Two Harbors Development Fund, Inc.

LOAN PROGRAM GUIDELINES

Purpose
The purpose of the Two Harbors Development Fund, Loan Program is to promote economic development within and surrounding the City of Two Harbors by providing loans or other financial assistance to business located or to be located within either the City of Two Harbors or in an area having an economic impact on the City of Two Harbors, which businesses are not able to obtain adequate or appropriate financing from other sources.

Loans or other financial assistance made or provided by this corporation are intended:

1. To create and maintain permanent private sector jobs, expand the tax base and increase economic productivity;
2. To create the inducement necessary to allow a project to proceed.

Loans or other financial assistance made or provided by this corporation are intended to complement, not compete with, private lending institutions and conventional commercial institutions. Private sector involvement will be a key factor to the success of this corporation's activities. Business incentives offered by other economic development agencies and public entities may also be complimented by loans or other financial assistance made or provided by this corporation.

Requirements for Loans or Financial Assistance
No loan or other financial assistance may be made by this corporation to any person, corporation, partnership or other entity unless the Board of Directors determines the following:

1) The proceeds of any such loan shall be used only for:
   a) Fixed assets, including land and building purchases, building construction and leasehold improvements and renovations; and/or
   b) Acquisition, renovation or moving machinery and equipment; and/or
   c) Working capital.

2) The term of any loan shall not exceed the following:
   a) For a loan described in part (i) of paragraph (a) above, 20 years;
   b) For a loan described in part (ii) of paragraph (a) above, 10 years.
   c) For a loan described in part (iii) of paragraph (a) above, 5 years.
3) The recipient of such loan or other financial assistance may be organized in any manner permitted by the laws of the State of Minnesota.

4) The businesses to be conducted by the recipient shall be located within either the City of Two Harbors or in an area having economic impact upon the City of Two Harbors.

5) The maximum amount of any loan or financial assistance that may be made or given in connection with anyone development project shall not exceed 50 percent of the aggregate amount of the project up to a maximum of $200,000.

6) Any loan made by this corporation shall be adequately secured to the satisfaction of the Two Harbors Development Fund.

7) Any loan made by this corporation shall be personally guaranteed by the principal owners of the borrower, to the satisfaction of the Development Fund.

8) Any loan made by this corporation shall be subject to a Loan Agreement between this corporation and the recipient of any such loan that contains such terms and provisions as are reasonably necessary to insure that the purpose and intent of this corporation is met in the making of such loan.

9) Any other financial assistance made by this corporation shall be subject to whatever agreements and documents as are reasonably necessary to insure that the purpose and intent of this corporation are met in the providing of such other financial assistance to any recipient.

10) No loan or other financial assistance may be made solely to refinance existing debt.

11) The loan documents of the primary lender provide that a default under the loan documents between this corporation and any recipient of any loan from this corporation shall be a default under the loan documents of the primary lender and that this corporation may require the primary lender to exercise its remedies in such loan documents upon such default.

12) The recipient of such loan or other financial assistance is credit worthy and has the ability to perform its obligations under any agreement to be entered into with this corporation.

13) Benefits will be realized by the citizens of the City of Two Harbors in the form of jobs or tax base. Any loan agreement between this corporation and a borrower and any other agreement between this corporation and the recipient of any other financial assistance from this corporation shall contain a provision that requires this corporation to review the operations of the borrower or recipient of any other financial assistance on an annual or more frequent basis to determine compliance with the terms and provisions of any agreement between the corporation and such borrower or recipient of any other financial assistance and to determine the extent to which such loan or other financial assistance furthered the purposes of this corporation.

NOTHING HEREIN SHALL REQUIRE THIS CORPORATION TO MAKE A LOAN OR PROVIDE OTHER FINANCIAL ASSISTANCE TO A BUSINESS THAT MEETS THESE REQUIREMENTS. THE DEVELOPMENT FUND NEED NOT MAKE A LOAN OR PROVIDE OTHER FINANCIAL ASSISTANCE TO A BUSINESS THAT MEETS THESE REQUIREMENTS UNLESS THE BOARD OF DIRECTORS IN ITS SOLE DISCRETION DETERMINES THAT IT IS IN THE BEST INTERESTS OF THE DEVELOPMENT FUND TO MAKE SUCH LOAN OR PROVIDE SUCH OTHER FINANCIAL ASSISTANCE.
Discretionary Requirements for Loans or Other Financial Assistance

The Board of Directors may by resolution set forth any additional discretionary requirements for loans or other financial assistance which it deems appropriate. Each application will be reviewed on a case by case basis.

Forms of Financial Assistance

This corporation may provide other financial assistance to businesses other than loans. Examples of the other financial assistance that may be provided include, but are not limited to:

1) Equity Position. This corporation, in lieu of making a loan to a business, may obtain any equity interest in such business in the form of preferred stock, common stock, convertible debentures or other equity instruments.

2) Participating Loans. This corporation may require as a condition to making any loan or providing other financial assistance to any business that this corporation share in any profits realized by the recipient of any such loan or other financial assistance through a participating loan or at an interest rate that is adjusted when a certain profit level is obtained.

Application Process

Pre-and final application forms are available at Two Harbors Development Fund, Inc., 522 First Avenue, Two Harbors, Minnesota 55616. The completed applications should be returned to that address when completed.