WEST VIRGINIA SECURITIES COMMISSION

STATEMENT OF POLICY

Loans and Other Material Affiliated Transactions

September 29, 2009

This Statement of Policy is adopted by the West Virginia Securities Commission pursuant to the authority of the Securities Commissioner of the State of West Virginia granted under Chapter 32 of the West Virginia Code. The West Virginia Securities Commissioner has determined that the following Statement of Policy relating to loans and other material affiliated transactions is consistent with public investor protection and is in the public interest. The Commissioner may waive any requirement of this Statement of Policy for good cause, as he may determine. The terms used in this Statement of Policy are defined pursuant to the West Virginia Securities Commission Statement of Policy regarding Corporate Securities Definitions unless specifically stated otherwise within this Statement of Policy, or when the context clearly indicates otherwise.

A. This statement of policy applies to all applications to register by coordination or qualification.

B. The Commissioner may deny the offer or sale of securities if:

1. The issuer or its affiliates have loans outstanding after the offering not permitted by this Statement of Policy;

2. The issuer or its affiliates have engaged in material transactions with promoters that are not permitted by this Statement of Policy; or

3. Required representations and statements are not included in the prospectus.

C. The following types of loans or loan guarantees by or on behalf of promoters of the issuer are permitted:

1. Advances to officers, directors, and employees for travel, business expenses, and similar ordinary operating expenditures.

2. Loans or loan guarantees to allow the issuer's officers, directors, and employees to purchase the issuer's securities, and loans for relocation of officers, directors, and employees, if the loan is approved under paragraph F.

D. Loans the issuer or its affiliates make to its promoters if an issuer or its affiliates are in the primary business of making loans are permitted provided:

1. The loans are evidenced by promissory notes naming the lender as payee;

2. The loans bear interest at rates comparable to those that other commercial lenders normally charge for similar loans made in the lender's locale;

3. The loans require promoters to repay the loans under appropriate amortization schedules;

4. The loans are supported by credit reports and financial statements that show the issuer or its affiliates can collect the loans and that the borrowers are satisfactory credit risks, in light of the nature and terms of the loans and other circumstances;

5. The loans meet loan policies that other commercial lenders normally use for similar loans made in the lender's locale;

6. The issuer will review the purposes of the loans and monitor the disbursements of proceeds in a manner that other commercial lenders normally use for similar loans made in the lender's locale;

7. The loans will not violate the requirements of any banking or other financial institution's regulatory authority; and

8. The loans contain default provisions comparable to those other commercial lenders normally use for similar loans made in the lender's locale.

E. Loans to promoters that exist at the time of the application for registration must be repaid by promoters in full:

1. From proceeds of the offering, if a portion of the offering is made on behalf of a promoter;

2. Before the offering; or

3. After the offering using appropriate amortization schedules, if the commissioner permits.

F. In regard to independent directors:

1. If there have been or will be loans and other material affiliated transactions, the prospectus shall represent that the issuer will maintain at least two (2) independent directors on its board of directors.

2. The issuer must provide independent directors with access, at the issuer's expense, to legal counsel for the issuer or independent legal counsel.

3. A majority of the issuer's independent directors that do not have an interest in the transaction must approve any loan or other material affiliated transaction involving its promoters.

4. If the issuer has only two (2) independent directors on its board of directors, both independent directors must be disinterested in and approve loans and other material affiliated transactions.

G. In regard to disclosure requirements:

1. The issuer must disclose in the prospectus whether or not it or its affiliates have made or will make loans to or have made or will make loan guarantees on behalf of promoters and the relevant terms and conditions.

2. The issuer shall disclose in the prospectus whether or not it or its affiliates have engaged or will engage in material transactions with promoters and the relevant terms and conditions.

3. The Commissioner may require the following statements and representations to appear in the prospectus.

a. A statement that the issuer or its affiliates will make all future material affiliated transactions and enter into all future loans on terms that are no less favorable to the issuer than those that can be obtained from unaffiliated third parties.

b. A statement that a majority of the issuer's independent directors will approve all future material transactions and loans, and any forgiveness of loans, in accordance with paragraph F.

c. A statement that the issuer's officers, directors, and counsel will exercise due diligence and assure that there is a reasonable basis to assert these representations, and will consider whether to embody the representations in the issuer's charter or bylaws.

G. The following types of affiliated transactions are permitted:

1. A transaction approved in accordance with paragraph F, if the prospectus discloses the terms of the transactions and indicates whether the terms are as favorable to the issuer or its affiliates as those generally available from unaffiliated third parties.

2. A transaction entered into when the issuer had less than two (2) disinterested independent directors, if the prospectus:

a. Discloses the terms of the transactions;

b. Indicates whether the terms are as favorable to the issuer or its affiliates as those generally available from unaffiliated third parties; and

c. Discloses that the issuer lacked sufficient disinterested independent directors to approve the transactions at the time the transactions were initiated.

Glen B. Gainer, III
State Auditor
Commissioner of Securities

By: Lisa A. Hopkins
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Senior Deputy Commissioner of Securities

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