

**WYOMING BUSINESS COUNCIL  
BOARD OF DIRECTORS  
CALL-IN MEETING  
April 23, 2013 - 10:30 AM**

**CALL-IN NUMBER: 1-877-643-6951**

**Participate Number: 79729281#**

**10:30 AM Meeting called to order - Co-Chair Nathan Bekke  
Introductions/Roll Call  
Purpose of Meeting**

**10:40 AM Business Development Sub-Committee - Chair Jim Espy**

**Report: Examination of the Challenge Loan Program by the  
Department of Audit, Division of Banking (ACTION ITEM  
- Roll Call Vote)**

**Report: Small Business Investment Credit Program  
(ACTION ITEM - Roll Call Vote)**

**11:00 AM New, Old or Other Business**

**Next meeting - May 22 & 23, 2013 in Thermopolis**

- 11:00 AM start on May 22 - Joint Meeting with  
Wyoming Board of Agriculture**

WBC Board of Directors Brd. Meeting

ROLL CALL

DATE: 4-23-13

Subject: Establishment of Quorum

Name	Yes	No	Abstain
Anderson	✓		
Bekke	✓		
Bratton	✓		
Covello			
Davidson			
Espy	✓		
Illoway			
Lewis	✓		
Lockhart	✓		
Michelena	✓		
Negich	✓		
Scott			
Schmidt	✓		
Sullivan	✓		
Wandler			

WBC Board of Directors

ROLL CALL

DATE: 4-23-13

Subject: \_\_\_\_\_

①

Challenge Loan Audit Report

Name	Yes	No	Abstain
Anderson	✓		
Bekke	✓		
Bratton	✓		
Covello	—		
Davidson	—		
Espy	✓		
Illoway	—		
Lewis	✓		
Lockhart	✓		
Michelena	✓		
Negich	✓		
Scott	—		
Schmidt	✓		
Sullivan	✓		
Wandler	—		

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WBC Board of Directors

ROLL CALL

DATE: 4-23-13

Subject: SBIC Program Report (2)

Name	Yes	No	Abstain
Anderson	✓		
Bekke	✓		
Bratton	✓		
Covello	—		
Davidson	—		
Espy	✓		
Illoway	—		
Lewis	✓		
Lockhart	✓		
Michelena	✓		
Negich	✓		
Scott	—		
Schmidt	✓		
Sullivan	✓		
Wandler	—		lh



**BUSINESS FINANCE AGENDA ITEMS**  
**WBC Board Meeting**  
**April 23, 2013**

- Report of Examination of the Challenge Loan Program by the Department of Audit, Division of Banking (Action Item)
- Report on the Small Business Investment Credit Program (Action Item)



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### Memorandum

**To:** Joint Minerals, Business and Economic Development Interim Committee  
**From:** Robert K. Jensen, CEO  
**Subject:** Report as required in W.S. 9-12-306 (b)  
**Date:** May 14, 2013

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#### **W.S. 9-12-306. Audit; report**

(b) On or before July 15 of each year, the council shall submit a written report to the Joint Minerals, Business and Economic Development Interim Committee reviewing rules adopted by the council during the reporting period, presenting a portfolio of the loans made under the program and presenting a risk analysis of the portfolio of loans prepared by the state banking commissioner. The report, portfolio of loans and risk analysis required under this subsection shall be public record. The risk analysis prepared by the state banking commissioner shall not be public subject to the limitations of W.S. 9-1-512.

Exhibit A – Rules adopted by the council during the reporting period

Exhibit B – Portfolio of loans in the program as of 12-31-12

Exhibit C – Report of Examination by the State of Wyoming, Department of Audit  
Division of Banking

Exhibit D – Wyoming Business Council Loan Report of Examination Summary and  
Management Corrective Actions

## **Exhibit “A”**

**No rules adopted by the Council during the reporting period**

## **Exhibit “B”**

**Portfolio of loans made under the program as of 12-31-12**

Wyoming Business Council  
Loan Servicing Report  
December 31, 2012

Loan #	Proj #	Program	Lead Lender	Borrower	RE Document #	Funding Date	Int Rate	Amount Due	Next Pymt Date	Pymt Freq	Original Balance	Current Balance	Principal Payment	Interest Payment	Service Fee
200001	201	CHALLENGE	WBC	ASCENT 2000	ASCENT2000	12/19/06	4.00%	\$234.17	1/10/2013	M	\$96,000.00	\$30,073.08	\$128.26	\$92.67	\$13.24
<b>Totals</b>											\$96,000.00	\$30,073.08	\$128.26	\$92.67	\$13.24
200010	202	BRIDGE	BOSV	STAR VALLEY WELLNESS, LLC	STARVALLEY	08/14/06	4.50%	\$1,550.00	1/15/2013	M	\$179,000.00	\$115,364.72	\$908.45	\$407.75	\$50.97
200011	202	BRIDGE	BOSV	SCOTT L CARLISLE	07CARLISLE	10/17/06	4.50%	\$450.00	1/1/2013	M	\$137,000.00	\$107,540.70	\$331.06	\$579.25	\$72.41
200015	202	BRIDGE	FIB	INTERMOUNTAIN ELECTRIC SERVICE	07INTERMOUNTAIN	09/12/07	4.50%	\$2,350.00	1/1/2013	M	\$250,000.00	\$0.00	\$0.00	\$0.00	\$0.00
200017	202	BRIDGE	FNB	GLUTEN FREE OATS, LLC	07GLUTENFREE	12/02/09	4.50%	\$1,350.00	1/1/2013	M	\$174,000.00	\$146,324.09	\$876.22	\$457.96	\$57.24
200018	202	BRIDGE	PVB	BH, INC	07BHINC	09/28/07	4.50%	\$1,000.00	1/1/2013	M	\$100,000.00	\$55,605.31	\$904.40	\$200.92	\$25.12
200019	202	BRIDGE	BOSV	JOHN BOWERS	07BOWERS	11/16/07	4.50%	\$425.00	1/14/2013	M	\$63,000.00	\$50,545.17	\$197.13	\$166.83	\$20.85
200021	202	BRIDGE	FIB	LLOYD D HASLAM	08CROWHEART	08/05/08	4.50%	\$750.00	1/14/2013	M	\$131,250.00	\$116,017.65	\$343.21	\$387.86	\$48.48
200023	202	BRIDGE	WNB	THE HEDE LIVING TRUST	08HEDELIVTR	12/15/08	4.50%	\$425.00	1/15/2013	M	\$56,000.00	\$44,107.99	\$747.17	\$159.48	\$19.94
200024	202	BRIDGE	WNB	THE HEDE LIVING TRUST	08HEDE	12/15/08	4.50%	\$75.00	1/15/2013	M	\$92,750.00	\$80,634.41	\$272.78	\$278.68	\$34.84
200025	202	BRIDGE	WNB	FREMONT COMMUNICATIONS	09FREMONT	03/11/09	4.50%	\$1,775.00	1/15/2013	M	\$122,500.00	\$14,346.67	\$1,780.71	\$57.34	\$7.17
200028	202	BRIDGE	WB&T	JR PROPERTIES LLC	12JRPROPERTIES	04/16/12	4.50%	\$1,600.00	1/15/2013	M	\$400,000.00	\$393,087.30	\$1,555.60	\$1,209.73	\$151.22
<b>Totals</b>											\$1,705,500.00	\$1,123,574.01	\$7,516.73	\$3,905.80	\$488.24
300001	203	GUARANTEE	Sec 1st	TRIPHYTO, LLC AND OTHERS	06TRIPHYTO	06/12/06	4.25%	\$350.00	12/20/2012	M	\$55,694.54	\$43,315.02	\$0.00	\$0.00	\$0.00
300003	203	GUARANTEE	Sec 1st	COUNTRYSIDE DISPOSAL LLC	08COUNTRYSIDE	09/17/08	4.50%	\$400.00	1/5/2013	M	\$92,500.00	\$56,195.72	\$171.38	\$198.07	\$25.05
300004	203	GUARANTEE	FNB	HOTEL INVEST SERV-LARAMIE LLC	09HOTELINVEST	09/21/09	4.50%	\$2,750.00	1/23/2013	M	\$500,000.00	\$463,275.21	\$977.94	\$1,599.09	\$199.89
<b>Totals</b>											\$648,194.54	\$562,785.95	\$1,149.32	\$1,797.16	\$224.94
400100	210	BEET	WBC	ADOBE BUTTE RANCH, LLC	07ADOBBUTTE	04/25/07	4.50%	\$2,568.52	12/1/2013	A	\$18,670.00	\$9,217.06	\$2,029.16	\$479.43	\$59.93
400101	210	BEET	WBC	MICHAEL T BERTHOD	07MICHTEBERT	04/27/07	4.50%	\$2,722.33	12/1/2013	A	\$19,788.08	\$9,719.32	\$0.00	\$0.00	\$0.00
400102	210	BEET	WBC	BIG HORN LAND & LIVESTOCK CO	07BIGHORNLL	04/26/07	4.50%	\$1,222.24	12/1/2013	A	\$8,884.23	\$4,372.33	\$0.00	\$0.00	\$0.00
400103	210	BEET	WBC	DENNIS E CHRISTENSEN	07DENNISCHR	04/27/07	4.50%	\$3,642.28	12/1/2013	A	\$26,475.00	\$13,043.00	\$0.00	\$0.00	\$0.00
400104	210	BEET	WBC	CLARK ENTERPRISES, INC	07CLARKENTR	04/25/07	4.50%	\$7,291.45	12/1/2014	A	\$53,000.00	\$16,775.54	\$0.00	\$0.00	\$0.00
400105	210	BEET	WBC	LLOYD, JR & TERRI CRAFT	07LLOYDCRAF	04/26/07	4.50%	\$2,719.18	12/1/2013	A	\$19,765.17	\$9,716.92	\$0.00	\$0.00	\$0.00
400106	210	BEET	WBC	DELLOS FARMS, INC	07DELLOSFRM	04/26/07	4.50%	\$4,142.11	12/1/2013	A	\$30,108.16	\$14,847.53	\$0.00	\$0.00	\$0.00
400107	210	BEET	WBC	EDWARDS RANCH, INC	07EDWARDSRA	04/25/07	4.50%	\$7,550.47	12/1/2013	A	\$54,882.78	\$27,081.44	\$0.00	\$0.00	\$0.00
400108	210	BEET	WBC	EUGENE MILLER AND SONS, INC	07EUGENEMIL	04/26/07	4.50%	\$9,630.21	12/1/2013	A	\$70,000.00	\$33,911.08	\$0.00	\$0.00	\$0.00
400109	210	BEET	WBC	NICK E GEIS II	07GEIS	04/25/07	4.50%	\$7,429.02	12/1/2013	A	\$54,000.00	\$26,673.94	\$5,945.08	\$1,319.05	\$164.88
400110	210	BEET	WBC	HAUN FARMS, INC	07HAUNFARMS	04/26/07	4.50%	\$2,983.30	12/1/2013	A	\$21,685.00	\$10,693.58	\$0.00	\$0.00	\$0.00
400111	210	BEET	WBC	JAMES W JENNINGS	07JENNINGS	04/27/07	4.50%	\$1,437.65	12/1/2013	A	\$10,450.00	\$3,901.37	\$0.00	\$0.00	\$0.00
400112	210	BEET	WBC	JORDAN FARMS, INC	07JORDANFRM	04/26/07	4.50%	\$8,103.14	12/1/2013	A	\$58,900.00	\$28,677.47	\$0.00	\$0.00	\$0.00
400113	210	BEET	WBC	KELLER FARMS, INC	07KELLERFAR	04/26/07	4.50%	\$5,908.09	12/1/2013	A	\$42,944.65	\$20,846.32	\$0.00	\$0.00	\$0.00
400114	210	BEET	WBC	KEVEN KELLER FARMS	07KEVINKELL	04/25/07	4.50%	\$6,781.49	12/1/2013	A	\$49,293.20	\$24,330.01	\$5,403.17	\$1,225.17	\$153.15
400117	210	BEET	WBC	LOUIS WEBER AND SONS	07LOUISWEBR	04/25/07	4.50%	\$5,080.44	12/1/2013	A	\$36,928.68	\$18,181.67	\$0.00	\$0.00	\$0.00
400118	210	BEET	WBC	MENDEZ BROTHERS PARTNERSHIP	07MENDEZBRO	04/25/07	4.50%	\$6,576.18	12/1/2013	A	\$47,800.84	\$23,538.59	\$0.00	\$0.00	\$0.00



Loan #	Proj #	Program	Loan	Lead Lender	Borrower	RE Document #	Funding Date	Int Rate	Amount Due	Next Pymt Date	Pymt Freq	Original Balance	Current Balance	Principal Payment	Interest Payment	Service Fee
400119	210	BEET	WBC	MICHAEL VIGIL FARMS, INC	07MICHVGRM	04/25/07	4.50%	\$4,614.25	12/1/2013	A		\$33,540.00	\$16,558.12	\$3,645.32	\$861.28	\$107.65
400120	210	BEET	WBC	MIKE ONDO	07MIKEONDO	04/26/07	4.50%	\$3,048.38	12/1/2013	A		\$22,158.04	\$10,930.08	\$0.00	\$0.00	\$0.00
400121	210	BEET	WBC	PALESK FARMS, INC	07PALESKFRM	04/26/07	4.50%	\$16,493.75	12/1/2013	A		\$119,888.63	\$59,094.68	\$0.00	\$0.00	\$0.00
400122	210	BEET	WBC	DANIEL J PINCE	07DANPINCE	04/27/07	4.50%	\$10,258.45	12/1/2013	A		\$74,568.54	\$36,776.95	\$0.00	\$0.00	\$0.00
400123	210	BEET	WBC	DENNIS J PINCE	07DENNISPIN	04/27/07	4.50%	\$9,630.21	12/1/2013	A		\$70,000.00	\$0.00	\$0.00	\$0.00	\$0.00
400124	210	BEET	WBC	PROPP FARMS	07PROPPFARM	04/25/07	4.50%	\$4,264.81	12/1/2013	A		\$31,000.00	\$15,251.53	\$0.00	\$0.00	\$0.00
400125	210	BEET	WBC	SAGE CREEK LAND & CATTLE CO	07SAGECREEK	04/25/07	4.50%	\$8,254.47	12/1/2013	A		\$60,000.00	\$29,491.50	\$0.00	\$0.00	\$0.00
400126	210	BEET	WBC	SAGE CREEK LAND & CATTLE, II	07SAGECRL&C	04/25/07	4.50%	\$7,429.02	12/1/2013	A		\$54,000.00	\$26,244.55	\$0.00	\$0.00	\$0.00
400127	210	BEET	WBC	SOUTH FLAT LAND & LIVESTOCK	07SOUTHFLAT	04/26/07	4.50%	\$17,884.68	12/1/2013	A		\$130,000.00	\$64,077.96	\$0.00	\$0.00	\$0.00
400128	210	BEET	WBC	DUSTIN L TAYLOR	07DUSTYLOR	04/27/07	4.50%	\$4,369.18	12/1/2013	A		\$31,759.68	\$15,525.63	\$3,492.27	\$779.47	\$97.44
400129	210	BEET	WBC	TD FARMS, INC	07TDFARMING	04/26/07	4.50%	\$12,568.69	12/1/2013	A		\$94,266.70	\$46,451.54	\$0.00	\$0.00	\$0.00
400130	210	BEET	WBC	WEBER AG, LLC	07WEBERAG	04/26/07	4.50%	\$19,195.21	12/1/2013	A		\$139,525.93	\$66,345.58	\$0.00	\$0.00	\$0.00
400131	210	BEET	WBC	JEARLD W. WELIEVER	07WELIEVER	04/27/07	4.50%	\$7,877.28	12/1/2013	A		\$57,258.27	\$28,287.90	\$0.00	\$0.00	\$0.00
400132	210	BEET	WBC	HOWARD WILDMAN	07HOWARDDEW	04/25/07	4.50%	\$9,630.21	12/1/2013	A		\$70,000.00	\$34,463.18	\$0.00	\$0.00	\$0.00
400133	210	BEET	WBC	LUCAS FOSS	07LUCASFOSS	08/02/07	4.50%	\$3,164.21	12/1/2013	A		\$23,000.00	\$11,383.81	\$2,527.89	\$565.62	\$70.70
400134	210	BEET	WBC	JERRY FOSS	07JERRYFOSS	08/02/07	4.50%	\$1,688.42	12/1/2013	A		\$12,272.77	\$6,075.66	\$1,347.08	\$303.42	\$37.92
400135	210	BEET	WBC	KENT A CHRISTENSEN	07KENTCHRISTENSI	08/03/07	4.50%	\$2,693.12	12/1/2013	A		\$19,575.74	\$9,618.66	\$0.00	\$0.00	\$0.00
400136	210	BEET	WBC	DANNY J MADDEN	07DANNYMADDEN	08/02/07	4.50%	\$6,451.83	12/1/2013	A		\$46,897.00	\$22,742.52	\$0.00	\$0.00	\$0.00
Totals												\$1,713,285.09	\$794,861.02	\$24,389.97	\$5,533.45	\$891.57
500001	205	BEAN	WBC	CH&M ENTERPRISES, INC	ECONDISCH&M	12/14/05	4.50%	\$6,686.12	12/15/2013	A		\$48,600.00	\$12,489.76	\$5,853.87	\$739.78	\$92.47
500002	205	BEAN	WBC	JACK FOOS	ECONDISFOOS	12/02/05	4.50%	\$3,222.59	12/15/2013	A		\$23,424.35	\$5,974.22	\$0.00	\$0.00	\$0.00
500003	205	BEAN	WBC	FOUR F FARMS, INC	ECONDISFOUR	12/12/05	4.50%	\$10,902.61	12/15/2013	A		\$79,248.80	\$19,642.71	\$0.00	\$0.00	\$0.00
500004	205	BEAN	WBC	ERNEST HORT	ECONDISHORT	12/08/05	4.50%	\$4,927.38	12/15/2013	A		\$35,816.06	\$9,149.22	\$0.00	\$0.00	\$0.00
500005	205	BEAN	WBC	JOHN MEIER & SON	ECONDISMEIE	12/14/05	4.50%	\$2,723.98	12/15/2013	A		\$19,891.84	\$5,088.39	\$2,384.92	\$301.39	\$37.67
500008	205	BEAN	WBC	W4, INC	ECONDISW4	12/08/05	4.50%	\$1,265.69	12/15/2013	A		\$9,200.00	\$3,360.02	\$1,102.21	\$145.32	\$18.16
Totals												\$216,181.05	\$54,704.32	\$9,341.00	\$1,186.49	\$148.30
600001	206	AMEND IV	WBC	TENUPAH	9602AIVL	01/26/06	1.00%	\$3,000.00	1/10/2013	M		\$800,000.00	\$462,016.18	\$2,605.39	\$197.31	\$197.30
Totals												\$800,000.00	\$462,016.18	\$2,605.39	\$197.31	\$197.30
900010	211	MAIN ST	WBC	DIGGER DOG INVESTMENTS, LLC	07DIGGERDOG	10/02/07	4.00%	\$236.70	1/1/2013	M		\$32,000.00	\$20,607.29	\$172.94	\$55.79	\$7.97
900011	211	MAIN ST	WBC	65 COFFEE, LLC	1065COFFEE	01/27/10	4.50%	\$301.00	1/26/2013	M		\$28,000.00	\$20,629.04	\$221.31	\$70.83	\$9.86
900012	211	MAIN ST	WBC	GRIMSHAW INVESTMENTS LLC	10GRIMSHAW	04/20/10	4.50%	\$790.00	1/20/2013	M		\$76,200.00	\$59,021.00	\$569.60	\$195.91	\$24.49
900014	211	MAIN ST	FIB	HISTORIC INVESTMENTS LLC	11HISTORICINV	06/02/11	4.50%	\$130.00		M		\$34,982.00	\$0.00	\$0.00	\$0.00	\$0.00
Totals												\$171,182.00	\$100,257.33	\$963.85	\$322.53	\$41.32
Grand Totals												\$5,350,342.68	\$3,128,271.89	\$46,094.52	\$13,035.41	\$1,805.01

**Exhibit "C"**

**Report of Examination by the State of Wyoming, Department of Audit  
Division of Banking**



# **REPORT OF EXAMINATION**

**THE WYOMING BUSINESS COUNCIL'S  
WYOMING PARTNERSHIP CHALLENGE LOAN PROGRAM**

**CONSISTING OF**

**LOANS TO DEVELOPMENT ORGANIZATIONS;**

**BRIDGE FINANCING;**

**GUARANTEE LOAN PARTICIPATIONS;**

**ECONOMIC DISASTER LOANS;**

**LOAN GUARANTEE PROGRAM LOANS; AND**

**MAIN STREET LOAN PARTICIPATIONS**

**PREPARED BY:**

**THE DIVISION OF BANKING  
THE DEPARTMENT OF AUDIT, STATE OF WYOMING**

**February 25, 2013**



## **EXAMINATION SCOPE**

The purpose of this examination is to review loans funded by the Wyoming Business Council (WBC) under The Wyoming Partnership Challenge Loan Program (The Program) and the credit administration of those loans. Loans made under The Program were examined for compliance with statutes and regulations as well as prudent underwriting standards. Additionally, loans were reviewed for proper documentation and compliance with WBC's loan policy.

Wyoming Statute 9-12-306 mandates the examination of The Program by the Department of Audit. The director of the State of Wyoming's Department of Audit or his designee is required to annually examine loans made under The Program and submit a Report of Examination to the governor, the legislature, and the WBC. Under the WBC's rules, a portfolio report of all loans as of December 31 is to be submitted to the State Banking Commissioner no later than January 15. The State Banking Commissioner is then required to complete an audit of the loan portfolio on or before April 1, with a completed audit report presented to the WBC on or before May 1.

This examination was completed on February 25, 2013. The loan review included all loans made under the Partnership Challenge Loan Program (Development, Bridge, and Guarantee Loan Participations), any Economic Disaster Loans (Seed/Beet/Bean growers) that were past due as of December 31, 2012, and all loans funded under the Main Street Loan Participation Program. This equated to one Development loan, eleven Bridge loans, three Guarantee loans, and one Main Street loan. None of the Disaster (Seed/Beet/Bean) loans were past due.

## **PROGRAM OVERVIEW**

### **Article 3 of the Wyoming Economic Development Act**

The Program is governed by Wyoming Statutes 9-12-301 through 9-12-307. The Program is funded through the Economic Development Enterprise Fund Account and is administered by the WBC. The WBC has adopted the Rules and Regulations of The Program in order to implement Article 3. These rules include Chapter 1, Wyoming Partnership Challenge Loan Program (Loans to Development Organizations, Bridge Financing and Guarantee Loan Participations), Chapter 2, Economic Disaster Loans, Chapter 3, Loan Guarantee Program, and Chapter 4, Wyoming Main Street Loan Participation.

### **Chapter 1 – Wyoming Partnership Challenge Loan Program**

Loans made under Chapter 1 of the WBC's Rules and Regulations consist of loans made to community or state development organizations, loans for bridge financing and guarantee loan participations. As defined by statutes, a community development organization is a group of private citizens organized as a business entity for the purpose of providing financing for new, existing, or expanding businesses and other economic or community development purposes throughout Wyoming. A state development organization is a corporation with the authority to provide financing for new, existing or expanding businesses and to fulfill other economic or community development purposes throughout the state. Bridge financing is for projects where a

commercial lender makes the loan and the state participates in the loan. Guarantee loan participations are for projects where a bank has a federal guaranteed loan to guarantee repayment of a loan to a business.

The total amount of loans and loan commitments made to a single community development organization is limited to \$500,000. Total loans and loan commitments made to state development organizations are limited to \$3,500,000. Total bridge financing loans and loan commitments to a business are limited to \$500,000. Loans to a business qualifying for guarantee loan participation are limited to \$1,000,000.

<b><u>Chapter 1 Challenge Loans</u></b>			
<b><u>Loan Type</u></b>	<b><u>12/31/2012</u></b>	<b><u>12/31/2011</u></b>	<b><u>12/31/2010</u></b>
Development Loans	\$ 30,073	\$ 340,789	\$ 693,689
Bridge Loans	1,123,574	1,414,680	2,660,995
Guarantee Loan Participations	562,786	579,702	595,671
<b>Total Loans</b>	<b>\$1,716,433</b>	<b>\$1,755,469</b>	<b>\$3,950,355</b>
Defaulted Ch. 1 Challenge Loans	\$43,315	\$0	\$251,485

At year-end 2012, there were 13 borrowers with 14 loans made pursuant to Chapter 1 compared to 16 borrowers with 17 loans at year-end 2011, resulting in a reduction of \$39,036. The Challenge loans include two Development loans to community development organizations totaling \$30,073 (one loan is a line of credit with a zero balance as of year-end 2012); 10 Bridge loans totaling \$1,123,574; and three Guarantee loans totaling \$562,786. Only one Bridge loan was originated in 2012.

There are two Bridge loans and one Guarantee Participation loan detailed for credit weaknesses under the Borrower Creditworthiness section of this report.

## **Chapter 2 – Economic Disaster Loans**

Loans made under Chapter 2 of the Rules and Regulations are intended for businesses that have been adversely affected by an economic disaster. The statutes define an economic disaster as an event occurring in Wyoming that has an economic impact with total lost revenues to impacted businesses in a twelve calendar-month period of at least \$4,000,000, or an economic impact with total lost revenues of impacted businesses in four or less counties in a twelve calendar-month period of at least \$1,000,000.

<b><u>Disaster Loans</u></b>			
	<b><u>12/31/2012</u></b>	<b><u>12/31/2011</u></b>	<b><u>12/31/2010</u></b>
Seed/Bean/Beet Grower Loans	\$794,861	\$1,132,841	\$1,361,129
Defaulted Disaster Loans	\$0	\$0	\$30,469



At year-end 2012, there were 40 Disaster loans outstanding compared to 42 loans at year-end 2011, resulting in a reduction of \$337,980. There were no new Disaster loans or loan programs initiated in 2011 or 2012. Additionally, there are no more Seed loans on the WBC's books.

### **Chapter 3 – Loan Guarantee Program**

Chapter 3 is for loan guarantees in which the Council guarantees a portion of a bank loan made to a business. Such loan guarantees are not to exceed \$100,000 per loan guaranteed or 80% of any new loan loss by the bank, whichever is less. The Council has not guaranteed any loans under this program.

### **Chapter 4 – Wyoming Main Street Loan Participation**

Chapter 4 is for loans in which the Council participates with a commercial lender that has made a loan to a business for building improvements to maintain the structure's historical character. The maximum participation is limited to 75% of the loan or \$100,000, whichever is less.

	<u>Main Street Loans</u>		
	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
Main Street Loans	\$0	\$34,489	\$15,181
Defaulted Main Street Loans	\$0	\$0	\$0

At year-end 2012, there were no loans funded under this program.

### **Administration**

The program is administered by the Business and Industry Division of the WBC and it is supervised by Business Finance Program Manager Ryan Whitehead. Mr. Whitehead was named the program manager in August of 2012.

### **Servicing**

The WBC contracts with Markee Escrow Services, Inc., of Cheyenne, WY for the servicing of its loan portfolio.

## **FINDINGS**

### **General Comments**

Overall, the WBC is administering the loans it has funded under The Program in a satisfactory manner. Discussion of problem borrowers is included in the loan loss reserve analysis. WBC staff completes a cash flow calculation on problem loans and new loan requests. However, this analysis should be formalized to include an in-depth analysis of the borrower's financial strength as it pertains to borrower's ability to service WBC debt.

The WBC loan policy requires appraisals to conform to Part 323 of the Federal Deposit Insurance Corporation (FDIC) Rules and Regulations. The WBC loan policy currently states, in part: "if a real estate loan is renewed, a new appraisal is not required if:

- The borrower has performed satisfactorily according to the original terms.
- No additional money has been advanced other than as previously agreed.
- The credit standing of the borrower has not deteriorated; and
- There has been no significant deterioration in market conditions or physical aspects of the property that would threaten the collateral protection."

However, Part 323.3(b) of the FDIC Rules and Regulations requires appropriate evaluations for real estate-related transactions that do not require the services of a state certified or licensed appraiser.

If the transaction involves an existing extension of credit an evaluation may be obtained, provided that:

- There has been no obvious and material change in market conditions of physical aspects of the property that threatens the adequacy of the institution's real estate collateral protection after the transaction, even with the advancement of new monies; or
- There is no advancement of new monies, other than funds necessary to cover reasonable closing costs.

The loan policy should be updated to reflect the requirements of Part 323.3 of the FDIC Rules and Regulations.

### **Borrower Creditworthiness**

Loans funded under The Program continue to be financially sound, although some borrowers' financial capacities are showing stress due to economic conditions. At the prior examination, four loans were listed where repayment in accordance with the loan terms appeared questionable. The following loans are listed for significant deterioration in creditworthiness, possibly to the point where full collection of interest and principal could be in jeopardy.

#### **BH, Inc. (Bridge)**

The WBC's portion of the loan is \$55,605 and represents a 34.72% participation purchased from Platte Valley Bank (PVB), Wheatland Branch. The WBC's portion originated 9/28/07 for \$100,000. Original terms included monthly payments of \$3,474 with a maturity of 9/1/14. Guarantors are William. E. Britz and William. R. Britz. The purpose of the loan was to purchase equipment for the business' manufacturing process. Collateral consists of the equipment and various parcels of real estate. The collateral is cross-collateralized with a \$362,000 loan at PVB.

BH, Inc.'s 2011 tax return (the most current return available) shows net income of \$124,000, and cash flow available to service debt of \$284,000 after netting depreciation and interest expense. In a letter dated 3/11/11 from the lead lender, the WBC was informed of PVB's decision to



downgrade the credit to a Substandard rating on its own books. File comments indicate the lead bank still has the credit classified as Substandard. Until 2012 financials are received the lead bank is not inclined to upgrade the credit. Their internal year-end information indicates that an upgrade may be warranted if 2012 financials support the upgrade.

Scott and Cherie Carlisle (Bridge)

The WBC's portion of this loan is \$107,540 and represents a 34.90% participation purchased from the Bank of Star Valley (BOSV) in Afton, WY. The loan originated in 2006 for the borrower to purchase the Corral Lodges Motel in Afton, WY. Current terms require \$3,280 monthly payments. Collateral is the motel and related equipment. The only appraisal was done at origination and the motel was valued at \$850M. However, 2006 was before real estate values declined in the Afton area.

The motel's 2011 tax return shows negative cash flows of \$13,000 and the Carlisle's 2010 and 2011 tax returns show negative cash flows of \$11,000 and \$4,000 respectively. Personal balance sheets continue to show little liquidity and net worth, all in real estate. Payments are still being made although financials do not support the debt service. The bank told WBC in December 2012 that they plan on buying this participation back; however, the buy-back has not been finalized.

Triphyto, LLC; Elk Mountain Herbs, Inc.; The Herb House, Inc.; and Caroline Johnson, Karin Guernsey, and Kim Vincent as individuals (Guarantee Participation)

The WBC's portion of the loan is \$43,315 and represents a 49.29% participation purchased from the Security First Bank (SFB) Branch in Laramie. The WBC's portion originated for \$55,695 on 6/12/06. Current terms require monthly payments of \$847 and a maturity of 11/20/25. The loan has an 85% Small Business Administration (SBA) guarantee and is secured with a small commercial property in Laramie, WY.

Tax returns for the three businesses show losses for 2008 and 2009 and combined negative cash flows for the same two years. The 2011 tax return for all three businesses show cash flow of \$10,000. The three businesses report \$3,000 in cash for 2011, combined current assets of \$35,000 against combined current liabilities of \$98,000. Individually, Ms. Vincent reported an adjusted gross income (AGI) of \$105,000 in 2011; 2011 tax returns for Ms. Johnson and Ms. Guernsey are not available.

**Loans with Documentation Exceptions**

Loan file documentation exceptions are measured by dividing the dollar amount of exceptions found by the total volume of loans reviewed. The table below shows initial total exceptions (includes financial statement exceptions, missing or stale insurance, missing title work, etc.) and financial statement exceptions (old/stale financial information, missing balance sheets or tax returns, etc.) were 11% and 5%, respectively. The figures have improved since the prior examination and are at a manageable level.

<u>Loan File Documentation Exceptions</u>		
<u>Category</u>	<u>\$000</u>	<u>Percentage</u>
All Exceptions – Initial	\$245	11.25%
All Exceptions – After Corrections	\$108	4.96%
Financial Statement Exceptions – Initial	\$189	8.68%
Financial Statement Exceptions – After Corrections	\$108	4.96%
Total Dollar Volume of Loans Reviewed	\$2,178	

Items marked with an asterisk (\*) were corrected during the examination.

BH, Inc.

- Expired insurance \*

Carlisle, Scott

- Stale financial statement for Scott Carlisle

The Hede Living Trust

- Mortgages were not recorded \*
- Personal financial statement was not signed by Jeanie Hede \*

**Exit Meeting**

On March 1, 2013, a meeting was held to discuss the examination's findings. Representing the WBC was Business Finance Manager Ryan Whitehead and Markee Escrow Services, Inc. Operations Manager Ken Sherman, The Program's loan servicer. Representing the Wyoming Division of Banking were Senior Bank Examiner Amanda Ortega and Deputy Commissioner Fred Rife. Findings were reviewed and discussed in detail at the meeting. Those representing the WBC were receptive to examiner comments and recommendations.

  
 Albert L. Forkner, Commissioner

## **Exhibit “D”**

### **Wyoming Business Council Challenge Loan Report of Examination Summary and Management Corrective Actions**



Wyoming Business Council (WBC) Staff Comments on Department of Audit, Division  
of Banking Report (February 25, 2013) - Challenge Loan Report of Examination  
(Note: Staff Comments are in "Blue" print)

WBC staff comments address findings that begin on page 3 of the report.

1. General Comments in the Report (beginning on page 3 under FINDINGS):
  - Overall, the Business Council is administering the loans it has funded under The Program in a satisfactory manner. (page 3)
    - The Challenge Loan program has been successful in helping Wyoming businesses expand and relocate to the state. There were no violations of law and the portfolio performs very well with low delinquency, minimal charge offs, interest generated to make more loans and jobs created across the state. WBC staff is diligent in carrying out its fiscal responsibility while working hard to assist new and expanding businesses.
  - WBC staff completes a cash flow calculation on problem loans and new loan requests. However, this analysis should be formalized to include an in-depth analysis of the borrower's financial strength as it pertains to borrower's ability to service WBC debt. (page 3)
    - Staff has always reviewed file documentation as it is received from its lending partners but will now complete an in-depth credit analysis of the problem loans. Staff has completed and will continue to complete an in depth analysis of new loan requests.
  - The loan policy should be updated to reflect the requirements of Part 323.3 of the FDIC Rules and Regulations (page 4)
    - Staff is in the process of updating loan policy to include the following;  
  
Part 323 (b) of the FDIC Rules and Regulations requires appropriate evaluations for real estate-related transactions that do not require the services of a state certified or licensed appraiser.  
  
If the transaction involves an existing extension of credit and evaluation may be obtained provided that:
      - There has been no obvious and material change in market conditions of physical aspects of the property that threatens the adequacy of the institution's real estate collateral protection after the transaction, even with the advancement of new monies; or
      - There is not advancement of new monies, other than funds necessary to cover reasonable closing costs.
2. Borrower Creditworthiness (pages 4 & 5): three loans are considered questionable in their repayment ability. They are BH, Inc (Bridge Loan), Scott and Cherie Carlisle (Bridge Loan) and Triphyto, LLC; Elk Mountain Herbs, Inc.; The Herb House, Inc.; and Caroline Johnson, Karin Guernsey and Kim Vincent as individuals (Guaranteed Loan Participation).

- BH, Inc. is a loan participation with Platte Valley Bank – (Origination date – 9/28/07, \$100,000, current balance \$55,605 December 2012) – This loan continues to pay as agreed but the lead lender has downgraded the loan. The borrower has some property for sale in an effort to reduce the loan balance. Until 2012 financials are received, the lead bank is not inclined to upgrade the credit. Their internal year-end information indicates that an upgrade may be warranted if 2012 financials support the upgrade.
- Scott and Cherie Carlisle – (Origination date – 10/17/06, \$137,000, current balance \$107,540 December 2012) – This loan has been past due over the past couple years but the lead lender has modified the payments to better match seasonal cash flow which has resulted in the loan staying current. Cash flow demonstrated on the tax returns is weak but the borrowers have other property that could be liquidated if necessary to pay the loan.
- Triphyto, LLC; Elk Mountain Herbs, Inc.; The Herb House, Inc.; and Caroline Johnson, Karin Guernsey and Kim Vincent as individuals is a loan participation with Security First Bank – (Origination date – 6/12/06, \$55,695, current balance \$43,315 December 2012) – This loan is on and off the past due list and the borrowers are slow in providing current financial statements. Cash flow demonstrated on tax returns is not sufficient to pay the loan obligation but the loan is current at this time. The loan has an 85% Small Business Administration (SBA) guarantee.

3. Loans not in Apparent Compliance with Rules and Regulations (page 5): **None noted at the end of the examination.**
4. Loans with Documentation Exceptions (pages 5-6): WBC staff works throughout the year to minimize documentation exceptions. As the portfolio size decreases, one exception on a large loan significantly affects the percentage calculations. WBC staff will address documentation exceptions loan by loan. If the documentation exception(s) was cleared during the examination and noted with an asterisk (\*), staff won't address it in the comments.
  - Carlisle, Scott, Stale financial statement for Scott Carlisle: WBC staff has continued to request and updated financial statement. Once received, the file will be updated.

Additional Challenge Loan Program Information (as of 12/31/12):

- a. The Challenge Loan Program has made or participated in 165 loans since 1998
- b. Total loans have been \$50,770 with the State's portion being \$19,239,573
- c. Interest collected over last 9 fiscal years (2003-'12) totals \$2,483,633
- d. 10 loans totaling \$311,185 have been charged off (1.85% loan loss)
- e. Estimated jobs created or retained of more than 600