization, and then increasing the interest rate to 3% annually.

The year that the borrower reaches a 3% interest payment, the remaining balance on the loan will be amortized for the remaining period of the loan, and the payments will be constant for the balance of the term.
Applicants/borrowers are required to show how their businesses will be able to achieve this fully amortized, 3% interest loan within ten (10) years from the original loan closing date.
Applicants that cannot demonstrate an ability to meet this fully amortized loan requirement may be given a low priority for processing. If there are funds remaining in the BUF, after all higher priority projects have been processed, low-priority applicants will be reconsidered for additional subsidy, in the order in which applications were received.

Loan acceptance, review and award process
Applications are being accepted now and all applications received by June 12, 2020 will be given the same consideration. Applications received after June 12 will be evaluated based on the availability of funds. Recipients of Biomass Utilization Fund loans must document job creation and expend all funds by **April 30, 2022**

Incomplete applications will be accepted, as long as missing information is submitted in a timely manner. If the information is not submitted timely, review of the application may be delayed and given a lower priority.

There are 4 steps in the loan review process:

Biomass Utilization Fund Workflow Diagram

Staff from RCAC, SNC, the United States Forest Service (USFS), and HCD will review all applications to assess whether they meet the threshold requirements and intent of the program, maximizing job development for low- and moderate-income people per dollar of CDBG funds requested, utilizing a proportionate share of the available biomass and a clear and defensible plan for completing the development process by 4/30/2022. As long as applications demonstrate how they meet all of these objectives the application will move forward to the next level of review, and RCAC will initiate the environmental review process.

The second review is meeting with National Development Council (NDC) to evaluate the proposed financial structure, ensure that the CDBG prohibitions on private inurement are met, and recommend a financial structure that ensures the deployment of all of the funds. NDC will also review the application to assess compliance with the six underwriting standards of CDBG.

The third review will assess the feasibility of the business plan and the financial modeling in the application. This review will look at the technology proposal for the business, the feasibility of other aspects of the business plan, and the permitting constraints associated with the business.

The fourth step in the review process is the finalization of loan underwriting.

There are two steps in the loan approval process:

Once a final credit memorandum is created and tentative agreement is reached between applicant and RCAC on terms, RCAC will submit a project summary to the CDBG-NDR Core Team to review. The Core Team provides strategic direction for California's CDBG-NDR program and consists of representatives from: HCD, SNC, USFS, the Strategic Growth Council, Tuolumne County, and the California Department of Forestry and Fire Protection.

All Core Team members are encouraged to participate in the programmatic review, with HCD and SNC participating at a minimum. The summary will include detailed information on the project and applicant as well as a summary of financial terms of the loan/grant. This will be a programmatic review to provide an opportunity for the Core Team to provide feedback on the final project to RCAC and ensure that the project will meet the goals and requirements of the NDRC grant. This review will not be a substitute for financial underwriting, which is RCAC's responsibility.

SNC and HCD will facilitate the Core Team review and summarize Core Team comments to deliver to RCAC. Feedback and questions on the project summary will be provided to RCAC.

Following completion of the Core Team review, the loan will be submitted to the RCAC Loan Committee for final approval.

Loan Awards

The CDBG-NDR Core Team will first conduct a programmatic review, then the formal loan approval is done by RCAC loan committee. Disbursement of loan funds are subject to completion of all loan conditions required by the Core Team and RCAC loan committee. Some of these include environmental compliance to be procured and paid for by RCAC using CDBG-NDR funds, securing leveraged resources and equity, and certifying to job creation and employment opportunities for low- and moderate-income workers. (RCAC has a sub-recipient relationship with Motherlode Job Training to assist documenting LMI job compliance.). RCAC is required to complete a General Conditions Checklist for each project and submit the Checklist with compliance source documents for CDBG-NDR to HCD for release of funding by HCD. The General Conditions Checklist will document the project's compliance with federal requirements listed in Section 1.4 of Attachment B, above. RCAC loan committee may have additional loan conditions that must be met prior to release of BUF project funding and any other funding RCAC may approve.

Funding Examples
RCAC will leverage the available HUD funding to the extent that the project is feasible and the borrower can support more traditional sources of financing. The financing decisions will proceed as follows:

RCAC will first look at the cash flow of the proposed business to determine the debt that can be supported with a 1.15 debt service coverage (dsc) ratio. In other words, if a proposed business generates net cash of $350,000 per year, we will assume that $297,500 can be used for debt service.

RCAC will first underwrite the business based on our typical loan standards. If the business needs to borrow $5 million, RCAC will look to see what portion of that amount the borrower can borrow using RCAC's typical business loan products without HUD funds. Today, typical USDA B&I guarantee business loan terms would be 30 years at 6% interest, and the payments on a $5 Million loan would be $363,244. Obviously, the business cannot support all of the debt. However, if RCAC made a $3 million loan at 6% interest and a $2 million HUD loan at 3% interest, the total debt service would be reduced to $319,000, comprised of $218,000 on the conventional loan, and 101,000 on the $2 million HUD portion. RCAC would then write down the interest on the HUD loan, so that the total package would work with a 1.15 dsc. If the interest rate was 1% on the HUD loan, the amortized payment would be $77,500, which gets the financing package very close to the $297,500 that can be supported by the business, without any deferral of principal payments.

RCAC will sell the guarantee portion of the loan to a third party, but RCAC is required to keep 20-30% on B&I guarantee loans. RCAC will use HUD funds to fund our portion of the guarantee loan, so the total HUD investment in this example would be $2.6 million and the leverage would be $2.4 million.

The goal is to lend the HUD money at 3% interest fully amortized with interest write-downs and principal deferral to make the financing package affordable. The minimum CDBG loan interest rate will be 1%. If this interest write-down is not sufficient to meet the dsc, then RCAC will consider principal deferral. It is expected that each business will achieve the standard rates and terms within 10 years (i.e., 3% interest, 30-year amortization). If cash flow increased $10,000 annually, in three years this business would be paying the full interest rate.

The minimum cash flow required to support this loan structure, $3 million in conventional and $2 million in CDBG is $274,000. With a dsc of 1.15, the maximum debt service is $238,000, which would be comprised of $218,000 on the conventional debt and $20,000 on the CDBG debt. The CDBG loan payment would only cover 1% interest and no principal. The fully amortizing CDBG loan payments are $101,000. If this borrower is to achieve the full payment amount in 10 years, the loan payment needs to increase $8,100 per year, and cash flow would have to increase by $9300. The first 8 years of increases would be attributed to principal payments, after which the interest rate would increase to the full 3% interest.

If this borrower only had cash flow of $100,000, the debt service they could afford would only be $85000. Using the process above to determine the conventional debt, would yield a conventional loan of just $500,000, and a HUD loan of $4.5 million. The HUD payment would start at $45000, 1% interest principal deferred, and would cap at $225,000 when fully amortizing. But this means that the business would have to show an ability to increase debt service by $18-20,000 per year to get to fully amortizing by year 10. If the borrower cannot achieve these increases, then the loan application will be set aside for a period of time while RCAC process loans that can meet this requirement. If after priority projects have been evaluated there are CDBG funds remaining RCAC will look at other schemes that could make the loan perform, including a longer loan term and a longer write down period. These considerations will only be made on projects that have a substantial benefit in terms of creating employment and biomass utilization.

Alternatively, if 100% of the $5,000,000 loan comes from CDBG, then the project can support a $50,000 interest payment, at 1% interest, then $35,000 would go to principle. The fully amortized loan at 3% interest for 30 years is $255,000, so over 10 years payments would be expected to increase $170,000, or $17,000 per year.

Borrowers will be expected to pay normal RCAC loan origination fees of 1% on the leverage (non-BUF) funds, including funds used as RCAC's share of the B&I guarantee loan will have the same rates and terms as the B&I guarantee portion.

If the business needs construction financing before putting their project in service, RCAC will offer that financing at normal rates and terms, currently 5.5% interest, and loan fees of 1.25% including the fee to make progress payments and monitor construction. If the borrower wants to use CDBG funds for development purposes, the borrower will be required to pay prevailing wages on the project, but the CDBG construction loan will be 3% interest with no loan fee.

Attachment D: RCAC Loan Fund Policies Adapted for the BUF Program

These modified loan fund policies are a simplified version of RCAC's full policies, presenting products that are relevant to the BUF program and can be used in conjunction with BUF funds. They are presented here to show how the RCAC business loan process works and how it will work in conjunction with the BUF loan program. When the BUF program is mentioned in these policies it is intended to clarify the difference between BUF funds and other RCAC funds. These policies will guide the relationship between loan applicants/recipients and RCAC. Situations may arise which are not anticipated in these documents, in which case these policies will inform the decisions of RCAC, which it will make in its sole discretion.

Table of Contents

I. Programs

Two of RCAC's loan programs may be used to support projects proposed under the BUF program. The other loan programs have no relevance.

A. Community Facility (CF) Program—nonprofit and public entity applicants may be eligible for matching loans under RCAC's community facility programs. Generally, CF loans have better rates and terms than small business loans, so it is in the interest of these applicants to consider funding under this program.

B. Small Business Loan Program
RCAC funds may be used for the following purposes
(1) Working Capital Loans
(2) Business Lines of Credit
(3) Term Loans (real estate/equipment)

II. Products

Under both programs, Community Facilities and Small Business the following types of products are available:

A. Short-term loans (three years or less)

(1) Land acquisition
(2) Predevelopment
(3) Site development
(4) Construction
(5) Acquisition and/or renovation
(6) Lines of Credit
(7) Working Capital loans

B. Long-term loans (greater than 3 years)

(1) Community facilities loans guaranteed by USDA

(2) USDA Community Facilities Re-Lending program
(3) Business loans guaranteed by USDA, BIA or other acceptable Federal or State Government guarantee programs
(4) Business loans not greater than $250,000, without a government guarantee (term up to ten years).
(5) Long-term loan that repays a RCAC short term loan because the original source of repayment did not materialize

III. Borrower Eligibility

A. Type of Entity

(1) Nonprofit organizations
(2) Public entities
(3) Federally recognized Tribes and tribal entities such as Tribally Designated Housing Entities (TDHE's) and Indian Housing Authorities (IHA's). Note: the term "Native American" as used in these Policies also includes Alaska Natives and Native Hawaiians, except as to provisions/requirements that are specific to Native American Tribes/Entities
(4) Partnerships or Limited Liability Corporations in which one of the above types of entities has significant control
(5) For profit entities or sole proprietorships

IV. Project Eligibility

A. RCAC service area of 13 western states and certain Pacific domestic and international areas. Rural areas (populations of 50,000 or less), or urban locations if the loan predominately benefits rural populations or target populations such as agricultural workers (Note: Some guarantee programs may have requirements that are more stringent.)

B. RCAC loans finance projects that serve the population that is 80% or less of the area median household income, i.e., low and moderate income.

C. BUF loans (CDBG-NDR) must provide new, permanent employment opportunities for low- and moderate-income people and use or supply biomass from surrounding forests. Ventures must be located in, or locating to, Tuolumne County.

V. Loan Approval Authority

A. Loan Committee: 1) all loan actions, including new loan and guarantee approvals, extensions, and modifications, 2) new loans or guarantees to or on behalf of borrowers with current existing Criticized Assets, 3) all other actions including those actions delegated to the CEO and the Director, Lending and Housing, and 4) any exceptions to Loan Fund policies, the basis for which shall be documented.

B. CEO: may approve: 1) any loan or loan increase to qualified borrowers not to exceed $500,000, 2) loan modifications within loan fund policy, 3) commitment extensions of a previously approved loan commitment, 4) loan extensions for loans that are performing as agreed and not on the Criticized Assets Report.

C. Loan Fund Director: The Loan Fund Director may approve: 1) any loan or loan increase to qualified borrowers not to exceed $100,000, 2) loan modifications within Loan Fund Policy, 3) commitment extensions of a previously approved loan commitment, 4) loan extensions for loans performing as agreed and not on the Criticized Asset Report.

D. The Loan Committee will be informed as soon as possible after internal approval actions via submission of all internally approved reports in the next ensuing Loan Committee packet with the exception of individual water well and septic system loans/grants.

E. The CEO can delegate to the Chief Financial Officer (CFO) per the RCAC management plan.

VI. Loan Commitment Term

A. Both short term and long term loan commitments are for a period not to exceed six months from the time of RCAC loan committee approval.

B. Long-term loan commitments that take out RCAC short-term loans may have commitment periods that commence upon a future event, such as the future closing of the short-term loan. Such long-term commitments would be contingent on the closing of the short-term loan.

VII. Loan Committee Meetings

A. The Loan Committee meets, if there are items to consider, on the second and fourth Fridays of every month or as otherwise scheduled. When board meetings occur during the week of a scheduled Loan Committee meeting, the Loan Committee meeting may be rescheduled.

B. For BUF funding, Core Team will provide programmatic review and approval prior to submittal to RCAC loan committee.

VIII. Interest Rates

A. At least annually, the interest rates to be charged to borrowers are to be reviewed by the Board of Directors. In setting interest rates, the following factors are to be considered:

(1) Funder or investor requirements for interest rates for loans made with their capital
(2) Average cost of borrowed lending capital
(3) Loan fees structure. If fees cannot be charged for certain loans, then related interest rates should be set higher for that class of loans.
(4) Market interest rates

(5) Interest rate and cost of funds information will be presented to the Loan Committee at least annually with a recommendation to continue or modify short term interest rates. The Loan Committee may approve a change in short term interest rates at any Loan Committee meeting and must in turn report any change in interest rates to the Board at the next quarterly Board meeting. Long-term rates should be within 100 basis points over the Secondary Market rate (or other applicable index) for a corresponding term of the loan in effect at the time of the loan closing.

(6) Long-term loans shall have payments via Electronic Funds Transfer (EFT). If a borrower elects not to have payments via EFT, the interest rate increase will be 25 basis points, however, if the entity is precluded from providing EFT due to the type of entity or method that funds are handled there will be no interest rate increase.

B. Effective with the approval of these Loan Fund policies and effective until modified, interest rates will be as follows:

(1) Loans funded with CDBG-NDR funds under the BUF program will have an interest rate of 3%.

(2) Business loans for working capital or lines of credit will be from 6.25% to 10.25% (6.25% for nonprofit or public entities). The applicable rate, within the range indicated, will be determined based on the loan term, business credit history, available collateral, cash flow, the strength of the business and business entity and the availability and strength of personal and/or corporate guarantees. Business loan rates may be reduced if required by a federal or state guarantee program.

(3) All other short-term loan interest rates will be:

(a) 5.250% for a term of up to 24 months; 5.5% for a term greater than 24 months but not exceeding 36 months including extension of performing loans. The interest rate applicable at extension for loans that are experiencing problems will be based on the risks involved with the particular loan.

(b) The committed interest rate is applicable for up to a six month commitment period and may be changed to the current rate (if the rate has changed) if the commitment is extended beyond the initial commitment period

(c) If a loan is extended beyond the three year short term loan period (other than a loan restructure) the interest rate will be set utilizing the applicable Farmer Mac II secondary market rate (or other applicable index) plus 1% as a guideline for the period of the loan, however, the rate will not be less than the short term 36 month rate for the type of loan product.

(d) Short term rates may be reduced by up to 1% per annum based on specific funding/investor requirements. Golden State Acquisition Fund program, for example, requires a 50-75 bps reduction from standard interest rates.

(4) Long-term interest rates for real estate purchase/secured business loans, and CF Re-Lending loans are to be set on a loan-by-loan basis not to exceed 100 basis points above the Secondary Market rate (or other applicable index) for a corresponding term

loan in effect at the time of closing. The CF Re-Lending program rate is 5% (to be reduced to 4% for the first three years of the loan).

(5) Interest will be calculated based on a 360-day year and actual days elapsed for interest only loans and on the basis of 30 days per month and 360 days per year for amortized loans.

IX. Fees

A. There is no application fee for any RCAC loans, including BUF loans.

B. Loan Origination Fees for non-BUF funding:

(1) There will be no fee for the CDBG-NDR portion of any loan funded under the BUF program in Tuolumne County.
(2) All loans, except revolving lines of credit, construction loans will be charged a loan origination fee of 1% of the loan amount to be collected at the time of loan closing (exceptions - long term guaranteed loans or CF Re-Lending loans converting from a short term RCAC loan will be charged a 0.5% loan fee on the long term loan); household water well program loans will be charged a fee of $100. Individual septic system loans (Idaho program) will be charged a fee of $500.
(3) Revolving lines of credit will be charged a loan origination fee of 1.5% of the loan amount, to be collected at the time of loan closing (no other fees, except a document fee, if applicable, will apply).
(4) If an approved line of credit is modified to a revolving line of credit either by a Loan Commitment Modification or Loan Modification the revolving line fee of 1.5% will be charged (the loan fee will be increased from 1% to 1.5%) on the face amount of the loan.
(5) Construction loans will be charged a loan fee of 1.125%
(6) Loans originated to assist applicants with obtaining other funding with limited expectation of closing will be charged a 1% (or 1.125%) commitment fee in lieu of an origination fee to be paid by the applicant at the time of commitment. If the loan subsequently closes there will be no additional origination fee.

C. Document Fee - $300 for real estate secured loans and business loans; $100 for other than real estate secured loans. This fee is not applicable to Environmental Infrastructure loans, regardless of type or security. To be paid at the time of closing.

D. Real Estate Tax Monitoring Fee - Cost of service will be a pass through to borrower to be paid at time of loan closing by borrower or included in the loan.

E. Loan Commitment Extension Fee: $250 for each six month, or shorter period commitment extension. This fee must be paid by the applicant at the time of extension (exception – if an extension of a long-term loan commitment is incidental to and being made simultaneously with a short-term loan extension only one loan extension fee will be assessed).

F. All costs directly associated with a non-BUF loan request are a pass through to the loan applicant.

G. Loan Extension Fee:
   (1) Loans repaid within 30 days of original maturity will be considered as performing and no extension fee is required.
   (2) Loan extension fees will be charged in accordance with the following table, for each six month loan maturity extension period (prorated for shorter periods), however, in no case will the extension fee exceed the applicable loan origination fee. The fee charged for loans fully disbursed but paid down will be based on the reduced principal balance. Exceptions may be made by the Loan Committee, CEO or Loan Fund Director, within approval authority. All exceptions shall be noted in the Loan Extension Staff Report.

   Loan Extension Schedule:

Loan Amount	Fee
Up to$49,999	$250*
$50,000 to $325,000	$500
$325,000 and greater	0.15% of loan amount not to exceed $2,500

   *Not applicable to household water well or septic system loan programs.

H. Loan Restructure Fee: A loan restructure is defined as a modification of a loan that recasts the original terms or conditions of the loan, other than just an extension (and any resulting change in interest rate based on current policy) of the loan. Loan Restructures are most typically in connection with workout agreements but may also be due to other reasons, e.g., a reduction in interest rate, provide for a new repayment source or amount and/or new repayment period. The fee for a loan restructure will be the fee commensurate with the above loan extension fee table (irrespective of restructure term) based on the principal balance at the time of restructure with the exception that the $2,500 extension fee limitation will not apply.

I. Late Payment Penalty: A late payment charge equal to five (5.0%) percent of the total payment due under the Promissory Note will be charged to the Borrower in the event that a payment is not received within fifteen (15) days of its due date.

X. Security

A. The risks to the unrestricted net assets of RCAC are to be mitigated by obtaining secured interest in the assets of the borrower and/or obtaining loan guarantees. The following are required:

   (1) Unsecured Loans for Predevelopment or other costs, supported by a Rural Development (RD) Letter of Conditions are subject to a $350,000 maximum.
   (2) (2) Secured loans are subject to 100% LTV when RCAC debt is in superior position. For site acquisition/predevelopment/site development loans for single family housing lots, the security value will be considered the finished lot sales value. For single

family unit construction loans, the security will be considered the value of the finished homes.

(3) Secured loans are subject to 95% LTV which includes senior debt and the RCAC loan, where RCAC debt is subordinate to senior debt.

(4) Lines or revolving lines of credit to acquire foreclosed homes, for which the value is not known at the time of acquisition, will be subject to pledge of additional collateral in a minimum amount of 25% of the loan amount. The additional collateral amount required may be increased based on the housing market of the community in which the housing is located.

(5) Business loans may be secured by tangible collateral, cash flow of the business, personal and/or corporate guarantees, or a combination thereof, and are not subject to other limitations or definitions contained in this section.

(6) Long-term guaranteed loans are not limited by the above LTV requirements but are instead limited by the requirements of the Conditional Commitment to Guarantee.

(7) Loans made to a subsidiary or affiliate of an entity will require a Corporate Guarantee from the parent entity (does not apply to loans to Tribal entities, see Native American Lending Policies (page 26) for Tribal Guarantee requirements)

(8) The Loan Committee may consider applications with higher LTV percentages or other security on a case-by-case basis.

(9) LTV is one of various criteria used to evaluate the security of a loan. Other consideration may result in a loan having a lower or higher LTV.

(10) All loans are considered recourse loans unless specifically waived as non-recourse in the loan approval, in which case, specific non-recourse language will be included in the Loan Documents.

XI. Maximum Loan or Guarantee Amount (exclusive of participated amounts).

A. Loans that have a USDA Rural Development CF, RUS, or B&I Guarantee - $8,000,000

B. Non-government guaranteed Business Loans - $250,000

C. CF Re-Lending Program - $8,000,000

D. All other loans - $3,000,000

E. Construction loans where the source of repayment is clearly committed - $8,000,000 or up to 10% of the assets of the loan fund.

F. Maximum Concurrent Loans to a Borrower**--**Eight percent of Lending Capital (Lending capital is defined as all Loan Fund lending capital less lines of credit and USDA CF Re-lending funds). The government guaranteed portion of loans and loans in which the applying entity is not the borrower of record, but may have an interest (e.g., Limited Partnerships, LLC’s, etc.), are not included in the concurrent loans calculation, however, will be noted in the Credit Memo for Loan Committee or CEO information/consideration.

G. Business loans funded with CDBG-NDR funds under the BUF program--$15,000,000.

XII. Construction Interest Collection and Retention

A. For all new short-term loans, including BUF loans, there is to be a prepaid interest account or interest reserve account in an amount sufficient to cover the anticipated interest charges over the life of the loan, unless the required interest payment is otherwise addressed as part of the Credit Memorandum. In the BUF program, short term interest may be included in the loan.

B. If a loan maturity date is extended and there is an insufficient amount of prepaid interest or interest reserve to cover the interest due during the extension period, the borrower must increase the prepaid interest reserve to a level adequate to cover interest for the extension period**,** elect Electronic Fund Transfer (EFT) payment, or otherwise make arrangements satisfactory to RCAC to pay monthly interest accrual.

C. If a loan maturity is extended and the borrower cannot pay interest current, extension fees and/or late charges, the loan will be placed on the Criticized Assets Report.

D. For construction projects, except for 100% payment and performance bonded contracts, a minimum retention of 5% of the construction contract amount is to be retained by RCAC until after the filing of a notice of completion and expiration of the statutory lien period (as prescribed by State Statute for the State in which the project is located), or the issuance of a lien-free endorsement by the title company. The Loan Fund Director or Credit Officer may approve lower retention levels when justified.

XIII. Borrower Capacity

A borrower's experience, as well as technical and financial capacity to complete a project, is critical in the review of all applications to the Loan Fund. A thorough analysis of organizational experience and capacity is critical to loan underwriting and is a key component of consideration in loan recommendation and loan approval. This analysis will be based on the Loan Fund Underwriting Guidelines and will address any deficiencies in capacity or experience indicated by substantial deviation from the Guidelines. Material weaknesses in capacity must be mitigated by appropriate measures such as technical assistance from competent sources, including RCAC, or entering into partnerships to bring the necessary capacity and/or guarantees to the transaction.

XIV. Financial Capacity

A table will be included in each Credit Memo (except Environmental Infrastructure loans with the exception of Intermediate Term Enviro loans) providing for a comparison of financial Guidelines for the type of loan being underwritten (noted below) to the current financial condition of the loan applicant with Notes regarding the variance when a Guideline is not met or for other explanation. Any deviation from the underwriting financial Guidelines, together with appropriate mitigations, will be discussed in detail in the Financial Capacity section of the Credit Memo.

Financial Underwriting Guidelines for all loans, except Business Loans:

Current Ratio – Minimum of 1
Debt to Net – Maximum of 4:1
Debt-Coverage Ratio – Minimum of 1.10
Positive Net Assets
Days' Cash – Minimum of 90 days

Financial Underwriting Guidelines for Business Loans:

Current Ratio – Working Capital Loans and Lines of Credit – 2:1 (considering loan being made)
Current Ratio – Term loans Minimum of 1:1
Debt to Net (businesses with operating history) – Maximum of 8:1 or minimum of 10% tangible net equity (maximum of 4:1 for term debt unless applicant operates in an industry where the average is higher than 4:1).
Debt to Net Worth (Start-up businesses) - Maximum of 4:1 or 20% tangible net worth
Debt Service Coverage (amortized loans) - Minimum 1.15
Positive Net Assets
Days Cash – Working Capital and Lines of Credit - 90 days (considering loan being made)
Days Cash – Term Loans – Minimum of 60 days

Loan Repayment Source:

All loans will have a clearly documented repayment source. Amortized loans will meet a minimum of a 1.15 Debt Service Coverage Ratio. Business loans will document sustainable debt repayment from business historical and/or projected cash flow.

XV. Loan Payments and Servicing

A. A loan is considered "Past Due" if the loan payments are one day but not more than 30 days late or the loan has matured for not more than 30 days.

B. A loan is considered "Delinquent" if the loan payment is more than 30 days, but less than 90 days late or the loan has matured for more than 30 days, but less than 90 days or other significant failures to meet the requirements of the Loan Agreement.

C. At Risk of Liquidation (At Risk): A loan is considered "At Risk" if the loan payment, is more than 90 days late or that the loan has matured for more than 90 days. Loan Committee is to be informed.

D. Unpaid late fees and/or a past due amount not exceeding $50.00 will not result in a loan being classified as delinquent.

   Note: For D, reasonable collection efforts (inclusion in subsequent billings, etc.) will be made to collect the amount due, however, a one-time credit adjustment to the account may be made, per determination of the Loan Fund Director if such efforts are not cost effective.

Non-accrual loans

Whenever a loan payment of interest or principal is more than 90 days past due, the Loan Fund Director will notify the Chief Financial Officer and they will determine if the loan will be classified as "non-accrual". A loan should be classified as "non-accrual" whenever it is doubtful the interest receivable will ever be collected from the borrower or through liquidation of loan security.

When a loan is classified as non-accrual, loan administration will maintain two set of records on the loan, (1) per the loan documentation, (2) principal only.

The financial accounting of RCAC will be based on the principal only basis with interest revenue no longer accrued and interest revenue previously recognized, but not collected, reversed.

Loans in default

Loans in default are defined as loans with a loan payment, or loan repayment, more than 30 days past due and/or have not met, considering any grace period, any covenant of the loan document(s). Such loans will be assigned a loan status (classification) and risk rating based on their inherent weakness and possibility of debt collection. The loan may be subsequently changed to a different classification based on the approval of a workout plan or other facts that would change the loan status.

XVI. Native American Lending Policies

General Criteria for Tribal Lending:

1. Federally recognized Tribe or Tribal entity
2. Limited Waiver of Sovereign Immunity as relates to the loan transactions on trust lands
3. Defining dispute resolution as part of Limited Waiver of Sovereign Immunity
4. Federal loan guarantee for loans to Tribes on trust lands
5. Tribal guarantee (assignment of income) for loans to Tribes on trust lands
6. Leasehold Deed of Trust for loans to entities who have a leasehold interest on tribal lands

Limited Waiver of Sovereign Immunity - Required as relates to the loan transaction. The Limited Waiver would be enacted by Tribal Resolution and include the venue for resolution of disputes. Preference is to use mediation before binding arbitration; however, RCAC will consider other venues, including Tribal Courts, on a case by case basis. For loans other than to the Tribe involving Tribal lands (leaseholds), the need for a Limited Waiver of Sovereign Immunity will be made on a case by case basis after review of the lease and the Tribe's adopted lending and foreclosure ordinances.

Loan Guarantee - Required for long-term loans to Tribes on trust lands. RCAC must be an approved guaranteed lender under a federal program that will permit the use of funds for the type of project proposed and will meet the federal guarantors' requirements. For example, RCAC is currently approved for USDA loan guarantees for Community Facilities, Business and Industry, Multifamily Housing, Water and Waste Disposal systems/facilities and for HUD Section 184 rental housing and Title VI loan guarantees. Short-term loans require an assured take out which would normally be a guaranteed loan from RCAC or another lender.

Tribal Guarantee – Tribal Resolution that provides for assignment of income from the project being financed and assignment of unrestricted tribal funds, if necessary, to meet debt service requirements. Tribes may designate certain unrestricted income sources if sufficient to provide adequate assurance of repayment ability.

Leasehold Deed of Trust - For loans to entities who hold a leasehold interest from the Tribe as approved by BIA. Leasehold criteria are: 1) Lessor's consent to allow the mortgage, 2) the right of the Lender to foreclose on the leasehold interest, 3) the right of the Lender to bid at a foreclosure sale or to accept voluntary conveyance of the property in lieu of foreclosure, 4) the right of the Lender to occupy, sublet, or sell the property should the leasehold be acquired through foreclosure, voluntary conveyance or abandonment, 5) advance written notice of at least 90 days to the Lender of the lessor's intention to cancel or terminate the lease, 6) the lease term must be at a minimum as long as the term of the loan. A BIA Title Report is required.

Alternative Sources of Collateral – Tribes or tribal entities may secure a loan by offering alternative sources of collateral which may include asset accounts or fee simple real estate.

XVII. Annual Review of Policies

Board approved Loan Fund policies are to be reviewed by the Loan Committee for reaffirmation or modification, not less than once a year. All policy changes (except for Loan Committee changes to the short term interest rate) are to be approved by the Board of Directors.

Attachment E. BUF Loan Application Threshold / Feasibility Evaluation Criteria

Failing to meet the overall project threshold criteria below may result in an application being denied. All other factors give the application a priority for consideration and moving through the funding process. For applications received in the first application period, the highest-ranking project moves first, and will be considered for funding ahead of other applicants.
Review of each project and underwriting of each loan application will continue until all CDBG funds have been committed. RCAC will continue underwriting as long as the applicant is responding to information requests in a timely manner. **No application is guaranteed funding until it has received final RCAC loan committee approval and satisfied all loan conditions.** In the processing of applications, projects that score exceptionally well on the criteria below may receive more staff attention but only as long as the applicant is providing material in a timely manner.

<u>Overall project CDBG-NDR Threshold/Feasibility</u>

Projects that do not meet both of the two threshold criteria may be denied:
(1) Demonstration that the project can be completed before 4/30/22
(2) Demonstration that at least 51% of the jobs created will be filled by low- or moderate-income persons.

- Low-and moderate-income jobs are permanent jobs that:
  - provide on the job training for any special skills, or do not require special skills that can only be acquired with substantial training;
  - do not require education beyond high school.
- Construction jobs are not considered permanent and therefore do not qualify.

- Applicants may appeal a denial and/or provide supplemental information as to why the initial determination is inappropriate. It is not the intent of the BUF program to deny applications, but if the applicant fails to meet either of these two threshold criteria, they will not be eligible for funding under the BUF program, and if any funds have been advanced RCAC will pursue payment in full on all obligations.

<u>Expected Biomass usage – 20 points</u>

A primary goal of the BUF program is to create alternatives to pile burning forest based woody biomass and promote forest health treatments. Thus, priority will be given to projects that will utilize or supply a large amount of woody biomass, while demonstrating that the **expected quantity of biomass** can be reasonably obtained, and that the ratio of tonnage of biomass to CDBG loan requested would allow the program to meet its goals.

Evaluation Criteria:

- Ratio between biomass usage and CDBG funds requested up to 10 points
  - Less than 1,000 tons per million CDBG funds, up to 3 points
  - 1,000 tons—10,000 tons per million CDBG funds, up to 6 points
  - More than 10,000 tons per million CDBG funds, up to 10 points
- Access to biomass supply up to 10 points
  - Signed contracts for biomass needed, 10 points
  - Well defined procurement plan, up to 7 points
  - Experience working in forest product industry, especially in Tuolumne County, up to 4 points

<u>Job Creation Potential – 25 points</u>

The BUF loan program is required to meet the CDBG national objective of creating employment for low- and moderate-income individuals. Projects will be evaluated by the number of jobs an applicant can demonstrate will be created by the project. Applicants should show that at over half of expected jobs will be reasonably accessible for LMI individuals (i.e. do not require degrees or advanced training). The timing for hiring employees and the plans for long-term employment are also important program considerations.

Evaluation Criteria:

- Ratio of **jobs to CDBG funding** requested, up to 10 points
  - >$1,000,000/job, up to 3 points
  - $200,000 - $1,000,000/job, up to 6 points
  - <$200,000/job, up to 10 points
- The highest number of total LMI jobs compared to other applications, 5 points
- Highest number of LMI jobs hired within first 6 months of operations, 5 points
- Strongest plan for long-term employment, 5 points

<u>Forest and Community Resiliency and Replicability – 10 points</u>

Additional consideration will be given to projects that will make a demonstrated impact on forest and community resilience through:

- Ability to pay a higher price for feedstock to offset costs of forest health treatments, rather than focused on waste disposal only
- Demonstrated partnership with state, local and federal partners to target material from fuel reduction and forest health projects
- Ability for the facility to accept community green waste drop off to reduce waste disposal costs for county residents/create an alternative to small landowner and homeowners pile burning material from maintaining defensible space
- Ability for the facility to provide backup power generation during emergencies or public safety power shut off events
- Demonstrated plans to expand project to include co-located wood product businesses or other types of biomass processing equipment beyond the grant period (e.g. this first project is an "anchor" facility as part of larger planed wood processing campus)

Two points will be awarded for each criterion met.