



Understanding EDA Revolving Loan Funds

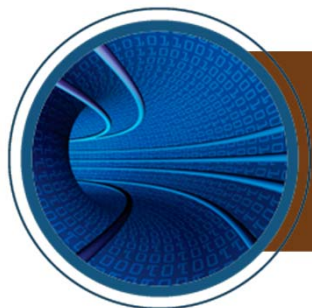
April 9, 2019



RLF PROGRAM OVERVIEW AND RISK ANALYSIS SYSTEM



RISK ANALYSIS CASE STUDY



CORRECTIVE ACTION PLAN



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 510 EDA-funded RLFs nationwide
- EDA investment of \$566 million
- Combined capital base of about \$870 million
- 37,500 loans made and 662,000 jobs created/retained
- \$3 billion lent and \$16 billion leveraged



REVISED EDA REGULATIONS, EFFECTIVE JANUARY 2, 2018



RLF STANDARD TERMS AND CONDITIONS REVISED MARCH 14, 2018



RISK ANALYSIS SYSTEM FINALIZED MARCH 16, 2018



1. Reporting Aligned to RLF Recipient's Fiscal Year End
2. RLF Portfolio Loan List
 - Portfolio Loan List spreadsheet and Form ED-209 (PDF) are password protected prior to emailing to EDA
 - Portfolio Loan List shows all loans in portfolio history
3. Expense Reporting Aligned to Fiscal Year (12 months)
4. ED-209I no longer needed
5. Annual Audit Required for all RLFs



Risk Rating

C – Capital

A – Assets

M – Management

E – Earnings

L – Liquidity

S – Strategic Results



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



Measure:	Determined by:	3	2	1
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%



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



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%



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%



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



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

* Material weaknesses, for example:
Questioned Costs, Insolvency, Interrelated party transactions



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



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



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



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%



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



US Department of Commerce
Economic Development Administration

EDA Regions



EDA Regional Offices/University Centers

Atlanta Austin Chicago Denver Philadelphia Seattle

~~Capital Utilization Threshold~~ → Allowable Cash Percentage
"75% Rule" Regional Average
Sequestered Excess Cash 2 of 15 measures



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



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

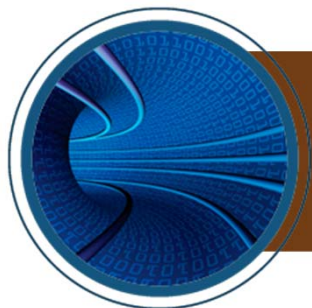
& Corrective Action



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RISK ANALYSIS CASE STUDY



CORRECTIVE ACTION PLAN

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 REPORT IS DUE
90 DAYS AFTER FYE

ANNUAL SINGLE AUDIT

40 - 45 = A

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 REPORT IS DUE
30 DAYS AFTER FYE
& AGAIN IN 6 MONTHS

ANNUAL SINGLE AUDIT

30 - 39 = B

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 REPORT IS DUE
30 DAYS AFTER FYE
& AGAIN IN 6 MONTHS

CORRECTIVE ACTION PLAN

ANNUAL SINGLE AUDIT

15 - 29 = C



1. Break Into Groups
2. Review and Analyze ED-209 and Portfolio Loan List
3. Reconvene and Present

Determine Risk Rating
Note Areas of Weakness
Recommend Actions



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:

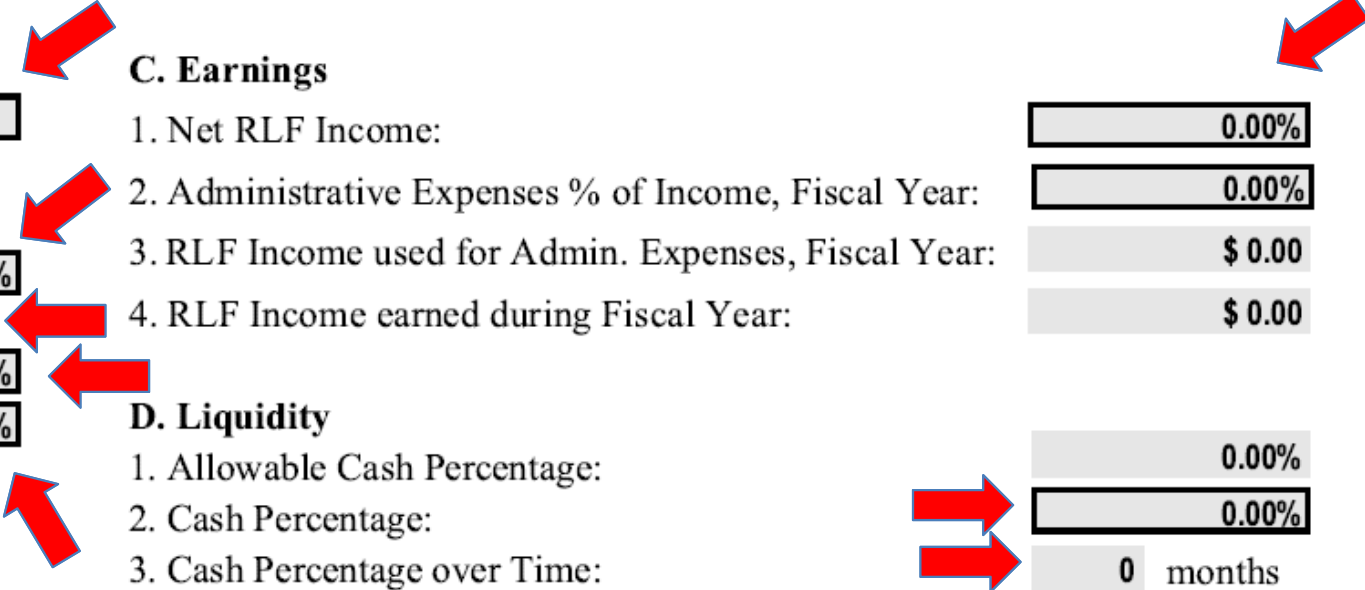
4. RLF Income earned during Fiscal Year:

D. Liquidity

1. Allowable Cash Percentage:

2. Cash Percentage:

3. Cash Percentage over Time: months





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?
4. If not, why not?
5. Does the Audit Contain any Findings?

C. Management

1. Has there been any key staff turnover during this reporting period?
2. If yes, please explain:

D. Retention of Key Personnel

	<u>Name</u>	<u>Title</u>	<u>Tenure</u>
1. Executive Director:	Stacy	Executive Director	Less than 2 years
2. Lending Director:			Vacant
3. Finance Director:	LuAnn	Finance Director	Less than 2 years
4. Reporting Official:	Marcus	RLF Administrator	2-3 years

Portfolio Loan List



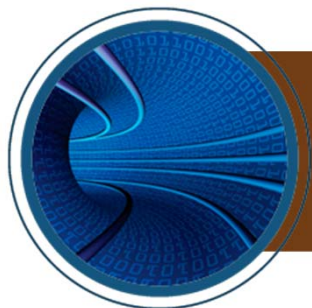
Borrower Funding	Private Funding	Public Funding	RLF Funding	Loan Status	Interest Paid	Fees Paid	Loan Principal Balance	Jobs Created	Jobs Saved
\$ 99,016.00	\$ 657,270.00	\$ 35,000.00	\$ 115,000.00	Current	\$ 24,069.11	\$ 1,250.00	\$ 20,308.47	7	0
\$ 60,000.00	\$ 113,000.00	\$ -	\$ 72,000.00	Current	\$ 3,402.58	\$ 820.00	\$ 56,462.30	1.5	0
\$ 100,000.00	\$ -	\$ -	\$ 50,000.00	Current	\$ 1,832.23	\$ 600.00	\$ 40,782.27	14	0
\$ 110,000.00	\$ -	\$ -	\$ 50,000.00	Current	\$ 951.67	\$ 500.00	\$ 44,177.97	0	0
\$ 30,000.00	\$ 164,300.00	\$ -	\$ 45,000.00	current	\$ 5,119.93	\$ -	\$ 32,476.67	2	0
\$ 364,744.11	\$ 531,250.00	\$ 364,744.11	\$ 45,676.03	delinquent	\$ 32,831.09	\$ -	\$ 42,007.12	8	0
\$ -	\$ -	\$ -	\$ 31,742.45	delinquent	\$ 3,214.53	\$ 45.00	\$ 22,911.98	2	0



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Deliverables	Due Dates
Provide Updated RLF Plan to EDA for review and approval	April 30, 2019
Marketing Plan and Updating Website	June 30, 2019
Quarterly Loan Status Updates provided to EDA	April 30, 2019 August 31, 2019 December 31, 2019
Execute a Corrective Action Plan for Audit Findings related to internal controls and timely submittal	June 30, 2019
Provide documentation of training – 4 CDFA “RLF Best Practices” Webinars	August 31, 2019



Janét Miller
RLF Administrator
Denver Regional Office
JMiller@eda.gov
303-844-5362



Patrick Waggoner
RLF Administrator
Denver Regional Office
PWaggoner@eda.gov
303-844-4088

Mitchell Harrison
Program Analyst
Performance and National
Programs Division, D.C.

Thank you.