

# **Policies & Procedures Handbook**

# **METCO**

## **Metropolitan Business Development Corporation**

### **Revolving Loan Fund**

Department of Economic Development  
Cabinet of Economic Development  
Louisville Metro Government



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## About this Handbook

The METCO Policies & Procedures Handbook is a comprehensive overview of the operations of the METCO Small Business Revolving Loan Fund. This handbook includes all approved METCO policies and detailed information about all METCO operations, including loan processes, decision-making, loan programs, and the scope and responsibilities of the Board and staff.

This Handbook identifies the proper steps to accept, review, underwrite and submit a loan for approval, set up and service an approved METCO loan.

The policies and procedures outlined in this Handbook are relevant to the METCO Board and any employee and/or contractor of Louisville-Jefferson County Metro Government performing tasks on behalf of and/or associated with a METCO Loan, including application. All policies stated herein are approved by the METCO Board and the Louisville Metro Council; in addition, all policies related to the EDA RLF CARES Gap loan program have been approved by the EDA. All operational procedures stated herein have been prepared by Louisville Metro Government staff.

**Disclaimer** - Failure to comply with Louisville Metro Government policies carries consequences of employee disciplinary actions up to and including termination. The METCO President, Board, and staff will operate under the ethical standards of Louisville Metro Government and will for no reason share confidential information without the express consent of the client in question. This Handbook does not constitute a contract. *With the exception of any policies that are specific to the EDA RLF CARES Gap Loan Fund*, this Handbook may be changed at any time with approval from the METCO Board and Metro Council.

Any changes to any policies that are specific to the EDA RLF CARES Gap Loan Fund must receive prior written approval from EDA.

## 1.0 METCO

### 1.1 Overview

In 1998, three revolving loan funds were merged and re-named **Metropolitan Business Development Corporation (METCO)**. The original funds were seeded with public grants and funds, including the first federal Revolving Loan Fund grant awarded in 1980. Since the merger, METCO has continued to grow with interest income and additional public grant funds for new loan programs.

Today, METCO offers small business and commercial property loans for new and expanding businesses in Jefferson County. METCO loans range from \$15,000 to \$500,000 with an average loan amount of \$85,000. METCO maintains approximately \$12 million in active loans. Each year, METCO lends approximately \$2.5 million in new loans and receives approximately \$2 million in repayments. The METCO portfolio is valued at over \$19 million and includes active loans and available lending capital.

### 1.2 Mission

The mission of the **Metropolitan Business Development Corporation (METCO)** is to provide access to capital to businesses located in Jefferson County to encourage entrepreneurship and economic growth in the area, with the focus on small businesses and underserved communities and neighborhoods.

METCO strives to achieve the following objectives within Jefferson County:

- To encourage entrepreneurship and economic growth;
- To improve the goods and services available to residents;
- To stimulate retention and creation of jobs;
- To support maintenance and expansion of the tax base;

- To assist in redevelopment of abandoned or underutilized properties and the aesthetics of commercial corridors;
- To help enable energy efficiencies, Kentucky-raised food products and ADA compliance; and
- To support business development in disinvested areas.

METCO will accomplish this mission by making loans to businesses in Jefferson County. Recognizing that access to capital is one of the largest barriers to establishing and maintaining a viable business, METCO will provide a variety of loan programs to meet the varying needs of businesses. Those programs will be existing loan programs as described in the following sections. It is the intention of METCO to be flexible and to offer traditional or innovative loan programs to meet the changing needs of businesses to accomplish the goals established by the mission statement.

Applicants must meet the established criteria for each program unless an exception is made by the METCO Board. Exceptions for EDA Gap Loans require prior written approval by EDA.

METCO may grant funds to organizations that share the same mission as METCO. Any requests must be approved by the METCO Board.

*Revised and Approved 2020*

## 1.3 Legal Structure

METCO is a KRS Chapter 58, nonprofit, Non-stock Corporation, established on behalf of Louisville Metro Government. METCO is governed by its Board of Directors. The METCO Board of Directors approves all METCO policies and use of funds. The METCO Board is responsible for all METCO loan capital. All loans require approval by the METCO Board of Directors.

METCO is administered by Louisville Metro Government under a Fiscal Agent Agreement. Louisville Metro Government, through its Department of Economic Development, provides personnel and finances other administrative expenses for METCO. In certain cases, the METCO Board may authorize the use of restricted METCO funds for administrative expenses, including but not limited to personnel.

METCO maintains compliance with all federal, state, and local regulations as required by funds received. METCO operates in accordance with generally accepted accounting principles (“GAAP”). The policies and procedures herein reflect METCO’s adoption and use of Prudent Lending Practices.

## 1.4 METCO Board of Directors

### 1.4.1 Authority

The METCO Board authorizes the use of all METCO funds, including all METCO loans, operational and/or administrative expenses, and charge-offs. The METCO Board also authorizes all changes to METCO policies and procedures, METCO loan products, and METCO By-Laws.

### 1.4.2 Membership & Term

The Board of Directors consists of no fewer than (5) five and no more than (9) nine members appointed by the mayor and/or his/her designee, as provided in the Bylaws of METCO, as amended from time to time. METCO Board members are appointed to serve for a term of (3) three years, with the ability to be reappointed up to three (3) times.

### 1.4.3 METCO President and Chair

The Director of Louisville Metro Government’s Department of Economic Development serves as President of METCO. The METCO President can appoint a Chair of the METCO Board. The METCO President is responsible for the administration of the METCO Program. They are also responsible for overseeing the METCO meeting of the Board of Directors.

#### 1.4.4 METCO Vice Chair

The METCO Vice Chair will be a member of the METCO Board who will step in and conduct the METCO Board meetings in the event the METCO President and/or METCO Board Chair is unable to attend. The METCO Board will nominate one or more members of the Board for this position and a vote will be held to determine who will act as Vice Chair.

#### 1.4.5 Secretary and Treasurer

The METCO Manager will serve as Secretary and Treasurer.

#### 1.4.6 Attendance

The board will meet monthly on a regular schedule as determined by the board at the last meeting of each calendar year and may have special meetings as needed when called by the METCO Board Chair or METCO President. All meetings of the Board will be open to the public in accordance with KRS 61.800-61.850.

Board members are expected to attend all meetings of the METCO Board. If a Board member is absent from a meeting, they must notify the Chair of their absence prior to the meeting. If a board member is absent for two consecutive meetings without first notifying the chair of their absence, or if a Board member is absent for three consecutive meetings having notified the chair of their absence, that Board member is in breach of their obligations and may be asked to step down from the Board.

A majority of directors will constitute a quorum for the transaction of business. Except as otherwise required by law, the Articles of Incorporation, or the Bylaws, the act of a majority of the Board of Directors present at a meeting at which a quorum is present will be the act of the Board of Directors.

#### 1.4.7 Conflicts of Interest

To prevent conflicts of interest and ensure that all Louisville Metro employees, including the METCO staff, have read and follow the LMG Personnel Policy, they are required to sign a document confirming their knowledge and understanding of those policies. All employees are also required to sign a Financial Disclosure annually and an Information Security and Technology Standard Acceptable Use form. When appointed to a Louisville Metro Board or Commission, the new board member receives a welcome packet including a letter explaining Board Accountability and Oversight, a summary of Ethics Code Training, a One-Pager-Internal Audit form, and a Proof of Receipt form, requiring their signature.

#### 1.4.8 Removal

If a Board member is in breach of policy and has been asked to step down and refuses, then the member's response will be put to the Board at its next meeting. The Board member will be entitled to speak to this item, and to vote on it. The Board will then decide what actions to take regarding that Board member's future membership on the Board.

If the Board decides that termination is justified, the Board may suspend that person's membership of the Board. In the event the member wishes to continue in his or her position, the suspension will be put to a general meeting for approval. The suspended member will be given an opportunity to be heard, either personally or by a representative, and may submit materials in writing to be circulated.

The Board may remove any person from any Board committee for any reason, including (but not limited to) non-attendance.

When any person has been removed from the Board or from any committee under this provision, the Board or committee will promptly initiate a process to recruit a new Board member. The person whose membership has been terminated will retain the right to stand again at the next selection of the committee or Board.

#### 1.4.9 Board Composition

METCO benefits from a Board that represents the diverse demographics of Louisville and its small business community. METCO also benefits from a Board that has professional expertise related to small business, including but not limited to, accounting, legal, banking, sales, marketing, and/or small business ownership.

### 1.4.10 Prospective Board Members

Prospective members of the Board will be issued with copies of the METCO Policy & Procedures Handbook and attendance policy and asked to commit themselves to observing its terms.

### 1.5 METCO Loan Committee

The METCO Loan Committee consists of not fewer than two (2) directors, not more than two (2) community partner representatives, and a METCO staff member designated by the Chairman. The Committee is responsible for reviewing the loan packages submitted to them, for providing guidance to METCO staff on managing delinquent accounts, and for making recommendations to the Board. Because of the confidential and proprietary nature of the information being reviewed and discussed, the loan committee will meet in closed session.

### 1.6 Jefferson County Attorney’s Office

Legal representation is provided to METCO on behalf of Louisville Metro Government by the Jefferson County Attorney’s Office (JCAO). Assistant County Attorneys prepare all legal contracts including loan agreements, notes, security interests, modifications, and settlements; and represent METCO’s interests as needed during loan closings and in pursuit of the collection of defaulted loans and bad debt accounts.

### 1.7 Vendors

During the processing of METCO loan applications, it may be necessary to employ the services of various vendors for the verification of the value or the availability of collateral being offered to secure the aforementioned loan. Below is a list of vendors that have been used to provide these services in the past and as long as they remain in compliance with the Human Relations Commission, they may be used in the future. This list may be updated from time to time.

Title Agency

- Thomas R. Carter, Attorney at Law

Property Appraisers

- Allgeier Company/Valbridge Property Adviser
- Galloway Appraisal
- Integra Realty Resources
- Lohan Realty Resources
- Mills, Biggs, Haire & Reisert, Inc.
- Mueller Appraisal Inc.
- Brantley Valuation Consultants

### 1.8 Equitable Access to Capital Goals

METCO will set annual benchmarks by fund for lending to underrepresented minority- and women-owned businesses. Data will be tracked and reported based on the benchmarks and key performance indicators for equitable access to METCO Capital as follows:

Equitable Access to Capital – 2024 Annual Benchmarks for New Lending by Fund				
Fund	Loan Types	Annual Benchmark (% of new loan \$)		Rationale for Benchmark
		Minority Owned	Woman Owned	
Equity Fund	Small & Disadvantaged Gap, Business Accelerator Short-Term Contractor	80%	65%	Products are primarily intended for minority

				and/or woman owned businesses
Legacy Fund	Midi	55%	65%	
Commercial Property Improvement Fund	Façade, Accessibility, Commercial Renovation	35%	55%	
EDA CARES RLF	Gap	35%	55%	
EPA Brownfields Cleanup RLF	Brownfields Cleanup	30%	40%	
DOE Go Green RLF	Go Green	50%	55%	

## 1.9 Outreach

The METCO Program will work with the Communications team of the Louisville Metro Government to conduct regular outreach to ensure that the entrepreneur and small business community in Jefferson County are aware of METCO loan products.

Detailed program information will be maintained and updated online at least monthly at the Louisville Economic Development Alliance website by the Louisville Economic Development Alliance or Louisville Metro Government staff responsible for external communications. In addition, outreach will be conducted and tracked through:

- Louisville Economic Development Alliance website and social media accounts
- Metro Council newsletters and communications
- Press Releases and local media
- Business Association events and communications
- Networking with key sources of referrals such as banks and resource providers
- Louisville Guarantee Partner Network

Potential borrowers can apply for loans on-line through the Louisville Economic Development Alliance website.

Any costs associated with promotion of the program are covered by Louisville Metro Government via the Fiscal Agent Agreement with METCO.

If METCO is receiving less than 5 inquiries per month, METCO staff work with community partners to promote the program at any upcoming events within the business community. METCO does not use any other marketing platform.

## 2.0 Standard Operating Procedures

### 2.1 METCO Personnel

The Department of Economic Development will provide employees to serve as METCO program personnel. One employee will serve as METCO Manager to administer the critical operational functions of the METCO RLF.

The Department of Economic Development may employ additional staff members to serve as METCO Loan Coordinators. Decisions to add or remove positions will be based on: personnel needed to meet program demand for new loans and loan servicing; and budget.

METCO also relies on additional programmatic support from Louisville Metro Government, including but not limited to personnel located in Office of Management and Budget, Human Resources, and Cabinet of Economic Development.

## 2.2 Roles and Responsibilities

### 2.2.1 METCO Manager

METCO Manager will be responsible for the following operational areas:

- Analysis and underwriting of new loan applications
- Financial and risk oversight of the loan portfolio
- Financial reconciliation
- Coordination across LMG Departments, Committees & the Board, and external partners
- Development and optimization of procedures and workflows
- Reporting & Compliance

### 2.2.2 METCO Loan Coordinator

METCO Loan Coordinator(s) will be responsible for the following operational areas:

- Borrower account management and loan servicing
- Loan monitoring
- Preparation and presentation of loan subordination/modification requests
- Payoff monitoring & collateral release
- Delinquency, bad debt & collections management
- Such other duties as assigned by METCO Manager, including but not limited to assistance with new loan applications and records clean up and reconciliation

## 3.0 Lending Policies & Procedures

### 3.1 Underwriting Policies, Standards & Procedures

**Additional requirements for underwriting EDA RLF CARES Gap loans are outlined in the EDA RLF Plan.**

Loan underwriting conducted by METCO staff will follow the process and steps outlined below.

#### 3.1.1 Pre-Screen

METCO receives new loan inquiries through the Small Business Loans Inquiry form on the Louisville Economic Development Alliance (LEDA) website, which also serves as the METCO Pre-Screen tool. METCO also receives inquiries through referrals from existing clients, banks and other resource partner organizations.

Each inquiry will be followed by a scheduled call/meeting to determine circumstances of the inquiry, basic METCO eligibility, initial program fit, and initial loan readiness.

METCO refers businesses that do not pass the pre-screen to the Small Business Development team of LEDA for follow up and assistance.

#### 3.1.2 Initial Application Review

Clients that pass the pre-screen will receive a METCO Loan Application form with a list of required documents to support the application.

Whether an applicant is a start-up, or an existing business (open for more than 1 year) will determine what documents will be required for underwriting. Below is the list of documents required to consider an application complete:

- Completed METCO Loan Application
- Sources and Uses of Funds Schedule

- Schedule of Company Debt
- Schedule of Collateral
- Personal Financial Statement for each individual who will serve as a personal guarantor on the loan
- 2 most recent years of Personal Tax Returns for each individual who will serve as a personal guarantor on the loan (if available)
- Business Plan (for start-ups only)
- Financial Projections (for start-ups only)
- 2 most recent years of Business Tax Returns, Profit & Loss Statements and Balance Sheets (if applicable and available)
- Evidence demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed (if applicable)

Such evidence may include a loan denial letter or an e-mail/letter from the partnering financial institution participating in the project stating that they are unable to fully finance the project and that METCO's participation is necessary.

- Any other reasonable and relevant information requested by the METCO Manager

**For real estate or construction projects**, additional documentation will be required and will include, as applicable and available: construction budget & site plan, lease/purchase agreement, rent roll, appraisal, building permits & environmental reports, property insurance policy.

**For Gap loans funded with the EDA CARES RLF grant**, METCO will request evidence demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. Such evidence may include a loan denial letter or an e-mail/letter from the partner financial institution participating in the project that states that they are unable to fully finance the borrower's needs and ask that METCO participates.

**For federally funded real estate or construction projects**, METCO will follow the procedures for compliance with the relevant federal regulations as set forth in the document specific to the federal grant fund used for the project.

For businesses that have multiple owners, an operating agreement may also be requested.

An application may be determined to be ineligible prior to being presented to the METCO Board for approval. METCO strives to work with all eligible applicants and provide business owners with referrals to other resources when the METCO program is not a good fit.

The completed application and all initially requested documents must be received by METCO no later than 4 weeks before the scheduled Board meeting. Applications that are submitted past this deadline may be postponed until the next Board meeting.

Once all the required documents and the completed application are submitted, METCO Manager and/or his or her designee will review the package for completeness. If the package is deemed complete, METCO staff may begin the review and analysis process.

### 3.1.3 Financial, Credit, and Risk Analysis of the Business and the Guarantors

Underwriting may commence once METCO Manager (or METCO staff designated by the Manager) determines that a submitted application is complete and METCO eligibility continues to be met based on the information provided.

The credit and financial analysis will be conducted by METCO staff who has experience in credit and financial analysis.

For each loan and each guarantor, METCO will obtain and examine personal credit report, personal financial statements, and personal tax returns.

For start-ups, METCO will analyze the business plan, financial projections, owner experience, and collateral.

For existing businesses, METCO will (at a minimum) analyze business creditworthiness, financial history, current financial situation, and collateral.

For each eligible application, METCO will record the entire analysis process in the file named [Applicant's Name - Financial Analysis].

METCO will continue to assess the application's basic eligibility and qualification required for METCO lending throughout the underwriting process as application information is analyzed.

Throughout underwriting, METCO will contact the applicant with questions, requests for clarification, and/or requests for additional information and/or documentation.

### 3.1.4 Loan Summary

METCO will prepare a Loan Summary for submission to the METCO Loan Committee and the METCO Board.

The Loan Summary will include:

- project address
- loan type and proposed terms
- overview of the business and the project
- breakdown of total project costs by financing/funding source
- summary of business financials, including debt service coverage ratio and financial projections (for start-ups only)
- personal financial information of proposed personal guarantors, including Adjusted Gross Income, debt-to-income ratio, net worth, and credit score
- summary of proposed collateral, including loan-to-value ratio
- environmental issues (if applicable)

Prior to submission to the METCO Board, METCO Manager and/or his or her designee will review the financial analysis and Loan Summary for completeness.

The METCO Board meets monthly to review loan requests. METCO will send a meeting agenda to the METCO Loan Committee and the METCO Board for the upcoming meetings prior to the scheduled meeting. The Agenda will include a list of items to be discussed at the meeting, along with Loan Summaries of each application.

Prior to the Board meeting, the Loan Committee will meet in closed session and review all financial documents and Loan Summary of each new application. The financial documents and Loan Summary will be sent to the Loan Committee via a secure link. The Loan Committee will make a recommendation to the METCO Board whether to approve, decline, or table a loan application. A Committee's recommendation to approve may also include contingencies and/or requests for additional information prior to the full Board meeting. A quorum (51% or more of member present) is required in order to provide a valid recommendation by the Committee.

Loan applications are then presented to the METCO Board and include the Loan Committee recommendation. The METCO Board will conduct business only if a quorum is present (51% or more of members present). The Chair of the Board will preside at the meeting, or in his/her absence, the Vice Chairman. Applicants will not make presentations to the Board unless permitted by the Board Chair. The Board will vote on each loan on the agenda and by majority vote of the members present: approve the loan with conditions, table the loan until a future meeting, or deny the loan.

Detailed minutes of each Board meeting will be kept in an electronic file and posted on the LEDA website.

### 3.1.5 Post Approval Process

Upon approval of the application, METCO will perform the following steps for each approved application:

- METCO will record the Board's decision on each loan application;
- METCO will notify each applicant of the decision of the METCO Board regarding their loan application;
- METCO will issue the Commitment Letter, Borrowing Resolution and W-9;

*In order for the loan to move forward, all documents are required to be signed and returned by the applicant within 30 days of the date of the issuance of the Commitment Letter.*

- Once the Commitment Letter, the Borrowing Resolution, and W-9 have been signed and returned, METCO will order title work and necessary appraisals (if applicable);
- Upon receipt of the title work and appraisals (if applicable), METCO will review the title work and appraisal to determine if any additional conditions need to be addressed before closing;
- Once all the conditions are met, METCO will prepare Request for Closing for the JCAO to prepare closing documents;
- JCAO will prepare closing documents and, once complete, send to METCO for review;

*To ensure that RLF funds are used as intended, each loan agreement will clearly state the purpose of each loan.*

*Closing documents include but are not limited to:*

- ✓ *Loan Agreement*
- ✓ *Promissory Note*
- ✓ *Security Agreement (as applicable)*
- ✓ *Deed of Trust or mortgage (as applicable)*
- ✓ *Agreement of prior lien holder (as applicable)*
- ✓ *Guarantees*
- ✓ *Copy of private lender loan agreement (as applicable)*
- ✓ *ACH Autodraft Authorization*
- ✓ *E-statements Authorization*

- METCO will review the closing documents and coordinate with JCAO and the applicant to schedule the closing date;
- For new loan customers, METCO will send the completed W-9 form to General Accounting for new customer setup;
- METCO will set up every closed loan account in the loan management system;
- METCO will request General Accounting to prepare the disbursement of the loan proceeds;

Disbursement of the loans will vary with the type of loan approved and will protect RLF assets. Following are general guidelines for each type of loan, assuming all other documentation requirements have been fulfilled:

- Fixed Asset Purchase Money:** Proceeds directly payable to borrower or vendor upon receipt of invoice
  - Fixed Asset Non-Purchase Money:** Proceeds payable to borrower
  - Real Estate Purchase Money:** Proceeds directly payable to seller at closing
  - Real Estate Non-Purchase Money:** Proceeds payable to borrower
  - Real Estate Construction Money:** Proceeds payable to borrower or contractors/subcontractors as work is completed and inspected with appropriate lien waivers provided
  - Working Capital:** Proceeds payable to borrower or accounts payable vendors, depending on loan agreement language
- METCO will deposit all the loan fees to the same fund source that is used to disburse the associated loan funds, either by submitting a Fee Deposit Form to Cash Management or by applying the payment online through the loan system;
  - METCO and all required parties, including but not limited to the borrower, all the guarantors, and a closing attorney, will attend the loan closing appointment and provide the loan proceeds to the client upon receipt of the executed closing documents;

### 3.1.6 Post-Closing Process

Promptly upon closing, METCO will perform the following steps:

- METCO will create electronic copies of all the closing documents and record them in the manner set forth in the METCO Recordkeeping Policies;

- METCO will send “Welcome New Client” e-mail with copies of the documents from closing;
- Promptly upon closing, the County Attorney will record all mortgages, liens, and/or other recordable documents signed at closing;
- METCO will prepare weekly New Loan Activity report for General Accounting and submit by the end of the week in which closing occurred in order for loan balances to be assigned in the loan system;
- METCO will set up new client’s payments schedule in the loan system and in the online payment processing system (if Automatic Transfer Authorization form is signed by the client);
- METCO will coordinate payments to vendors used in the loan process;
- METCO will coordinate with the borrower and insurance companies to get METCO set up as a loss payee;
- METCO will record all closed loans;

Each closed loan file will at a minimum include:

- ✓ Loan Application
- ✓ Board of Directors’ meeting minutes approving the RLF loan
- ✓ Loan Agreement
- ✓ Promissory Note
- ✓ Security Agreement (as applicable)
- ✓ Deed of Trust or mortgage (as applicable)
- ✓ Agreement of prior lien holder (as applicable)
- ✓ Guarantees
- ✓ Copy of private lender loan agreement (as applicable)
- ✓ Financial statements
- ✓ Financial Analysis model
- ✓ Evidence demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed (signed bank turn-down letter or an e-mail/letter from a partner bank requesting METCO’s participation) (as applicable)
- ✓ Statement documenting why an Environmental Review was not required or a completed Environmental Review (as applicable)

### 3.1.7 Underwriting Standards

METCO will determine the project’s eligibility for a METCO loan based on the underwriting criteria that include but are not limited to:

- Project’s alignment with the METCO Mission
- Project’s Job Creation
- Loan-to-value ratio (see Collateral Requirements in the Handbook of Policies & Procedures)
- Business Debt Service Coverage Ratio
- Cash flow projections
- Personal Debt to Income of Guarantors
- Credit Score of Guarantors
- Proposed project’s viability
- Economic impact

## 3.2 Loan Funds

METCO operates six loan funds. Three of these funds are each used to capitalize multiple loan products; the remaining three funds are each restricted to capitalizing a single loan product per federal grant requirements. All principal and interest paid for a loan is paid into the Loan Fund where the loan originated.

### 3.2.1 METCO Equity Fund

The METCO Equity Fund is used to capitalize the following loan products: Business Accelerator, and Small & Disadvantaged Gap.

### 3.2.2 Commercial Property Improvement Fund

The Commercial Property Improvement Fund is used to capitalize the following loan products: Accessibility, Commercial Renovation, and Façade.

### 3.2.3 METCO Legacy Fund

The METCO Legacy Fund is used to capitalize the following loan products: Agribusiness, Midi, and Short-Term Contractor.

### 3.2.4 EDA RLF CARES Gap Loan Fund

The EDA RLF CARES Gap Loan Fund was capitalized in 2020 by a CARES EDA RLF grant. This Fund is restricted to capitalizing Gap Loans and operates in compliance with all EDA Revolving Loan Fund Standard Terms and Conditions, including:

- **Administrative and cost principles** in 2 CFR part 200 (“Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”);
- **Schedule of Expenditures of Federal Awards** (“SEFA”) required Audit requirements set out as subpart F to 2 CFR part 200; and
- **Compliance Supplement**, (appendix XI to 2 CFR part 200) as appropriate.

EDA RLF CARES Revolving Loan Fund Plan outlines the policies and procedures for managing the Gap loans funded by the EDA RLF CARES grant and can be found as an attachment to this Handbook.

### 3.2.5 EPA Brownfields Cleanup Fund

The EPA Brownfields Cleanup Fund was capitalized in 2009 and again in 2023 by an EPA Brownfields grant. This Fund is restricted to capitalizing Brownfields Cleanup loans in compliance with the current workplan approved by the EPA. All interest and repaid principal is considered Program Income, and may also be used to directly finance assessments of Brownfields sites, as well as cleanup of Brownfields sites owned and/or controlled by Louisville Metro Government. The Brownfields Administrator works with the applicants to get their project approved by the EPA and METCO does the financial underwriting and brings the loan request to the METCO Board for approval. Once approved the loan is handled just like any other loan. It is the responsibility of the Brownfields Administrator to ensure the work is completed according to EPA standards.

### 3.2.6 DOE Go Green Loan Fund

The DOE Go Green Loan Fund was capitalized in 2009 by a DOE EECBG grant. This Fund is restricted to capitalizing Go Green Loans that meet one or more of the purposes of the Go Green Loan program. Those purposes are creating jobs that promote energy efficiency or sustainability and improving the energy efficiency of a building. Examples include the installation of solar panels, energy efficient HVAC, lighting, plumbing, or insulation.

METCO Does not operate a Loan Loss Reserve Fund.

## 3.3 Loan Programs

### 3.3.1 EDA RLF Gap Loan

METCO will make business loans to provide financing to businesses that have a “gap” in the capital needed for their project. This gap may be created due to being unable to receive the capital from another lending institution, or by receiving insufficient capital from another institution.

The minimum loan amount is \$15,000 and the maximum loan amount is \$500,000. The loan amount may not exceed 50% of the total project and for every \$50,000 loaned, 1 job should be created. The current interest rate is 5.00%. The interest rate will be regularly reviewed and adjusted as needed based on the Wall Street Journal prime rate. The interest rate cannot be less than the lesser of Prime – 4 and 75% of Prime, with a maximum of 10%.

The loan term is determined by the Board of Directors that will consider such factors as Debt Service Coverage ratio, terms that a participating bank utilizes for the project, and risk to the RLF. The repayment term cannot exceed 20 years. Standard terms will include up to 10 years for working capital, 5 to 10 years for furniture, fixtures, and equipment, and 10 to 20 years for real estate projects.

An interest-only period of up to 12 months may be considered that automatically converts to principal and interest payments after the interest-only period. Consideration as to an interest-only period must be approved by the METCO Board.

Loans may be amortized in some cases, if necessary to keep the debt service payment low and preserve cash for the business operations.

EDA RLF CARES Revolving Loan Fund Plan outlines the policies and procedures for managing the Gap loans funded by the EDA RLF CARES grant and can be found as an attachment to this Handbook.

### 3.3.2 Small and Disadvantaged Gap Loan

METCO will make business Gap loans to minority- and/or female-owned businesses for the purpose of promoting the growth and development of minority and female businesses. The loan terms are the same as the EDA RLF Gap Loan, with the interest rate and other loan terms being more flexible and subject to case-by-case approval of the Board.

### 3.3.3 Midi Loan

In order to promote and encourage small business startups, METCO will make direct loans to finance, in its entirety, the startup of a business, or for expanding an existing business. Loan proceeds may be used for internal renovation, equipment, furniture, fixtures, inventory purchases or working capital. METCO will lend a maximum of 100% of the total project's cost, based on submitted invoices and/or estimates. The minimum loan amount is \$15,000 with a maximum of \$500,000 per project and a term is determined by the METCO Board of Directors and may not to exceed twenty (20) years. The interest rate will be fixed and will be based on the term of the loan and the risk of the project as perceived by the Board, but will not be lower than a rate of 5% per annum.

### 3.3.4 Business Accelerator

For small businesses in low to moderate income neighborhoods without access to collateral or commercial lending. For businesses open less than 1 year, loans are \$15,000 - \$30,000. Businesses open more than 1 year may apply for up to \$50,000. Loans are repayable over a maximum of 7 years at an interest rate of 8%.

In addition to the usual METCO Loan requirements, applicants must supply a denial letter from a banking institution, and complete six (6) hours of prerequisite courses prior to receiving the loan funds.

### 3.3.5 Modified Business Accelerator

The Modified Business Accelerator will be available to participants in small business education or incubator programs that are willing to participate with 50% cash collateral support for a minimum of the first half of the term of the loan. In exchange for the 50% collateral support, the regular interest rate of 8% will be lowered to 5%. In addition, the 6 hours of

required online training will be waived if the training program provided by the organization is equivalent to the 6 hours. All other qualifiers for the Business Accelerator loan will remain the same.

*Approved September 2021*

### 3.3.6 Short-Term Contractor Loan

METCO will make business loans to finance working capital necessary to complete contracts and/or sub-contracts related to commercial and/or residential property development, construction, renovation, repair or maintenance projects. Loan proceeds may be used for project materials, project labor, and/or expenses associated with eligibility for contracts, including but not limited to bonding, insurance, and equipment.

**Purpose:** To provide working capital for a contractor or sub-contractor who otherwise would not have access to the capital needed to pay for the upfront costs of executing a new contract.

**Goal:** To enable small contractors that do not have sufficient working capital, including but not limited to bank credit, better access to contracts while assisting them to build business credit and allowing them to grow their business through future contracts.

**Eligibility:** An eligible applicant must be an approved vendor of Louisville Metro Government's Home Repair Program or of Louisville Affordable Housing Trust Fund's REVERT program and verify that they do not have access to sufficient working capital.

**Product Details:** A loan may be approved prior to receipt of a Home Repair Program contract. However, the loan may not be closed until the approved borrower has secured a contract from the Home Repair Program.

The minimum loan amount is \$5,000 with a maximum loan of 150% of the total contract value, not to exceed \$75,000. The interest rate will be fixed at a rate of 0% per annum with a term not to exceed (2) two years.

METCO will disburse the loan in two or more disbursements. A disbursement fee of 2% of each disbursement amount will be due with each disbursement. The first disbursement at loan closing will be no more than 50% of the contract value, based on reasonable project and business expenses. Additional funds of no more than 25% of the contract value may be disbursed as needed to complete the contract, pending reasonable explanation and documentation. Upon approved inspection of the contract work and receipt of a new (2nd) contract, additional loan funds of no more than 50% of the new (2nd) contract value will be disbursed. Additional funds of no more than 25% of the new (2nd) contract value may be disbursed as needed to complete the contract, pending reasonable explanation and documentation. Upon approved inspection of the contract work and receipt of a new (3rd) contract, any remaining loan funds of no more than 50% of the new contract value will be disbursed.

All principal disbursed will be due immediately upon payment of each completed contract.

**Collateral:** METCO will take an assignment on the payment of each Home Repair Program contract. This loan does not require a personal guarantee.

The Short-Term Contractor Loan will have a one-time origination fee of 5% of the total loan amount for a maximum of \$3,750 due at loan closing.

*Approved May 2023, Updated Approval May 2024*

### 3.3.7 Façade Loan

METCO will make loans for the exterior property improvements of commercial or mixed-use properties along commercial corridors with the objective of revitalizing those areas and improving the physical appearance of Louisville Metro. Loans will be for physical improvements to the exterior of existing structures, including, but not limited to: façade improvements, signage, parking, landscaping, streetscaping, dumpster screening, consolidation of vehicular entrances pursuant to an ongoing Louisville Metro approved commercial corridor improvement program, or other purposes consistent with the objectives of the Façade Loan Program. The minimum loan amount is \$15,000 with a maximum of \$500,000. The interest rate will be 3% fixed with a repayment term that is determined by the METCO Board of Directors and does not exceed twenty (20) years. An interest-only period during renovations is available with Board approval.

### 3.3.8 Accessibility Loan Program

METCO will make business loans to commercial property owners with the objective of making commercial buildings more accessible to persons with physical disabilities. Use of funds is restricted to improvements relating to accessibility, including, but not limited to: accessible paths of travel, doors, handrails, threshold adjustments, and alterations to bathrooms. The minimum loan amount is \$15,000 with a maximum of \$500,000. The interest rate will be 3% fixed with a loan term that is determined by the Board of Directors and does not exceed twenty (20) years.

### 3.3.9 Commercial Renovation Loan

METCO will make loans for the renovation of commercial properties that are in a state of disrepair or are otherwise unsuitable for the operation of a business, or for a commercial lease. The loan will be collateralized by a mortgage on the improved property, but other collateral may be used in place of or as an addition to the improved property as approved by the METCO Board. The minimum loan size is \$15,000 and the maximum is \$500,000. These loans are offered at a 3% interest rate with a loan term that is determined by the Board of Directors and does not exceed twenty (20) years.

### 3.3.10 Go Green Loan

Originally funded by the U.S. Department of Energy, this program provides loans to businesses creating new green products, green jobs, or by improving energy efficiency of a commercial or mixed-use property. METCO's maximum participation will vary and may equal 100% of the project's cost but may not be lower than \$15,000 and may not exceed \$500,000. The loan amount is based upon the project. The loan will have a fixed interest rate of 3%. The loan term will be determined by the Board of Directors and may not exceed twenty (20) years.

### 3.3.11 Agribusiness Loan

This program provides loans in partnership with the Kentucky Agriculture Finance Corporation (KAFC) that meet the eligibility of any of KAFC's five loan products:

- Agricultural Processing Loan Program (APLP);
- Beginning Farmer Loan Program (BFLP);
- Agriculture Infrastructure Loan Program (AILP);
- Diversification through Entrepreneurship in Agribusiness Loan Program (DEAL); and
- Large Animal Veterinary Loan Program (VET).

A METCO Agribusiness loan applications would need to fit within the eligibility guidelines of a KAFC loan program. An eligible business must be located in Jefferson County. METCO would abide by the current guidelines for each of the respective KAFC loan programs, including eligible maximum (up to 50% of project cost) and collateral requirements. All other project financing must be secured prior to closing. Each Agribusiness Loan must be approved by both the METCO Board and the KAFC Board.

Loans are \$15,000 to \$500,000, repayment over no more than 20 years, as determined by the METCO Board of Directors, at an interest rate determined by KAFC (2.75% as of August 2023).

During the term of the loan, the applicant will be required to meet a set goal of purchasing a certain percentage of the products used in the business from Kentucky farmers. Applicant will be required to report percentage of edible products purchased from Kentucky farmers annually to METCO. If the applicant fails to meet the Kentucky Products Requirement in any year, the interest rate on the unpaid balance of the loan may be increased by METCO to a rate up to 10% per annum.

Loans are funded jointly by METCO and the Kentucky Agricultural Finance Corporation ("KAFC"). Approval by the METCO Board will be conditional upon approval by the KAFC and the closing will not occur until the KAFC approval is obtained. An applicant may be required by KAFC to present additional information or documentation.

A pre-application meeting between the applicant, METCO and KAFC would be held to discuss the applicant business and fit to KAFC loan. An Agribusiness Loan would be presented to the METCO Board first, and METCO approval would be contingent upon KAFC approval. METCO would submit an application to KAFC and present the loan at its Board meeting. Upon approval and loan closing, METCO would sign a participation agreement with KAFC.

*Revised and Approved September 2022*

### 3.3.12 EPA Brownfield Cleanup Loan

This program is funded by a grant from the U.S. Environmental Protection Agency. The program will adhere to its Work Plan as submitted and approved by the EPA. Funding authorized under this program includes:

1. Loans to for-profit businesses and non-profit organizations;
2. Program Income allocations to Louisville Metro Government for assessment and/or remediation of directly controlled sites.

All funding requests must provide a detailed project description, cleanup budget, and rationale for post-cleanup property use. Program capital will provide the funding necessary to make the project feasible. The threat of contamination, whether perceived or real, stifles redevelopment. Redevelopment of brownfield sites helps to reverse the negative perceptions of an area, stimulate employment opportunities, and increase property values and local revenues.

This program provides below-market rate loans to assist with the cleanup of brownfield properties in order to return them to productive use. Loans to for-profit entities under this program will have an interest rate of no less than 1% interest and a term of no more than twenty (20) years. The rate will be determined by the METCO Board on the basis of demonstrated need of the business and the amount and nature of the public benefit to be achieved.

Non-profit organizations may qualify for 0% interest rate and forgiveness of up to 50% of loan amount.

The loan program targets older industrial sites.

*Revised and Approved November 2023 and December 2024.*

### 3.3.13 Sharia-Compliant Loan Modification

A METCO applicant may select the Sharia-Compliant Modification for any Small & Disadvantaged Gap Loan, Midi Loan, or Business Accelerator Loan application. No Sharia-Compliant Modification will be done with the EDA RLF fund. The loan will be adjusted to 0% interest, and the Loan Origination Fee, Loan Service Fee, and Monthly Loan Payment will be applied to the loan as indicated on the METCO Sharia-Compliant Modification Fee Schedule. If the loan amount is less than the maximum amount listed in the fee schedule, the Monthly Loan Payment amount may be adjusted by amortizing the total of the Principal and Loan Service Fee over the term of the loan. The Service Fee will be divided by the total months of the loan term and applied as a monthly fee. In the event of an early payoff, the remainder of the Service Fee will be waived. A METCO loan with a Sharia-Compliant Modification will not be eligible to have an interest-only period added to their repayment period.

All legal agreements prepared for a METCO Sharia-Compliant Modified Loan will first be reviewed by a Sharia Law expert identified by the Metro Office for Immigrant Affairs.

## 3.4 Eligibility

To be eligible for a METCO loan, a business must be:

- Located in Jefferson County, Kentucky
- A for-profit corporation, limited liability company, sole proprietor, partnership, cooperative, or non-profit organization
- Registered and in active and good standing with the Kentucky Secretary of State and Louisville Metro Revenue Commission
- In possession of a valid Federal EIN

Except for the Gap Loan, an exception may be made for a business located outside of Jefferson County, KY if the majority of its business occurs within the county and all other eligibility requirements are met.

Non-profit organizations can qualify only for the EPA Brownfields Cleanup loan program.

All METCO borrowers are responsible to secure all permits and licenses required by local, state, and federal governments to operate their business and/or complete their project prior to receiving a METCO loan.

### 3.4.1 Eligible Uses of Funds

The eligible use of a METCO Loan is determined by its individual loan product type. Some, but not all, METCO loan types may be used for the following expenses:

- a. Purchase of machinery, equipment, and/or fixtures, including costs of delivery, installation and related expenses
- b. Purchase of inventory and related expenses
- c. Working capital
- d. Building renovations and property buildout
- e. Leasehold improvements
- f. Construction
- g. Building/Land purchase

### 3.4.2 Ineligible Business Activities and/or Uses of Funds

The following businesses or business activities are ineligible for a METCO loan:

- a. Liquor, vape or CBD retail stores
- b. Adult entertainment venues and/or retail stores
- c. Performances or products of a prurient sexual nature
- d. Gambling or finance gambling activity
- e. Gun shops
- f. Businesses engaged in activities that are illegal at the local, state, or federal level.
- g. Pawn shops
- h. Bingo halls
- i. Flea markets
- j. Any establishment requiring an adult entertainment license to be used by Metro.
- k. THIS IS NOT AN EXHAUSTIVE LIST.

The following are ineligible uses of METCO loan funds:

- a. Unpaid taxes or liens
- b. Acquisition of a business or an equity interest in a business without sufficient justification being provided. 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 METCO.
- c. Subsidizing interest payments for an existing METCO loan.
- d. For the purpose of meeting the requirements of equity contributions under another Federal Agency's loan program.
- e. Investing in interest-bearing accounts, certificates of deposit, or any investment unrelated to METCO;
- f. In general, METCO funds may not be used to refinance existing debt unless loan documentation demonstrates a "sound economic justification" for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activities). Reducing risk of loss to an existing lender or lowering the borrower's cost of borrowing will not, in the absence of other factors, constitute a "sound economic justification."
- g. Finance gambling activity, performances or products of a prurient sexual nature, or any illegal activity, including the cultivation, distribution, or sale of marijuana that is illegal under Federal law. METCO loans may not be used

to induce the relocation of existing jobs within the U.S. that are located outside of Recipient's jurisdiction to within its jurisdiction in competition with other U.S. jurisdictions for those same jobs.

- h. No loan will be made to an applicant who is in bad standing with METCO, Louisville Metro Government, Louisville Metro Revenue Commission, or Commonwealth of Kentucky Secretary of State. A business or individual named as an owner, officer or guarantor is in bad standing if they are not current on all active loans, have not repaid in full all prior loans, have not met compliance with other Metro programs, have unpaid liens or taxes, and/or are not in good standing with the Kentucky Secretary of State.

### 3.5 Conflicts of Interest

METCO will ensure that no Interested Party is using their position for a purpose that constitutes or presents the appearance of personal or organizational conflicts-of-interest or of personal gain. An "Interested Party" is defined in 13 CFR 300.3 as "any officer, employee or member of the board of directors or other governing board of the Recipient, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of the Recipient, such as agents, advisors, consultant, attorneys, accountants or shareholders."

An Interested Party also includes the Interested Party's "Immediate Family", defined as a person's spouse, parents, grandparents, siblings, children and grandchildren; but does not include 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 organization. In addition, "Immediate Family" includes a person's "Significant Other" or partner in a domestic relationship with an "Interested Party."

METCO will ensure that no Interested Party receives any direct or indirect, financial or personal benefits in connection with the EDA RLF for payment or reimbursement of costs by or to the Village. An Interested Party shall not receive, directly or indirectly, any personal or financial benefits resulting from the disbursement of RLF loans. METCO will not lend RLF funds to an Interested Party. METCO will ensure that former board members of METCO and members of his or her immediate family shall not receive a loan from the RLF for a period of 2 years from the date that the board member last served on the RLF Board.

No member of the governing body of METCO and no other officer, employee, or agent of METCO who exercises any functions or responsibilities in connection with the planning and carrying out of the RLF program, shall have any personal financial interest, direct or indirect, in any loan agreement or financing contract; and the borrowers shall take appropriate steps to assure compliance.

To prevent conflicts of interest between METCO and the borrower, there are a series of questions on the application to identify potential conflicts of interest. If a conflict of interest exists, the loan request is presented to the Ethics Commission for their review and determination on whether the request is a conflict of interest or would be an ethics violation.

To prevent conflicts of interest and ensure that all Louisville Metro employees, including the METCO staff, have read and follow the LMG Personnel Policy, they are required to sign a document confirming their knowledge and understanding of those policies. All employees are also required to sign a Financial Disclosure annually and an Information Security and Technology Standard Acceptable Use form. When appointed to a Louisville Metro Board or Commission, the new board member receives a welcome packet including a letter explaining Board Accountability and Oversight, a summary of Ethics Code Training, a One-Pager-Internal Audit form, and a Proof of Receipt form, requiring their signature.

### 3.6 Prudent Lending Practices

All METCO lending and servicing practices will adhere to Prudent Lending Practices as defined in 13 CFR §307.8 in its loan processing, documentation, loan approval, collections, servicing, administrative procedures, collateral protection and recovery actions, including but not limited to: generally accepted underwriting and lending practices for public loan programs, based on sound judgment to protect Federal and lender interests. METCO operates in compliance with local laws and filing requirements to perfect and maintain its security interests in RLF collateral.

## 3.7 General METCO Loan Terms

### 3.7.1 Repayment Term

The loan term is determined by the Board of Directors that will consider such factors as Debt Service Coverage ratio, terms that a participating bank utilizes for the project, and risk to the RLF. The repayment term may not exceed 20 years. Standard terms will include up to 10 years for working capital, 5 to 10 years for furniture, fixtures, and equipment, and 10 to 20 years for real estate projects.

An interest-only period of up to 12 months may be considered for start-up businesses or for a construction period that automatically converts to principal and interest payments after the interest-only period. Consideration as to an interest-only period must be approved by the METCO Board.

Loans may be amortized in some cases, if necessary to keep the debt service payment low and preserve cash for the business operations.

### 3.7.2 Amortization

Loan amortization schedules are based on the repayment term and interest rate of the specific loan product. METCO loans will be amortized based on their loan term and interest rate unless there is a reasonable purpose to structure repayment otherwise.

Regardless of the term of the loan, METCO may permit alternative repayment structures of a loan in order to reduce debt service costs in the early years of the project. Such repayment terms may include:

- amortization schedules for longer periods than the loan term (not to exceed 20 years) with a balloon payment upon maturity; or
- interest only repayment with principal payment upon maturity or abeyance of principal repayment for an initial period of the loan term.

### 3.7.3 Interest rates

Interest rates vary METCO loan product and are approved by the METCO Board of Directors. Interest rates for METCO loans are set with the intent of achieving the goals of METCO while adhering to the requirements relevant to specific products as set forth by specific funding sources. From time to time, the Board may revise interest rates by product.

### 3.7.4 Interest-Only Period

A borrower may request an interest-only period at the beginning of the loan as part of the terms of the loan. Interest-only period may not exceed 12 months and is included in the loan term that may not exceed 20 years. All terms of all loans, including all changes to such terms must be approved by the METCO Board.

### 3.7.5 Collateral Requirements

A METCO borrower must provide collateral to offset METCO's lending risk. The **Business Accelerator Loan** does not require collateral and is the only exception to METCO's collateral requirement.

METCO's Board has the right and responsibility to consider all collateral offered by an applicant against the risk of the loan. This consideration is based on review of the application in its entirety, the size of the loan request, the availability of assets to be used as collateral, and the strength of the prospective guarantor(s).

Real Estate – Total liens, including METCO's, should not exceed 90% of the appraised/assessed value or current cost. These loans should have a maximum maturity of 20 years, with a maximum amortization of 20 years.

Equipment (excluding leasehold improvements) – Total liens, including METCO's, should not exceed 80% of the appraised value or cost (acquired during past two years) and not to exceed useful life. These loans should have maturities consistent with the economic life of the asset, usually in the 5-10 year range, but may be longer when appropriate and approved by the Board.

Personal Assets - Marketable securities will not have a loan to value ratio above 75%, Certificates of Deposit and Life Insurance cash values may have an LTV ratio up to a maximum of 100%.

Façade/Accessibility Loan Collateral Allowance – If the borrowing business is a tenant in a building owned by a third-party landlord, the landlord may provide a written agreement stating that they will pledge the property as collateral for the tenant's loan. The landlord will be required to attend the closing and sign the mortgage. Because of the loan limit on the Accessibility Loan, this rarely happens except in the case when a borrower is receiving an Accessibility Loan in conjunction with another loan, such as a Façade Loan.

### 3.7.6 Guarantee Requirements

All METCO loans will be guaranteed by all shareholders or owners owning 20% or more of the business unless special circumstances dictate otherwise. All guarantees will be joint and several.

In the case of cooperative-owned businesses in which no single member has a 20% or more ownership interest, the cooperative will designate multiple members, whose interests together equal 50% or more, to provide a limited (several) personal guarantee. This ownership panel will be submitted to the METCO Board as an addendum to the Loan Summary. The panel may be amended over time, allowing for release of liability if a member leaves the cooperative, so long as the cooperative substitutes the personal guarantee of another member. The cooperative will update the Guaranty on any amendment to the ownership panel, but no amendment to the Loan Agreement will be required.

In the case of non-profit organizations applying for the EPA Brownfields Cleanup loan program, the guaranty requirements will be waived. *Approved December 19<sup>th</sup>, 2024*

### 3.7.7 Board Approved Exceptions

The parameters stated above serve as standard guidelines. The METCO Board reserves the right to override these parameters on a case-by-case basis, except where specific requirements are mandated by individual grant programs, such as the EDA RLF, Go Green, or Agribusiness loan programs. Exceptions to parameters for these programs require prior written approval from the agency that awarded the grant fund, i.e. EDA, DOE, or KDA and the METCO Board approval. The Board Minutes will reflect any exceptions to standard policy.

### 3.7.8 Fees and Penalties

#### Origination Fee

All approved METCO loans will be charged an origination fee of one half of one percent (0.5%) of the amount financed, to be collected at closing, unless otherwise stated.

#### Closing Fees

At closing, borrowers are responsible to pay the Origination Fee and any other applicable fees, which may include: appraisal, title examination, title insurance, and filing fees (mortgage, UCC lien, other lien or assignment).

#### Legal Fees

A borrower or guarantor is responsible to reimburse all legal fees incurred by METCO that result in judgement in METCO's favor and against the borrower or guarantor.

## 4.0 Loan Servicing Policies & Procedures

### 4.1 Loan Servicing

#### 4.1.1 Loan Statements

METCO borrowers can choose to receive their monthly statements by regular mail or email. If they choose to receive an e-mail statement, they will sign an e-statement authorization form, which will be kept on file. Otherwise, a paper statement will be mailed to them on a monthly basis.

## 4.1.2 Loan Payment Handling

Office of Management and Budget is responsible for posting of METCO loan payments and payoffs. Borrowers can either mail their payments to the lockbox, sign up for ACH payments, or make the payment online at <https://louisvilleky.gov/government/management-budget>. It is rare that a payment would be received in the METCO office, but on such an occasion METCO will follow the procedures outlined in the OMB Revenue Control Policy (SOP# TRE-CM-01-GBL-007, 8.3.3).

- Payments received via mail will be opened under dual control.
- Payments will be secured under lock and key until such time that they can be hand delivered to OMB, which should be the same day whenever possible.

## 4.2 Loan Monitoring

The METCO Manager and/or his or her designee will require periodic submission of financial statements and jobs creation/retention data from the borrowers and will perform other periodic review activities as needed and applicable, such as annual insurance renewals, UCC lien extensions, site visits with the borrower 1 year after closing or upon project completion, whichever comes later, (if needed to confirm appropriate use of funds) and as needed thereafter, depending upon the status of the loan; and will schedule additional monitoring activity as appropriate per loan. The METCO Manager and/or his or her designee will ensure that any Federal requirements of the RLF are adhered to.

For the loans made with the EDA RLF CARES funds, the METCO Manager and/or his or her designee will require each borrower to submit a jobs verification form on an annual basis to verify job creation/retention data.

## 4.3 Subordination Guidelines

Subordination requests that will in no way adversely affect the current collateral position of METCO will be submitted by staff to the METCO President for approval.

Subordination requests that will adversely affect the current collateral position of METCO should be reviewed based on the following criteria and must be submitted and approved by the METCO Board of Directors:

- The new Loan-to-Value ratio must still meet METCO standards

The METCO Board retains the right to approve/deny any subordination request regardless of it meeting the above criteria. Factors that will be evaluated in the decision-making process may include but are not limited to the borrower's standing with METCO, payment history, financial/personal situation, and other circumstances of the borrower's account.

## 4.4 Payoff Monitoring and Release procedures

METCO staff will retrieve a report of accounts with low account balances on a monthly basis to notify the client of the final payment due and ensure no overpayments.

When a loan is paid off, METCO will verify the final payment, issue a payoff letter to the borrower, and process release of any collateral held for the loan.

## 4.5 Personal/Business Hardship Modification and Moratoria Policy

METCO loans serve as debt financing for small business and commercial operations that are conducted solely at the risk of the owners and guarantors. While timely repayment of all METCO loans is the responsibility of each respective borrower, METCO recognizes that from time to time, a METCO borrower or guarantor, may experience a personal or business hardship that affects the short-term profitability and/or the long-term viability of their business and their ability to repay their loan in a timely manner.

A hardship is defined as an unexpected situation that results in a significant impact on the financial position of the business including but not limited to the permanent closure of the business.

In the event of a hardship, METCO will make reasonable effort to work with the borrower to help ensure the loan is repaid.

## 4.5.1 Loan Modification and Moratoria Guidelines

The borrower may request a loan modification and/or loan moratorium. A loan modification is defined as a change made to the original terms of the loan agreement, including but not limited to interest rate reduction, loan term extension, and waiving accrued interest. A change in the amortization of the loan is not considered a modification, as long as the maturity date of the loan remains unchanged. All loan modifications and/or moratoria must be approved by the METCO Board.

To request a hardship-based modification and/or moratorium, a borrower must provide documentation that is requested by METCO to help assess the circumstances and severity of the hardship's financial impact, personal assets, and income of the borrower and/or guarantor, the future potential of the borrower and/or guarantor to regain financial capacity to repay the debt, and potential options for modification. The documentation that METCO may request depends on the specific request/loan account and includes but is not limited to:

- Personal Financial Statements
- Profit & Loss statements
- Personal Tax Returns
- Evidence of hardship
- Revised Cash Flow Projections
- Current Debt Structure

Required documents will be requested on a case-by-case basis, depending on the individual hardship situation.

Factors that may be considered and presented for the Board's review in considering a restructuring of a loan include but are not limited to:

- The borrower's payment history
- Current status of the loan
- Cooperation of the borrower
- Purpose of restructure
- Willingness or ability of borrower to pledge additional collateral
- Borrower's ability to repay
- Viability of the business
- Maturity date of loan

After reviewing circumstances of the hardship, METCO Loan Committee will prepare a recommendation to the METCO Board regarding the modification. All loan modifications and/or moratoria must be reviewed by the METCO Loan Committee and approved by the METCO Board.

METCO staff can internally approve up to 2 consecutive months of deferred payments for a loan account, given the borrower provides a reasonable justification (e.g., temporary cash flow shortfall, seasonal fluctuation, etc.).

## 5.0 Collection Policies & Procedures

METCO will maintain its loan portfolio in such a manner as to preclude or mitigate delinquencies and defaults and will pursue all legal remedies available except foreclosure of a guarantor's primary residence to assure full repayment of loans.

When a borrower becomes 30 days past due, they enter the Delinquent status. METCO will contact the delinquent borrower to establish the reason for delinquency and attempt to arrange a plan to resolve the delinquency.

Unless a delinquent client is complying with an existing payment arrangement, METCO will attempt to contact every borrower in the delinquent status on a monthly basis to discuss the circumstances causing the delinquency and to attempt to resolve the delinquency.

When a borrower becomes 90 days past due, they enter the In Default status. If the borrower in default does not have an agreed-upon repayment arrangement in place and/or is unresponsive to METCO's communications, METCO will work

with JCAO to initiate legal action. Legal action will be taken with JCAO's discretion and generally include sending a demand letter, negotiating settlements and obtaining judgement to seize assets and garnish wages when necessary and appropriate.

When all sources of repayment have been exhausted and the loan is deemed uncollectible, METCO will move the account to Bad Debt category and seek JCAO's recommendation regarding next steps. If JCAO recommends the loan for a write-off, METCO will present the loan to the Board to approve the write-off. METCO will only write off a loan when all assets securing the loan have been sold, foreclosed upon, repossessed, or determined to have no value.

A write-off of a METCO Loan with a balance of \$1,000 or less may be approved by the METCO President; any write-off of a loan with a balance over \$1,000 must be approved by the METCO Board.

When METCO receives proceeds on a defaulted or written off RLF loan that is not subject to liquidation pursuant to §307.21, such proceeds will be applied in the following order of priority:

- a. First towards any costs of collection
- b. Second, towards outstanding penalties and fees
- c. Third, towards any accrued interest to the extent due and payable; and
- d. Fourth towards any outstanding principal balance.

The status of and updates on the delinquent loans is reported to the METCO Board monthly.

## 5.1 Settlement Policy

With regards to chronically delinquent accounts or accounts in legal status, a borrower or guarantor seeking to settle a delinquent or bad debt loan for any reduced amount must provide:

- A written settlement offer;
- Current personal financial statement disclosing all personal and business assets; and
- The most recent personal tax return.

A settlement offer of 90% or more of the principal balance may be approved and accepted by the METCO President.

The Board will review all settlement offers for amounts less than 90% of the total principal balance. The board may approve, decline, or decline and counteroffer. The factors the Board will consider when reviewing a settlement offer include but are not limited to:

- Borrower's social and economic context;
- The original amount, principal balance, age, and payment history of the loan;
- The security provided for the loan;
- The personal assets and household income of the borrower and/or guarantor;
- The future potential of the borrower and/or guarantor to regain financial capacity to repay the debt;
- The circumstances regarding the closing of the business; and
- The Board's decision record of previous settlements;
- Community Impact

Following an approved settlement and an executed settlement agreement, all legal action against a borrower or guarantor will be halted. All remaining liens associated with a settled loan will be released. The borrower or guarantor is responsible for any filing fees required to release liens. A reduction of principal resulting from a settlement will be processed as a write-off. A borrower or guarantor associated with a settled loan will be ineligible for any future METCO loans unless the principal of a settled loan is first repaid in full.

## 6.0 Recordkeeping Policies & Procedures

### 6.1 Closed Loan Files and Related Documents

Per the Local Agency Records Retention Schedule of Louisville/Jefferson County Metro Government, Series L6703 (Loan File), METCO is required to retain loan files - including but not limited to: application, applicant's financial documents (tax, income, assets, etc.), payment documents, related documents and information - for a minimum of three (3) years after the loan has been paid, after which time the file may be destroyed. Access restrictions adhere to state regulation KRS 61.878 (1) (a).

METCO will maintain Closed Loan files and all related documents, books for account, computer data files and other records over the term of the Closed Loan and for a three-year period from the date of final disposition of such Closed Loan. The date of final disposition of a Closed Loan is the date:

- Principal, interest, fees, penalties and all other costs associated with the Closed Loan have been paid in full; or
- Final settlement or discharge and cessation of collection efforts of any unpaid amounts associated with the Closed Loan have occurred.

Each closed loan file will at a minimum include:

- Loan Application
- Loan Summary
- Board of Directors' meeting minutes approving the RLF loan
- Loan Agreement
- Promissory Note
- Security Agreement
- Deed of Trust or mortgage (as applicable)
- Agreement of prior lien holder (as applicable)
- Guarantees
- Financial statements
- Financial Analysis model
- Evidence demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed (e.g., signed bank turn-down letter or an e-mail/letter from a partner lender)
- Statement documenting why an Environmental Review was not required or a completed Environmental Review

Records for active applications will be kept in an electronic file entitled New Applications. Records of incomplete applications will be kept for a minimum of 6 months after last date of contact.

An electronic file will be created for each METCO loan made. The electronic file name will be the name of the borrower and the loan number. If more than one loan is made, all loan numbers will be listed in the file name.

METCO will scan and keep electronic copies of all documents received from the borrower during the application process.

Records of each Board approved, but unclosed loan will be kept for two (2) years after date of approval.

Records of each tabled loan application will be kept for two years after being tabled with no further action.

After closing, two physical folders will be created with the name of the borrower and loan number. The first folder will be kept in the safe and contain the signed note and personal guaranty/ies. The second folder will be kept in a locked file cabinet and contain all other closing documents.

## 7.0 Reporting & Compliance Policies & Procedures

METCO performs reporting as required for compliance with all federal, state, and/or private grant funding of which METCO is a recipient. METCO's current reporting requirements are as outlined below.

## 7.1 EDA RLF Reporting

METCO is a recipient of the EDA RLF CARES award and will comply with all the ongoing reporting requirements that consist of the following:

- (1) Revolving Loan Fund Financial Report (From ED-209), which includes a cumulative list of all RLF loans from inception, submitted in the RLF Portal on an annual or semi-annual basis as determined by EDA based on the Risk Rating
- (2) Annual Outcomes Questionnaire / Program Performance Measures (ED-917) according to METCO's FY for 5 years from the start of the grant award
- (3) Annual Single or Program-Specific audit
  - In accordance with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR § 200.501), a non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with §200.514 Scope of Audit except when it elects to have a program-specific audit.
  - Non-Federal entities that do not expend \$750,000 in Federal awards for the fiscal year may submit an organization-wide independent audit to EDA. If EDA determines that the organization-wide audit is not an adequate to meet the RLF program's audit requirement, a program-specific will be required.
- (4) METCO will update the RLF Plan a minimum of every 5 years or sooner if changing economic conditions warrant.

As part of the ongoing reporting requirements, METCO certifies that at all times:

- a. METCO's accounting system is adequate to identify, safeguard, and account for the entire RLF Capital Base, outstanding RLF loans, and other RLF operations;
- b. Standard RLF loan documents reasonably necessary or advisable for lending are in place, and
- c. Fidelity bond coverage in the minimum size of the maximum loan amount is in place

In addition, EDA will evaluate and manage RLF recipients using a Risk Analysis System (13 CFR §307.16) 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 will be conducted at least annually and will be based on the most recently submitted Form ED-209 RLF report.

## 7.2 Department of Energy Reporting

METCO is a recipient of the Department of Energy EECSDBG award and will comply with all the ongoing reporting requirements that consist of the following:

- Annual Financial Report
- Annual Historic Preservation Report

## 7.3 Credit Reporting

METCO is currently not reporting to any credit reporting agency. This may change in the future and if so, the credit reporting policy will be submitted to the EDA and the METCO Board for approval.

## 7.4 KY SoS Reporting

METCO report to KY SoS on a quarterly basis. Reporting is done through the METCO President.

## 7.5 KAFC Intercreditor Agreement

METCO is part of an intercreditor agreement with KAFC for its Agribusiness loans. Every Agribusiness loan has to be reviewed by both METCO and KAFC and approved by both Boards. Once approved, METCO is responsible for closing the loan and having the borrower sign both METCO closing documents and the KAFC Certificate of Participation, which is

then sent to KAFC. Upon receiving repayments and interest payments from the borrower, METCO is responsible for remitting pro rata share of the repayments and interest payments to KAFC based on the schedule agreed upon by METCO and KAFC.