



EDA RLF Program Overview

Risk Analysis System Implementation

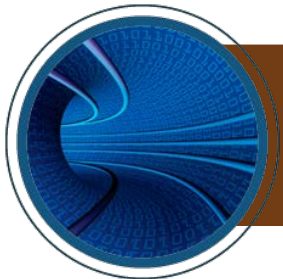
June 14, 2018



OVERVIEW OF EDA & REVOLVING LOAN FUND PROGRAM




RLF PROGRAM CHANGES AND RISK ANALYSIS SYSTEM



REPORTING & THE TRANSITION AHEAD



OVERVIEW OF EDA & REVOLVING LOAN FUND PROGRAM



EDA's mission – to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy.

EDA is an small agency within the U.S. Department of Commerce with an annual budget of approximately \$250M (fluctuating in recent FYs)

EDA is predominantly a grant-making agency



US Department of Commerce
Economic Development Administration

EDA Regions



EDA Regional Offices/University Centers

Atlanta Austin Chicago Denver Philadelphia Seattle

EDA has 6 Regional Offices and approximately 200 staff nationwide



PROGRAMS

Revolving Loan Fund



Economic Adjustment



Planning



Public Works



Local Technical Assistance



University Centers



Trade Adjustment Assistance for Firms



Research & National Technical Assistance



EDA investments Create Jobs and Leverage Private Funds



- ★ **EDA provides economic tools and seed investments** to state and local governments, tribal organizations, universities, and non-profits in communities and regions suffering from severe economic distress
- ★ **EDA targets its investments** to attract private investment and support long-term job creation
- ★ **EDA investments are focused** on locally-developed, regionally-owned economic development strategies that directly contribute to economic development
- ★ **EDA is helping communities compete** in the 21st century by making catalytic investments that support regional competitiveness, innovation, and entrepreneurship



EDA RLFs established for lending – Economic Adjustment Assistance Grants to capitalize or recapitalize RLFs most commonly fund business lending, but also may fund public infrastructure or other authorized lending activities. [see 13 CFR § 307.6]



- About 520 EDA-funded RLFs nationwide
- EDA investment of \$538 million
- Combined capital base of about \$824 million
- 37,500 loans made and 662,000 jobs created/retained
- \$3 billion lent and \$16 billion leveraged



RLF Standard Terms and Conditions

RLF Plan [§ 307.9]

- ★ Part I – Revolving Loan Fund Strategy
- ★ Part II – Operational Procedures
 - ★ consistency with CEDS or EDA-approved plan
 - ★ updated every 5 years

Prudent Lending Practices

Loan Committee





EDA RLF guiding principles

- ★ Gap financing for economic development purposes
 - Job creation (RLF \$ lent per job created/saved)
 - Leverage Private capital (private : RLF :: \$2 : \$1)

- ★ Start-up, Expansion, Retention
- ★ Fixed Assets, Working Capital

- ★ Use of RLF Income for administrative expenses
- ★ Allowable Cash Percentage & Default Rate



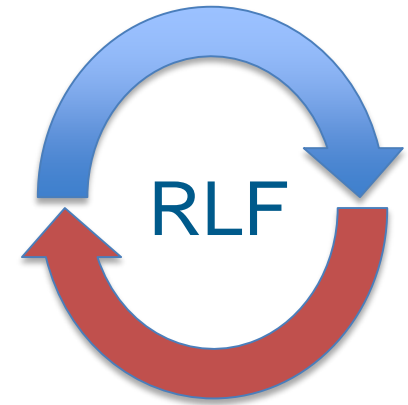
Federal Interest remains in perpetuity



RLF PROGRAM CHANGES AND RISK ANALYSIS SYSTEM



Partnership



Disbursement Phase



Revolving Phase





Fiscal Year Reporting:

- ED-209, revised
- ~~ED-209I~~, eliminated



Income/Expense Reporting:

- 12-month fiscal year
- Required audit



- ★ Establish portfolio risk management framework
- ★ Reorganize regulations and clarify definitions
- ★ Alter RLF reporting schedule
- ★ Emphasize report certification
- ★ Eliminate the Income and Expense Statement
- ★ Modify RLF audit requirements
- ★ Clarify fidelity bond coverage
- ★ Moderate sequestration requirement



- ★ Simplify requirement for bank turn-down letter
- ★ Expand of types of funds for leveraging an RLF
- ★ Clarify the use of loan loss reserves
- ★ Modify prohibited use of RLF Cash
- ★ Replace Capital Utilization Rate
with Allowable Cash Percentage





Allowable Cash Percentage (ACP) – *Tool to better account for regional economic trends:*

- Replaces Capital Utilization Rate
 - Defined by each Regional Office as floating rate
 - Updated annually for each EDA region
 - Establishes basis for comparison for Cash Percentage measures
-



U.S. Department of Commerce
Economic Development Administration

EDA Regions



EDA Regional Offices/University Centers

Atlanta Austin Chicago Denver Philadelphia Seattle

~~Capital Utilization Rate~~
~~“75% Rule”~~

~~Sequestered Excess Cash~~



Allowable Cash Percentage
Regional Average

1 of 15 measures, Disallowance



RLF Name	Capital Base	Cash Available	Cash Percentage
RLF-1	\$4,500,000	\$1,200,000	27%
RLF-2	\$7,600,000	\$2,800,000	37%
RLF-3	\$1,670,000	\$630,000	38%
RLF-4	\$13,872,930	\$2,974,025	21%
RLF-5	\$5,423,000	\$900,000	17%
Regional Total	\$33,065,930	\$8,504,025	26%

Total RLF Cash Available for Lending = \$8,504,025

Total of All RLF Capital Base Amounts = \$33,065,930

$$\$8,504,025 \div \$33,065,930 = 26\% \text{ Allowable Cash Percentage}$$



Risk Rating

C – Capital

A – Assets

M – Management

E – Earnings

L – Liquidity

S – Strategic Results



Risk-Based Analysis Framework



- ★ **CAMELS Approach:** The CAMELS approach adapted by EDA includes capital, assets, management, earnings, liquidity and strategic results.
- ★ **Classification:** The risk-based analysis system uses a series of metrics to rate RLF as 3 levels: A, B or C
- ★ **Tailored Technical Assistance:** EDA will allocate their effort to the level C RLFs, in order to adequately address risk and performance.



← **Rating**

Scoring →





- ❖ ***Dec. 1 – Revised regulations published***
- ❖ ***Dec. 1 – Proposed RAS published***

- ❖ ***Dec. 14 – Updated RLF Regulations Webinar***

- ❖ ***Jan. 2 – Revised Regulations became effective***
- ❖ ***Jan. 2 – RAS Public Comment concluded***
- ❖ ***March 16 – RAS finalized, published to www.eda.gov/rlf***

- ❖ ***March 31 – Final semi-annual reporting period end***

- ❖ ***June 30 – First large cohort for fiscal yearend reporting***



Metric: Capital

Measure:	Determined by:	3	2	1
Capital Base Index	RLF Capital Base divided by the original RLF Capital Base at the time the RLF was established	Greater than 1.5	From 1.0 to 1.5	Less than 1.0



Metric: Assets

Measure:	Determined by:	3	2	1
Default Rate	$\frac{\text{RLF Principal Outstanding for Loans in Default}}{\text{RLF Principal Outstanding for Total Active Loans}}$	Less than 10%	From 10% to 20%	Greater than 20%



Metric: Assets

Measure:	Determined by:	3	2	1
Default Rate Over Time	Number of consecutive months where default rate is over 20%	Less than 12 months	From 12 to 24 months	More than 24 months



Metric: Assets

Measure:	Determined by:	3	2	1
Loan Write-Off Ratio	The number of loans written-off divided by the number of “inactive loans” (calculated as number of total loans minus number of active loans)	Less than 16%	From 16% to 25%	Greater than 25%



Metric: Assets

Measure:	Determined by:	3	2	1
Dollars Written-Off	Loan Losses divided by the difference between Total RLF Dollars Loaned and Total RLF Principal Outstanding.	Less than 10%	From 10% to 20%	Greater than 20%



Metric: Management

Measure:	Determined by:	3	2	1
RLF Plan	Updated RLF Plan	RLF Plan up to date	RLF Plan out of date, update submitted within 6 years	RLF Plan expired and not updated within the last 6 years



Metric: Management

Measure:	Determined by:	3	2	1
Financial Control	Number and magnitude of audit findings	No findings	Minor findings	Material findings*

* Material findings, for example:
Questioned Costs, Solvency, Interrelated party transactions



Metric: Management

Measure:	Determined by:	3	2	1
Timely and Complete Reporting	Date audit and/or additional reports (such as SF-425 or Corrective Action Plan) submitted to EDA	On time	Up to 30 days late	Over 30 days late or no receipt



Metric: Management

Measure:	Determined by:	3	2	1
Tenure	Shortest tenure of Executive Director, Lending Director, Finance Director, and Reporting Official	Greater than 3 years	From 2 to 3 years	Vacancy or less than 2 years



Metric: Management

Measure:	Determined by:	3	2	1
Financial Reporting	Date RLF Financial Report (ED-209) submitted to EDA	On time with no corrections needed	Up to 60 days late and/or returned to RLF Recipient for minor corrections	More than 60 days late; or sent back for major revision



Metric: Earnings

Measure:	Determined by:	3	2	1
Net RLF Income	Portion of RLF Income Used for Administrative Expenses divided by Total RLF Income	Less than 50%	From 50% to 100%	More than 100%



Metric: Liquidity

Measure:	Determined by:	3	2	1
Cash Percentage	RLF Cash Available for Lending (Net of Committed RLF \$) divided by RLF Capital Base compared to regional ACP	Less than 90% of the ACP	From 90% to 110% of the ACP	More than 110% of the ACP



Metric: Liquidity

Measure:	Determined by:	3	2	1
Cash Percentage Over Time	Number of consecutive months where the Cash Percentage exceeds the Region's Allowable Cash Percentage	Less than 12 months	From 12 to 24 months	More than 24 months



Metric: Strategic Results

Measure:	Determined by:	3	2	1
Leverage Ratio	Total Dollars Leveraged divided by RLF Dollars Loaned.	Meets or exceeds required leverage	N/A	Less than required leverage



Metric: Strategic Results

Measure:	Determined by:	3	2	1
Cost Per Job	RLF Dollars Loaned divided by Total Jobs compared to RLF Plan Target	Less than 90% of RLF Plan target	90% to 110% of RLF Plan target	Greater than 110% of RLF Plan target



ABC

A = Annual Reporting

B = Semi-Annual Reporting

C = Semi-Annual Reporting

& Corrective Action

Measure:	3	2	1
Capital Base Index	X		
Default Rate	X		
Default Rate Over Time	X		
Loan Write-Off Ratio		X	
Dollars Written-Off		X	
RLF Plan	X		
Financial Control	X		
Timely and Complete Reporting	X		
Tenure		X	
Financial Reporting	X		
Net RLF Income		X	
Cash Percentage	X		
Cash Percentage Over Time	X		
Leverage Ratio	X		
Cost Per Job	X		

"A" Rated RLF



**ANNUAL REPORTING
(ED-209 DUE WITHIN 90 DAYS)**

AUDIT REQUIRED

Measure:	3	2	1
Capital Base Index		X	
Default Rate	X		
Default Rate Over Time	X		
Loan Write-Off Ratio		X	
Dollars Written-Off		X	
RLF Plan		X	
Financial Control	X		
Timely and Complete Reporting	X		
Tenure			X
Financial Reporting	X		
Net RLF Income		X	
Cash Percentage			X
Cash Percentage Over Time	X		
Leverage Ratio	X		
Cost Per Job		X	

"B" Rated RLF



SEMI-ANNUAL REPORTING
(ED-209 DUE WITHIN 30 DAYS)

AUDIT REQUIRED

Measure:	3	2	1
Capital Base Index		X	
Default Rate		X	
Default Rate Over Time			X
Loan Write-Off Ratio			X
Dollars Written-Off			X
RLF Plan			X
Financial Control	X		
Timely and Complete Reporting	X		
Tenure			X
Financial Reporting	X		
Net RLF Income		X	
Cash Percentage			X
Cash Percentage Over Time		X	
Leverage Ratio			X
Cost Per Job		X	

"C" Rated RLF



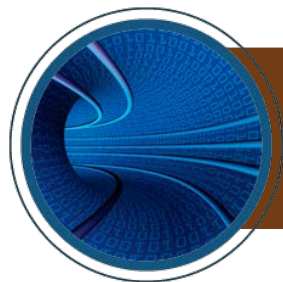
**SEMI-ANNUAL REPORTING
(ED-209 DUE WITHIN 30 DAYS)**

AUDIT REQUIRED

**CORRECTIVE ACTION PLAN
REQUIRED**



Questions??



REPORTING & THE TRANSITION AHEAD



- ❖ **New RLF Standard Terms & Conditions and formal Amendment to Financial Award (CD-451)**
- ❖ **Level A RLFs report on an annual basis within 90 calendar days following the fiscal year end.**
- ❖ **Level B and Level C RLFs report on a semi-annual basis within 30 calendar days following the fiscal year end and again within 30 calendar days of the end of the second quarter of their fiscal year.**
- ❖ **Level C RLFs must submit a Corrective Action Plan within 60 days for notice**



- ❖ ***Dec. 1 – Revised regulations published***
- ❖ ***Dec. 1 – Proposed RAS published***

- ❖ ***Dec. 14 – Updated RLF Regulations Webinar***

- ❖ ***Jan. 2 – Revised Regulations became effective***
- ❖ ***Jan. 2 – RAS Public Comment concluded***
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- ❖ ***June 30 – First large cohort for fiscal yearend reporting***



- ❖ Reporting aligned to Fiscal Year
- ❖ RLF Portfolio Loan List
- ❖ Expense Reporting Aligned to Fiscal Year (12 months)
- ❖ ED-209I no longer required
- ❖ Audit required for all RLFs



- ❖ ED-209 (PDF) has new password

- ❖ Portfolio Loan List (spreadsheet) should be password protected prior to emailing to EDA

- ❖ Portfolio Loan List is again required by EDA
 - ❑ Active Loans for 3/31/2018
 - ❑ RLF Portfolio for next report

- ❖ ACP established by reports for March 31, 2018, then annually

- ❖ RLF Income and Administrative expenses for Fiscal Year



Part II: Portfolio Financial Status

A. RLF Funding Sources

Federal Grant Rate

0.00%



1. EDA Funding:
2. Local Match:
3. Total RLF Funding:

- ❖ Fill in all fields in RLF Financial Report (Form ED-209).
 - Sign report electronically (and submit as email attachment), which affirms complete and accurate report
 - RLF Administrator may return incomplete or inaccurate report for corrections or revisions, which is noted in RAS
- ❖ For reference, instructions use abbreviations like “II.A.2” to indicate the field in Part II, Section A, Line 2.
- ❖ Calculate and enter the Federal Grant Rate using the funding information from the Financial Assistance Award document (Form CD-450), or award amendment (Form CD-451).



C. Status of RLF Capital

1. Total RLF Funding:
2. RLF Income Added to Capital Base for Lending:
3. Voluntarily Contributed Capital:
4. Loan Losses:
5. Disallowance:
6. RLF Capital Base:



	\$ 0.00
	\$ 0.00
	\$ 0.00
	\$ 0.00
	\$ 0.00
	\$ 0.00

D. Current Balance Available for New Loans

1. RLF Principal Outstanding on Loans:
2. RLF Cash Available for Lending:
3. RLF \$ Committed but Not Disbursed:
4. RLF Cash Available for Lending, Net of Committed RLF \$:
5. RLF Cash Available for Lending, % of Capital Base:



	\$ 0.00
	\$ 0.00
	\$ 0.00
	\$ 0.00
	0.00%

- ❖ ED-209 sections streamlined and reordered, though some Part II fields are auto populated by fields in Part III.
 - ❑ Review ED-209 Instructions for description of each field
 - ❑ Several fields in the ED-209 form display 'hover-over' tips



Part IV: Risk Scoring Measures

A. Capital

1. Capital Base Index:

B. Assets

1. Default Rate:
2. Default Rate over Time: months
3. Loan Write-Off Ratio:
4. Dollars Written-Off:

C. Earnings

1. Net RLF Income:
2. Administrative Expenses % of Income, Fiscal Year:
3. RLF Income used for Admin. Expenses, Fiscal Year:
4. RLF Income earned during Fiscal Year:

D. Liquidity

1. Allowable Cash Percentage:
2. Cash Percentage:
3. Cash Percentage over Time: months

- ❖ Fields in Part IV are used for Risk Analysis System scoring.
 - Most fields in Part IV are auto calculated
 - Complete and accurate reporting is needed to determine RAS score and rating level
- ❖ Fill in ACP with annually determined, region-specific number



<u>E. Strategic Results</u>	<u>RLF Plan Target</u>	<u>Active Loans</u>	<u>Total Loans</u>
1. Total \$ Leveraged:		\$ 0.00	\$ 0.00
2. Loan Leverage Ratio:	0.00 : 1	[] : 1	[] : 1
3. Jobs Created:		0.00	0.00
4. Jobs Saved:		0.00	0.00
5. Total Jobs:		0.00	0.00
6. Cost per Job:	\$ 0.00	[]	[]

- ❖ Fill in RLF Plan Target column from Award information and RLF Plan, as updated and approved.
 - ❑ All Fields MUST be completed
- ❖ Blank fields in Active Loans and Total Loans infer no leveraged funds and no jobs created or retained.
 - ❑ Responses of 0 may lower RAS rating if report not corrected
- ❖ Portfolio Loan List information should reconcile with this fields.
 - ❑ Review number of loans, EDA dollars, leveraged funding, jobs created and jobs saved (as well as principal outstanding)



Part V: RLF Management Summary

A. RLF Plan

1. Date of EDA Approved RLF Plan (MM/DD/YYYY):
2. Date of Annual RLF Plan Certification (MM/DD/YYYY):

B. Audit

1. Fiscal Year End Date (MM/DD/YYYY):
2. Date of Most Recent Audit (MM/DD/YYYY): Single Program Specific
3. Was the audit submitted to the Federal Audit Clearinghouse on Time? (Yes or No?)
4. If not, why not?
5. Does the Audit Contain any Findings? (Yes or No?)

- ❖ RLF Awards require independent audit, most do Single Audit.
- ❖ RLF program is required to be included on the audit SEFA.
 - For RLF Program audit instructions, see the Single Audit Compliance Supplement, which includes SEFA formula
 - Audit should include calculation of RLF SEFA value



D. Retention of Key Personnel	<u>Name</u>	<u>Title</u>	<u>Tenure</u>
1. Executive Director:			(Please make a selection)
2. Lending Director:			(Please make a selection)
3. Finance Director:			(Please make a selection)
4. Reporting Official:			(Please make a selection)

- ❖ Report persons fulfilling 4 primary RLF roles.
 - Enter Name, Title, and Tenure for each role
 - See ED-209 instructions for position summary
 - RLF organizations size and structure differ
- ❖ Where one person performs multiple roles, repeat name, etc.
- ❖ Authorized Official reviews report and electronically signs form to certify report is complete and accurate.
 - Enter signature date in “Date” field of signature section
- ❖ Save an unsigned copy of the ED-209 report (for corrections).



A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T
Recipient ID	Recipient Name	Recipient Location	Loan Purpose	Loan Description	Project NAICS Code	Borrower Funding	Private Funding	Public Funding	RLF Funding	Loan Closing Date	Loan Term	Loan Interest Rate	Modified Loan	Loan Status	Loan Status Date	Loan Payment Amount	Payment Schedule	Principal Repaid	Interest Paid

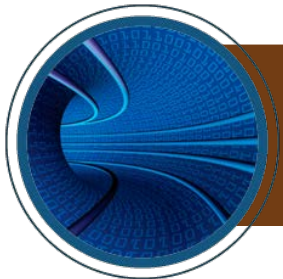
- ❖ Portfolio Loan List (PLL) is again required.
 - Active Loans for 3/31/2018
 - RLF Portfolio for next report
- ❖ PLL spreadsheet cells are formatted.
- ❖ Comments in some PLL column names provide tips to complete spreadsheet.



OVERVIEW OF EDA & REVOLVING LOAN FUND PROGRAM



RLF RISK ANALYSIS SYSTEM



REPORTING & THE TRANSITION AHEAD



- ❖ **OUR COMMITMENT TO YOU**
- ❖ **FEDERAL CHARACTER
OF RLF FUNDS**

PERPETUTITY



Mitchell Harrison	Philadelphia Regional Office
RLF Coordinator mharrison@eda.gov 202.482.4696	Kia Booker Jennifer Sloms Sanchia Gomez

Please feel free to reach out with any questions or comments!