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PROPOSED REGULATIONS

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Filed this day of

Office of Registrar of Corporations

PUBLIC NOTICE mmonwealth of the Northern Mariana Islands

PROPOSED POLICIES AND REGULATIONS FOR THE ECONOMIC DEVELOPMENT LOAN FUND NORTHERN MARIANA ISLANDS

Pursuant to Article I of its Policy and Procedure Manual, the Commonwealth Economic Development Loan Fund Board hereby gives public notice that it has developed and established proposed Policies and Regulations for the administration of the Economic Development Loan Fund.

The proposed regulations include the following subject areas.

- 1. Origin, purpose, definitions, policy and operation principle, powers, board of directors, officers, and personnel committee;
- 2. Financial matters:
- Credit Underwriting, security, disbursements, insurance and servicing of loan;
- 4. Collection and Foreclosure; and
- 5. Investigation, audits, privileged information, approval notice, and other miscellaneous matters.

EDLF hereby advises the general public that the proposed Policies and Regulations are available at the EDLF office located at Wakin's Building, Middle Road, in Gualo Rai, Saipan, Mariana Islands. Interested persons may obtain copies of the proposed Policies and Regulations for review and comments in writing, addressed to the Executive Director, EDLF, Office of the Governor, Wakin's Building, Gualo Rai, Saipan, CM 96950. All comments must be in writing and submitted within thirty (30) days from the date this notice is published in the Commonwealth Register. Upon adoption, these Policies and Regulations shall replace and supercede the existing Policy and Procedure Manual of EDLF.

Date:

3-13-85

David M. Sablan

Chairman, EDLF

D-1-

Pedro P. Tenorio

Governor

Office of Registrar of Corporations NUTISIAN PUPBLERU nwealth of the Northern Mariana Islands

Maproponi Na Areklamento Yan Regulasion Para i Economic Development Loan Fund Northern Mariana Islands

Sigun qi Attekulu I qi mismo Areklamento yan Gihan Areklo, I Commonwealth Economic Development Loan Fund Board ha nana'i nutisia i pupbleku na mama'tinas osea ha na'guaha mapruponi na Areklamento yan Regulasion para i ma'atmenistran i Economic Development Loan Fund.

I Mapruponi na regulasion ha kukubre i mansigiente siha na patte.

- Matutuhon-ĥa, rason, fundamento siha, areklo yan 1. prinsipat na kinalamten-ña, pudet siha, direktot i otganisasion siha, ufisiales yan kumiten emplehao;
- Asunton fainasiat (Fondo pat Salappe') 2.
- 3. Dokumento ni rumesponsapbliliyi i inayao, siguridat, malaknos salappe', pruteksion yan setbision inayao;
- 4. Marikohen salappe' yan ma'amot quinaha.
- Embestigasion, ma'inan salappe' yan i 5. ma'atmenistra-na, pribilehio na emfotmasion, ma'apreba na nutisia, yan ottro siha na klasen asunto.

I EDLF ha abibisa i hinirat pupbleku na mana'guaha dokumento pot i mapruponi na Areklamento yan Regulasion gi ufisinan i EDLF gi Wakin Building, Chalan sanhalom giya Gualo Rai, Saipan, Mariana Islands. Hayi na enterisao manina pat mama'rekumendasion pot i mapruponi na Areklamento yan Regulasion u fañule' kopia ya u dirihi guatu gi Director i Eksekutibon i EDLF, Ufisinan i Gubetno, Wakin Building, Gualo Rai, Saipan, CM 96950. Todu rekumendasion debi di u matuqe' ya u mana'halom gi halom i trenta (30) dias desde ki mapupbleka-ña i nutisia gi halom i Lepblon i Commonwealth (Commonwealth Register). I ma'adopta-ña este siha na Areklamento yan Regulasion u tinilaika osea u tinahgue i prisente na Gihan Areklamento yan Regulasion i EDLF.

Sablan, Gume'hilulu'i, EDLF

Pedro P Tenorio, Gubetno

Office of Registrar of Corporations ARONGOLORONGOL TOWLAP

POMOL LLIIWEL LLOL ALLEGHUL ECONOMIC DEVELOPMENT REEL TONGOROL SALAPI MELLOL NORTHERN MARIANA ISLANDS

Sangi Allegh ye llol Peigh ye mmwal mellol Tiliighiil Alleghul Schooy Agheyaghil Commonwealth Economic Development Loan Fund rekke arongaar aramas towlap bwe raa bwal ayoora pomol allegh kkaal reel mwoghutughutul me lemelemil Economic Development Loan Fund.

Iwe, ikkaal pomol allegh kka faal:

- Bweletaal, faal, allegh, mwoghutughut, maamaaweer, schooy agheyagh, assamwool me schooy personnel;
- 2. Mwoghutuqhutul salapi;
- 3. Alughulughul gheeghe (diibi), alughulugh, obwoos, insurance me tongorol salapi (servicing of loan);
- Iyeyul obwoos me mutta; me 4.
- Agheyaghil salapi, arongorong weires, arongorong allegh me bwal akkaaw masamasal aweewe.

EDLF ekke arongaar aramas towlap bwe pomol allegh kkaal nge eyoor llol bwulaasiyool EDLF mellol Wakin's Building, me Gualo Rai, Seipel. Schookka re tipeli allegh kkaal rebwe tooto bweibwogh tiliighiil mellol bwulaasiyo yeel bwe owbwe ischilong managemangemi. Afangaalong ischiiyami reel schooy Lemelemil EDLF, Bwulaasiyool Gobenno, Wakin's Building, Gualo Rai, Seipel, CM 96950. Alongal mangemang kkaal nge ebwe ischitiw nge aa isiisilong eliigh ral (30) sangi rallil arongorong yeel igha e toowow mellol Commonwealth Register. Ngare aa allegh fischilo tongor kkaal, iwe ebwele liiwel Tiliiqhiil Alleghul Mwoqhutuqhutul EDLF ye ighila.

Maram, ral, raagh

David M. Sablan, Samwoolul

EDLF

Temorio,

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POLICIES AND REGULATIONS FOR THE ECONOMIC DEVELOPMENT LOAN FUND NORTHERN MARIANA ISLANDS

CHAPTER I. ORIGIN OF THE ECONOMIC DEVELOPMENT LOAN FUND:

Section 1. The Trust Territory Economic Development Loan Fund (EDLF) was originally created by Administrative Directive 65-2 in 1964, by the High Commissioner of the TTPI in compliance with U.S. Public Law 88-487 and U.S. Public Law 92-257.

The Trust Territory EDLF functions and operations were transferred to the Commonwealth through Sections 2, 3 and 13 of the Schedule on Transitional matters of the Commonwealth Constitution, and as further manifested by the TTPI-NMG Memorandum of Understanding No. 2. The organization, functions and procedures of the EDLF, as administered in the Commonwealth, were redefined in the EDLF Policy and Procedure Manual (Rules and Regulations), as approved by the Governor of the Commonwealth, which provides among other things, for the administration of the Fund by an Economic Development Loan Fund Board (hereinafter referred to as the Board or Fund). Grant funds received by the Commonwealth pursuant to Section 702(c) of the Covenant which presently are the principal source of funds, and from the TTPI pursuant to Memorandum of Understanding No. 2, are paid into and administered by the Commonwealth Economic Development Loan Fund.

Pursuant to Section 702(c) of the Covenant, \$500,000.00 is reserved each year for small loans to farmers, fishermen and to agricultural and marine cooperatives. An additional \$250,000.00 is set aside each year for low interest housing loans for low income families and administered by the Mariana Islands Housing Authority.

CHAPTER II. PURPOSE:

- Section 1. Purposes of the Economic Development Loan Fund are:
 - A. To initiate, stimulate, and facilitate development of the economy of the Commonwealth for the economic and social advancement of the people of the Commonwealth by making loans, and giving financial, technical, and advisory assistance in its sound discretion to enterprises in the Northern Marianas.

- To achieve the greatest possible return, in terms of economic development on the funds provided.
- To encourage the development of technical expertise in business and financial management by cooperating with government and private groups, and assist in providing training services, where feasible.
- To assist in the identification, formulation and promotion of new projects.

CHAPTER III. GENERAL DEFINITIONS:

Unless the context otherwise requires, in these Policies and Regulations;

- (a) "Applicant" or "loan applicant" means a person, partnership, association, or corporation seeking a loan or quaranty from the Economic Development Loan Fund.
- (b) "Board" or "board of directors" means the board of directors of the Economic Development Loan Fund.
- (c) "Chairman" means the chairman of the board of directors of the Economic Development Loan Fund.
- (d) "Commonwealth" means the Commonwealth of the Northern Mariana Islands.
- (e) "Covenant" means the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (P.L. 94-241; 90 Stat. 263; 48 U.S.C. 1681, note).
 - (f) "EDLF" means the Economic Development Loan Fund.
- (g) "Executive Director" means the Executive Director of the Economic Development Loan Fund.
 - (h) "Fund" means the Economic Development Loan Fund.
- (i) "Governor" means the Governor of the Northern Mariana Islands.
- (k) "Loan" or "direct loan" means a delivery by EDLF to and receipt by a loan applicant of a sum of money upon agreement to repay it to EDLF, with interest.
- (1) "Loan application" means a request by a loan applicant for a loan from EDLF.
- (m) "Loan quaranty" means a promise by EDLF to answer for repayment of a debt or performance of an obligation if a person COMMONWEALTH REGISTER

primarily liable to a financial institution other than EDLF fails to make payment or perform the obligation.

- (n) "NMG" means the Northern Marianas Government.
- (o) "Public Auditor" means the Public Auditor of the Commonwealth of the Northern Mariana Islands.
- (p) "Syndicated financial arrangement" means a financial arrangement by EDLF in association with one or more financial institutions formed for the purpose of making a loan.
- (q) "TTPI" means the Trust Territory of the Pacific Islands.

CHAPTER IV. GENERAL POLICY AND OPERATING PRINCIPLE:

- Section 1. All loans must satisfy the Board that the loan will be beneficial, desirable and necessary to develop the economy of the Northern Mariana Islands. The Board shall give preference in determining whether or not any assistance is to be given to any eligible enterprise, and/or to enterprises which will:
 - A. Use locally available raw materials.
 - B. Make use of technologies to provide employment opportunities and training of local people.
 - C. Have a good potential for increasing exports and decreasing imports.
 - D. Lower cost within the Commonwealth and improve the efficiency or standards of goods and services within the Commonwealth.
- Section 2. In addition to the criteria mentioned under Section 1, all loan applications must satisfy the Board to a high degree that:
 - A. The prospects of the enterprise will be successful, and the prospect of any money lent to it by the Board will be repaid to the Fund.
 - B. The enterprise is or will become or remain of value to the economy of the Commonwealth.
 - C. The enterprise is or will be or will remain owned or effectively controlled by persons who are citizens of the Northern Marianas, or U.S. citizens or nationals who are actual residents of the Northern Marianas.

D. The public interest of the Commonwealth will be served by assisting the enterprise.

CHAPTER V. GENERAL POWERS:

- Section 1. The Fund shall have and may exercise the following general powers:
 - A. To prescribe, adopt, amend and repeal by-laws governing the manner in which its business will be conducted and in which the obligations imposed on it by law will be performed;
 - B. To receive and hold funds from the United States Government, the Government of the Commonwealth, and any other source of Capital Contribution;
 - C. To borrow money from any private or public source, either within the Commonwealth or the United States or in any other country; and to give security in connection with such borrowing;
 - D. To make and issue bonds for sale to the general public;
 - E. To make, contract and execute all instruments necessary or convenient in the exercise of its powers.
 - F. To acquire and hold any interest in any real or personal property, tangible or intangible, deemed by it necessary or convenient for carrying out the purposes of the Fund;
 - G. To pledge the full faith and credit of the Fund;
 - To make direct loans and/or loan guarantees to citizens of the Commonwealth, or U.S. citizens or nationals, having at least a one (1) year continuous residency in the Commonwealth and who are domiciles of the Commonwealth as defined in Section 1005(e) of the Covenant, or a partnership or association wholly owned by citizens of the Northern Mariana Islands or U.S. citizens or U.S. nationals domiciled in the Northern Mariana Islands, or a corporation organized under the laws of the Commonwealth of which at least fifty-one percent (51%) of the capital stock outstanding and entitled to vote is owned and held by U.S. citizens or nationals or citizens of the Northern Marianas in which profits and/or surpluses are distributed in direct proportion to the shares held, or by a U.S. corporation,

properly licensed and registered under the laws of the Northern Mariana Islands, and actually doing business in the Northern Mariana Islands for a period of at least one year.

- I. To make loans to a public corporation or agency of the Commonwealth Government to further the purposes of the Fund.
- J. To engage as its agent any commercial bank or autonomous public agency or private investor to administer any Fund loan program involving loans to private persons, corporations or partnerships or corporations eligible for a loan under Section 702(c) of the Covenant.
- To hire such employees as it deems necessary for Κ. the administration of the Fund.
- To sue and be sued in its own name as an independent agency of the Commonwealth Government.
- To take such action as is necessary and proper to operate the Fund, further its purposes, administer its loans and oversee its other capital outlays.

CHAPTER VI. BOARD OF DIRECTORS:

- Section 1. The activities of the Fund shall be governed and controlled by a Board of Directors. The members should be knowledgeable about and experienced in business, financial or other economic affairs. members shall be appointed by the Governor.
- Section 2. The Board shall be composed of the following seven (7) voting members and four (4) non-voting ex-officio members:

Voting Members

- Α. One member representing Rota;
- One member representing the Carolinian community; В.
- C. One member representing Tinian;
- One member representing a banking institution D. licensed and operating in the Commonwealth;
- Ε. Three members representing Saipan and the Northern Islands.

Of the seven voting members, at least one shall be a female voting member;

Non-Voting Ex-Officio Members

- H. The Director, or his designee, of the Department of Commerce and Labor;
- I. The Director, or his designee, of the Department of Natural Resources;
- J. The Director, or his designee, of the Department of Finance;
- K. The Attorney General, or his designee, of the Attorney General's Office.
- Section 3. Terms of office of appointed directors: Members of the Board shall be appointed for terms of three (3) years, except that the term of any member who sits on the Board by virtue of his government office or position shall continue for and only for the term of his occupancy of that office or position. Every voting member shall continue to hold office until his successor comes into office.
- Section 4. Resignation, Removal and Vacancies of Board: A voting director may at any time resign his office by notice in writing to the Governor. A voting Board member may be removed by the Governor before the expiration of his term for cause or not for cause pursuant to Public Law 1-8 (as amended). A voting Board member who grossly neglects or is in dereliction of his duty, is in breach of his fiduciary duty, is convicted of a felony, or is mentally or physically disabled, or who fails to attend three consecutive noticed meetings may be removed, by three fourths (3/4) vote of the Board, or alternatively by the Governor upon recommendation of removal by a majority vote of the Board to the Upon recommendation to the Governor, by Governor. majority vote of the Board, the Governor in his discretion may accept or reject the recommendation. Any person appointed to fill a vacancy shall hold office for the unexpired balance of the term of office of his predecessor.

In the event the Chairman and/or the Vice Chairman resign(s) or is/are replaced, the Board will select a Chairman and/or Vice Chairman from among its members as per Section 5 of this Chapter.

Section 5. Chairman and Vice Chairman: The Board will select a Chairman and Vice Chairman from among its voting

members by a simple majority vote of the entire Board members (including the non-voting members). Chairman and Vice-Chairman must be selected from the voting members. The Vice-Chairman in the absence of the Chairman shall assume all the duties and responsibilities of the Chairman. The Chairman may appoint and create special committees as needed to perform the functions of the Board. A member of the Board is eligible for reelection as Chairman or Vice Chairman of the Board.

Section 6. Meetings of the Board: The Board shall hold not less than six meetings in each financial year of the Fund, or as often as necessary for the purpose of governing the Fund. The Chairman or in the absence of the Chairman, the Vice Chairman, or the Executive Director shall call the Board meeting at a time and place convenient for the Board members. A notice of a Board meeting must be given each Board member at least 24 hours prior to the meeting. At a meeting of the Board at which neither the Chairman nor the Vice Chairman of the Board is present, the Board shall appoint one of their members to preside.

> All Board meetings shall be open to the public, except when the Board is considering matters involving the financial or credit confidences or any other privileged information concerning applicants or projects.

The Board shall cause to be kept minutes of the proceedings at each meeting of the Board, in such form as the Board directs.

For urgent or in emergency situations, a written decision signed and approved by a majority of the voting Board members, shall be binding and effective as if the same had been acted upon at a meeting of the Board duly convened and held. Subject to the provisions of these Policies and Regulations, the Board may regulate its procedure in such manner as it deems fit and proper.

- Section 7. A quorum for meetings and transacting business shall be a simple majority of the voting members.
- Section 8. There shall be no proxies allowed.
- Section 9. Compensation for Board Members: Members of the Board of Directors who are not employees of the CNMI Government will be compensated at a rate to be established by the Board for meetings attended.

Members of the Board who are government employees are entitled to compensation only for time spent in meetings after regular working hours.

All members shall be reimbursed for expenses incurred in connection with the Fund business if previously approved by the Chairman, the Vice Chairman in the absence of the Chairman, and the Executive Director. Rules on travel and per diem shall be established by the Board.

- Section 10. Disclosure of Conflict of Interest: Any director who otherwise as a director, is directly or indirectly interested in any arrangement, transaction or business matter entered into, proposed or under consideration by the Board shall, as soon as possible after the relevant facts have come to his attention, disclose the nature of his interest to the Board. A disclosure under this section shall be recorded in the minutes of the Board and, except as otherwise provided by a resolution of the Board, the director shall not take part after the disclosure in any deliberation or decision relating to the arrangement or agreement, but shall be counted as present for the purpose of forming a quorum of the Board for any such deliberation or decision.
- Section 11. Contracting Authority: The Executive Director and the Chairman (or Vice Chairman in the absence of the Chairman) shall have contracting authority for the purposes of dealing with all matters pertaining to the operations of the Fund, such as execution of all loan quarantees, and other agreements necessary to the operation of the Fund.
- Section 12. The Board shall have the following duties:
 - To govern the operation of the Fund in a manner Α. that furthers its purposes;
 - To take action necessary to execute the powers of the Fund.
 - To adopt by-laws, and to adhere to operating policies that will assure the Fund's financial vitality and best promote its development purposes;
 - To make final decisions on loan applications and other proposals for funding of programs and projects, unless delegated to the Executive Director.

- E. To submit a report at the end of each fiscal year of Fund activities during the year, together with a year-ending financial status to the Legislature and the Governor.
- Section 13. The Board shall further have and may exercise the following powers:
 - A. To exercise all powers enumerated in Section 1, Chapter V, that are necessary and appropriate to the fulfillment of its duties under Section 11, Chapter VI.
 - B. To employ an Executive Director, and provide for the hiring of staff employees, and to define their duties and responsibilities.
 - C. To decide finally on any use of EDLF funds, including the power to determine how the Fund's unexpended capital shall be maintained and managed;
 - D. To allocate and expend funds for the repayment of obligations incurred by the Fund in accordance with Section 1, Chapter V; and
 - E. To contract and pay for economic studies, project evaluations, feasibility studies, including pilot projects in cooperation with private groups or government agencies as deemed necessary and appropriate to further the Fund's economic development purposes.
 - F. To approve an annual operating budget for the Fund.
 - G. The Board may from time to time appoint committees consisting of any three or more directors or officers of the Fund.
 - H. The Board may from time to time delegate to any of its committees, or to the Executive Director, or to any other officer of the Fund any of its powers under these Policies and Regulations. Any committee or persons to whom any powers are so delegated may exercise these powers in the same manner and with the same effect as if they had been conferred on it directly by these Policies and Regulations.

CHAPTER VII. OFFICERS:

- Section 1. The officers of the Fund shall be the Executive Director of the Fund and such other officers as the Board shall deem appropriate with respect to the operation of the fund.
- Section 2. The Executive Director shall perform the following functions:
 - A. Conduct and oversee the Fund's general operation, including the administration of all loans and the enforcement of all provisions of loan agreements, and the supervision of employees of the Fund.
 - B. Notify applicants of the status of their applications.
 - C. Continuously monitor the progress and financial status of projects financed in whole or in part by the Fund.
 - D. Report to the Board the status of the Fund's loans and its activities.
 - E. Refer to the Board for decision all loan applications from any eligible applicant, except those delegated by the Board.
 - F. Prepare an annual operating budget of expenses of the Fund, for approval by the Board.
 - G. Hire staff employees or other professionals.
 - H. Perform such other duties as the Board may require.
- Section 3. The Executive Director and other officers of the Fund may be dismissed for cause by the Board.

CHAPTER VIII. PERSONNEL COMMITTEE:

Section 1. The Board shall establish a Personnel Committee consisting of three (3) members of the Board, plus the Executive Director. The Personnel Committee shall establish procedures and rules governing employee relations, order of conduct of employees and Board members, compensations, time and attendance, and other matters affecting employees' moral.

CHAPTER IX. FINANCIAL MATTERS:

- Section 1. The Board shall not make any loan, quarantee any loan or participate in any loan if such loan application would exceed twenty-five (25%) of the Fund's uncommitted cash.
- Section 2. In exceptional cases meriting special consideration, limits under Section 1 of this chapter may be exceeded provided the loan is covered by sufficient securities, pursuant to Section 1, Chapter XI.
- Section 3. In financing worthwhile projects requiring more than its maximum lending limits under Section 1 of this chapter, the fund may enter into a syndicated financial arrangement with financial institutions, both domestic and foreign, limiting the Fund's exposure to the ceiling referred to under Section 1 of this chapter.
- Section 4. Checks: All checks issued by the Fund shall contain two signatures one of which shall be the Executive Director or Chairman of the Board and the other by the Vice-Chairman or other official of the Fund with check signing authority as approved by the Board of Directors. In the absence of the Chairman, Vice Chairman and the Executive Director, the Board of Directors shall appoint one among its members to sign jointly with the other official of the Fund.
- Section 5. The Executive Director shall ensure at all times that accounting records and support are maintained. Monthly financial statements with fund status reports must be prepared in accordance with generally accepted accounting principles and practices and copies thereof shall be provided to Board members. The accounts and statement of accounts of the Fund shall be audited by the Public Auditor or an independent auditor approved by the Public Auditor.
- Section 6. Moneys of the Fund not immediately required to meet the obligations of the Fund may be invested by the Board on such terms and conditions as the Board may determine.
- Section 7. The Board may, as it deems necessary, open and maintain savings, checking accounts and other investment forms with banks or savings and loan associations which are members of the Federal Reserve System or the Federal Deposit Insurance Corporation or which are reputable financial firms. Monies received by the Board shall be deposited into the account or accounts maintained by the Board.

- All monies pursuant to Article VII, Section 702(c) of the Covenant, and pursuant to Article II, Section 5 and Article III, Section 9A of the Northern Marianas Constitution.
- All monies to be received by or on behalf of the Fund, with respect to repayment of any loan made, including interest and other charges payable.
- C. All monies arising from property or investments acquired by or invested in by the Board.
- Other monies and property due and payable to the D. Fund.
- Section 9. The Board shall pay out of the Fund:
 - Loan amounts approved by the Board or the Executive Director.
 - Amounts approved by the Board or the Executive Director for investment.
 - All expenses, costs and obligations incurred for the administration and operation of the Fund.
 - D. Amounts expended or obligated for activities and projects under Section 12, Chapter VI.
- Section 10. The Board may, as necessary, require its borrowers to keep records and accounts in accordance with sound and generally accepted business practice, and may require them to furnish necessary information as to their business operations and accounts, deemed appropriate. The Board shall also retain the right to inspect the enterprises' finances, as well as their operations, records, and books of accounts.
- Section 11. The Fund shall review and from time to time determine the rates of interest to be assessed a borrower not to exceed the rate authorized by law.
- Section 12. The loan applicants shall pay all loan fees necessary or incidental to the loan. Such fees may include but are not limited to recording fees, notary fees, appraisal fees, or certified public accountant fees, in the event such is required by the Board, and attorneys fees incurred by the Board for the drafting of the loan documents in the making of the loan. addition to these fees, the Board shall assess each loan applicant the following service charges:

Loan Charges: Applicants for either a direct Α. loan or loan guaranty shall be assessed the following service fee for making the loan:

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Up to $10,000.....
$10,001 to $25,000.....
                        $ 25
$25,001 to $50,000.....
                        $ 50
                        $ 75
$50,001 to $100,000.....
                        $100
$100,001 or above.....
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In the case of an EDLF guaranty, the borrower shall be required to remit the applicable fees to EDLF prior to the execution of the guaranty agreement.

В. Loan Revision: In the event a loan is in default, the loan applicant may request or the Executive Director may recommend, a loan revision with the loan applicant by modifying the terms and conditions of the loan. Provided, however, that such revision or modification is reasonable and prudent and is to the benefit of the Fund. Commercial reasonableness shall be a primary consideration taken by the Executive Director in considering any loan revision or modification. Any such amendments for a revision must be with the approval of the Executive Director. consideration of such revision or modification, the following administrative fee schedule shall be assessed the borrower:

\$1 to \$10,000	\$ 50
\$10,001 to \$25,000	\$ 75
\$25,001 to \$50,000	\$100
\$50,001 to \$75,000	\$150
\$75,001 to \$100,000	\$200
\$100,001 or above	\$250

- The repayment periods of loans to the Fund shall not Section 13. exceed twenty (20) years. The Board shall determine the repayment period including any grace period with the following considerations:
 - The repayment capability of the enterprise; Α.
 - The useful life of assets to be acquired under the Fund's assistance;
 - The optimum use of the Fund's resources by means of the turnover of its portfolio.
- The Board shall set aside as a reserve not less than Section 14. fifty (50%) percent of the amount of guaranteed loans.

CHAPTER X. CREDIT UNDERWRITING

- Section 1. In all cases the applicant must be able to meet the following general credit requirements and credit underwriting criteria:
 - A. The applicant must be of good character.
 - B. The applicant must demonstrate an ability to operate his business successfully.
 - C. The applicant must be willing to provide the Fund with a reasonable equity in cash or in-kind or by way of collateral to ensure that the applicant has an appropriate stake in the venture.
 - D. The applicant must show that the proposed loan is of sound economic value to the respective community in which it will operate.
 - The applicant must show that the past earnings, if any, and future prospects and potential of the company indicate the ability to repay the loan and other fixed debt, if any, out of profits; provided however, that where the Board determines that (1) the project or business is one that will substantially foster and facilitate the overall commercial and economic development of a particular industry, and (2) that the service or business is not otherwise reasonably or readily available locally, the Board in its sound discretion may make a loan (or "otherwise fund" and participate in a particular economic development project or business meeting the above criteria,) and after consideration of the criteria listed under Sections 1 and 2 of Chapter IV.
 - For all loan applications from \$100,000.00 to \$200,000.00, the loan applicant shall be required to submit financial statements and income projections which shall be reviewed by an independent certified public accountant. For new business with a loan application in excess of \$200,000.00, the loan applicant shall be required to submit financial statements and income projections which shall be compiled and reviewed by an independent certified public accountant. For an existing business, a loan application in excess of \$200,000.00, the loan applicant shall be required to submit financial statements and income projections which shall be compiled, reviewed and audited by an independent certified public accountant.

- G. No loan applicant shall be granted a loan if such person, partnership or corporation has been adjudicated bankrupt or has filed bankruptcy or was under receivership within three (3) years prior to the date of filing the loan application.
- H. No loan applicant shall be granted a loan if in default of any debt, loan or any financial obligation at the time of filing the application or if the loan applicant has a record of defaulting on previous loans or other credit extension without justification.
- I. No loan applicant shall be qualified for a loan in the event any property of applicant was actually foreclosed upon, or taken and sold at foreclosure sale to satisfy any debt owed to a creditor by the applicant, if such sale or foreclosure occurred within the last three (3) years before the date of the loan application. The Board shall also take into consideration any notices of default, collection problems experienced by previous lenders with respect to the applicant, or any other defects in the credit rating or comments made by any other creditors.
- J. No loan shall be made to any corporation, company, association, partnership or legal entity in which any EDLF Board member or employees of EDLF shall have any interest therein, whether directly or indirectly.
- K. No loan shall be made to a company or business if any EDLF Board member or EDLF staff employee has close relatives or family members who have an ownership interest in the company or business. For the purposes of this provision, close relatives and family members include mother, father, brothers, mother-in-law, father-in-law, brothers-in-law, sisters, sisters-in-law, or children.
- L. No loan shall be granted to any EDLF Board member or staff employee.
- M. No loan shall be made to any person, for a hobby, personal entertainment or personal pleasure.
- N. All loan guaranties must meet and satisfy the same criteria as a direct loan.

- O. No loan applicant shall be approved unless sufficient securities or collateral is provided to secure the loan, pursuant to Section 1 of Chapter XI.
- No loan applicant shall be deemed to have been granted a loan unless and until the Executive Director so notifies the applicant in writing, and the applicant has indicated his acceptance in writing.
- Section 2. In addition to the above, the Board shall not make loans or loan guarantees under the following circumstances:
 - If funds are otherwise available on reasonable terms from other sources, including but not limited to personal resources, commercial banks. savings and loan associations and credit unions.
 - В. Illegal business activities.
 - C. For refinancing a debt not connected with an existing EDLF loan.

CHAPTER XI. SECURITY:

- Section 1. The Board shall secure its loans and quarantees in accordance with sound lending practices, provided that in doing so, the Fund shall have due regard to its policy to promote economic development in the Commonwealth. Securities may consist of one, or a combination of the following, at the discretion of the Board:
 - Α. First Mortgage on Real Estate: Wherever possible, all loans shall be secured by a first mortgage or deed of trust interest in real estate and improvements. The loan to value ratio of any real estate first mortgage given as security shall not exceed eighty percent (80%) of the value of the assets, improvements and proposed improvements.
 - Second Mortgage on Real Estate: Secondary В. mortgages are discouraged, but may be allowed if a loan application has a strong economic feasibility and potential for success, the loan applicant has a good credit rating and good repayment ability, and the total outstanding principal debt of the holder of the first

security interest on the proposed EDLF second mortgage will not exceed more than eighty percent (80%) of the appraised value of the real estate and improvements thereon.

- C. Leasehold Mortgage: The total loan allowable on the first leasehold interest given as security shall not exceed 80% of improvements and/or proposed improvements, excluding the value of the land.
- D. Chattel Mortgage and Inventories: Loans may further be secured by a chattel mortgage or a security interest on personal and/or business properties provided that such loan shall not exceed fifty percent (50%) of the value of such personal and/or business properties, or of the purchase price thereof, whichever is lower, and provided that the Economic Development Loan Fund receives a first lien on the chattel mortgage or security interest. Crops or agricultural products such as livestock, poultry and fish may not be used as security for any Fund loan due to their perishable nature.
- E. Additional Security: In addition to any one or combination of the above securities, the Board may require individual guaranties from the shareholders of a corporation, partners, association and partnership, and an assignment of receivables and/or assignment of life or mortgage insurance for each loan applicant.
- Section 2. The Board in determining the value of all property being offered as security, be it real estate or personal property, may require a complete appraisal report or letter of appraisal by an appraiser acceptable to the Board. Loan applications in excess of \$25,000.00 shall be accompanied by a complete appraisal report. The Board shall examine the qualifications of the appraiser to determine whether or not his work product is acceptable. Where appropriate, appraisal reports on real property shall be done by a real estate appraiser whose work product is acceptable to a financial institution other than the Economic Development Loan Fund.

CHAPTER XII. <u>DISBURSEMENTS</u>:

Section 1. At all times, the Executive Director and the Board shall insure that no funds shall be disbursed unless

fully reviewed and that all the terms and conditions of the loan agreement have been satisfied in addition to the following:

- No disbursement shall be made unless all the loan Α. documents have been completed and executed and all fees, charges and other expenses have been paid and/or added to the total note due and payable.
- No disbursement shall be made unless the loan В. applicant has produced all the necessary information and copies of any documents required as part of the loan application, including but not limited to insurance policies, releases, appraisal reports, etc., and the applicant shall have executed all loan documents, notes, mortgages, etc.
- C. All disbursements shall be subject to accounting procedures and policies adopted by the Board.
- D. In the event an approved loan is for a construction project, then with each increment payment, an amount equal to a minimum of ten percent (10%) of the incremental payment shall be withheld to assure that all subcontractors, materialmen and suppliers have been paid. retained portion shall be released after the project has been completed, upon a finding by the Executive Director that all of the materialmen, subcontractors and other suppliers have been paid. Each construction increment shall be done according to the plans and specifications and approved by the loan applicant or owner. Upon receipt of such approval, then such increment shall be inspected to the satisfaction of the Executive Director or his representative to determine that the work has been performed according to the plans and specifications. Upon approval of each increment by the Executive Director, funds may accordingly be disbursed, subject to the ten percent (10%) withholding as set forth herein above. The Executive Director may obtain the assistance of outside consultants, architects or engineers concerning the construction of a project financed by an EDLF Such consultants may be retained whenever necessary to assure a sound and workmanlike project performance. The loan applicant shall be required to pay for the inspection and consulting fees.

E — The event the disbursements involve the purchase of equipment, materials or personal property, disbursements shall be made only upon the loan applicant producing satisfactory receipts and/or evidence of purchase of the same and remit to EDLF the invoices and receipts prior to any future disbursement. The Executive Director shall exercise his sound discretion in authorizing release of funds with respect to the loan.

CHAPTER XIII. INSURANCE:

All loans having real estate improvements as security shall have the necessary insurance policies insuring the improvements against any damage due to earthquake, fire, typhoon and any other casualty up to the full insurable value of the improvements, provided, that at all times the insurance coverage shall not be less than the amount of the outstanding loan balance. With respect to construction loans, a loan applicant shall be required to produce a performance and payment bond covering the full value of the improvements and construction cost. EDLF may, in its sole discretion, waive bonding requirements on small local contractors, provided that the loan proceeds for the project is controlled and monitored closely by EDLF, and all costs in relation to the supervision of the fund proceeds, including supervision of the project, shall be borne by the contractor. Any real estate loan shall also have title insurance policies, if obtainable, naming the Fund as the loss payee. If title insurance is not obtainable and the property does not have a clear title, then an attorney's title opinion or such other assurances shall be obtained by the loan applicant as the Board may require and as approved by the attorney for the Board. The expense of such title insurance, casualty insurance, title opinion, etc., shall be paid solely by the loan applicant.

CHAPTER XIV. SERVICING OF LOAN:

A. The Executive Director shall institute a follow-up or tickler system and accounting system to assure that all the payments concerning all loans are received. The accounting systems as adopted by the Board shall be followed. Such systems shall include the follow-up on insurance

- payments, principal and interest payments and production of any financial statements required pursuant to the loan agreement.
- All loans shall require at least an annual or В. semi-annual financial reports from all of the Fund borrowers, together with a status report of the business and the progress of their economic development. For loans of \$100,000.00 to \$200,000.00, the borrower shall submit annual financial statements reviewed by a certified public accountant. For loans in excess of \$200,000.00 the borrower shall submit annual financial statements compiled, reviewed and audited by a Certified Public Accountant. However, the Board, in its discretion, may require a borrower to submit monthly financial reports and balance sheets to the Executive Director, together with any information which from time to time shows the progress and status of the borrower. The Executive Director, or his representative, shall meet with each borrower at least semi-annually to discuss any problems with the borrower and to review his progress. Executive Director shall submit to the Board such semi-annual progress report, or any report as required by the Board concerning each loan applicant. The Board may require the Executive Director to submit such reports more than semi-annually if the board deems it necessary. The Executive Director shall file with the Board field reports on all loans or invidivual loans as may be prescribed by the Board.
- The Board in its discretion may contract for the servicing and collection of all loans with a financial institution authorized to do business in the Northern Mariana Islands pursuant to Section 7, Chapter IX. The terms and conditions of such servicing agreement shall be determined by the Board.

CHAPTER XV. COLLECTION AND FORECLOSURES:

The Executive Director or his representative Α. shall closely monitor the repayment of all loans by the borrowers. All loan installments shall be due and payable monthly. If any payment is not received by the thirtieth (30) day after the due date, then the Executive Director or his designee shall personally contact the borrowers immediately thereafter concerning the payment

default. The Executive Director shall also send out such letters or notices of default as may be necessary or required pursuant to the terms and conditions of the loan agreements and the various loan documents.

- B. In the event any due payments are more than ninety (90) days delinquent, then the matter shall be forwarded to EDLF's attorney for collection. The attorney shall be authorized to send such notices or letters of default and to institute legal action against the loan applicant to protect the right of the Fund and to minimize delinquencies.
- C. The Executive Director shall make a monthly report of all delinquent accounts with respect to status and nature and with respect to what notices were given.
- D. The Board shall use every effort to collect the monies due to the Fund and active measures shall be used for collection. It is important that the Fund be maintained in a strong position at all times and that delinquencies remain at a minimum.
- E. Any amendments to the terms and conditions of the loan, once granted, regardless of whether or not a loan is in default, shall require the approval of the Executive Director.

CHAPTER XVI. INVESTIGATION AND AUDITS:

The Board or the Executive Director may instruct a representative of the Fund, or may contract with a qualified person to investigate or audit the accounts of any borrower from the Fund or from the commercial banks guaranteed by the Fund in order to ascertain:

- A. Whether the loan has been used for the purpose for which it was granted.
- B. Whether there is evidence or indication of future difficulties arising that might prevent the borrower from repaying the loan in accordance with the loan agreement.
- C. Whether management or other assistance is needed to improve the business' operation.

PRIVILEGED INFORMATION/APPROVAL NOTICE: CHAPTER XVII.

- The Executive Director, Board members and every Α. employee of the Fund shall maintain the confidentiality of all matters relating to borrowers' and applicants' financial reports. Matters discussed by the Board, and any other information pertaining to any individual or corporation directly or indirectly involved with EDLF shall also be kept confidential.
- The Executive Director, Board members and every В. employee of the Fund shall not engage in the preparation of any EDLF loan application, provided, however, that EDLF's staff may assist a loan applicant in the preparation of a loan application within the office of EDLF without compensation.
- The Executive Director, or his authorized designee, is the only authorized officer of the Fund to release and provide notice of loan approval or disapproval to a loan applicant. Notices by other employees or Board members verbally or otherwise shall be invalid and have no effect.

CHAPTER XVIII. MISCELLANEOUS:

- The Board members may, by resolution, make rules Section 1. providing for:
 - Any matter for which Rules may be made under any other provision of these Policies and Regulations;
 - В. The application form and the manner in which application to the Fund for loans, guarantees or other assistance are to be made;
 - C. The fees (if any) to be paid for or in connection with any loan application;
 - The form and manner in which the receipt of any money from the Fund is to be acknowledged;
 - The manner in which any document or notice may be Ε. served on or by the Fund;
 - Any fee, rate, matter or thing which is required F. or desirable or in connection with these Policies and Regulations.

- Section 2. Amendment of Policies and Regulations: Policies and Regulations may be amended from time to time upon recommendation of the Board of Directors and with the approval of the Governor.
- Section 3. Effective Date: These Policies and Regulations governing the Economic Development Loan Fund of the Commonwealth of the Northern Mariana Islands shall be effective upon publication in the Commonwealth Register as provided in Title 1, Division 9 of the Commonwealth Code.

airman, EDLF Board of Directors

Pedro P. Tenorio, Governor

Date: 3-13-85