

# Purchase Order (PO) Financing Program Policy

Southern Oregon Regional Economic Development, Inc. (SORED I)



<b>Approved by:</b>	SORED I Board of Directors
<b>Effective Date:</b>	February 10, 2026
<b>Supersedes:</b>	N/A - New Program

## 1. Relationship to the Master Credit Policy

This Program Policy ("Policy") operates under and is governed by the SORED I Master Credit Policy. Where conflicts arise, the stricter requirement applies unless an approved exception is documented per the Master Credit Policy.

## 2. Program Overview & Purpose

The PO Financing Program provides short-term, self-liquidating working capital to fulfill firm purchase orders (POs) for goods by eligible businesses in Jackson and Josephine Counties. For each approved facility, buyer payments are directed to SORED I; SORED I applies the payment to principal, accrued interest, and fees, then remits the net remainder to the borrower.

Facility scope: A credit facility is approved specific to one named buyer. Additional buyers require separate facilities and underwriting/approval. Aggregate exposure across the borrower and its affiliates at any one time under this Program must be greater than \$50,000 and may not exceed \$150,000.

Program-specific aggregate limit: The aggregate outstanding exposure cap of \$150,000 applies only to this PO Financing Program (i.e., the sum of all PO Financing facilities and draws outstanding to the borrower and its affiliates). Borrowers and their affiliates may concurrently borrow under other SORED I loan programs for eligible, non-PO purposes, subject to those programs' policies and any overall portfolio limits set forth in the Master Credit Policy.

## 3. Eligibility

- Eligible Applicants: For-profit businesses with a primary operating presence in Jackson or Josephine County and demonstrated capability (in-house or via contracted suppliers) to produce, assemble, or deliver goods per PO terms.
- Eligible Purchase Orders: A PO is eligible when it is
  - (a) written,
  - (b) non-cancellable at the buyer's discretion (i.e., cancellable only for defined cause), and

- (c) specifies quantity, price, delivery date(s), ship-to, and acceptance criteria; and, (d) is supported by the buyer's Payment Direction & Acknowledgement (buyer agrees to pay SOREDI directly).

#### Ineligible Purchase Orders & Arrangements

- Speculative order: Any order lacking a firm, binding commitment from the buyer. Examples include demand forecasts, vendor-managed inventory replenishment suggestions, planned or anticipated orders, or orders subject to unilateral buyer cancellation for convenience.
- Consignment arrangements: Goods placed with a customer or third party for sale, where title remains with the seller until the goods are sold and the seller is paid. Payment is contingent on downstream sales rather than a firm buyer obligation.
- Service-only POs, or any PO lacking objective acceptance criteria: any use prohibited by the Master Credit Policy or applicable law.

## **4. Facility Structure, Terms, Rates & Fees**

### 4.1 Facility Structure (Revolving, Self-Liquidating)

- Facility Term (Draw Period): 12 months.
- Buyer-specific approval: Each facility is tied to one named buyer. New facilities for other buyers require separate underwriting and approval.
- Minimum credit facility amount: \$50,001.
- Program-specific aggregate exposure cap: Total outstanding PO Financing exposure across the borrower and its affiliates under this Program must not exceed \$150,000 at any one time. This cap is program-specific and does not limit borrowing under other SOREDI programs, which remain subject to their respective policies and the Master Credit Policy.
- Draws: Each PO transaction is a separate draw; capacity revolves as buyer payments are received.
- Last-day draw rule: New draws may be approved any time during the 12-month period provided the PO delivery date does not exceed 6 months after facility maturity (to allow payment to liquidate the draw).
- Renewal: At maturity, the facility may be renewed at the same, increased, or decreased limit subject to a new credit approval.

### 4.2 Advance Rates

Advance Rate: Up to 80% of the PO amount (based on verified production/delivery costs consistent with the PO). The borrower receives up to 80% at funding; when the buyer pays SOREDI (Section 7.2).

### 4.3 Pricing (Fixed for the 12-month Facility Term)

- Interest Rate: A fixed rate set at approval for the facility term, expressed as WSJ Prime + a spread (minimum of Prime + 5.00% and maximum of Prime + 7.00%) commensurate with risk, program guidelines and the Master Credit Policy.

- **Accrual & Payments:** Interest accrues per draw from the date SOREDI funds that draw until the date SOREDI receives buyer payment. The borrower has no scheduled payments; the draw is liquidated when the buyer pays.
- **Default Rate:** None. If a material issue prevents timely liquidation (e.g., buyer non-payment without cure), the note may be called and enforcement pursued, including the personal guaranty or a negotiated workout plan under the Master Credit Policy.

#### 4.4 Fees

- **Application Fee:** \$200 (due upon submission of a substantially complete package).
- **Per-Draw Fee:** 2.00% of the draw amount, collected by SOREDI when buyer payment is received.
- **Third-Party Costs:** Borrower pays filing, verification, wire, and insurance endorsement costs as applicable.
- **Prepayment Penalty:** None.

## **5. Underwriting Standards**

### 5.1 Core Tests (Borrower Capacity & Capital Need)

- **Production Capacity:** Document suppliers, in-house steps, subcontractors, throughput, and timelines; confirm they align with PO delivery dates.
- **Capital Need:** Reconcile a sources & uses schedule per PO, aligning vendor terms and verified costs with the requested advance.

### 5.2 Buyer Assessment (Payability & Terms)

- Obtain buyer Payment Direction & Acknowledgement and confirm PO validity, ship-to, acceptance process, and payment terms via independent call-back to a published buyer contact.
- Perform a basic buyer capacity review (trade references, public information where available) and ensure PO terms are consistent with timely payment.

### 5.3 PO Clause & Shipping Terms Review

- Non-cancellable at buyer's discretion; cancellation only for defined cause.
- Clear acceptance criteria and inspection rights.
- Avoid broad set-off or indefinite pay-when-paid language.
- The PO or contract should state the applicable Incoterm (or equivalent shipping terms) so acceptance and payment timing are predictable.
  - *Incoterms clarification:* Incoterms (International Commercial Terms published by the ICC) define delivery obligations and when risk of loss transfers (e.g., FOB/EXW/CIF/DDP).
- Confirm delivery/receipt documentation consistent with the stated shipping terms.

### 5.4 Facility Repayment

- **Demonstrate self-liquidating:** Production → shipment → acceptance → payment supports timely liquidation of draws; track expected days to cash at the buyer.

- Use credible projections and written assumptions where historical information is limited.

### 5.5 Collateral & Controls

- Security Agreement with a lien on business assets (inventory, WIP, accounts, equipment) plus PO-specific assignment of receivables and proceeds.
- UCC-1 filing with proper debtor name and collateral description.
- Payment Direction & Acknowledgement (buyer → SOREDI).
- Guarantees: Personal/corporate guarantees from  $\geq 20\%$  owners unless waived by exception per Master Credit Policy.
- Insurance as warranted (cargo/inland marine, product liability if prudent); SOREDI listed appropriately.

## **6. Documentation Checklist**

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- Borrower application (program form) & narrative.
- Buyer-issued PO and any change orders.
- Payment Direction & Acknowledgement (buyer signs); call-back verification notes.
- Sources & uses with vendor quotes/terms; production timeline.
- Borrower financials (2 years if available) and interim YTD; guarantor PFS and 2 years tax returns.
- Security Agreement; UCC-1 filing; PO Assignment.
- Insurance evidence as applicable.
- Draw Authorization for each transaction.

## **7. Disbursement, Servicing & Payment Waterfall**

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### 7.1 Disbursement Controls

- Vendor pay is preferred (funds disbursed to suppliers/subcontractors per approved sources & uses); borrower documents receipts and milestones.
- Limited borrower cash disbursements may be permitted with immediate evidence of application to approved costs.

### 7.2 Monitoring

- Status updates are required as practicably feasible given the PO timeline and as requested by SOREDI's Loan Manager, but no less than monthly during production/shipment until payment is received.
- Maintain ticklers for insurance, UCC continuation, and buyer payment timing; escalate if the buyer payment window slips materially.

### 7.3 Payment Waterfall

- Buyer remits full PO payment to SOREDI.
- SOREDI applies the payment received by the buyer in the following order:

1. Principal advanced to that draw.
  2. Accrued interest
  3. Per-draw fee
  4. Remits the net remainder to the borrower.
- Upon liquidation, the draw amount re-opens capacity within the facility limit.

## 8. Portfolio Risk Ratings & Exposure

Assign risk ratings per SOREDI's 7-grade scale at approval; update on material events. Track program-level exposure to ensure the \$150,000 aggregate cap across the borrower and its affiliates is not exceeded. The \$150,000 cap referenced in this Policy is specific to the PO Financing Program and governs only PO Financing exposure; cross-program exposures are monitored under the Master Credit Policy's portfolio oversight.

## 9. Funding Source & Compliance

No federalized sources of funding will be used for loans under this Program. Loans will be funded from defederalized/local sources and administered under the Master Credit Policy and applicable law.

## 10. Exceptions

Policy exceptions may be approved when justified by mission impact and supported by documented mitigants; exceptions must be transparent, infrequent, and approved at the appropriate level per the Master Credit Policy.

## 11. Effective Date

This Program Policy is effective on the date above and remains in force until amended by the Board.

Approved by the Board of Directors of Southern Oregon Regional Economic Development, Inc.

### Board President

Chris DuBose

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

### Executive Director

Blair Sundell

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## **Appendix A (Glossary & Acronyms)**

**Acceptance (buyer acceptance / acceptance criteria):** Objective conditions in the PO that define when goods are deemed accepted (e.g., inspection standards, delivery confirmations). Clear acceptance criteria support payment timing and self-liquidation.

**Account Debtor (Buyer):** The party obligated on an account/receivable (here, the PO buyer) who, after receiving notice of assignment, pays the assignee (SORED I) in accordance with Article 9 and the Payment Direction & Acknowledgement.

**Aggregate Exposure (Program-specific aggregate limit):** The total outstanding PO Financing exposure across the borrower and its affiliates under this Program only, capped at \$150,000 at any one time. Borrowing under other SORED I programs remains subject to those programs and the Master Credit Policy.

**Assignment of Accounts / Payment Direction & Acknowledgement:** Contractual direction from the borrower and acknowledged by the buyer that PO proceeds are paid to SORED I. This aligns with UCC Article 9 notice and account-debtor payment rules.

**Buyer-specific Facility:** Each approved revolving facility ties to one named buyer. Additional buyers require separate facilities and approvals.

**Call-back Verification (Buyer):** Independent confirmation to a published buyer contact of PO validity, ship-to, acceptance process, and payment terms. Required before funding draws.

**Consignment Arrangement (ineligible):** Goods placed with a customer/third party for sale; title remains with the seller until sold, and payment depends on downstream sales rather than a firm buyer obligation. Not eligible under this Program.

**EXW (Ex Works):** An Incoterm where the seller makes goods available at their premises; the buyer bears transport, export/import clearance, insurance, and risk after pickup.

**FOB (Free On Board):** An Incoterm for sea/inland waterway transport: the seller bears costs/risk to load goods on the vessel at the port of shipment; risk transfers to the buyer once goods are on board.

**Incoterms® (International Commercial Terms):** A set of 11 globally recognized trade rules published by the ICC defining responsibilities, costs, and risk transfer between seller and buyer for delivery, carriage, clearance, insurance, and risk-of-loss.

**Payment Waterfall:** Order of application of buyer payment: (1) principal; (2) accrued interest; (3) per-draw fee; then net remainder to the borrower.

**Perfection (UCC):** Legal steps to make a security interest enforceable against third parties (e.g., filing a UCC-1 financing statement, or control of deposit accounts). Governs priority and enforceability of SOREDI's collateral position.

**PO (Purchase Order):** Buyer's binding document specifying quantity, price, delivery dates, ship-to, and acceptance. Eligible POs require buyer payment direction to SOREDI and must not be speculative or consignment.

**Set-off (clause to avoid):** Contract language allowing the buyer to net unrelated claims against amounts owed to the seller; broad set-off can delay or impair payment and is avoided in eligible POs.

**UCC (Uniform Commercial Code), Article 9:** U.S. uniform law governing secured transactions in personal property (creation, perfection, priority, enforcement), including accounts/receivables assignments and account-debtor payment duties.

**UCC-1 (Financing Statement):** Public filing used to perfect SOREDI's security interest in collateral (e.g., inventory, accounts, equipment), establishing priority against other creditors.

**Vendor Pay (Controlled disbursement):** SOREDI pays suppliers/subcontractors directly per approved sources & uses, minimizing diversion risk; limited borrower cash disbursements may be allowed with immediate evidence of application.

**WIP (Work in Process):** Goods in production not yet completed; included in collateral under the Security Agreement.