



# Understanding New Revisions to the EDA RLF Program

## Implementation of RLF Risk Analysis System

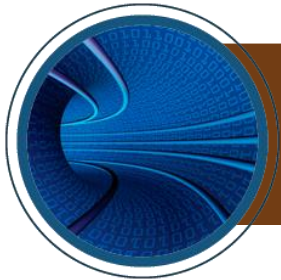
*April 19<sup>th</sup>, 2018*



**OVERVIEW OF RLF PROGRAM CHANGES**



**RLF RISK ANALYSIS SYSTEM**



**REPORTING & THE TRANSITION AHEAD**



**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 § 307.7]

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- 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



# Risk Rating

**C – Capital**

**A – Assets**

**M – Management**

**E – Earnings**

**L – Liquidity**

**S – Strategic Results**

<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
Default Rate	RLF Principal Outstanding for Loans in Default divided by RLF Principal Outstanding for Total Active Loans	Less than 10%	From 10% to 20%	Greater than 20%



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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%





<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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%



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RLF Plan	Updated RLF Plan	RLF Plan up to date	RLF Plan out of date, update submitted within 6 years	RLF Plan expired and not updated within the last 6 years



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



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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



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



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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%



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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





## EDA Regions



<b><u>Capital Utilization Threshold</u></b>	<b>→</b>	<b><u>Allowable Cash Percentage</u></b>
<b>“75% Rule”</b>		<b>Regional Average</b>
<b>Sequestered Excess Cash</b>		<b>1 of 15 measures</b>



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%
<b>Regional Total</b>	<b>\$33,065,930</b>	<b>\$8,504,025</b>	<b>26%</b>

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

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

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



<b>Measure:</b>	<b>Determined by:</b>	<b>3</b>	<b>2</b>	<b>1</b>
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



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



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 (90 DAYS AFTER FISCAL YEAR-END – ED-209 REPORT IS DUE)**

**ANNUAL SINGLE AUDIT**



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**

**IF SCORED A “LOW” “B”, THEN  
WILL FOCUS ON THE FEW  
METRICS TO IMPROVE**

### **ANNUAL SINGLE AUDIT**

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

ANNUAL SINGLE AUDIT

CORRECTIVE ACTION PLAN



*Questions??*

# Reporting Changes



Reporting Aligned to Fiscal Year End



RLF Portfolio Loan List

Expense Reporting Aligned to Fiscal Year (12 months)

ED209I no longer required

Annual Audit Required for all RLFs



- New RLF Standard Terms & Conditions and formal Amendments to Financial Award (CD-451)
- Removed the Automatic Sequestration Requirement
- Level “A” Recipients will report to EDA on an annual basis within 90 calendar days following the end of their fiscal year.
- Level “B” and “C” Recipients will report on a semi-annual basis within 30 calendar days following the end of their fiscal year and again within 30 calendar days of the end of the second quarter of their fiscal year.



- ACP = 0.0%
- Admin and Income accounted for Oct 1, 2017 – March 31, 2018 only not annual
- ED209 has new password
- Loan Portfolio List shows only Active Loans
- Loan Portfolio List is password protected prior to emailing to EDA



## Part II: Portfolio Financial Status

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### A. RLF Funding Sources

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

Federal Grant Rate

0.00%





## 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







### C. Status of RLF Capital

1. Total RLF Funding:	\$ 0.00
2. RLF Income Added to Capital Base for Lending:	\$ 0.00
3. Voluntarily Contributed Capital:	\$ 0.00
4. Loan Losses:	\$ 0.00
5. Disallowance:	\$ 0.00
6. RLF Capital Base:	\$ 0.00



### D. Current Balance Available for New Loans

1. RLF Principal Outstanding on Loans:	\$ 0.00
2. RLF Cash Available for Lending:	\$ 0.00
3. RLF \$ Committed but Not Disbursed:	\$ 0.00
4. RLF Cash Available for Lending, Net of Committed RLF \$:	\$ 0.00
5. RLF Cash Available for Lending, % of Capital Base:	0.00%





## E. Strategic Results

1. Total \$ Leveraged:

2. Loan Leverage Ratio:

3. Jobs Created:

4. Jobs Saved:

5. Total Jobs:

6. Cost per Job:

	<u>RLF Plan Target</u>	<u>Active Loans</u>	<u>Total Loans</u>
		\$ 0.00	\$ 0.00
	0.00 : 1	: 1	: 1
		0.00	0.00
		0.00	0.00
		0.00	0.00
	\$ 0.00		



- Excess cash no longer automatically sequestered.
- Instead the excess cash is considered as one factor in the Risk Analysis rating for the Recipient.
- Sequestration or Disallowance of the excess funds would be viewed as an option to obtain compliance with the terms of the RLF grant award.



## 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)





Mitchell Harrison	Jeff Goldsberry	Frank Wessbecher
RLF Coordinator <a href="mailto:mharrison@eda.gov">mharrison@eda.gov</a> 202.482.4696 Washington, D.C.	RLF Administrator <i>(ID, NV, OR, WA)</i> <a href="mailto:jgoldsberry@eda.gov">jgoldsberry@eda.gov</a> 206.220.7660 Seattle, WA	RLF Administrator <i>(AK, AS, AZ, CA, HI)</i> <a href="mailto:fwessbecher@eda.gov">fwessbecher@eda.gov</a> 206.220.7689 Seattle, WA

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