



# Revisiting Your Revolving Loan Fund Plan

**Thank you**

for joining the conversation today. Send us your questions and comments!

## Welcome

The Broadcast will begin at 2:00 PM (Eastern)



# Revisiting Your Revolving Loan Fund Plan

## Moderator

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**Genna Auteri**

Coordinator, Research & Technical Assistance  
Council of Development Finance Agencies

See all of CDFA's resources online at [www.cdfa.net/resources](http://www.cdfa.net/resources)



# Revisiting Your Revolving Loan Fund Plan

## Legal Disclaimer

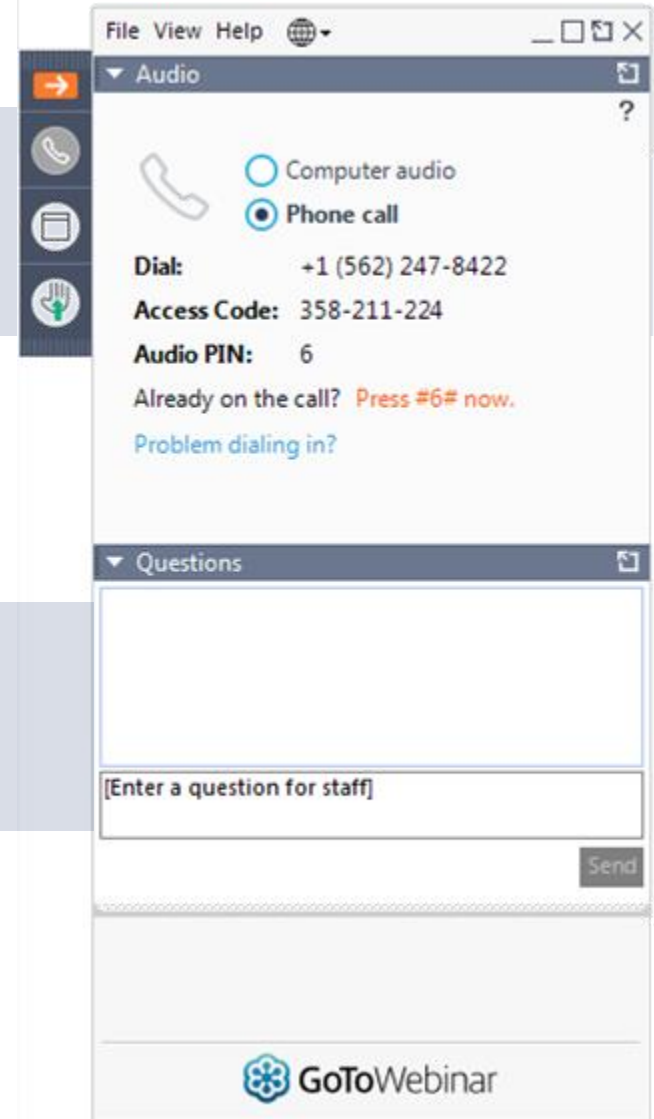
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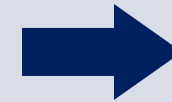


# Revisiting Your Revolving Loan Fund Plan

Using your telephone will give you better audio quality.



Submit your questions to the panelists here.



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# Revisiting Your Revolving Loan Fund Plan

## Panelists



**Stephen O'Mara**  
Loan Program Manager  
Southern Mississippi Planning  
and Development, Inc.



**Karen Lynch**  
RLF Administrator  
Economic Development Administration

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**Ken Pearson**  
Loan Fund Manager  
Northwest Regional Planning  
Commission

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U.S. ECONOMIC DEVELOPMENT ADMINISTRATION

# Revolving Loan Fund Plans

Incorporating  
2018 Regulation Changes

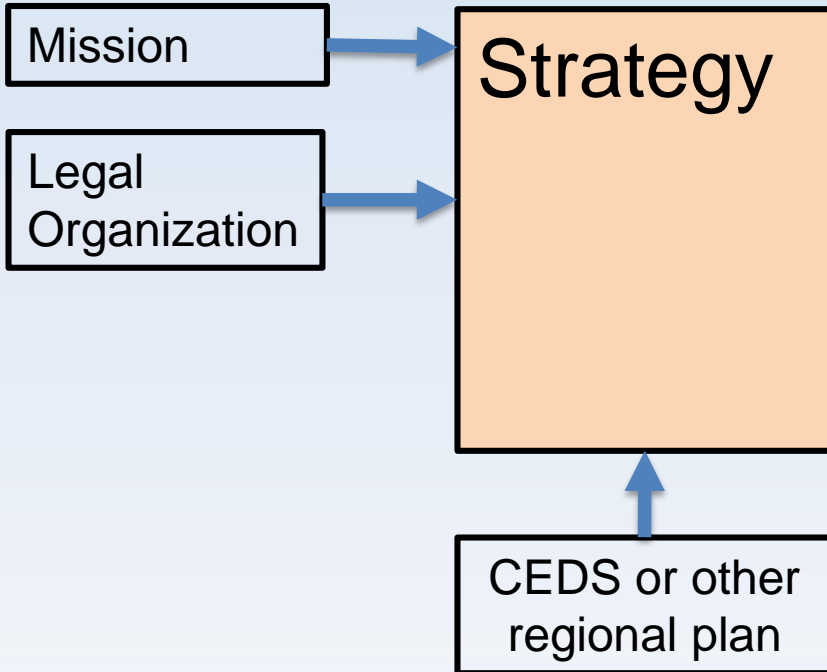
The Revolving Loan Fund in Context

Required Organization and Elements of the RLF Plan

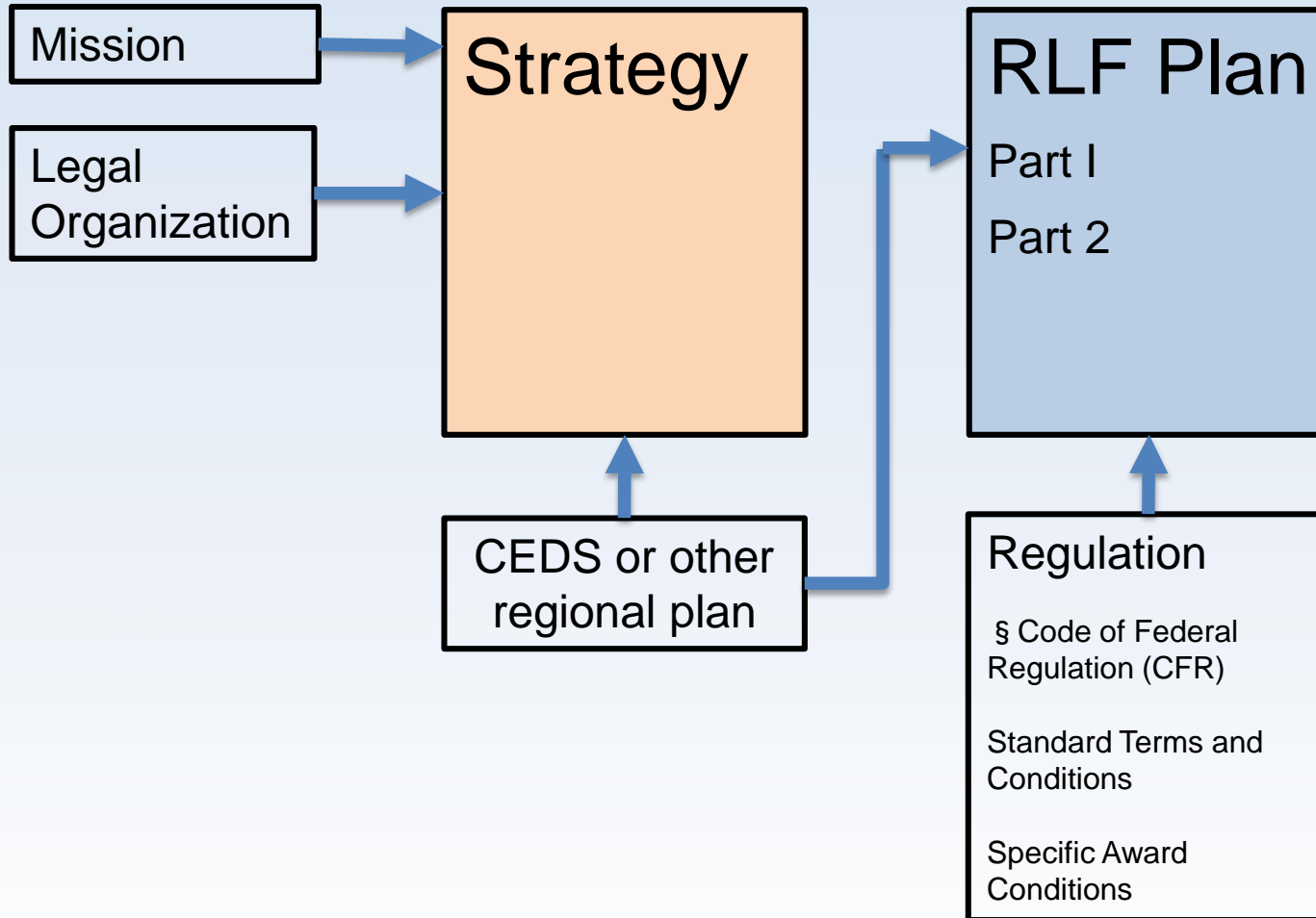
Regulation Changes

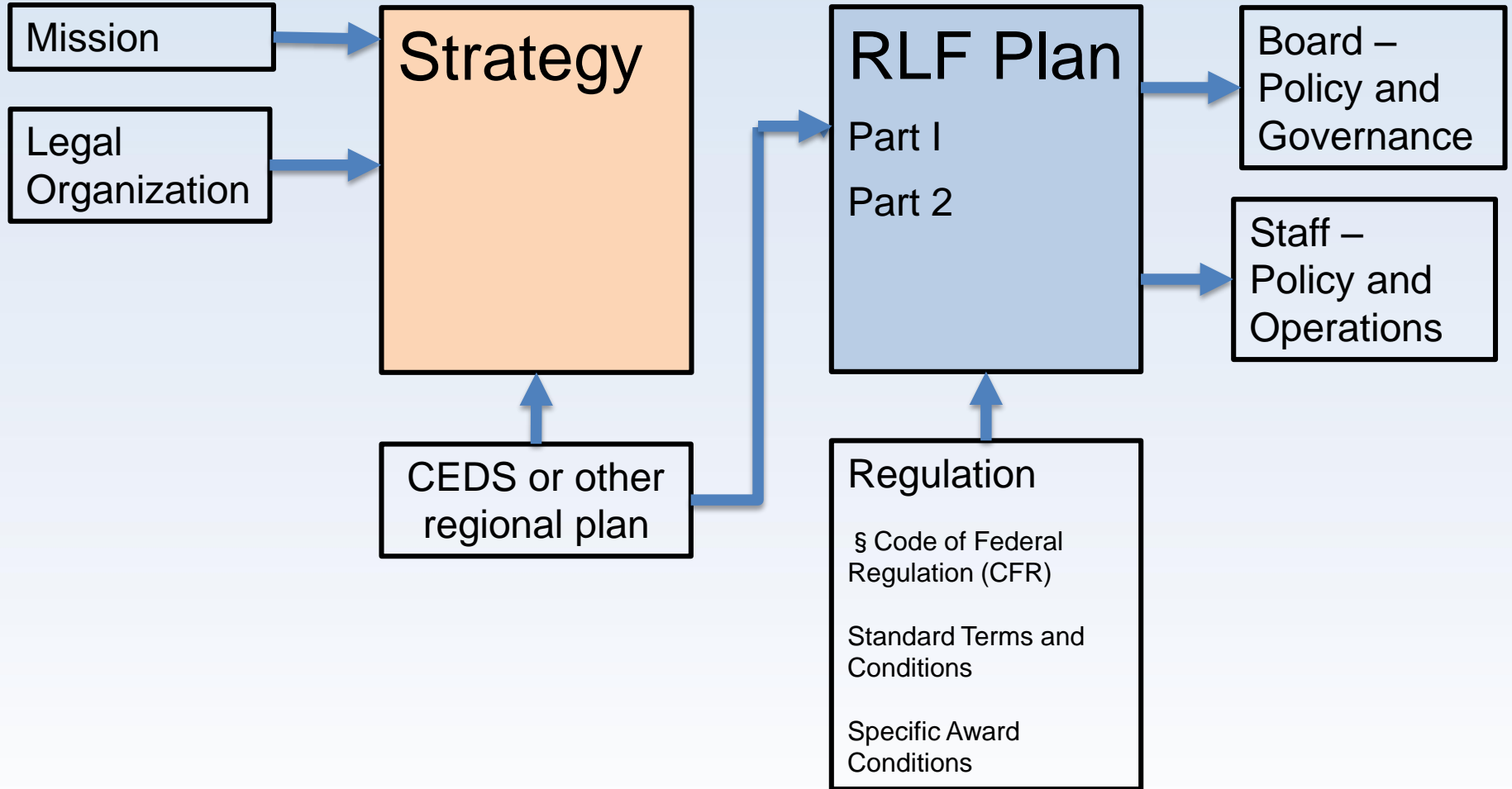
How EDA Evaluates Your RLF Plan

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



- New environmental language in DOC Standard Terms and Conditions reflects changes in the National Environmental Protection Act (NEPA) in 2017
- The borrower is responsible for complying with the environmental regulation, but the RLF is responsible for documenting
  - Include a paragraph in the RLF Plan to describe your approach
  - Determination of environmental requirement should be documented in loan file



- 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>



Northwest Regional Planning Commission

# NWRPC



*keeping your future as our focus*



**Northwest Wisconsin  
Business Development  
Corporation**

Financing Assistance For Job Creation



Northwest Wisconsin Regional  
Economic Development Fund



**Wisconsin Business  
Innovation Corporation**

— new technologies, new companies, new jobs —



Committed to the future of rural communities.




# About NWRPC and affiliates

 **Cover 10 counties in NW Wisconsin**






 **Over 10,927 square miles**

 **Approximate population 179,000**

 **As an advocate for Northwest Wisconsin, NWRPC is a leader, a coordinator, and an advisor. This is accomplished through implementation of our core functions of planning, community development, and economic development.**



# Objectives

-  **Tie your Loan Policy and Procedure Manuals to your mission lending practices (Who is the Recipient or Lending Territory)**
-  **Priorities (What is Important)**
-  **How to Begin an Update (Where to Start)**
-  **Restrictions but not Restrictive (How to keep Accountability)**
-  **The Policy should Reflect the Evolving Lending Territory Economics and Need**

# Challenge



Source Image: *SignMission*. 2019

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Northwest Regional Planning Commission

**NWRPC** 

*keeping your future as our focus*

# Revisiting your Loan Fund Manual



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# Loan Policy Manuals

Northwest Regional Planning Commission

**NWRPC** 

*keeping your future as our focus*



**Mission thread: To make good deals better  
that enhance the economy of NW WI**

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# Loan Policy Manuals

Northwest Regional Planning Commission

**NWRPC**   
*keeping your future as our focus*



**WISCONSIN ECONOMIC  
DEVELOPMENT CORPORATION**



**Small Business Administration Micro RLF**  
Created and approved in 2014



**WEDC Disaster Recovery Microloan Program**  
Created and approved 2019

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# Loan Policy Manuals



**Northwest Wisconsin  
Business Development  
Corporation**

Financing Assistance For Job Creation



Committed to the future of rural communities.

## **Economic Development Administration RLF**

Prior update 2009, updated 2019

## **United States Department of Agriculture Intermediary Relending Program I and II**

Prior updates 1996 (2018) and 2006, respectively

## **USDA Tech Seed**

Prior update 2001

## **Housing and Urban Development Emergency Management Loan Fund**

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# Loan Board Makeup



Northwest Wisconsin Regional  
Economic Development Fund



**Decommissioned Revolving Loan Fund**

**Prior update was 2015, updated 2019**





**Consolidated and regionalized decommissioned  
CDBG funds**





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# Loan Board Makeup







-  **Economic Development Administration RLF**  
Prior update 2005, updated 2019
-  **United States Department of Agriculture  
Intermediary Relending Program**  
Prior update 2007




# Mission Lending Practices (Who?)

-  **Startups? Expansion? Gap Financing? Credit Repair?**
-  **What is the purpose of the loan program?**
-  **FFE, Inventory, Operations, Renovation, Land/Building Acquisition**
-  **Micro? Longer Term? Asset Life?**

# Priorities (What is Important?)






-  **Federal Circular or SOP is a great starting point?**
-  **What was in the original loan/grant application?**
-  **CEDS will help establish lending guidance**
  -  **As regional CEDS changes the program should evolve to meet the need**

# How to Even Begin (Where to Start?)









-  **First time through followed SOP/Circular Revisions**
-  **Second time through, followed top CEDS priorities that focused on economic development**
-  **Third time through, assessed changing industry trends and demographics (automation, remote workers, aging workforce, etc.) and how to accommodate**








# Restrictions but not Restrictive (How to keep Accountability?)

-  What are the federal minimum requirements?
  -  Davis Bacon and other Regulations
-  What are the operational controls, procedures and processes
-  What other criteria are built into the program?  
Credit? Closing? Servicing? Collections?  
Loan Fees? Workout/Moratorium? Payoffs?
-  Remember the approval process by loan administrative committee and/or loan board

# What Changed for EDA RLFs?

-  **Increased job creation/retention lending limits**
  -  **From \$7,500 to \$30,000 per job**
  -  **Changed focus from job creation to mix**
-  **Increased project minimum to \$20,000**
  -  **Introduction of SBA MRF and layering projects for client TA leveraging**
  -  **Cut “NWBCDC Microlending Program”**
-  **Changed Equity Requirements**
-  **Changed W/C Allowances per Project**

# What Changed for EDA RLFs?

-  Updated No-credit elsewhere definition and required documentation
-  Added Closing Cost Sliding Scale to mitigate risk and keep interest rates standard across all programs
-  Standardized Fee Section in all RLF Manuals
  -  Was standard practice but not specified in all manuals
-  Pilot Testing a Minor Covenant Default Fee Policy for NWREDF Program








# Solution



Source Image: <https://barefootpalmsvilla.com/toes-in-the-sand-2/>. 2019

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# Thank you!

Ken Pearson, MPSA  
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[www.nwrpc.com](http://www.nwrpc.com)



Southern Mississippi Planning & Development District

**BUILDING A STRONGER MISSISSIPPI**

# REVOLVING LOAN FUND PROGRAMS

Stephen O'Mara, Loan Program Manager

[somara@smpdd.com](mailto:somara@smpdd.com)

10441 Corporate Drive, Suite 1 Gulfport, MS 39503

Phone 228-868-2311

[www.smpdd.com](http://www.smpdd.com)

# SMPDD

## IS A PRIVATE NON-PROFIT 501(c)(3) ORGANIZATION

SMPDD receives funding from the Economic Development Administration (EDA) and the Mississippi Development Authority (MDA) to administer Revolving Loan Funds through 4 programs

Revolving Loan Fund Program

Minority Business Enterprise Loan Program

MBE Micro Loan Program

MS Small Business Assistance Program

Additionally, SMPDD administers a program funding with local funds for counties and municipalities for community development projects.

Local Government Loan Fund

# SMPDD Portfolio

- EDA - \$6,510,817
- MDA - \$2,040,656
- Minority - \$923,382
- Local Government Loan Fund - \$314,878
- Local Loan Fund - \$599,655
- Total portfolio - \$10,389,388

# SMPDD EDA RLF History

- Received initial funding in 1987
- Received \$1MM re-capitalization in 2016 and 2018
- Most recent plan update – August 2019





# Revisiting Your Revolving Loan Fund Plan

## Question and Answer

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### CDFA EDA Revolving Loan Fund Best Practices Program



The EDA Revolving Loan Fund Program is a staple of the federal economic development access to capital delivery system. The program, established in 1975, is designed to provide grants to state and local governments, political subdivisions, and nonprofit organizations to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. Grant recipients are required to manage their RLF according to their RLF administrative plan, a document that describes the lending strategy and administrative procedures for a specific RLF project. The **EDA** has charged CDFA with developing an education program which will help to improve this crucial program.

CDFA has worked with the **EDA** to develop an innovative technical assistance approach to better support and improve the more than 500 EDA funded Revolving Loan Funds in the United States. The CDFA EDA RLF Best Practices Program will include a diverse set of offerings that will encourage learning, best practice collaborations, evaluations of service efficiencies and improvements, and a comprehensive resource collection and dissemination process.

See all of CDFA's resources online at [www.cdfa.net/resources](http://www.cdfa.net/resources)





## Revisiting Your Revolving Loan Fund Plan

# Upcoming CDFA EDA RLF Best Practices Training's

## **CDFA EDA Revolving Loan Fund Training – Atlanta Region**

Tampa, FL

November 5-6, 2019

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## Revisiting Your Revolving Loan Fund Plan

### Upcoming CDFA EDA RLF Webinar Series

#### **Fund Recapitalization and Expansion**

October 22, 2019 | 2:00 PM Eastern

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Key program elements will include:

- **EDA Revolving Loan Fund Training**  
CDFAs will present its comprehensive Intro Revolving Loan Fund Finance Course once in each of EDAs six regions. The course curriculum will be tailored to address the specific needs of EDA RLF grantees with a focus on introductory elements related to program design, marketing, management, decision making, pre- and post-loan closing processing, disclosure and monitoring, underwriting strategies, program expansion, evaluations and program risk strategies.
- **EDA Revolving Loan Fund Webinar Series**  
Understanding that not all RLF grantees will have the resources or ability to attend in-person training, the CDFAs EDA RLF Best Practices Program will offer an exclusive online learning environment through CDFAs established webcast system. This learning module will include twelve, ninety minute, webinars focused on specific RLF program management best practices.
- **EDA Revolving Loan Fund Peer-to-Peer Learning Exchange**  
CDFAs and EDA will match low performing loan funds with high performing loan funds over the duration of the program in order to encourage learning from best practices. CDFAs staff will lead conversations and pairings with most exchanges occurring as scheduled web meetings. Peer-to-Peer learning participants are encouraged to attend the regular webinars and then hold a follow-up meeting for a peer exchange on the same topic.

• EDA Revolving Loan Fund Training

• EDA Revolving Loan Fund Webinar Series

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