



U.S. ECONOMIC DEVELOPMENT ADMINISTRATION

Revolving Loan Fund Plans

Incorporating
2018 Regulation Changes

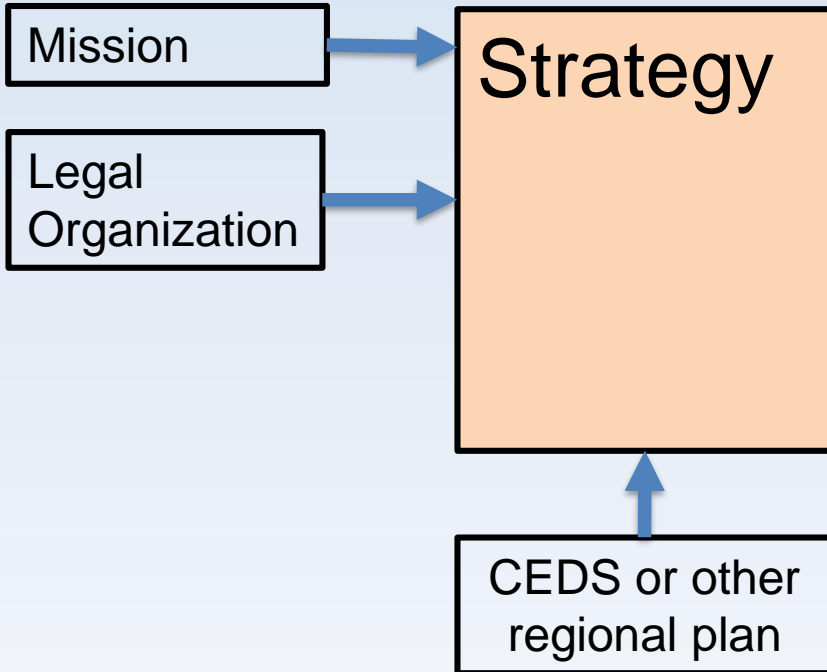
The Revolving Loan Fund in Context

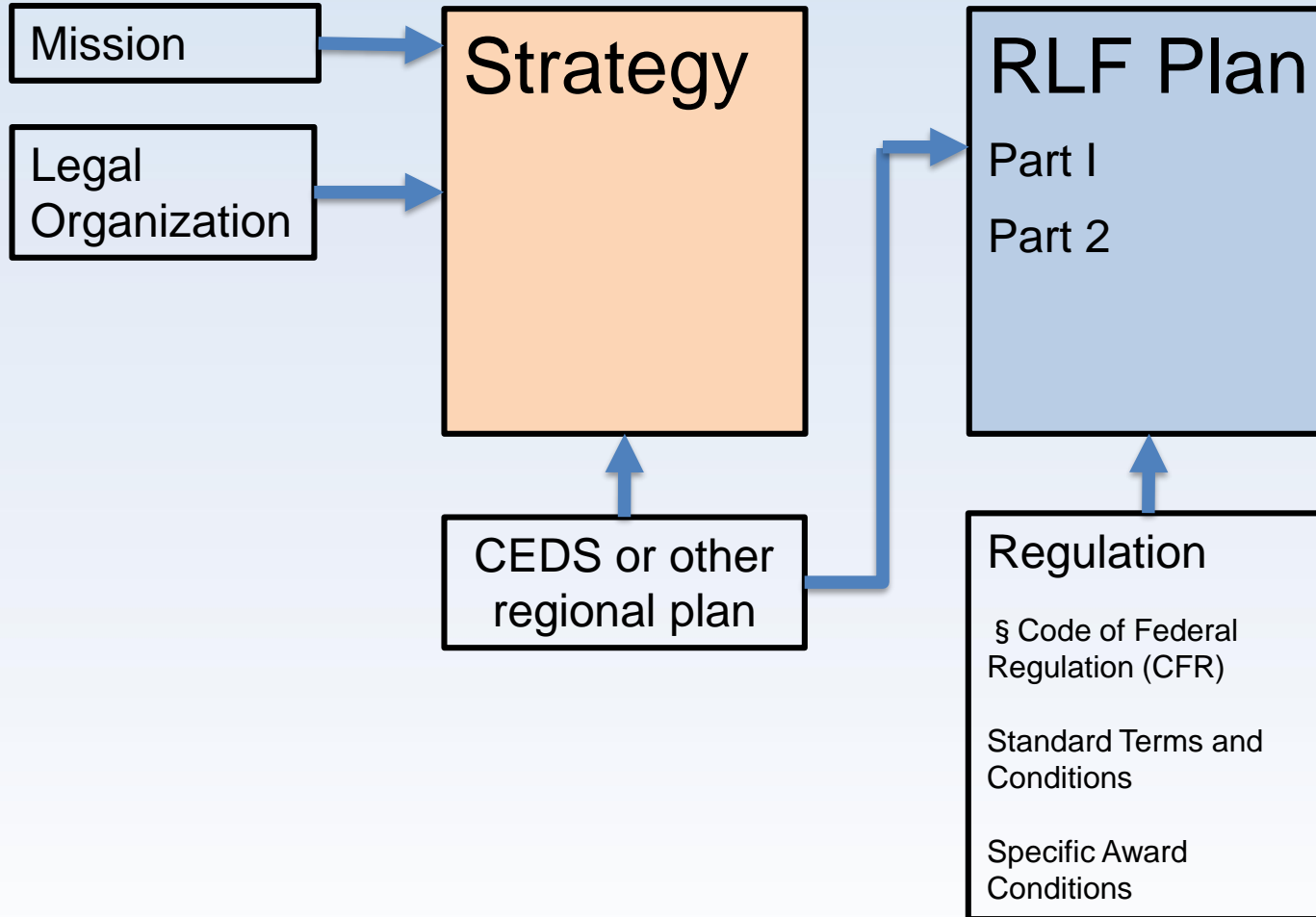
Required Organization and Elements of the RLF Plan

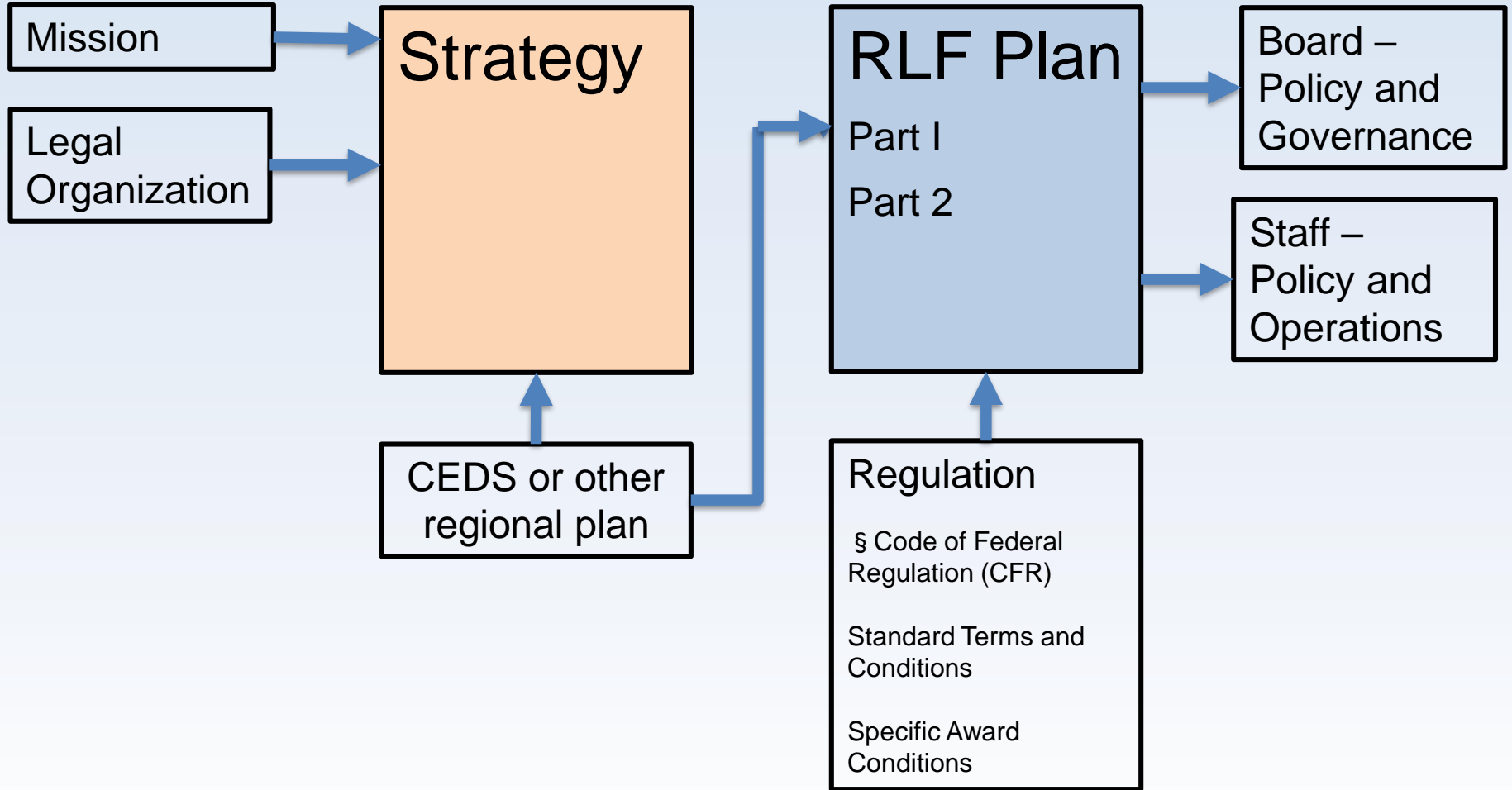
Regulation Changes

How EDA Evaluates Your RLF Plan

When to Update Your Plan
















- Part I – Revolving Loan Fund Strategy
 - Summarize CEDS or other EDA-approved economic development plan
 - Business development objectives
 - RLF’s financing strategy, policy and portfolio standards
 - Analysis of local capital markets to show RLF is still needed
- Part II – Same as your internal operations manual for the RLF
 - Administrative procedures consistent with “Prudent Lending Practices” §307.8
 - Environmental review and compliance procedures §307.10
 - Procedures to prevent conflicts of interest §302.17
 - Allowable Cash Percentage
 - Risk Analysis System



- Lending area
- Interest rates
-  Purpose of loans and ineligible uses of funds
-  Credit not otherwise available
 - Leveraging of non-RLF funds
 - Cost per job target
 - Protection of RLF assets
 - Hold harmless provision
-  Requirements for construction projects (Davis-Bacon and Contract Work Hours and Safety Standards Act)
-  Use of RLF income for administrative costs
 - Generally Accepted Accounting Principles (GAAP)
-  Conflict of interest - §CFR 302.17 updated
-  Audits required for all RLFs
-  Reporting requirements
 - And more! See §CFR 307, RLF STC pages 7-14, and Specific Award Conditions



- Application
- Loan agreement
- Board minutes (or delegated authority)
- Promissory note
- Security agreements
- Deed of trust or mortgage
- Agreement of prior lienholders
- “Evidence that credit is not otherwise available...”
- Determination of level of environmental review
- How rates and terms of the loan were determined if not by specific policy
Avoid allegations of discrimination with Federal dollars

RLF files are subject to audit by the Office of the Inspector General



- Allowable Cash Percentage (ACP) has replaced the requirement to have 75% of the Fund loaned out at all times
 - Old rule 75% loaned out means maximum cash of 25%
 - New rule Allowable Cash Percentage varies by region
 - But RLFs with more than 50% cash for 24 months without approved EDA extension request are non-compliant and subject to remedies in §CFR 307.21
 - Sequestration for excess cash no longer required, but may be part of a remedy for non-compliance



- More flexibility in use of RLF income to pay administrative costs—income earned during fiscal year (12 months) instead of 6 months
- No requirement for formal bank turn-down letter, rather “evidence that credit is not otherwise available to the applicant on terms and conditions that permit the completion or successful operation of the project” §CFR 307.11
- Timing of reports is now based on your fiscal year end and RLF Risk Analysis Rating



- Rating starts after all funds are disbursed
- Total possible points = 45
 - Over 40 is rated A – annual reporting due within 90 days
 - 30-39 is rated B—semi-annual reporting due within 30 days
 - Under 30 is rated C—same reporting as B plus Corrective Action Plan
- Transparent
 - Your rating letter will give you your score and the rationale, and it will highlight areas for improvement
 - Criteria are largely quantitative
 - Most data comes from the ED-209 report





- Once a year for A rated RLFs – 90 days to submit
- Twice a year for B rated and C rated RLFs – 30 days to submit
- Loan lists for the RLF since its inception are required under the new regulation
 - Loan list should match the ED-209 data
 - If you are missing data, work with the RLF Administrator to clarify
- ED-209I report eliminated!



- Additional clarification of ineligible uses of funds (§CFR 307.17)
 - May not be used as collateral to obtain other financing
 - May not support operations or administration of the RLF grantee except in specific circumstances approved by EDA
 - May not violate requirements relating to Authorized Use of Property or Unauthorized Use of Property (§CFR 314.4)
- RLF Standard Terms and Conditions, page 8
 - May not induce relocation of existing jobs
 - May not finance gambling activity, performances or products of a prurient sexual nature, or any illegal activity, including the cultivation, distribution, or sale of marijuana that is illegal under Federal law



- Cash Available for Lending must be held in an interest-bearing account
- Grantee certifies that ***at all times***, not just in disbursement phase
 - Accounting system is adequate
 - Standard loan documents necessary or advisable are in place
 - Fidelity bond coverage is sufficient—must be at least the amount of your maximum loan



- Approval process
 - Provisional approval by EDA
 - Board of Directors formal resolution to approve
 - Formal approval letter from EDA
- Appropriate to size and complexity of the RLF
- Consistent with Comprehensive Economic Development Strategy (CEDs)
- Identifies strategic purpose of the RLF
- Includes an analysis of the local capital market and the financing needs of the targeted business
- Includes financing policies and portfolio standards that are consistent with EDA policies and requirements

Continued on next page...



- Demonstrates adequate understanding of commercial loan portfolio management procedures
 - Loan processing and underwriting
 - Closing loans and disbursements
 - Monitoring
 - Collections and foreclosures
- Administrative procedures
 - Prevent conflicts of interest
 - Ensure accountability, safeguarding of assets and compliance with Federal and local laws
 - Approach to determining level of environmental review



- Within 5 years after EDA approved your last Plan
- As necessary, in accordance with changes in with changing economic conditions in the region
- Material changes also require amendment to the grant award terms
 - Merger or consolidation
 - Change in strategic purpose of the RLF
 - Change in lending area
- Your next Plan update will incorporate 2018 regulation changes
- Start early—six months ahead of due date is not too early



The Revolving Loan Fund Standard Terms and Conditions (incorporates the Department of Commerce Standard Terms and Conditions)

<https://www.eda.gov/files/tools/grantee-forms/2019-RLF-Standard-Terms-and-Conditions.pdf>

Code of Federal Regulation (CFR) Title 13 Chapter III Part 307 Subpart B (§CFR 307)

<https://ecfr.io/Title-13/pt13.1.307>

EDA RLF Risk Analysis System

<https://www.eda.gov/files/rlf/EDA-RLF-Risk-Analysis-System.pdf>