

SD Works Loan Program

POLICIES AND PROCEDURES

SD Works Loan Policies and Procedures

INTRODUCTION

The policies and procedures outlined in this document provide a framework within which the SD Works Loan will operate. The policies herein have been set by the Board of Economic Development (BED) consisting of experienced bankers and business people with a goal of furthering economic development for the State of South Dakota. The parameters of the program should be adhered to and changes in the policies and procedures can only be made by the BED.

Periodic reviews of the program will be conducted by the Governor's Office of Economic Development (GOED). The policies will remain flexible enough to enable the program to meet the needs of the industries in our state.

The intent of the program is to provide low interest, gap financing for small businesses for which other types of financing might not be available. The primary bank or credit union should assist the applicant in preparing the application for filing with the GOED. Once the BED approves an application, the primary bank, credit union, or other qualified lender will close their loan(s) in conjunction with the GOED's closing of the SD Works loan, through their servicing entity.

CREDIT CRITERIA

The Board of Economic Development will base its credit decisions on the following criteria:

1. The small business must meet the eligibility requirements of the program.
2. The small business must show the ability to service the debt.
3. The management of the small business must have the ability to conduct the business and show commitment to the project.
4. The payment history of the small business with other lenders and creditors must be satisfactory.
5. The review of proposed collateral must be satisfactory.
6. The credit history of borrowers and guarantors of the loan must be satisfactory.

A loan payment will be considered late when the scheduled loan payment has not been made on or prior to its scheduled date and late payments will incur the appropriate fees.

Eligibility Requirements

- Loans can be made available to small businesses (less than 500 employees) headquartered in South Dakota, for projects within the state. The program is flexible and can be tailored to meet the needs of almost any small business. The program aims to focus on very small businesses (VSB) with less than 10 employees and businesses owned by socially and economically disadvantaged individuals (SEDI).
- Businesses involved in any type of legal gaming operations or gambling may not derive more than 30% of their annual gross revenue from such activities. However, if the purpose of the business is gambling such as pari-mutual betting, racetrack or a gambling casino, it is not eligible, regardless of the percentage of gross income derived from gambling. Businesses involved in pornography, illicit activities or any affiliated activity are also prohibited from applying for SD Works Loan funds. Any business which has received SD Works Loan funds and subsequently derives any portion of their revenue from the previously mentioned activities prior to repaying all principal and interest on their SD Works Loan, shall be deemed to be in default of their SD Works agreement. Other ineligible uses include repayment of delinquent taxes and purchasing ownership interests.

Non-profit businesses and agricultural production are not eligible to apply for SD Works funds. SD Works funds may not be used for refinancing existing debt.

- Applicants must have a bank, credit union, or other eligible lender in place, that serves as the primary lender, prior to applying to the South Dakota SD Works program.

Application Process

- The SD Works application must be completed and submitted to the Governor's Office of Economic Development with a cover letter from the primary lender. The application should include the primary bank's or credit union's credit analysis, including personal financial statements for applicant(s) and any guarantors, and the terms of the bank's or credit union's financing. Please see attached application for the SD Works Fund.
- The GOED will take applications to the next scheduled BED meeting usually within approximately 30 days of receiving a complete application package for the SD Works program.

Loan Criteria/Structure of Loans

- The loan amount typically targets projects less than \$1,000,000.00 with the minimum loan amount of \$25,000.00. The SD Works program can participate up to 50% of the total financing necessary and the primary bank or credit union may not fund less than 50% of the total financing necessary. Ideally the SD Works program will seek to finance 10-30% of the total project costs. Total project costs may not exceed \$5,000,000.00. Borrowers may request waivers to these guidelines for extraordinary circumstances.
- Total SD Works proceeds outstanding at any one time, to a single borrower, may not exceed \$5,000,000.00. SD Works funds may not be used for refinancing existing debt.
- The equity injection requirement may be determined by primary bank or credit union. The BED may require an equity injection of at least 10% when the SD Works portion of a project exceeds \$50,000.00.
- The interest rate for new applicants is 3%. The BED may adjust the rate for new loans periodically. The term of the loan will not exceed five years and the amortization length will be no longer than the useful life of the asset being financed. Depending on the available cash flow of the company the BED can determine if an earlier balloon payment shall be made.
- The loan will be secured by a subordinated position on the business assets or a subordinated real estate mortgage. Additional collateral may be required. The subordination will be to the primary bank or credit union

involved in the project, only. The collateral must be identical to that securing the primary bank's or credit union's companion loan. However, in certain situations the BED may ask for additional collateral.

- A loan origination fee will be assessed in the amount of \$250.00 or 1% of the loan amount, whichever is greater. This fee will be paid by the applicant. The applicant will also pay for any filing fees for security instruments, title insurance, appraisals, and surveys required. The applicant will also pay any other costs associated with closing of the loan. The BED will review the origination fees periodically.

Administrative Functions of Program

- GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT will
 - Process the application as provided by the applicant.
 - Take the application before the BED.
 - Has enacted a Servicing Agreement with BankWest, Inc. to monitor payments and accept disbursements from GOED.
 - BankWest will review the loan closing information prior to disbursing funds to make sure security instruments are in place.
 - Make recommendations to the BED.
- BED will
 - Review applications as brought before them and will render an approval or not approve the loan as requested.
 - Review any additional requests as submitted by primary lender.
 - Review the loan origination fee periodically to determine adequacy.
- PRIMARY BANK OR CREDIT UNION will
 - Provide a credit analysis to the GOED for review.
 - Assist the applicant with the application.



**Governor's Office of Economic
Development**



Governor's Office of Economic Development
711 E. Wells Avenue
Pierre, South Dakota 57501-3369

Phone: 605-773-4633
Fax: 605-773-3256
Internet: <http://www.sdgoed.com>

**SD Works Loan Program
Borrower Application**

Date of Application	
Individual completing this form	
Individual's telephone number	
Company Affiliation	
Primary Lender--Include cover letter	

Section 1. Applicant Information

Name of Applicant Business	
Name (address) of parent company	
Name (address) of affiliates	
Name (title) of contact person	
Business Address	
City, State, Zip code	
Business Telephone number	
Fax number	
E-mail address	
Business or federal tax ID Number	
Primary business activity	
NAICS code	
Date business established	
Date business established in SD	
Business type	
Fiscal year end	

Management Information:

List all the officers, directors, or general partners. Attach resumes.

Name & Title	Address & Phone	Compensation	Social Security Number

Major Stockholders, Partners or Proprietors:

(Totaling 100% ownership. Attach Personal financial statement and resumes. Personal guaranties from principals with 10% or more ownership.)

Name & Title	Address & Phone	Compensation	Social Security Number

Banks or credit unions where business and principal personal accounts are maintained:

Name	City/State	Phone #	Type of Account	Account #

Present business trade creditors or trade references:

Name	Address	Phone #	Type of Account	Balance	Date

Section 2. Purpose of the Loan

Description of the Project to be financed:

Date project will begin	
Estimated completion date	
Is loan applicant planned occupant?	
Legal owner of the site	

Project Costs

	Uses (\$\$)	Sources (\$\$)
Land		
Building		
Site Improvements		
Equipment		
Equipment Installation Costs		
Inventory		
Receivables		
Other Costs		
Financing Fees		
Total		

(Attach information on specific data of the items above including description of equipment, inventory, land and building to be acquired, site improvements to be made, etc.)

Sources of Long Term Financing (Include SD Works Funds, Primary Lender and any other sources):

Name of Lenders	Purpose	Amount	Terms	Collateral

*Positions may be negotiated among the parties involved.

Source of Interim Financing: _____ Source of

Equity Contribution: _____

Section 3. Marketing Plan

Please attach Marketing Plan or Business Plan.

Section 4. Financial Information

Please attach last three years business tax returns and/or financial statements to include a current balance sheet and income statement and next three years of proformas including balance sheets and income statements.

Please attach current personal financial statement and 3 years tax returns for owners and guarantors and current credit reports for each.

Please attach a cover letter from your bank or credit union including the terms of their portion of the loan.

Section 5. Employment Information

Please summarize current and the next three year projected job creation regarding this project.

	Current 20__	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Managers & Administrators							
Professional & Technical							
Sales							
Clerical							
Service							
Production/Maintenance							
Total Employees							

Please summarize wage and benefits paid to employees:

APPLICATION CHECKLIST:

Please review your application to make sure all relevant information has been submitted.

Date Received

I. Completed Application

II. Supporting Documentation:

A. Historical Financial Statements (3 years min.)

to include income statement and balance sheet

B. Projected Financial Statements (3 years min.)

to include income statement and balance sheet

C. Personal Financials (10% or greater ownership)

D. Resumes of Management and Principals

E. Supporting Cost Documents

F. Business Plan

G. Management and Organizational Chart

H. Employment Plan

I. Litigation

J. Appraisal

K. Letters of Commitment

L. Affiliate Statements

M. Community Impact

N. Business Organizational Documents

O. Other Enclosures

P. Current Debt Schedule

Q. Drivers License - copy from applicant

Date application complete with supporting documentation

CONFIDENTIALITY STATEMENT

South Dakota Codified Laws 1-16G-11(BED); 1-16B-14.1(EDFA);. DOCUMENTARY MATERIAL CONSISTING OF TRADE SECRETS EXEMPT FROM DISCLOSURE - Discussion of or action on trade secrets at meeting closed to public. Any documentary material or data made or received by the Board or the GOED for the purpose of furnishing assistance to a business, to the extent that such material or data consists of trade secrets or commercial or financial information regarding the operation of such business, may not be considered public records, and shall be exempt from disclosure pursuant to the provisions 1-16G-3 to 1-16G-11 inclusive. Any discussion, consideration of, or action upon such trade secrets or commercial or financial information by the Board may be done in executive session closed to the public, notwithstanding the provisions of the open meeting laws of this state.

Please NOTE that except in the case of applications to the Board of Economic Development, the name of the applicant, the location of the applicant, the loan amount and the number of jobs projected to be created are not confidential. In the case of applications to the Board of Economic Development, the fact that an application is pending may be kept confidential if requested by the applicant. In all cases, once an application is approved, the name of the borrower, the location of the borrower, the loan amount and the number of jobs created or projected to be created is not confidential.

LOAN PROCESSING FEE

Applicant hereby agrees that should this application be considered by the Board, a fee of the greater of \$250 or one percent (1.0%) of the loan amount applied for may be assessed by the Board for any costs incurred, including, but not limited to staff time, filing/recording fees, and outside legal counsel. This fee may be waived by the loan program governing board and will not be imposed if the application is denied or not closed.

MATERIAL ADVERSE CHANGE

By execution of this Application, the Applicant acknowledges and agrees that any commitment for a loan or grant issued as a result of this Application is subject to withdrawal in the event of a material adverse change in the Applicant's financial condition or financial projections. The term "material adverse change" includes, but is not limited to, a bankruptcy filing by or against the Applicant.

AUTHORIZATION FOR RELEASE OF FINANCIAL INFORMATION

As a condition of consideration of this application and funding of any loan or other financial assistance contemplated hereby, Applicant must execute and provide to GOED the form of Authorization for Release of Financial Information accompanying this Application. As stated on the Authorization, it will remain in effect until the later of, as applicable, the date the GOED-administered loan has been paid in full (including any damages payable under the Employment Agreement signed by Applicant), the Applicant's obligation to provide reports to GOED has ended or the entity providing the financial assistance no longer has the legal right to seek repayment from Applicant.

CERTIFICATION

All information contained above and in schedules attached hereto are true and complete to the best knowledge and belief of the applicant. There is no intent to deceive or defraud the Board of Economic Development or any potential participant in any loans to finance this project.

The applicant recognizes that neither GOED nor the BED will process any application that is not complete. Incomplete applications will be returned to the applicant for completion.

Except for loan programs solely administered and under the control of GOED, GOED has no authority to commit financing or other financial assistance. Specifically, regardless of any assurance, guarantee, communication or representation to the contrary, GOED has no authority to make commitments for loans or other financial assistance from BED.

The Governor's Office of Economic Development prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, marital or family status.

Pursuant to SDCL 22-29-19, persons who knowingly make any materially false statement on or related to this application, or who wilfully overvalues any land or other property offered as security for any loan sought by or related to this application is subject to prosecution. The maximum penalty for a violation of SDCL 22-29-19 is 2 years in the state penitentiary or a \$2000 fine, or both. By their execution of this Application, all persons signing this Application warrant and represent that they have read and understand the provisions of SDCL 22-29-19.

Applicant Business: _____

Officer's Signature: _____

Officer's Name/Title: _____

Telephone Number: _____ Date: _____

GLOSSARY OF TERMS

BOARD OF ECONOMIC DEVELOPMENT: This 13 member board was originally created by the late Governor George S. Mickelson to promote the economic development of the State of South Dakota.

COLLATERAL: Assets owned by a borrower that are pledged to a lender as security for a loan.

EMPLOYEE: An employee is one who is employed to render personal service to his/her employer in return for financial or other compensation. This would not include owners.

EMPLOYER TAX ID: The number is assigned by the IRS. If you operate the business as an individual, your social security number is your tax ID number.

EQUITY: Capital that has no guaranteed or mandatory return which must be paid out in any event, has no definite timetable for repayment of the capital investment, and cannot be withdrawn at the contributor's option without the permission of the superior debt holders.

FINANCIAL STATEMENTS: Written statements reflecting the assets and liabilities, owner's equity, and income of a business or individual. At the minimum they should include a balance sheet showing the assets and liabilities of the business and an income statement showing gross income, operating expenses and net income. Tax returns may be used for historic financial statements.

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT: GOED administers several loan programs including the REDI Fund, SD Works Loan Program, and EDFA Pooled Bond Program. The GOED prepares loan packages for review and approval by the BED. If you have any questions concerning these loan programs or this application, please contact the Finance Division at (605) 773-4633.

INTERIM FINANCING: Short-term lending for the construction or acquisition phase of a project based on a commitment from the Board for a term loan from one of the loan programs.

PRIMARY JOBS: Primary jobs are defined as "jobs that provide goods and services which are primarily exported from the state, that gain market share from imports to the state or that meet an unmet need in the area and result in the creation of new wealth. Primary jobs are derived from businesses that bring new income into an area, stimulate other local businesses, or assist a community to diversify and stabilize its economy." ARSD 68:02:01:01:(8).

PROFORMA & PROJECTIONS: Financial statements reflecting the estimated condition and growth of a business in the years after a loan is made based on the business plan developed by the borrower.

TOTAL PROJECT COST: The direct costs associated with the purchase of land, necessary site development and improvements, construction or acquisition and remodeling of buildings and works necessary to the operation and protection of the project, purchase and installation of machinery and equipment, fees or services, approved in-kind contributions and adequate working capital financing.

DESCRIPTIONS OF OCCUPATIONAL CATEGORIES

MANAGERIAL AND ADMINISTRATIVE OCCUPATIONS: Include top and middle-level managers, administrators and executives. Primary duties are policy making, planning, staffing, directing or controlling the activities of the business.

PROFESSIONAL, PARA-PROFESSIONAL AND TECHNICAL OCCUPATIONS: Include persons concerned with the theoretical or practical aspects of such fields as science, art, education, law and business relations where substantial post-secondary educational preparation, or equivalent on-the-job training or experience is required.

SALES AND RELATED OCCUPATIONS: Include persons selling and marketing goods or services and others directly related to sales.

CLERICAL AND ADMINISTRATIVE SUPPORT OCCUPATIONS: Include persons performing office and plant clerical tasks, such as typing, filing, computer operations, records keeping (personnel, stock, production, billing, etc.), and mail preparation and distributing.

SERVICE OCCUPATIONS: Include workers in occupations relating to protective service, food service, health-assisting service, cleaning and building service, and personal service.

PRODUCTION, CONSTRUCTION, MACHINE OPERATION, MAINTENANCE AND MATERIAL HANDLING OCCUPATIONS: Include all skilled, semi-skilled and unskilled workers performing machine and manual tasks involving production, construction, operating, maintenance, repair, and material handling operations.

SMALL BUSINESS DEVELOPMENT CENTERS

ABERDEEN SBDC

506 South Main Street, Suite 2
Aberdeen, SD 57401
Phone: 605-698-7654 ext. 5
FAX: 605-698-3038

PIERRE SBDC

221 S Central Ave, Suite 33
Pierre, SD 57501
Phone: 605-773-2783

RAPID CITY SBDC

730 E. Washington Street
Rapid City, SD 57701
Phone: 605-394-5311
FAX: 605-394-6140

SIOUX FALLS SBDC

2329 N. Career Ave, Suite 106
Sioux Falls, SD 57107
Phone: 605-367-5757
FAX: 605-367-5755

WATERTOWN SBDC

418 18th Ave NE
Watertown, SD 57201
Phone: 605-882-5115
FAX: 605-882-5049

YANKTON SBDC

PO Box 687, 1808 Summit Ave.
Yankton, SD 57078
Phone: 605-665-4408
FAX: 605-665-0303

South Dakota Governor’s Office of Economic Development
AUTHORIZATION FOR RELEASE OF FINANCIAL INFORMATION

The undersigned Applicant has applied for a loan or other financial assistance from a program administered by the South Dakota Governor’s Office of Economic Development (“GOED”). GOED provides support staff and acts as a servicing agent for the South Dakota Board of Economic Development (“BED”) and the South Dakota Economic Development Finance Authority (“EDFA”). GOED also administers other grant and loan programs not under the supervision of any board or similar entity.

The undersigned Applicant hereby authorizes all other lenders (including but not limited to banks and other commercial lending companies, development corporations and governmental entities) proposed to or actually providing financing in connection with the Project described below to disclose to GOED confidential financial information relating to Applicant’s financial and business dealings with that lender. This authorization includes, but is not limited to, authorization to disclose any loan application made or given by Applicant to lender whether or not the requested loan has been approved or funded.

This authorization shall remain in effect until the later of, as applicable, the date the loan from the GOED-administered entity loan has been paid in full (including any damages payable under the Employment Agreement signed by Applicant), the Applicant’s obligation to provide reports to GOED has ended or the GOED-administered entity providing the financial assistance no longer has the legal right to seek repayment from Applicant, and may not be earlier revoked by Applicant. Lender may rely on GOED’s representation that this Authorization remains in effect under the conditions described in this paragraph.

The Project to which this Authorization refers is described generally as follows:

INITIAL BOX IF APPLICABLE – DISCLOSURE BY GOED [] Applicant acknowledges that SDCL 1-53-6, 1-16B-14.1, 1-16G-11 and other applicable law prohibit or may prohibit GOED from disclosing Applicant’s confidential financial information to third parties, including other lenders involved in financing the Project. Applicant is not required to authorize disclosure to other lenders involved with the Project, but Applicant’s failure to do so may affect GOED’s ability to provide financing or financial assistance for the Project. By initialing the box above, the undersigned Applicant hereby further authorizes GOED to disclose confidential financial information relating to Applicant’s financial dealings with GOED to any other lenders proposed to or actually providing financing in connection with the Project.

Applicant Business: _____

Officer’s Signature: _____

Officer’s Name/Title (printed): _____

Telephone Number: _____ Date: _____

STATE OF SOUTH DAKOTA
GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

CREDIT REPORT AUTHORIZATION (copy as necessary for every guarantor)

THIS AUTHORIZATION is given effective the ___ day of ___, 20___, by ___ of ___ to the South Dakota Governor's Office of Economic Development, 711 E. Wells Avenue, Pierre, South Dakota, 57501 ("GOED").

WHEREAS, GOED administers certain loan programs on its own behalf and for the South Dakota Board of Economic Development, and the South Dakota Economic Development Finance Authority; and

WHEREAS, the loan programs administered by GOED are all restricted for use for commercial purposes in order to create jobs and other economic opportunities in South Dakota; and

WHEREAS, the undersigned has expressed an interest in making formal application for a loan, either for the undersigned or for a company in which the undersigned has a financial interest, from one or more of the programs administered by GOED; and

WHEREAS, in the case of an application on behalf of a company in which the undersigned has a financial interest, the undersigned acknowledges that a personal guarantee from the undersigned may be a condition of any such loan; and

WHEREAS, in order to properly evaluate the eligibility and qualification of the undersigned or the undersigned's company for a loan or loans from the programs administered by GOED, it is necessary for GOED to evaluate the undersigned's creditworthiness; and

WHEREAS, some of the loan programs administered by GOED have entered into Loan Servicing Agreements with BankWest, Inc., a state chartered financial institution, of Pierre, South Dakota ("BankWest"), whereby BankWest will act as those programs' agent for purposes of closing, funding, receiving payment and servicing any loan made under those programs, and under which BankWest may take any and all action on behalf of those programs consistent with the terms of the applicable Loan Servicing Agreement;

NOW, THEREFORE, based upon the foregoing Recitals and for good and valuable consideration, the receipt and sufficiency of which is acknowledged by the undersigned, the undersigned hereby states and agrees as follows:

- 1. The undersigned understands that GOED has a need to review the undersigned's creditworthiness as an individual for the reasons set forth above.
2. The undersigned hereby authorizes GOED (and where applicable, BankWest, acting on behalf of GOED) to check the undersigned's credit account and employment history and/or have a credit reporting agency prepare a credit report on the undersigned.
3. The undersigned further acknowledges and agrees that GOED will also evaluate the creditworthiness of the undersigned and the undersigned's company, as applicable. The undersigned agrees that nothing about the method or means used by GOED to evaluate the undersigned's credit or that of the undersigned's company, or the results of said evaluation, shall in any way affect the undersigned's liability under any guarantee or other agreement the undersigned may execute with or in favor of any loan program administered by GOED in connection with any loan made by any loan program administered by GOED to the undersigned or the undersigned's company.
4. This Authorization shall remain in effect for a period of one year from the date of the signature below.

Dated this ___ day of ___, 20___

Name

SSN