

Small Business Direct Loan (SBDL) - Program Policy

Southern Oregon Regional Economic Development, Inc. (SORED)



Approved by:	SORED Board of Directors
Effective Date:	February 10, 2026
Supersedes:	All prior SORED loan participation directives

1. Relationship to the Master Credit Policy

This Program Policy ("Policy") operates under and is governed by the SORED Master Credit Policy. It provides program-specific parameters and underwriting standards for the SORED Small Business Direct Loan (SBDL) Program. Where this Policy references standards already established in the Master Credit Policy, the Master controls. If conflicts arise, the stricter requirement will apply unless an approved exception is documented per the Master Credit Policy.

2. Program Overview & Purpose

This program is intended to provide flexible, mission-aligned financing to small businesses in Jackson and Josephine Counties that lack access to traditional bank credit, enabling job creation, retention, and regional economic resilience.

3. Eligibility

- Eligible Applicants: For-profit start-ups and existing businesses with a primary operating presence in Jackson or Josephine County.
- Eligible Purposes: Working capital, equipment purchases, business acquisitions, commercial real estate (owner-occupied or long-term leased space with operating business), and refinancing of business debt to improve the financial health of the business (see Section 7.7 – Refinancing of Existing Debt).
- Ineligible Uses: Any use prohibited by funder requirements or law; speculative real estate; illegal activities; non-business personal debt; other prohibitions set forth in the Master Credit Policy and applicable funder plans.

4. Loan Size, Terms & Structures

- Loan Amounts: Minimum \$20,000; Maximum \$150,000.

- Pricing: Fixed at Prime + 3.00%, set at approval. If federal fund requirements impose a higher minimum rate, the program will meet or exceed those requirements for loans funded with such sources.
- Application Fee: \$200 will be assessed when a loan request is deemed eligible and a substantially complete application package is submitted for underwriting. Submission of an intake form or an investigative conversation with an applicant for preliminary eligibility screening does not constitute an application and therefore does not trigger the application fee.
- Loan Fee: 1.5% of the principal amount will be charged at closing.
- Late Fee: A \$25 late fee may be assessed when payments are not received within the grace period set forth in the loan documents.
- Third-Party Costs: Borrowers are responsible for any third-party costs besides credit reports and UCC filings (e.g., title, appraisal, environmental, recording, etc.).
- Amortization & Terms:
 - Working Capital: Fully amortizing; standard term 5 years; maximum 7 years when supported by collateral with long useful life.
 - Equipment: Fully amortizing; standard term 5 years; maximum 7 years, subject to useful life of assets.
 - Commercial Real Estate: Term up to 10 years; amortization up to 25 years; balloon permitted; subject to useful life and funder requirements.
- Interest-Only Option: Up to 6 months interest-only may be authorized when necessary to match project cash flows.
- Payment Deferral Option: For start-ups, and when otherwise prudent, repayment may begin up to 90 days from the loan contract date.
- Prepayment Fee: SOREDI does not charge a fee for early prepayment.

Note on EDA RLF-funded loans: When loans are funded in whole or in part by the EDA RLF (funder limits apply), working Capital terms shall not exceed 5 years; Equipment terms may be up to 10 years or the useful life, whichever is shorter; Real Estate terms may be up to 20 years. Repayment must begin no later than 6 months from the loan contract date. These limits supersede any more lenient terms stated in this Policy.

5. Collateral & Guarantees

Loans are to be secured by good and sufficient collateral (available business and/or personal assets) and guaranteed by the operating entity (if different from borrower) and the principal owner(s) as follows:

- Acceptable collateral types include business assets, guarantor assets, and assets pledged by third parties.
- Collateral will be perfected per applicable law and funder standards.
- Personal or corporate guarantees are required from owners with $\geq 20\%$ interest, unless waived via approved exception.
- Subordination of insider debt may be required to strengthen the borrower's capital structure.

- Cross-collateralization may be used when multiple loans exist.

6. Application Materials

A complete application and full financial package are required from the business and each guarantor. Required items include:

- Completed application form and narrative financing proposal
- Business plan including projections with assumptions (required for start-ups with < 2 years operating history)
- Two years business tax returns (if available) and interim YTD financials (\leq 90 days old)
- Historical financial statements (Income Statement, Balance Sheet, Cash Flow) for the prior two fiscal years (if available)
- Personal financial statements and two years personal tax returns for guarantors
- Business debt schedule and personal debt schedule for guarantors
- Evidence of credit otherwise not available (e.g., bank denial or participation memo)
- Proposed collateral list and supporting valuations as applicable

7. Underwriting Standards & Financial Metrics

Primary metrics used in credit decisions include Debt Service Coverage Ratio (DSCR), Global Debt Service Coverage Ratio (aka “Global Cash Flow”), Liquidity (months of operating cash and post-transaction liquidity), At-Risk Equity, and Leverage (Debt to Tangible Net Worth). Definitions, formulas, and general benchmarks follow.

7.1 Debt Service Coverage Ratio (DSCR)

- **Definition:** Measures the borrower’s ability to service all required debt payments from business cash flow.
- **Formula:** $DSCR = \text{Cash Flow Available for Debt Service} / \text{Total Required Debt Service}$.
 - Cash Flow Available for Debt Service = EBITDA \pm non-recurring adjustments – unfunded capital expenditures – owner distributions not essential to operations.
 - Total Required Debt Service = Sum of scheduled principal + interest for all business debt obligations for the measurement period (including proposed loan).
- **Benchmark:** $\geq 1.05x$ (1.05:1). Thin coverage not to be less than 1:1 may be considered with mitigants (e.g., collateral strength, guarantees, subordinated debt, or co-lender structures). For DSCR below 1:1 on an actual basis, projections with detailed assumptions must be provided indicating a DSCR of at least 1:1. A Global Cash Flow Coverage Ratio of $\geq 1.05:1$ mitigates this benchmark requirement.

7.2 Global Cash Flow Coverage Ratio

- **Definition:** Measures consolidated ability of the borrowing entity(ies) plus guarantor(s) to service all business and personal debt obligations.

- **Formula:** Global DSCR = Global Cash Flow Available for Debt Service / Global Debt Service.
 - Global Cash Flow Available for Debt Service = Business' Cash Flow Available for Debt Service + Guarantor recurring net income (wages, pensions, verified K-1 distributions, etc.) – normal living expenses – recurring personal obligations not included in debt service.
 - Global Debt Service = Sum of scheduled principal + interest for all business debts across related entities + personal debt obligations (mortgage, auto, student loans, credit cards minimums, etc.) + the proposed loan.
- **Benchmark:** $\geq 1.05x$ (1.05:1).

7.3 Liquidity Analysis

A) Months of Operating Cash

- **Definition:** Indicates ability to fund operations without new revenue.
- **Formula:** Months of Operating Cash = (Cash + Marketable Securities + LOC availability) / Average Monthly Operating Expenses
Note: Average Monthly Operating Expenses exclude depreciation and interest; can be calculated from trailing 12 months or realistic forward-looking budget.
- **Guidance:** Generally acceptable at 1.5–3.0 months; may consider ≥ 1.0 month with compensating strengths (e.g., strong receivables quality, projections, partner participation, etc.).

B) Post-Transaction Liquidity

- **Definition:** Liquidity remaining after giving effect to the proposed financing and uses of proceeds.
- **Formula:** Post-Transaction Liquidity = Pro forma Cash & Equivalents after Close / Pro forma Average Monthly Operating Expenses
- **Guidance:** Prefer ≥ 1.5 -3.0 months; transactions with < 1.0 month requiring documented mitigants.

7.4 At-Risk Equity

- **Definition:** Owner funds and subordinated insider debt committed to the project and at risk behind senior creditors.
- **Formula:** At-Risk Equity (shown as a dollar amount, not a ratio) is the amount of cash equity (not appraised equity) the borrower has into the project.
- **Guidance:** While not a ratio, the amount of at-risk equity should constitute the majority of the borrower's contribution to a real estate or equipment purchase. Start-ups and high-risk industries may require higher amounts unless mitigated by collateral, guarantees, or participation structures.

7.4.1 At-Risk Equity for Working Capital Loans

When underwriting working capital loans, at-risk equity is considered as the borrower's cash equity or subordinated insider debt that is committed to the business and available to absorb losses. Unlike asset-based loans, working capital loans may not be directly secured by new physical assets; therefore, the underwriter should focus on the following:

- Definition: For working capital loans, at-risk equity consists of unencumbered cash injected into the business, retained earnings, or deeply subordinated insider debt that is junior to all senior creditors and not subject to scheduled repayment during the loan term.
- Assessment: The underwriter should verify the source and availability of at-risk equity, ensuring it is not borrowed or otherwise encumbered. Documentation may include bank statements, equity infusion records, or executed subordination agreements.
- Guidance: While there is no fixed minimum for at-risk equity in working capital loans, preference is given to applicants who demonstrate a meaningful cash contribution or retained earnings relative to the requested loan amount.
- Mitigants: If at-risk equity is limited, the underwriter should identify compensating strengths such as strong historical cash flow, reasonable projections, robust liquidity, additional collateral, or third-party guarantees.

All determinations regarding at-risk equity for working capital loans must be documented in the credit memorandum, with reference to the standards and exception process outlined in the SOREDI Master Credit Policy.

7.5 Leverage (Debt to Tangible Net Worth)

- Definition: Assesses long-term solvency and capitalization.
- Formula: Debt/Tangible Net Worth = Total Liabilities / (Total Equity – Intangible Assets)
- Guidance: Target $\leq 3.0x$ for established firms; up to $5.0x$ may be considered with strong mitigants (e.g., collateral margins, guarantees, or subordinate debt treated as quasi-equity).

7.6 Business Acquisition Underwriting

Business acquisitions are an eligible use of loan proceeds under this Program Policy. The following additional underwriting standards and documentation requirements apply:

- Required Documentation:
 - Historical Financials: At least two years of historical financial statements and tax returns from the seller must be provided. If the business has operated for less than two years, all available historical financials must be included.
 - Business Plan & Projections: The buyer must submit a new business plan and detailed financial projections for the post-acquisition entity. Projections must be supported by clear, written assumptions (e.g., revenue drivers, cost structure, integration plans, staffing, and anticipated changes).
 - Assumptions Support: All projections must include a narrative explaining the basis for key assumptions, including customer retention, supplier continuity, transition costs, and any planned operational changes.
- Underwriting Analysis:
 - Reason for Sale: The credit memorandum must include an analysis of the seller's reason for selling the business, with supporting documentation or interviews as appropriate. The analysis should assess whether the sale is due to retirement,

strategic repositioning, financial distress, or other factors, and evaluate any risks associated with the transition.

- Valuation Assessment: The applicant must provide a valuation of the business, supported by an independent appraisal, broker opinion, or other recognized method. The underwriter will assess the reasonableness of the valuation relative to historical earnings, assets, market comparables, and the proposed purchase price.
- Buyer Qualifications: The applicant must provide a summary of relevant background, experience, and capacity to successfully operate the acquired business. The underwriter will assess management strength, industry experience, and transition planning.
- Additional Considerations:
 - Transition Risk: The underwriting must address risks associated with ownership transition, including customer and employee retention, supplier relationships, and any required licensing or regulatory approvals.
 - Collateral: Collateral for acquisition loans may include business assets, personal guarantees, and other pledged assets as outlined in Section 5 of this Policy and the Master Credit Policy.
 - Debt Service: DSCR and global cash flow coverage must be calculated using pro forma post-acquisition financials, with sensitivity analysis as appropriate.
 - At-Risk Equity: Seller-financing is allowed to assist the borrower with the financing stack. A minimum of 5% of the project must be maintained in cash at-risk equity from the borrower. All debts including seller-financing must be considered in DSCR. Seller-financing must be subordinated, or at a minimum, pari-passu to SOREDI's loan.

All business acquisition loans must comply with the standards and governance framework set forth in the SOREDI Master Credit Policy, including documentation, risk rating, and exception approval processes.

7.7 Refinancing of Existing Debt

Refinancing of existing debt should be generally avoided as the primary purpose of the loan program is to provide “growth capital” to businesses. However, retention of business operations is vital to economic development and is embedded as a metric in various state and federal lending programs. Careful consideration must be given to the nature of the request to ensure that the refinance substantially improves the likelihood of business continuation, job creation, or expansion.

Examples of prudent and/or typical refinance transactions that have economic development benefit and/or improve business or guarantor financial solvency:

- Refinancing personal loans used to start the business operation.
- Refinancing high-cost short-tenor online credit products that materially impair business viability.
- Refinancing of existing debt may be considered when it is part of a larger lending transaction that includes growth capital and improves the overall financial capacity of the business.

Examples of refinances that should generally be avoided:

- Refinancing traditional lending institution debt for a more favorable interest rate and/or when business continuance is not a factor.
- Refreshing revolving business debt with a term loan while the revolving credit facility remains open.

The Loan Manager should consider if the applicant has pursued financing elsewhere and assess the necessity of the refinance, including the potential economic development benefits.

Assessment should also be made of the necessity for the refinance and include, to the extent possible, the potential economic development benefits that would result from the refinance.

7.8 Advance Rates

Collateral advance rates should be appropriately determined on a case-by-case basis and should reflect expected liquidation value, consideration of holding costs, commissions, and other expenses related to recovery.

Collateral Type	Valuation Basis	Max Advance Rate
Cash / Deposit Accounts	Balances in insured institutions.	95–100% with account control agreement.
Inventory - Finished Goods	Book value; non-obsolete; subject to obsolescence reserve.	0–50% ¹
Inventory - Raw Materials	See above.	0-10%
Inventory - Work in Process (WIP)	See above.	0%
Equipment & Machinery ²	Invoice, book value, comparables or equipment appraisal.	40–80% depending on marketability, useful life, new/used, etc.
Titled Vehicles / On-road Fleet	NADA/KBB or comparables.	50–80%
Commercial or Residential Real Estate	Assessor’s real market value, online valuation, broker opinion of value, or appraisal.	80-90% depending on quality of property.
Leasehold Improvements	Verified cost documentation.	Generally, 0% unless otherwise justified.

¹ Inventory advance rates may be reduced when controls are weak or when collateral is subject to another lender’s PMSI without intercreditor accommodation.

² Collateral located on leased premises requires a landlord waiver/consent agreement to be eligible.

These ranges in the table above are a guideline. The approved advance rate should consider collateral volatility, lien seniority, likely liquidation method, collection costs, and recovery time.

As a general rule, inventory typically holds a very low value due to its revolving nature and lack of stable value. Factors including the low likelihood that inventory is available for recovery in the event of default should be taken into consideration. Caution should be taken regarding out-of-state assets and should only be included if considered immobile, such as real estate. Leasehold

improvements are typically inaccessible and considered property of the landlord once installed, regardless of the presence of a landlord waiver.

8. Participation, Intercreditor & Subordination

The program may participate with other lenders via co-lending or participations. Intercreditor agreements will be used when sharing collateral to set lien positions, voting, remedies, and cash flow waterfalls. The program may subordinate to another lender, or require another lender to subordinate to the program, via subordination agreements. Subordination can address lien positions and/or subordination of debt on the borrower's balance sheet (payment blockage; standstill).

9. Closing, Disbursement & Monitoring

- Closing requirements include perfected liens, executed guarantees, insurance evidence, and satisfaction of conditions precedent.
- Disbursements will be controlled (e.g., vendor pay, progress draws) to ensure proper use of proceeds.
- Post-closing monitoring will follow risk-based schedules (financial reporting, site visits, insurance/tax ticklers).
- Environmental and flood checks will be performed where warranted.

10. Compliance Alignment & Credit Otherwise Not Available

For loans funded in whole or in part by federal programs currently in federalized status (e.g., federalized EDA RLF, USDA IRP), this Policy aligns with applicable plan requirements. Evidence that credit is not otherwise available is required (e.g., bank denial or memo indicating need for SBDL participation). Interest rates and terms will meet or exceed the applicable funder minimums and standards. Equity expectations and collateral practices will follow funder guidance. Balloon payments are permitted where funder rules allow. All environmental reviews and record-keeping will be conducted per funder requirements.

11. 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. All exceptions will be noted in the credit memo.

12. 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)

Account Control Agreement: Tri-party agreement with a depository institution granting SOREDI control over a deposit account; required for 100% advance against cash balances.

Advance Rate: The percentage of a collateral valuation basis that SOREDI will lend against.

At-Risk Equity: Owner cash equity and/or subordinated insider debt committed to the project and junior to senior creditors.

Balloon (Loan Structure): A term structure with amortization longer than the loan term, resulting in a lump-sum (balloon) due at maturity.

Landlord Waiver/Consent: Agreement with a landlord that waives or subordinates landlord lien rights and grants SOREDI access to enter the premises and remove collateral located at leased property.

Collateral Perfection: Legal steps (e.g., UCC filing, control agreement, recorded deed of trust) that make SOREDI's security interest enforceable against third parties and establish priority.

Debt Service Coverage Ratio (DSCR): Primary cash flow capacity metric. $DSCR = \text{Cash Flow Available for Debt Service} \div \text{Total Required Debt Service}$.

EDA RLF (Economic Development Administration Revolving Loan Fund): Federal program that capitalized certain SOREDI loan funds. When loans are funded by a federalized EDA RLF, program-specific term limits and compliance requirements apply.

Exceptions (Policy Exception): Any approval of a new loan that departs from this Master Credit Policy or the applicable Program Policy.

Finished Goods Inventory: Completed goods ready for sale and recorded on the balance sheet.

Global Debt Service Coverage Ratio (Global DSCR, aka "Global Cash Flow"): Consolidated coverage considering borrower and guarantors. $\text{Global DSCR} = \text{Global Cash Flow Available for Debt Service} \div \text{Global Debt Service}$.

Intercreditor Agreement: Agreement between creditors sharing collateral that sets lien positions, voting, remedies, and cash-flow waterfalls.

Leasehold Improvements: Tenant-funded improvements to leased premises; typically ineligible for advance rates unless specifically justified due to limited recoverability.

Lender's Loss Payee: Insurance endorsement naming SOREDI as loss payee on applicable policies (equipment/vehicles/inventory) to protect collateral coverage.

MAI Appraisal (Real Estate): An appraisal prepared by a Member of the Appraisal Institute; used to support owner-occupied commercial real estate valuation and sizing of advance rates.

Months of Operating Cash: Liquidity indicator: $(\text{Cash} + \text{Marketable Securities} + \text{LOC availability}) \div \text{Average Monthly Operating Expenses}$.

Participation: Lending structures in which SOREDI participates with other lenders to share exposure and collateral under documented participation or co-lending agreements.

Post-Transaction Liquidity: Liquidity remaining after the proposed financing: $\text{Pro forma Cash \& Equivalents after Close} \div \text{Pro forma Average Monthly Operating Expenses}$; prefer $\geq 1.5\text{--}3.0$ months.

Purchase-Money Security Interest (PMSI): A security interest that secures the financing used to acquire specific collateral (e.g., new equipment or inventory). PMSI notifications and filings preserve priority.

Subordination Agreement: Agreement that subordinates one creditor's lien or right to payment to another (may include payment blockage or standstill provisions).

UCC-1 (Financing Statement): Public filing used to perfect SOREDI's security interest in personal property collateral (e.g., equipment, inventory, accounts).

USDA IRP (Intermediary Relending Program): USDA program providing capital for rural business lending; applicable compliance standards apply when funding source is federalized.

Work in Process (WIP): Goods in production not yet completed; limited collateral value and often ineligible unless reliable tracking supports valuation from finished-goods NRV less costs to complete.