



WHEDA

**Wisconsin Housing and Economic Development
Authority**

Business Loan Guarantee

Manual



WHEDA

Notice.....	3
Introduction.....	4
Guarantee Procedures	7
Credit Criteria	11
Quick Reference to Credit Guidelines	14
Servicing	15
Small Business and Transform Milwaukee Guarantees	20
Propane Guarantee	23
Agribusiness Guarantee	26
Neighborhood Business Revitalization Guarantee	28
Contractors Loan Guarantee	37
Product Summary Guide	39
Revision History	41



WHEDA

Notice

WHEDA will operate the products described in this Manual in accordance with the Manual, the Master Guarantee Agreement, Loan Authorization, and other documents associated with the products and consistent with WHEDA's responsibilities under applicable laws and regulations. In addition, WHEDA reserves the right to change its procedures and policies from time to time for the products as WHEDA deems necessary or appropriate. WHEDA has established a system intended to give prompt notice of these changes. Changes will be effective upon adoption by WHEDA regardless of whether you receive notice. In the event that anything in this Manual exceeds local, state or federal law, then such law shall govern.



Introduction

About This Manual

The Wisconsin Housing and Economic Development Authority (WHEDA®) has been providing small business products since 1985. This Manual contains the products we are currently offering.

In preparing this Manual, our aim has been to make it simple and easy to use. The Manual is organized with common product information in the beginning. Any unique or specific product information (mainly eligibility) is found in the product sections at the end of the Manual (i.e., Small Business Guarantee).

Please feel free to provide feedback on this Manual or any aspect of our products which could be improved. We are working towards constantly improving our products and service.

We look forward to working with you to promote small business development in Wisconsin.

IMPORTANT: From time to time, WHEDA may adopt temporary changes to its business guarantee programs that deviate from the details provided in this manual. When changes are made, one or more addenda will be published in addition to this manual, and the program parameters and other requirements included in any published addenda will supersede the content of this manual. Please contact WHEDA as provided below if you have any questions.

Who to Contact

WHEDA has a Community Development Group that is available to assist you. Please see the “WHEDA in Your Area” map on our website for territories.

Our Community Relations Officers (CROs) work with local lending institutions, local governments, and borrowers to provide product information and training on our products. We also have commercial underwriters and support staff available in our Madison office to assist you.

For general product information, application status, or questions regarding underwriting please call (608) 266-7884 or (800) 334-6873.

Economic Development Group

WHEDA
PO Box 1728
Madison, WI 53701-1728

Fax: (608) 267-1099
e-mail: info@wheda.com

For questions pertaining to servicing, workouts or annual fees please contact a portfolio risk officer at (608) 266-7884 or (800) 334-6873

Risk and Compliance

WHEDA
PO Box 1728
Madison, WI 53701-1728



WHEDA

Which Product, Sections and Forms to Use

WHEDA has several loan guarantee products available for lenders. Below is a summary of the purpose of each program and which section of the manual they appear in.

WHEDA Small Business Guarantee

- Assist in the expansion or acquisition of an existing small business.
 - Existing is defined as being in operation for at least 12 months.
 - An expansion may involve a new line of business that complements the existing business; i.e., landscaping business expanding into retail floral, lodging facility adding a restaurant, etc.
- Assist in the start-up of a day care business. The day care business may be owned by an individual, a partnership, a corporation, a nonprofit organization or a cooperative. The day care may be for adults or children.
- Assist in the start-up of a small business in a vacant storefront in the downtown area of a community.

Section(s)	Form(s)	Form Number
Guarantee Procedures	Master Guarantee Agreement	1
Credit Criteria	Intent Form	2
Servicing	Downtown Startup Business Eligibility Form	3A
Small Business Guarantee	Application	4
	Monthly Default Loan Status Report	8
	Request for Guarantee Payment	9
	Lender Change Form	10

Transform Milwaukee Guarantee

- Project is located in the Transform Milwaukee area.
- Assist in the expansion or acquisition of an existing small business.
 - Existing is defined as being in operation for at least 12 months.
 - An expansion may involve a new line of business that complements the existing business; i.e., landscaping business expanding into retail floral, lodging facility adding a restaurant, etc.
- Assist in the start-up of a day care business. The day care business may be owned by an individual, a partnership, a corporation, a nonprofit organization or a cooperative. The day care may be for adults or children.
- Assist in the start-up of a small business in a vacant storefront in the downtown area of a community.

Section(s)	Form(s)	Form Number
Guarantee Procedures	Master Guarantee Agreement	1
Credit Criteria	Intent Form	2
Servicing	Downtown Startup Business Eligibility Form	3A
Small Business Guarantee	Application	4
	Monthly Default Loan Status Report	8
	Request for Guarantee Payment	9
	Lender Change Form	10



WHEDA

Propane Guarantee

- Assist existing propane dealers with the acquisition of inventory, equipment and permanent and/or revolving working capital.
 - Existing is defined as being in operation for at least 12 months.

Section(s)	Form(s)	Form Number
Guarantee Procedures	Master Guarantee Agreement	1
Servicing	Application	4A
Propane Guarantee	Cash Flow Budget Worksheet	4B
	Monthly Default Loan Status Report	8
	Request for Guarantee Payment	9
	Lender Change Form	10

Neighborhood Business Revitalization Guarantee

- Stimulate economic development in redeveloping urban and rural neighborhoods by:
 - Bringing or expanding businesses into the area, or
 - Developing or rehabilitating commercial real estate, including mixed-use properties, where a business occupies a portion of the building.

Section(s)	Form(s)	Form Number
Guarantee Procedures	Master Guarantee Agreement	1
Servicing	Intent Form	2
Neighborhood Business Revitalization Guarantee	Application for Non-Developers	4
	Application for Developers	5
	Monthly Default Loan Status Report	8
	Request for Guarantee Payment	9
	Lender Change Form	10

Agribusiness Guarantee

- Assist in the start-up, acquisition or expansion of a business that develops products using Wisconsin's raw agricultural commodities.

Section(s)	Form(s)	Form Number
Guarantee Procedures	Master Guarantee Agreement	1
Credit Criteria	Intent Form	2
Servicing	Agribusiness Guarantee Eligibility Form	3
Agribusiness Guarantee	Application	4
	Monthly Default Loan Status Report	8
	Request for Guarantee Payment	9
	Lender Change Form	10

Contractors Loan Guarantee

- Assist in the development and expansion of small businesses by providing the opportunity to enter into contracts with eligible organizations.

Section(s)	Form(s)	Form Number
Guarantee Procedures	Master Guarantee Agreement	1
Credit Criteria	Intent Form	2
Servicing	Application	4
Contractors Loan Guarantee	Monthly Default Loan Status Report	8
	Request for Guarantee Payment	9



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Guarantee Procedures

This section allows the Lender to follow, in order, the originating process from application through loan closing.

Becoming a Participating Lender

Any bank, credit union, savings and loan association, savings bank, economic development corporation or community development financial institution which makes commercial loans is eligible to become a participating Lender.

In order to participate, the Lender must send two signed Master Guarantee Agreements (Form 1) to WHEDA. The Master Guarantee Agreement is an agreement executed by the Lender and WHEDA which indicates the Lender's willingness to make loans in accordance with the terms and conditions established in the Lender's Manual. WHEDA will sign the Agreements and return one to the Lender. WHEDA must have the signed agreements before we can provide a guarantee on any loan. Non-bank lenders will be required to provide additional information regarding their organization and lending processes.

Expenses Before Application

If there is a need for the Lender to finance project costs before a complete application can be delivered to WHEDA, the Lender must complete the Intent Form (Form 2). By submitting this form, up to 20% of eligible project costs may be incurred prior to submitting a complete application to WHEDA. The application must be submitted within 90 days of the date of the Intent Form for the costs to be eligible. WHEDA will acknowledge receipt of the form.

If an Intent Form is not received by WHEDA, any project costs incurred prior to receipt of a complete application will not be eligible for a guarantee.

Environmental Considerations

General

When evaluating a loan application, Lenders must be alert to the consequences of hazardous substance contamination at Borrower-owned and/or operated sites. The Lender may be held liable for site restoration costs and any third-party damage claims arising from the contamination if the Lender takes title to contaminated property, funded a working capital line to a known polluter, or if it is determined the Lender "operated" the site either directly or by virtue of exercising a significant degree of management and/or control.

Effects on Collateral

A lien may be placed on a property for the cost incurred for "cleaning up" the property when a federal or state environmental government agency must intervene to clean up a site. This lien may also take precedence over other liens on the property diminishing any value the collateral has to the prior lien holders such as the Lender.

Environmental Responsibility

The Lender bears absolute responsibility for assuring itself that no environmental issues exist which would cause impairment to the collateral offered.

Guarantee payment requests may be reduced or denied in full if environmental issues are present.



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Other Funding Source Compliance Considerations

Some projects may involve funds from Federal, State, or local sources. WHEDA does not interpret or provide guidance related to these publicly funded activities. All requirements as to rules and regulations compliance, and specifically as to the Davis-Bacon Act, are the sole responsibility of the Borrower. For additional, specific guidance on the Davis Bacon Act, contact the Wisconsin Department of Workforce Development. Other compliance requirements should be obtained from the funding entity.

The Lender bears absolute responsibility for assuring itself that all applicable rules and regulations are being followed and that the collateral offered is not impaired by the Borrower's compliance failure.

Guarantee payment requests may be reduced or denied in full if compliance issues are present.

Complete Application

The credit review process **will not begin** until a complete application is received by WHEDA. Once receipt of the complete application or Intent Form (Form 2) has been acknowledged by WHEDA, the Lender may advance funds on a short-term basis at their own risk. A complete application includes the application and supporting exhibits submitted by the Lender.

Incomplete Application

If an incomplete application is received, WHEDA will request the missing information. The Lender will have 30 days to submit the missing information to WHEDA. If the information is not received, the application will be considered withdrawn.

WHEDA's review of the application is deferred pending receipt of the missing information.

Underwriting

WHEDA's underwriting will include a thorough review of the application package submitted by the Lender. The Borrower's business will be evaluated against WHEDA's credit criteria. Any additional analysis WHEDA feels is necessary will be completed at this time.

WHEDA will work closely with the Lender to clarify any unclear information and to negotiate and structure a final recommendation. This may require the Lender to submit additional information or to alter their original request for guarantee.

WHEDA may visit the business as part of the review.

Terms and Conditions

A draft of the proposed terms and conditions will be faxed to the Lender before they are presented to the appropriate committee. The Lender must respond with any concerns or proposed changes by 5 P.M. the day prior to the scheduled loan presentation. If WHEDA is not notified of any concerns or proposed changes, the terms and conditions will be assumed to be accepted by the Lender.

Approval Process and Timeframe

Upon receipt of the complete application, WHEDA will underwrite the application and provide a decision upon completion of its review process.

While WHEDA's underwriters will negotiate the terms and conditions of the guarantee with the Lender, the final decision made by the Committee may differ from the Lender's request or the staff recommendation.

WHEDA will notify the Lender by phone of the committee's decision following the meeting.



Denial

The denial of an application will result in written notification to the Lender. The notification will clearly detail the basis upon which the decision was made. WHEDA will consider a request to re-evaluate an application within 30 days of denial, if the Lender can provide information which materially affects the original application and supporting documentation.

Loan Authorization

Upon approval of an application, WHEDA will send the Lender a Loan Authorization that outlines the specific terms of the Guarantee. The Loan Authorization must be signed and dated by the Lender and returned to WHEDA within fifteen days of approval.

After the loan is closed, all closing documentation must be submitted to WHEDA for review. Once reviewed, the Loan Authorization will be signed by WHEDA and returned to the Lender. This signifies your guarantee is in effect.

Amending Terms

To amend any term or condition contained in the Loan Authorization, a written request must be made prior to closing the proposed loan. WHEDA will consider requests after a loan closes, but may require additional information.

Closing Timeframe

Loans that do not involve construction must close within 45 days from the date of the Loan Authorization. For construction loans, 180 days is the standard. Additional time may be authorized if requested in the application.

Extensions

If the Lender is unable to close the guaranteed loan within the timeframe stated in the Loan Authorization, contact WHEDA to request an extension. WHEDA will consider extensions on a case-by-case basis. WHEDA reserves the right to review the current financial status of the Borrower to assure that no adverse changes have occurred from the time of the original approval. If there are adverse changes, WHEDA may revise its original Loan Authorization to account for the additional risk or negotiate other changes to the original approval.

Interim Financing

When a loan involves construction or the installation of specialized equipment, the Lender is required to provide interim financing until the construction or installation is completed. WHEDA's guarantee is not in effect while the Interim Note is outstanding and the Guaranteed Note may not be closed until all construction and installation is completed.

Closing Documents

The documentation to close the loan originates with the Lender and it is the responsibility of the Lender to file and record all necessary financing statements and mortgages. All loans, including the collateralization and the guarantees, must be evidenced by documents which are satisfactory to the Lender, comply with the terms and conditions of the guarantee approval, and are appropriate for the loan.

Standard Wisconsin Bankers Association (WBA) documents should be used when closing a guaranteed loan. In situations where the lending institution has their own Business Note, it may be used as long as it clearly states the terms of the approved loan.

When completing the loan documents, list the Lender (not WHEDA) as the lender and secured party to the loan.



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Closing Fee

For the WHEDA Small Business, Transform Milwaukee, Agribusiness, Neighborhood Business Revitalization and Contractors Loan Guarantees, a closing fee, which is calculated as 3.0% of the guaranteed amount is required.

Loan Amount:		\$100,000.00
Guarantee %:	X	<u>.50</u>
Guarantee Amount		\$50,000.00
	X	<u>.03</u>
Closing Fee of 3.0%:		<u>\$1,500.00</u>

Closing Package

Submit the following items to WHEDA after the loan is closed:

- Copy of the signed guaranteed Note
- Closing fee
- All filed and recorded documentation related to the closing of the loan
- Other documentation listed in the Loan Authorization

Other information may include a copy of an appraisal, evidence of equity injections, commitment letters from other project participants, copy of standby agreements, etc. Refer to the Loan Authorization for specific information.

Upon satisfactory review of all closing documentation, the Loan Authorization will be signed by WHEDA and returned to the Lender. This signifies your guarantee is in effect.

Lender's File

The Lender is expected to maintain a complete file on the Borrower. The file must include all documents considered necessary and appropriate for the loan. This may include, but may not be limited to, environmental reports, surveys, plans and specifications and borrowing resolutions.

WHEDA reserves the right to audit the Lender's file as it deems necessary and prudent.



Credit Criteria

WHEDA reviews nine criteria when it underwrites an application. These criteria make the underwriting process more objective and predictable for both WHEDA and Lenders. A Quick Reference to Underwriting Guidelines is outlined at the end of this section.

The Borrower does not need to meet each criterion's minimum guideline to participate in the Guarantee Loan Funds. If some of the criteria do not meet established guidelines, but can be offset or mitigated to reduce the loan's risk, the request can still be approved. In many cases, the applicant will not meet each criterion's minimum guideline.

For startup businesses, the guidelines are different for owner's equity, market, management and business tenure than they are for existing businesses. Refer to the appropriate guidelines below.

Criteria Defined

Debt Service Coverage

The ratio between net operating cash flow and proforma debt service. Net operating cash flow is defined as net sales minus cost of goods sold and cash operating expenses (excluding interest expense). Proforma debt service includes the principal and interest payments on all term debt.

<u>GUIDELINE:</u>	The minimum projected debt service coverage is 1.2x based on all the Borrower's debt as an average over two years where no single year is below 1.0x. If the ratio is less than 1.0x the guarantee request will not be approved.
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Collateral Coverage

The ratio of net available collateral after applying standard liquidation factors and subtracting liens to the amount of the proposed loan. Standard liquidation factors can be found in the collateral table in the Loan Guarantee Application. This ratio must also be calculated using the collateral's estimated market value.

<u>GUIDELINE:</u>	This criteria's minimum guideline is 110% using estimated market values and 80% using standard liquidation factors. The value of any personal assets securing a personal guarantee can be included when calculating coverage.
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Mission

Refer to the individual product section to determine specific eligibility requirements.

<u>GUIDELINE:</u>	The Borrower must meet all eligibility requirements.
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Debt to Worth Ratio

The ratio of all business term debt to business net worth. All intangible assets should be subtracted from net worth.

<u>GUIDELINE:</u>	<p>The debt to tangible net worth ratio must not exceed 4:1 unless the Borrower operates in an industry where the average ratio is higher than 4:1.</p> <p>Sole proprietorships must exclude any personal, non-business-related debt in the calculation. WHEDA focuses on business debt when it reviews this criterion. Personal debt will be evaluated as part of the management review.</p>
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Liquidity Ratio

The ratio of current assets to current liabilities.

<u>GUIDELINE:</u>	<p>The established guideline is for a ratio of at least 1:1 unless the Borrower operates in an industry where the average ratio is less than 1:1.</p> <p>All proforma working capital must be included when calculating this ratio. Current liabilities must only include items that are due within 12 months.</p>
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Market

Where the Borrower's product or service is sold and to whom it is sold.

<u>GUIDELINE FOR EXISTING BUSINESSES:</u>	<p>The Borrower must be able to show that a market exists for the products offered and that they operate in a stable industry. The Borrower's competition must be identified and the Borrower must discuss how it will differentiate itself from competitors.</p>
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<u>GUIDELINE FOR STARTUP BUSINESSES:</u>	<p>The Borrower must be able to show that a market exists for the products offered based upon a detailed market analysis. The Borrower's competition must be identified and the Borrower must discuss how it will differentiate itself from competitors.</p> <p>The market analysis should provide written documentation and support for the Borrower's claims, which may be identified in the Borrower's business plan. Examples of written documentation may include surveys, questionnaires, letters of support from community officials, traffic count studies, demographic and statistical data.</p> <p>Attach the portion of the business plan pertaining to the market, if appropriate.</p>
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Management

The key individuals or officers that execute the business plan.

<p><u>GUIDELINE FOR EXISTING BUSINESSES:</u></p>	<p>The proposed or existing management team must have a minimum two years of experience in the field they are/will be operating in or they must be able to show that other work experience has prepared them to be successful in their business.</p>
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<p><u>GUIDELINE FOR STARTUP BUSINESSES:</u></p>	<p>The proposed management team must have a minimum two years of management level experience in the industry that the Borrower wishes to pursue (Example: a retail shoe store manager decides to open a retail floral shop).</p>
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Business Tenure

The length of time the business has operated.

<p><u>GUIDELINE FOR EXISTING BUSINESSES:</u></p>	<p>When the loan guarantee request involves the purchase of an existing business, the acquired business must have been in operation for at least one full fiscal year (twelve months).</p> <p>If the Borrower is an existing business, it must be able to show satisfactory historical financial performance. Satisfactory performance means that the company can show steady growing revenues and profitability, and an ability to service its existing and proposed debt. If the Borrower's performance has not been satisfactory, a detailed explanation must be included in the credit analysis.</p>
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<p><u>GUIDELINE FOR STARTUP BUSINESSES:</u></p>	<p>Not applicable for startup businesses.</p>
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Quick Reference to Credit Guidelines

WHEDA Small Business Guarantee, Transform Milwaukee and Agribusiness Guarantee

Criteria	Guideline
Debt Service Coverage	Minimum projected debt service coverage of 1.2x based on all the Borrower's debt as an average over two years and where no single year is below 1.0x.
Collateral Coverage	Minimum collateral coverage of 110% using estimated market values. Minimum collateral coverage of 80% using standard liquidation values.
Mission	The project meets the minimum eligibility requirements of the program.
Owner's Equity	For Existing Businesses: Cash or non-cash equivalent equity of no less than 10% of total project costs. For Startup Businesses: Cash equity of no less than 15% of total project costs.
Leverage (Debt/Worth)	Debt to tangible net worth ratio of 4:1 or less. The acceptable ratio may vary based on published RMA (Risk Management Association) median industry standards.
Liquidity (Current Ratio)	Current ratio of 1:1 or better. The acceptable ratio may vary based on published RMA median industry standards.
Market	For Existing Businesses: The Borrower is in an industry experiencing stable trends and/or the Borrower has a favorable competitive position and there is demonstrated market demand for the Borrower's product or service. For Startup Businesses: The proposed business will have a favorable competitive position and can demonstrate market demand for the Borrower's product or service based upon a detailed written market analysis.
Management	For Existing Businesses: Management has a minimum of two years experience in related business ventures. For Startup Businesses: Management has a minimum of two years management level experience in the industry that Borrower wishes to pursue.
Business Tenure	For Existing Businesses: a) The business has been in operation for at least one full fiscal year. b) The business can document satisfactory historical performance. For Startup Businesses: Not applicable



Servicing

Servicing Definition

Servicing is the continual responsibility of the Lender to maintain and handle the closed Guaranteed Loan. Servicing continues until the loan is paid-in-full, or, in the case of problem/default loans, until all collateral and guarantee options have been completed.

General Responsibilities of the Lender

The Lender is responsible for monitoring and servicing the Guaranteed Loan in the manner that it would monitor and service its portfolio of conventional loans and consistent with the Lender's responsibilities pursuant to this Manual, the Master Guarantee Agreement and the loan documents.

Access to Files

The Lender is responsible for providing WHEDA with access to the Borrower's loan file, as well as other records relative to the Borrower's loan file, if requested.

Prompt Notification

The Lender is responsible for notifying WHEDA within thirty (30) days if there are adverse changes in a Borrower's financial situation or if there is an occurrence or likelihood of an occurrence that would result in the default of the Guaranteed Loan.

Prior to taking any action against the Borrower, the Lender must notify WHEDA of the situation. WHEDA understands that on rare occasions time is of the essence and prior notification may not always be possible. The Lender is expected, however, to act expeditiously when informing WHEDA of the actions taken. If timely notification is not followed and WHEDA discovers that action, or inaction, of the Lender jeopardized WHEDA's interest in the loan, WHEDA reserves the right to terminate or reduce the level of the guarantee.

Actions which require immediate notification to WHEDA include, but are not limited to:

- Borrower incurring outside business debt, except for those payables accrued in the normal course of business, without the written consent of the Lender and review by WHEDA.
- Deferral of payments.
- Making or consenting to any alteration in the terms of any loan document(s)
- Making or consenting to release or sale of collateral
- Accelerating the maturity of the Note
- Taking legal action necessary to enforce the documents
- Waiving any claim against the Borrower, guarantor, obligor or standby creditor arising out of any loan document(s)
- Assigning Lender's or Borrower's rights or obligations under the Loan Document(s)
- Knowledge of any misrepresentations or fraudulent acts committed by the Borrower or guarantor relative to the Guarantee Loan
- In-home businesses that cease operation where the real estate is being guaranteed by WHEDA

Servicing Responsibilities

Servicing tasks required of the Lender will include, but are not limited to:

- Creating and maintaining a loan file for each guaranteed loan.
- Creating, properly completing, and maintaining all loan documents.
- Keeping written records of loan servicing activities including: repayment records, financial reviews, site visits and inspections, and conversations and correspondence with Borrower.



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- Maintaining valid and current security including, but not limited to, timely UCC filings, continuous insurance coverage and payment of real estate taxes, if applicable.
- Notifying WHEDA promptly of any payment delinquencies and submitting a Monthly Default Loan Status Report (Form 8) on a monthly basis until the loan is current.
- Collecting payments and appropriately applying to principal and interest and other obligations under the Note.
- Receiving and analyzing financial statements.
- Performing periodic and/or annual site visits of the Borrower's operations.
- Monitoring inventory and collateral. This includes an annual inspection of the collateral and a report to WHEDA on any adverse change(s) in the collateral.
- Following up on all loan exceptions (i.e., covenant defaults).
- Monitoring loan for actual and potential default occurrences.
- Reviewing and complying with terms of the guaranteed loan documents on a continuous basis.

Annual Status Reports

A servicing requirement is to provide WHEDA with loan balances, statuses and, if appropriate, an annual servicing fee at the end of each calendar year. The Annual Status Report, provided by WHEDA each January, is the mechanism used to report this information. WHEDA will send the form and instructions to the Lender.

WHEDA's receipt, review and/or comment (or failure to comment) on the Annual Loan Status Report or other information regarding the Borrower, the Lender's servicing or the status of the loan does not reduce or otherwise modify the Lender's duty to properly service the loan in accordance with good lending practices in order to collect on the Guarantee.

Servicing Fee

The Lender must pay an annual servicing fee on all loans approved after January 1, 2001.

The fee is .50% based on the guaranteed portion of the outstanding loan balance at the end of each calendar year and is due with the Annual Status Report by February 1 of each year.

WHEDA prorates the first years' fee based on the closing date of the loan.

Payment of the servicing fee keeps the guarantee in effect for the coming year. Failure to remit the fee by February 1 may result in cancellation of the guarantee by WHEDA.

WHEDA will send the form and instructions to the Lender.

Delinquent/Defaulted Loans

The Lender is responsible for monitoring the Guaranteed Loan in the manner that it would service its portfolio of conventional loans. This includes, but is not limited to, sending out timely past due, Right to Cure and demand notices to bring the Guaranteed Loan current.

The Lender must also take all steps necessary to protect the collateral, rights or other interest of WHEDA's portion of the Guaranteed Loan. These actions may include declaring defaults, commencing foreclosure or pursuing other legal action on the collateral and otherwise taking prompt action to ensure maximum recovery from the disposition of the collateral.

In the event that the Lender's actions or inactions, including Lender's negligence, are responsible for or contribute to an impairment of the collateral, or in the event that the Lender had actual knowledge of such impairment of collateral and failed to take reasonable steps to prevent or correct it, then WHEDA may



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reduce or deny the payment of the Guarantee. It is the Lender's responsibility to keep WHEDA informed of any action, pending or future, necessary to protect the interest of the Lender and WHEDA.

A loan delinquency/default may be either monetary or non-monetary as defined below.

Monetary Delinquency/Default

WHEDA defines a monetary delinquency/default to be the failure to receive a complete principal and interest payment on a loan within thirty (30) days of its due date.

In the event of a monetary delinquency/default, the Lender is responsible for notifying WHEDA, using the Monthly Default Loan Status Report (Form 8), within thirty (30) days after payment is due. Monthly reports must be provided as long as the delinquency continues. Failure to provide monthly notices may result in the termination or reduction of the Guarantee.

Once the Monthly Default Loan Status Report is received by WHEDA, a Portfolio Risk Officer will be assigned to the delinquent or non-performing loan. Contact should be maintained with this Portfolio Risk Officer.

If the principal on the Guaranteed Loan is ninety (90) days or more past due, the loan must be placed on non-accrual, with all future payments applied to the principal balance. The Lender must notify WHEDA if there are reasons why the loan should not be placed on non-accrual or if it should be removed from non-accrual status.

Lender must notify and receive consent from WHEDA for any material changes that would cause any financial impact to the collateral securing our loan guarantee during the liquidation process. These items include, but are not limited to the following:

- Expenses that are incurred relating to the workout, litigation and/or liquidation process
- Initial list price and any changes to the listing price of property to be sold

Non-Monetary Delinquency/Default

A non-monetary delinquency/default occurs when a Borrower or Lender has violated any of the terms and conditions of the Loan Authorization, other loan documents and agreements, or if a Guaranteed Loan becomes ineligible based on program guidelines.

Some examples of a non-monetary delinquency/default include:

- Releasing guarantors;
- Releasing or substituting collateral without WHEDA's consent;
- Failing to maintain required insurance policies;
- Incurring additional borrowings without WHEDA's consent;
- Modifying terms of the Note; and
- Discontinuing operations of an in-home business.

In the event of a non-monetary delinquency/default, the Lender must immediately notify WHEDA in writing. A Portfolio Risk Officer will be assigned to the delinquent or non-performing loan. Contact should be maintained with this Portfolio Risk Officer. Courses of action may include, but are not limited to:

- Modifying the terms of the Loan Authorization(s);
- Maintaining the existing commercial loan without the Guarantee;
- Refinancing the Guaranteed Loan, at which time the Guarantee would end; or,
- Beginning to liquidate the collateral and applying the proceeds against the outstanding Guaranteed Loan balance.



WHEDA

When to Request a Guarantee Payment

WHEDA will not accept requests for Guarantee Payment prior to the Lender pursuing all liquidation options.

Request for Guarantee Payment

To request a guarantee payment, the Lender must provide the following:

- Request For Guarantee Payment (Form 9)
- A copy of the deficiency judgment
- Bank-generated payment history on guaranteed loan (including shadow or dummy Notes)
- A copy of the demand letter, if applicable
- Statement detailing the final disposition of collateral
- Copies of closing documentation
- Current financial statement of the Borrower and/or guarantor

Before WHEDA approves a Request For Guarantee Payment, the Lender must provide an accounting of all liquidation costs. Other information may also be required.

WHEDA's Review of Request for Guarantee Payment

WHEDA, upon receipt of the Request for Guarantee Payment, will review all supporting documentation and determine the final loss. The Lender will be expected to show that they have performed in a timely fashion those servicing functions which the Lender would perform in servicing its portfolio of conventional loans, and has complied with all program requirements including those set out or incorporated in the Master Guarantee Agreement, the Loan Authorization and the Manual, as each of those may be modified or supplemented from time to time.

Using its sole discretion, WHEDA must be satisfied that the Lender has made every effort to collect the Guaranteed Loan and obtain any deficiency judgment against the Borrower. If WHEDA is satisfied that these conditions have been met by the Lender, WHEDA will then forward to the Lender the appropriate percentage of the outstanding principal amount of the Guaranteed Loan, as set forth in the Loan documents, agreed upon by WHEDA and the Lender.

Guarantee Payment and Expense Participation

The amount of the Guarantee payment is calculated using this formula:

$$\begin{array}{l} \text{Outstanding principal balance} \\ \text{of the loan after collateral} \\ \text{liquidation} \end{array} \quad \times \quad \begin{array}{l} \text{Percentage of} \\ \text{Guarantee} \end{array} \quad = \quad \text{WHEDA's Guarantee Payment}$$

In addition to the Guarantee payment, WHEDA will agree to participate in those expenses that were preapproved by WHEDA and related to workout, litigation and/or liquidation. (For purposes of calculating expense participation, up to 90 days of interest will be defined as "expense"). However, WHEDA's expense participation will be limited to the lesser of:

- 10% of the original loan amount; or
- the guarantee percentage applied against actual expenses

In no event will the aggregate payment of expenses plus loan principal exceed the original guaranteed amount.

WHEDA's closing fee may be included in the loan request; however, closing fees will not be guaranteed and will be subtracted from the guarantee payment request.

Assumption of Guarantees

WHEDA will allow a Lender, other than the originating Lender, to assume an existing Guarantee Loan. Please contact a WHEDA Commercial Underwriter if you are interested in assuming an existing guarantee loan.



WHEDA

After contacting WHEDA, the following steps must be completed:

1. A hold harmless agreement must be executed between the existing and proposed Lenders. This agreement must absolve the current Lender of all liabilities related to the assigned loan.
2. The existing Promissory Note must be assigned in its entirety to the new Lender.
3. All collateral documents related to the loan must be assigned to the new Lender.

After steps 1-3 are completed, forward all documents to WHEDA. The original Loan Authorization will be amended by WHEDA and a copy of the amendment will be forwarded to the new Lender.



Small Business and Transform Milwaukee Guarantees

The WHEDA Small Business and Transform Milwaukee Guarantees are intended to assist in the acquisition and expansion of existing businesses and the development of eligible startup businesses.

The business must fulfill the following:

- The business must employ 250 or fewer full time equivalent (FTE) positions at the time of application (an FTE is considered 2080 hours/year)
- The business must be located in Wisconsin
- The business must create or retain jobs

Job creation and retention will be considered when deciding if a guarantee request is approved. WHEDA does not have a formula that requires a specific number of jobs be created for dollars borrowed; however, projects that result in a high ratio of jobs created to dollars borrowed will be looked upon more favorably than projects with a low ratio.

Eligible Businesses

Once the requirements listed above are met, the following types of projects are eligible:

- Acquiring or expanding a business that has been in operation for at least 12 months
- Acquiring or expanding a business that ceased operations within the last 6 months, but was operating for at least 12 months before closing
- Mixed-use properties where the business occupies at least 25% of the total square footage of a building
- Refinancing existing debt, including credit card debt, that is accompanied by a business expansion
- Expanding into a new line of business that is complementary to the existing business. A complementary business exists when one business directly enhances the revenue of another (Examples: landscaping business expanding into retail floral; hotel adding a restaurant)
- Starting a day care facility (child or adult care)
- Starting a small business in a vacant storefront in the downtown area of a community

For startup businesses other than day care facilities, the Lender must submit the Downtown Startup Business Eligibility Form (Form 3A) and supporting documentation. Upon receipt, WHEDA will determine eligibility and may conduct a site visit if necessary.

Ineligible Businesses

Ineligible businesses include:

- Startup businesses, excluding day care facilities and businesses locating in vacant storefronts in downtown communities
- Businesses involved in the direct production of agricultural commodities (i.e., farming)
- Community based residential facilities
- Adult entertainment businesses
- Businesses where more than 1/3 of gross receipts are from gambling
- Businesses where more than 3/4 of gross receipts are from alcohol sales
- Businesses where the principals owe past due child support
- Real estate investment or speculation



WHEDA

Eligible Uses of Proceeds

Loan proceeds may be used for:

- Land
- Buildings
- Equipment
- Inventory
- Working Capital
- WHEDA closing fee
- Soft costs not to exceed 5% of the eligible project costs (i.e., architectural fees, appraisals)
- Refinancing existing debt, including credit card debt, under the following conditions:
 1. The refinance must be accompanied by additional business expansion. The expansion must equal at least one third of the balance of the existing debt that is being refinanced. **This requirement does not apply to Transform Milwaukee Guarantees.**
 2. The debt being refinanced with the guaranteed loan must result in better terms to the Borrower (i.e., lower interest rate, lower monthly payments, or more favorable collateral terms, etc.).
 3. The debt being refinanced with a guarantee must be current and never have been more than 30 days past due.

Ineligible Uses of Proceeds

- Intangible assets
- Loan origination fees (except WHEDA closing fee)
- Any project costs incurred before a complete application or Intent Form (Form 2) is received and acknowledged by WHEDA
- Transactions where a Lender:
 - Has taken title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding; or
 - Is at risk of taking title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding

Lender's Underwriting Assurances

It is the Lender's responsibility to make the following assurances when evaluating an application for participation in the WHEDA Small Business Guarantee:

- The Borrower is unable to obtain conventional financing at terms similar to those provided through the WHEDA Small Business Guarantee.
- The Lender believes that, if the Borrower received a WHEDA Small Business Guarantee, the Borrower's assets, projected cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before the end of the loan term.



Financing Terms and Conditions

Guarantee

For fixed assets and permanent working capital, WHEDA may provide a Guarantee of up to the lesser of 50% of the loan or \$750,000¹.

Examples:

<u>Principal Amount</u>	<u>Maximum Guarantee %</u>	<u>Guarantee Amount</u>
\$ 250,000	50%	\$125,000
\$1,500,000	50%	\$750,000
\$2,000,000	37.5%	\$750,000

For revolving working capital loans, WHEDA may provide a Guarantee of up to the lesser of 50% of the loan or \$200,000².

Examples:

<u>Principal Amount</u>	<u>Maximum Guarantee %</u>	<u>Guarantee Amount</u>
\$100,000	50%	\$ 50,000
\$250,000	50%	\$125,000
\$500,000	40%	\$200,000

Interest Rate

For variable rates, the rate charged to the Borrower may not exceed Prime + 2.75%. Use the lowest Prime lending rate as quoted in the Midwest Edition of *The Wall Street Journal* as the interest rate index.

For fixed rates, use your standard rate, which will be subject to approval by WHEDA.

Term

The term of the guarantee is up to 5 years for fixed assets, inventory and permanent working capital, and up to 2 years for revolving working capital loans. Revolving working capital loans must annually rest for 30 consecutive days.

When the guarantee is used to refinance an existing Note or credit card debt, the term of the guarantee may not exceed the remaining useful life of the assets securing the Note.

The amortization cannot exceed the useful life of the security, however it can exceed the term of the WHEDA Small Business Guarantee.

Collateral

The Lender must obtain a security interest in the physical plant, equipment, machinery, or other assets of the business and/or owner(s). Personal guarantees may be required.

Other Terms and Conditions

WHEDA reserves the right to require additional terms and conditions that may include: limitations on owner draws, salary, capital expenditures, dividends, etc.

¹ If the project is located within the Transform Milwaukee area, a guarantee of up to 80% of the loan amount or \$750,000 for fixed assets and permanent working capital may be provided.

² If the project is located within the Transform Milwaukee area, a guarantee of up to 80% of the loan amount or \$200,000 for revolving working capital may be provided.



Propane Guarantee

The WHEDA Propane Guarantee Program is intended to assist existing propane dealers and/or retailers as well as existing businesses to purchase propane inventory, fund permanent and revolving capital, and equipment.

Eligibility

The business must fulfill the following:

- The business must be a propane dealer/retailer or an existing business that will purchase propane inventory or equipment for its own use
- The business must employ 250 or fewer full time equivalent (FTE) positions at the time of application (an FTE is considered 2080 hours/year)
- The business must be located in Wisconsin
- The business must create or retain jobs
- The business must have been in business for at least 12 months
- The propane dealer/retailer must sell its inventory to Wisconsin residents

Eligible Businesses

Once the requirements listed above are met, the following types of projects are eligible:

- Purchase of propane for retail sale or business use
- Funding of general working capital
- Expansion of existing lines of credit or new lines of credit
- Funding of equipment
- Funding soft costs not to exceed 5% of the eligible loan amount

Ineligible Businesses

Ineligible businesses include:

- Startup businesses
- Businesses involved in the direct production of agricultural commodities (i.e. farming)
- Community based residential facilities
- Adult entertainment businesses
- Businesses where more than 1/3 of gross receipts are from gambling
- Businesses where more than 3/4 of gross receipts are from alcohol sales
- Businesses where the principals owe past due child support
- Real estate investment or speculation

Eligible Uses of Proceeds

Loan proceeds may be used for

- Propane inventory
- Permanent working capital
- Revolving lines of credit
- Equipment
- WHEDA closing fee
- Soft costs not to exceed 5% of the eligible project costs

Ineligible Uses of Proceeds

- Intangible assets
- Loan origination fees (except WHEDA closing fee)



WHEDA

- Transactions where a Lender:
 - Has taken title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceedings; or
 - Is at risk of taking title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceedings

Lender's Underwriting Assurances

It is the Lender's responsibility to make the following assurance when evaluating an application for participation in the WHEDA Propane Guarantee Program:

- The borrower is unable to obtain conventional financing at terms similar to those provided through the WHEDA Propane Guarantee Program
- The Lender believes that, if the Borrower received a WHEDA Propane Guarantee, the Borrower's assets, projected cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before the end of the loan term.

Financing Terms and Conditions

Guarantee

For loans to propane dealers/retailers, WHEDA may provide a Guarantee of up to the lesser of 50% of the loan or \$50,000.

Examples:

<u>Principal Amount</u>	<u>Maximum Guarantee %</u>	<u>Guarantee Amount</u>
\$100,000	50%	\$50,000
\$250,000	20%	\$50,000
\$500,000	10%	\$50,000

For loans to businesses other than propane dealers/retailers, WHEDA may provide a Guarantee of up to the lesser of 50% of the loan or \$25,000.

Examples:

<u>Principal Amount</u>	<u>Maximum Guarantee %</u>	<u>Guarantee Amount</u>
\$50,000	50%	\$25,000
\$75,000	33%	\$25,000
\$100,000	25%	\$25,000

Interest Rate

For variable rates, the rate charged to the Borrower may not exceed Prime + 2.75%. Use the lowest Prime lending rate as quoted in the Midwest Edition of the Wall Street Journal as the interest rate index.

Term and Repayment

The maximum term of the guarantee is up to one year for all loans including revolving lines of credit. Loans may be repaid with either monthly or quarterly principal and interest payments or



WHEDA

with a single payment at maturity. The loan amortization may exceed the term of the WHEDA Propane Guarantee, but the Guarantee will not extend beyond one year. Renewals will be considered on a case-by-base basis for another one year term. Renewals will require a new application.

Collateral

The lender must obtain a security interest in the business assets being financed and secure the loan to the fullest extent possible. Personal guarantees are required on guarantees for loan made to businesses that are not propane dealers/retailers.

Other Terms and Conditions

WHEDA reserves the right to require additional terms and conditions on the guarantee as necessary.



Agribusiness Guarantee

The Agribusiness Guarantee is intended to stimulate the development of products that will enhance the value and promote the use of Wisconsin's raw agricultural commodities.

Eligibility

The procedures for obtaining an Agribusiness Guarantee are listed in the Guarantee Procedures section of this manual. The only exception is the eligibility process listed below.

Before completing an application, submit the Agribusiness Guarantee Eligibility Form (Form 3). WHEDA will determine the eligibility of the project and the business and inform the Lender within 1 business day.

The application must be received within 90 days of the determination of eligibility. If the Lender is unable to submit the complete application within this timeframe, a written request for extension must be forwarded to WHEDA. Extensions will be considered on a case-by-case basis.

Eligible Businesses

The business must start with a Wisconsin grown, raw agricultural commodity and then:

- Create a product new to the business, or
- Expand production of an existing product that will increase the use of a raw agricultural commodity; or
- Enhance the efficiency of the business

The business must also:

- Demonstrate it has made a notable effort to purchase a substantial percentage of its raw agricultural commodities from Wisconsin suppliers.
- Be located in a Wisconsin municipality having a population under 50,000.

Ineligible Businesses

Ineligible businesses include:

- Businesses involved in direct production of raw agricultural commodities (i.e., farming, beef or dairy production)
- Businesses where the principals owe past due child support
- Real estate investment or speculation

Eligible Uses of Proceeds

These expenses must be instrumental to the processing or enhancements being made.

- *Land, Building, Equipment and Inventory*
- *Permanent Working Capital*
Permanent working capital applies to intermediate or long-term debt used to support the anticipated growth of the business. An example of permanent working capital would include a loan used as permanent investment in inventory and receivables.
- *Initial Marketing Expenses*
Marketing expenses include costs associated with making the product available to consumers. The proposed marketing-related expenses will be reviewed to determine their eligibility for the Agribusiness Guarantee.

Ineligible Uses of Proceeds

- Intangible assets



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- Expenses not directly related to the new product or process
- Research and development costs
- Loan origination fees (except WHEDA closing fee)
- Refinancing existing debt
- Any project costs incurred before a complete application or Intent Form (Form 2) is received and acknowledged by WHEDA
- Transactions where a Lender:
 1. Has taken title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding; or
 2. Is at risk of taking title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding

Lender's Underwriting Assurances

It is the Lender's responsibility to make the following assurances when evaluating an application for participation in the Agribusiness Guarantee.

- The Borrower is unable to obtain conventional financing at terms similar to those provided through the Agribusiness Guarantee.
- The Lender believes that, if the Borrower received an Agribusiness Guarantee, the Borrower's assets, projected cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before the end of the loan term.

Financing Terms and Conditions

Guarantee

WHEDA may provide a Guarantee of up to:

- Lesser of 50% of the loan or \$375,000 (the loan amount may not exceed \$750,000); or
- Lesser of 50% of the loan or \$200,000 for revolving working capital.

Interest Rate

- For variable rates, use the lowest Prime lending rate as quoted in the Midwest Edition of *The Wall Street Journal* as the interest rate index. Interest rate charged to the Borrower may not exceed Prime + 2 3/4%.
- For fixed rates, use your standard rate, which will be subject to approval by WHEDA.

Term

The term of the guarantee is up to 5 years for fixed assets, inventory and permanent working capital, and up to 2 years for revolving working capital loans.

When the guarantee is used to refinance an existing Note or credit card debt, the term of the guarantee may not exceed the remaining useful life of the assets securing the Note.

The amortization cannot exceed the useful life of the security, however it can exceed the term of the Agribusiness Guarantee.

Collateral

The Lender must obtain a security interest in the physical plant, equipment, machinery, or other assets of the business and/or owner(s). Personal guarantees may be required.

Other Terms and Conditions

WHEDA reserves the right to require additional terms and conditions that may include: limitations on owner draws, salary, capital expenditures, dividends, etc.



Neighborhood Business Revitalization Guarantee

The Neighborhood Business Revitalization Guarantee can be used to assist existing business owners or experienced developers stimulate economic development in redeveloping urban and rural neighborhoods by:

1. Bringing or expanding existing businesses into the area, or
2. Developing or rehabilitating commercial real estate, including mixed-use properties, where a business occupies a portion of the building.

For a loan where the business (non-developer) is the borrower, the guidelines are outlined in Part 1, items a through f. When applying, use the Loan Guarantee Application (Form 4).

For a loan where a developer is the borrower, the guidelines are outlined in Part 2, items a through f. When applying, use the Neighborhood Business Revitalization Guarantee Application (Form 5).

Part 3, Financing Terms and Conditions, applies to all borrowers.

Part 1: Business (non-developer) as Borrower

The business must fulfill the following:

- An existing business must have annual revenues of under \$5 million;
- The business must be located in Wisconsin;
- The business must create or retain jobs.

Job creation and retention will be considered when deciding if a guarantee request is approved. WHEDA does not have a formula that requires a specific number of jobs be created for dollars borrowed; however, projects that result in a high ratio of jobs created to dollars borrowed will be looked upon more favorably than projects with a low ratio.

a) Eligible Projects, Business (non-developer) as Borrower

Once the requirements listed above are met, the following types of projects are eligible:

- Bringing into, or expanding existing businesses in, urban and rural neighborhoods; the business must be in existence at least 12 months
- Mixed-use properties where the business occupies at least 25% of the total square footage of the building
- Expanding into a new line of business that is complementary to the existing business. A complementary business exists when one business directly enhances the revenue of another (Example: hotel adding a restaurant)

b) Ineligible Projects, Business (non-developer) as Borrower

Ineligible businesses include:

- Startup businesses
- Community based residential facilities
- Adult entertainment businesses
- Businesses where more than 1/3 of gross receipts are from gambling
- Businesses where more than 3/4 of gross receipts are from alcohol sales
- Businesses where the principals owe past due child support
- Businesses involved in real estate investment or speculation
- Businesses involved in the direct production of agricultural commodities (i.e., farming)

c) Eligible Uses of Proceeds, Business (non-developer) as Borrower

Loan proceeds may be used for:

- Land
- Buildings
- Equipment



WHEDA

- Inventory
- Working Capital, permanent or revolving
- WHEDA closing fee
- Soft costs not to exceed 5% of the eligible project costs (i.e., architectural fees, appraisals)
- Refinancing existing debt, including credit card debt, under the following conditions:
 1. The refinance must be accompanied by additional business expansion. The expansion must equal at least 1/3 of the balance of the existing debt that is being refinanced.
 2. The debt being refinanced with the guaranteed loan must result in better terms to the Borrower (i.e., lower interest rate, lower monthly payments, or more favorable collateral terms, etc.).
 3. The debt being refinanced with a guarantee must be current and never have been more than 30 days past due.

d) *Ineligible Uses of Proceeds, Business (non-developer) as Borrower*

- Intangible assets
- Loan origination fees (except WHEDA closing fee)
- Any project costs incurred before a complete application or Intent Form (Form 2) is received and acknowledged by WHEDA
- Transactions where a Lender:
 1. Has taken title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding; or
 2. Is at risk of taking title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding

e) *Lender's Underwriting Assurances, Business (non-developer) as Borrower*

It is the Lender's responsibility to make the following assurances when evaluating an application for participation in the Neighborhood Business Revitalization Guarantee.

- The Borrower is unable to obtain conventional financing at terms similar to those provided through the Neighborhood Business Revitalization Guarantee.
- The Lender believes that, if the Borrower received a Neighborhood Business Revitalization Guarantee, the Borrower's assets, projected cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before the end of the loan term.

f) *Credit Criteria Guidelines, Business (non-developer) as Borrower*

WHEDA reviews nine criteria when it underwrites an application. These criteria make the underwriting process more objective and predictable for both WHEDA and Lenders.

The Borrower does not need to meet each criteria's minimum guideline. If some of the criteria do not meet established guidelines, but can be offset or mitigated to reduce the loan's risk, the request can still be approved.

Criteria Defined, Business (non-developer) as Borrower

Debt Service Coverage, Business (non-developer) as Borrower

The ratio between net operating cash flow and proforma debt service. Net operating cash flow is defined as net sales minus cost of goods sold and cash operating expenses (excluding interest expense). Proforma debt service includes the principal and interest payments on all term debt.



Guideline: The minimum projected debt service coverage is 1.2x based on all of the Borrower's debt as an average over two years where no single year is below 1.0x. If the ratio is less than 1.0x the guarantee request will not be approved.

Collateral Coverage, Business (non-developer) as Borrower

The ratio of net available collateral after applying standard liquidation factors and subtracting liens to the amount of the proposed loan. Standard liquidation factors can be found in the collateral table in the Loan Guarantee Application. This ratio must also be calculated using the collateral's estimated market value.

Guideline: This criteria's minimum guideline is 110% using estimated market values and 80% using standard liquidation factors. The value of any personal assets securing a personal guarantee can be included when calculating coverage.

Mission, Business (non-developer) as Borrower

To bring or expand existing businesses into the area.

Guideline: The Borrower must meet all eligibility requirements.

Owner's Equity, Business (non-developer) as Borrower

The amount of cash or non-cash contribution made by the owner to the project.

Guideline: The guideline is for a cash or non-cash contribution of no less than 10%.

Non-cash equity may include items such as land, equipment, or complete standby debt. Cash contributions may also be in the form of gifts or home equity loans.

Debt to Worth Ratio, Business (non-developer) as Borrower

The ratio of all business term debt to business net worth. All intangible assets should be subtracted from net worth

Guideline: The debt to tangible net worth ratio must not exceed 4:1 unless the Borrower operates in an industry where the average ratio is higher than 4:1.

Sole proprietorships must exclude any personal, non-business related debt in the calculation. WHEDA focuses on business debt when it reviews this criteria. Personal debt will be evaluated as part of the management review.



Liquidity Ratio, Business (non-developer) as Borrower

The ratio of current assets to current liabilities.

Guideline: The established guideline is for a ratio of at least 1:1 unless the Borrower operates in an industry where the average ratio is less than 1:1.

All proforma working capital must be included when calculating this ratio. Current liabilities must only include items that are due within 12 months.

Market, Business (non-developer) as Borrower

Where the Borrower's product or service is sold and to whom it is sold.

Guideline: The Borrower must be able to show that a market exists for the products offered and that they operate in a stable industry. The Borrower's competition must be identified and the Borrower must discuss how it will differentiate itself from competitors.

Management, Business (non-developer) as Borrower

The key individuals or officers that execute the business plan.

Guideline: The proposed or existing management team must have a minimum two years of experience in the field they are/will be operating in or they must be able to show that other work experience has prepared them to be successful in their business.

Business Tenure, Business (non-developer) as Borrower

The length of time the business has operated.

Guideline: When the loan guarantee request involves the purchase of an existing business, the acquired business must have been in operation for at least one full fiscal year (twelve months). The Borrower must be able to show satisfactory historical financial performance. Satisfactory performance means that the company can show steady to growing revenues and profitability, and an ability to service its existing and proposed debt. If the Borrower's performance has not been satisfactory, a detailed explanation must be included in the credit analysis.



WHEDA

Underwriting Guidelines, For Businesses (Non-Developers)	
Criteria	Guideline
Debt Service Coverage	Minimum projected debt service coverage of 1.2x based on all the Borrower's debt as an average over two years and where no single year is below 1.0x.
Collateral Coverage	Minimum collateral coverage of 110% using estimated market values. Minimum collateral coverage of 80% using standard liquidation values.
Mission	The project meets the minimum eligibility requirements of the program.
Owner's Equity	Cash or non-cash equivalent equity of no less than 10% of total project costs.
Leverage (Debt/Worth)	Debt to tangible net worth ratio of 4:1 or less. The acceptable ratio may vary based on published RMA median industry standards.
Liquidity (Current Ratio)	Current ratio of 1:1 or better. The acceptable ratio may vary based on published RMA median industry standards.
Market	The Borrower is in an industry experiencing stable trends and/or the Borrower has a favorable competitive position and there is demonstrated market demand for the Borrower's product or service.
Management	Management has a minimum of two years experience in related business ventures.
Business Tenure	The business has been in operation for at least one full fiscal year. The business can document satisfactory historical performance.

Part 2: Developer as Borrower

The development must fulfill the following:

- A developer must have experience in the development of at least two commercial properties. Developers would not need to occupy any portion of the property, however, some component of commercial utilization is required;
- The development must be located in an urban or rural neighborhood in Wisconsin; and
- The development must result in the creation or retention of jobs.

Job creation and retention will be considered when deciding if a guarantee request is approved. WHEDA does not have a formula that requires a specific number of jobs be created for dollars borrowed; however, projects that result in a high ratio of jobs created to dollars borrowed will be looked upon more favorably than projects with a low ratio.

a) **Eligible Projects, Developer as Borrower**

Once the requirements listed above are met, the following types of projects are eligible:

- Developing, constructing or rehabilitating commercial real estate, including mixed-use properties, where a business occupies a portion of the building

b) **Ineligible Projects, Developer as Borrower**

Ineligible developments include:

- Community based residential facilities
- Adult entertainment businesses occupying a portion of the development
- Tenants who have more than 1/3 of gross receipts from gambling
- Tenants who have more than 3/4 of gross receipts from alcohol sales
- Developments where the developer owes past due child support

c) **Eligible Uses of Proceeds, Developer as Borrower**

Loan proceeds may be used for:

- Land
- Buildings



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- WHEDA application fee and closing fee
- Soft costs (i.e., architectural fees, appraisals)
- Refinancing existing debt, including credit card debt, under the following conditions:
 1. The refinance must be accompanied by additional business expansion. The expansion must equal at least 1/3 of the balance of the existing debt that is being refinanced.
 2. The debt being refinanced with the guaranteed loan must result in better terms to the Borrower (i.e., lower interest rate, lower monthly payments, or more favorable collateral terms, etc.).
 3. The debt being refinanced with a guarantee must be current and never have been more than 30 days past due.

d) *Ineligible Uses of Proceeds, Developer as Borrower*

- Intangible assets
- Loan origination fees (except WHEDA closing fee)
- Any project costs, other than pre-development costs, incurred before a complete application or Intent Form (Form 2) is received and acknowledged by WHEDA
- Transactions where a Lender:
 1. Has taken title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding; or
 2. Is at risk of taking title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding

e) *Lender's Underwriting Assurances, Developer as Borrower*

It is the Lender's responsibility to make the following assurances when evaluating an application for participation in the Neighborhood Business Revitalization Guarantee.

- The Borrower is unable to obtain conventional financing at terms similar to those provided through the Neighborhood Business Revitalization Guarantee.
- The Lender believes that, if the Borrower received a Neighborhood Business Revitalization Guarantee, the Borrower's assets, projected cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before the end of the loan term.

f) *Credit Criteria Guidelines, Developer as Borrower*

WHEDA reviews seven criteria when it underwrites a development application. These criteria make the underwriting process more objective and predictable for both WHEDA and Lenders.

The Borrower does not need to meet the minimum criterion for each guideline. If some of the criteria do not meet established guidelines, but can be offset or mitigated to reduce the loan's risk, the request can still be approved.

Criteria Defined, Developer as Borrower

Debt Service Coverage, Developer as Borrower

The ratio between effective gross income minus operating expenses over proforma debt service. Proforma debt service includes the principal and interest payments on all term debt.

Guideline: The minimum projected debt service coverage is 1.15x after lease-up is achieved.

Loan To Value, Developer as Borrower

The ratio between the loan amount and the development's value



Guideline: Lesser of 85% loan-to-appraised value or loan-to-cost.

Mission, Developer as Borrower

To develop or rehabilitate commercial real estate, including mixed-use properties, where a business occupies a portion of the building.

Guideline: The Developer/Borrower must meet all eligibility requirements.

Equity, Developer as Borrower

The amount of cash or non-cash contribution made by the developer to the project.

Guideline: The guideline is 15% overall; 10% cash.

Cash portion is cash or true grants.

Non-cash equity is readily established land equity value or deferred fees.

Occupancy, Developer as Borrower

The amount of space being leased by tenants.

Guideline: Minimum of 50% of commercial space must be pre-leased.

Development Team, Developer as Borrower

The key individuals involved in the development of a project (i.e., owner/borrower, developer, general partner, contractor, architect, leasing agent and property management agent).

Guideline: Developer has a minimum of two successful projects completed.

Market, Developer as Borrower

The demand for the location and type of project being developed.

Guideline: Market demand for commercial space is demonstrated by a detailed written market analysis. Included are examples of demographics, competition, neighborhood characteristics and other relevant market factors.

Market demand for 8 or fewer residential units is demonstrated by a detailed written market analysis. Included are specifics of comparable properties, rents, vacancies and other relevant market factors.

Projects with 9 or more residential units will be required to submit a detailed market analysis completed by a third party.



Underwriting Guidelines For Developers	
Criteria	Guideline
Debt Service Coverage	Minimum projected debt service coverage of 1.15x after lease-up is achieved
Loan-to-Value	Lesser of 85% loan-to-appraised value or loan-to-cost
Mission	The project meets the minimum eligibility requirements of the program
Equity	15% overall; 10% cash Cash portion is true cash or true grants. Non-cash equity is readily established land equity value or deferred fees.
Occupancy	Minimum of 50% of commercial space must be pre-leased
Development Team	Developer has a minimum of two successful projects completed
Market	Market demand for commercial space is demonstrated by examples of demographics, competition, neighborhood characteristics and other relevant market factors. Market demand for residential units is demonstrated by specifics of comparable properties, rents, vacancies and other relevant market factors.

Part 3: Financing Terms and Conditions (applies to all borrowers)

Guarantee

For fixed assets and permanent working capital, WHEDA may provide a guarantee of up to the lesser of 50% of the loan or \$750,000.

Examples:

<u>Principal Amount</u>	<u>Maximum Guarantee %</u>	<u>Guarantee Amount</u>
\$1,000,000	50.0%	\$500,000
\$2,000,000	37.5%	\$750,000
\$5,000,000	15.0%	\$750,000

For revolving working capital loans, WHEDA may provide a Guarantee of up to the lesser of 50% or \$200,000.

Examples:

<u>Principal Amount</u>	<u>Maximum Guarantee %</u>	<u>Guarantee Amount</u>
\$250,000	50%	\$125,000
\$400,000	50%	\$200,000
\$500,000	40%	\$200,000

Interest Rate

For variable rates, the rate charged to the Borrower may not exceed Prime + 2 3/4%. Use the lowest Prime lending rate as quoted in the Midwest Edition of *The Wall Street Journal* as the interest rate index. A comparable index rate will be considered on a case-by-case basis.

For fixed rates, use your standard rate, which will be subject to approval by WHEDA.



Term

The term of the guarantee is up to 5 years for fixed assets, inventory and permanent working capital, and up to 2 years for revolving working capital loans. Revolving working capital loans must annually rest for 30 consecutive days.

When the guarantee is used to refinance an existing Note or credit card debt, the term of the guarantee may not exceed the remaining useful life of the assets securing the Note.

The amortization cannot exceed the useful life of the security, however it can exceed the term of the Neighborhood Business Revitalization Guarantee.

Collateral

The Lender must obtain a security interest in the physical plant, equipment, machinery, or other assets of the business and/or development. Personal guarantees may be required.

Other Terms and Conditions

Lender is required to retain all documentation considered necessary and appropriate for the loan. This may include, but may not be limited to: environmental reports, surveys, borrowing resolutions and plans and specifications.

WHEDA reserves the right to require additional terms and conditions that may include, but may not be limited to: limitations on owner draws, salary, capital expenditures, dividends, etc.



WHEDA

Contractors Loan Guarantee

The WHEDA Contractors Loan Guarantee is intended to assist in the development and expansion of small businesses by providing the opportunity to enter into contracts with eligible organizations.

The business must meet the following:

- The business must employ 250 or fewer full time equivalent (FTE) positions at the time of application (an FTE is considered 2080 hours/year)
- The business must be located in Wisconsin
- The business must have been in operation for at least 12 months
- The business must create or retain jobs

Job creation and retention will be considered when deciding if a guarantee request is approved. WHEDA does not have a formula that requires a specific number of jobs be created for dollars borrowed; however, projects that result in a high ratio of jobs created to dollars borrowed will be looked upon more favorably than projects with a low ratio.

Eligible Businesses

Once the requirements listed above are met, the following types of projects are eligible:

- Businesses that have been awarded a contract, purchase order, or other instrument approved by WHEDA from any of the following are eligible:
 - Local government agency
 - State or Federal agency
 - Businesses with gross annual sales of at least \$5 million

NOTE: Subcontractors are eligible to participate in the program if they have been awarded contracts from the State of Wisconsin or if they are performing work on WHEDA financed projects.

Ineligible Businesses

Ineligible businesses include:

- Startup businesses
- Businesses involved in the direct production of agricultural commodities (i.e., farming)
- Community based residential facilities
- Adult entertainment businesses
- Businesses where more than 1/3 of gross receipts are from gambling
- Businesses where more than 3/4 of gross receipts are from alcohol sales
- Businesses where the principals owe past due child support
- Real estate investment or speculation

Eligible Uses of Proceeds

Loan proceeds may be used for expenses necessary to complete an awarded contract or purchase order, which may include:

- Employee salaries, wages and benefits
- Inventory, supplies and specific equipment needed to perform on the contract

Ineligible Uses of Proceeds

- Performance or Surety bonds
- Intangible assets
- Loan origination fees (except WHEDA closing fee)



WHEDA

- Any project costs incurred before a complete application or Intent Form (Form 2) is received and acknowledged by WHEDA
- Transactions where a Lender:
 1. Has taken title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding; or
 2. Is at risk of taking title to a business, or the fixed assets of a business, as a result of bankruptcy or foreclosure proceeding

Lender's Underwriting Assurances

It is the Lender's responsibility to make the following assurances when evaluating an application for participation in the WHEDA Contractors Loan Guarantee.

- The Borrower is unable to obtain conventional financing at terms similar to those provided through the WHEDA Contractors Loan Guarantee.
- The Lender believes that, if the Borrower received a WHEDA Contractors Loan Guarantee, the Borrower's assets, projected cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before the end of the loan term.

Financing Terms and Conditions

Guarantee

For all Contractor Loans WHEDA may provide a Guarantee of up to the lesser of 50% of the loan or \$750,000.

Examples:

<u>Principal Amount</u>	<u>Maximum Guarantee %</u>	<u>Guarantee Amount</u>
\$ 250,000	50%	\$125,000
\$1,500,000	50%	\$750,000
\$2,000,000	37.5%	\$750,000

Interest Rate

For variable rates, the rate charged to the Borrower may not exceed Prime + 2 3/4%. Use the lowest Prime lending rate as quoted in the Midwest Edition of *The Wall Street Journal* as the interest rate index.

For fixed rates, use your standard rate, which will be subject to approval by WHEDA.

Term

The term of the guarantee is the term of the underlying contract, purchase order, or other instrument approved by WHEDA.

Collateral

The Loan must be secured by an assignment of the contract proceeds.

All contract proceeds must be issued in the form of a co-party check to the business and the participating lender. Proceeds must first be applied to repaying the principal borrowed and then the accrued interest (any remaining balance is given to the business as profit on the contract).

Other Terms and Conditions

WHEDA reserves the right to require additional terms and conditions that may include: limitations on owner draws, salary, capital expenditures, dividends, etc.



WHEDA

Product Summary Guide

Fund	Amount	Uses	Eligibility	Term, Rate, Fees
WHEDA Small Business Guarantee (WSBG)	Guarantee is lesser of 50% of the loan or \$750,000 for fixed assets and permanent working capital; revolving working capital guarantee is lesser of 50% of the loan or \$200,000	Land, buildings, equipment, inventory, working capital (permanent or revolving), refinancing of existing debt (see program information for details)	Expansion or acquisition of existing business OR startups limited to day cares or downtown businesses; must have positive impact on job creation/retention; business can employ no more than 250 full time equivalent positions; owner(s) must not be delinquent in child support payments; business must be located in Wisconsin	Term up to 5 years on fixed assets, inventory and permanent working capital, 2 years on revolving working capital; rate not to exceed Prime plus 2.75% variable (negotiated between Lender and Borrower, approved by WHEDA) Fees: Closing fee = 3.0% of guaranteed amount Servicing fee = .50% of outstanding guaranteed balance, due annually and paid by the lender
Transform Milwaukee Guarantee	Guarantee is lesser of 80% of the loan or \$750,000 for fixed assets and permanent working capital; revolving working capital guarantee is lesser of 80% of the loan or \$200,000	Land, buildings, equipment, inventory, working capital (permanent or revolving), refinancing of existing debt (see program information for details)	Expansion or acquisition of existing business OR startups limited to day cares or downtown businesses; must have positive impact on job creation/retention; business can employ no more than 250 full time equivalent positions; owner(s) must not be delinquent in child support payments; business must be located in Wisconsin	Term up to 5 years on fixed assets, inventory and permanent working capital, 2 years on revolving working capital; rate not to exceed Prime plus 2.75% variable (negotiated between Lender and Borrower, approved by WHEDA) Fees: Closing fee = 3.0% of guaranteed amount Servicing fee = .50% of outstanding guaranteed balance, due annually and paid by the lender
Neighborhood Business Revitalization Guarantee	Guarantee is lesser of 50% of loan or \$750,000; revolving working capital guarantee is lesser of 50% of loan or \$200,000	Land, buildings, equipment, inventory, working capital (permanent or revolving), refinancing of existing debt (see program information for details)	Stimulate economic development in redeveloping urban and rural neighborhoods by: Bringing or expanding existing businesses into the area; or Developing, constructing or rehabilitating commercial real estate, including mixed-use properties, where a business occupies a portion of the building	Term up to 5 years for permanent assets, 2 years on revolving working capital; rate not to exceed Prime plus 2 3/4% variable (negotiated between Lender and Borrower, approved by WHEDA) Fees: Closing fee = 3.0% of guaranteed amount Servicing fee = .50% of outstanding guaranteed balance, due annually and paid by the lender
Agribusiness Guarantee	Guarantee is lesser of 50% of the loan or \$375,000; the loan amount may not exceed \$750,000; revolving working capital guarantee is lesser of 50% of the loan or \$200,000	Land, buildings, equipment, inventory, permanent working capital, initial marketing expenses	Create a product new to the business from a Wisconsin grown raw agricultural commodity OR expand production of an existing product that will increase use of a raw agricultural commodity OR enhance the efficiency of the business; must be located in a community with population of less than 50,000	Term up to 5 years on fixed assets, inventory and permanent working capital, 2 years on revolving working capital; rate not to exceed Prime plus 2 3/4% variable (negotiated between Lender and Borrower, approved by WHEDA) Fees: Closing fee = 3.0% of guaranteed amount Servicing fee = .50% of outstanding guaranteed balance, due annually and paid by the lender
Contractors Loan Guarantee	Guarantee is lesser of 50% of the loan or \$750,000	To pay expenses to complete eligible contracts or purchase orders	Borrower must have been awarded an eligible local, state or Federal contract or a contract with a business having over \$5 million in sales. Subcontractors are eligible on state contracts or WHEDA-financed projects	Term is the length of the contract; rate not to exceed Prime plus 2 3/4% variable (negotiated between Lender and Borrower, approved by WHEDA) Fees: Closing fee = 3.0% of guaranteed amount Servicing fee = .50% of outstanding guaranteed balance, due annually and paid by the lender
Propane Guarantee Program	Guarantee for loans to propane dealers/retailers is lesser of 50% of the loan or \$50,000. Guarantee for loans to all other businesses is lesser of \$25,000 of the loan or \$25,000.	Working capital, propane inventory, equipment and soft costs.	Existing propane dealers or retailers or existing businesses purchasing propane and equipment for their own use; have been in business for at least twelve months; will use loan proceeds for working capital, propane inventory and equipment; must have positive impact on job creation/retention; business can employ no more than 250 full time equivalent positions; owner(s) must not be delinquent in child support payments; business must be located in Wisconsin.	Term is maximum of 1 year on all loans. Interest rate not to exceed Prime plus 2 3/4% variable (negotiated between Lender and Borrower, approved by WHEDA). Fees: Closing Fee = 1% of guaranteed amount Servicing Fee = None

Revision History

Section	Paragraph/Header	Description	Date
Introduction	Important	Introduced temporary program changes via addenda	4/2012
Guarantee Procedures	Closing Fee	Revised terms and amount of closing fees	4/2012
Servicing	Servicing Fee	Revised terms and amount of servicing fees	
Servicing	Monetary Delinquency/Default	Included contact requirements related to asset liquidation	4/2012
Agribusiness Guarantee	Eligible Uses of Proceeds	Removed allowance for refinance as an eligible use of proceeds	4/2012
Agribusiness Guarantee	Ineligible Uses of Proceeds	Added reference to refinance as an ineligible use of proceeds	4/2012
Neighborhood Business Revitalization Guarantee	Eligible Uses of Proceeds, Business (non-developer) as Borrower	Aligned refinance terms against small business guarantee	4/2012
Neighborhood Business Revitalization Guarantee	Eligible Uses of Proceeds, Developer as Borrower	Aligned refinance terms against small business guarantee	4/2012
Product Summary Guide	Uses	Referred reader to program details for refinance information	4/2012
Product Summary Guide	Term, Rate, Fees	Revised amount of closing and servicing fees	4/2012
Notice		Revised legal applicability of manual content.	11/2012
Small Business Guarantee	Financing Terms and Conditions	Revised guarantee percentage and term information.	11/2012
Agribusiness Guarantee	Eligible Businesses	Removed eligibility of businesses that commercially harvest whitefish from Lake Superior.	11/2012
Agribusiness Guarantee	Financing Terms and Conditions	Revised guarantee percentage and term information.	11/2012
Neighborhood Revitalization Business Guarantee	Financing Terms and Conditions	Revised guarantee percentage and term information.	11/2012
Contractors Loan Guarantee	Financing Terms and Conditions	Revised guarantee percentage and term information.	11/2012
Product Summary Guide	Amount	Revised guarantee percentage	11/2012
Product Summary Guide	Term, Rate, Fees	Revised guarantee term	11/2012
Which Product, Sections, and Forms to Use		Added Transform Milwaukee Guarantee paragraph	8/2013
Guarantee Procedures	Closing Fee	Added reference to	8/2013

Section	Paragraph/Header	Description	Date
		Transform Milwaukee Guarantee	
Quick Reference to Credit Guidelines		Added Transform Milwaukee Guarantee to table	8/2013
Small Business and Transform Milwaukee Guarantees		Added Transform Milwaukee Guarantee to section	8/2013
Small Business and Transform Milwaukee Guarantees	Eligible Uses of Proceeds	Eliminated refinance requirement #1 for Transform Milwaukee Guarantees	8/2013
Small Business and Transform Milwaukee Guarantees	Financing Terms and Conditions	Added footnotes for loan and guarantee maximums relative to Transform Milwaukee Guarantees	8/2013
Product Summary Guide		Added Transform Milwaukee Guarantee to section	8/2013
Propane Guarantee Program		Added Propane Guarantee Program section	1/2014
Propane Guarantee Program	Various	Revised guarantee to apply to businesses for propane consumption as well as dealers/retailers.	1/2014
Introduction	Who To Contact	Updated contact information for servicing.	1/2016
Servicing	Servicing Responsibilities	Removed requirement to forward financial statements to WHEDA.	1/2016