



Economic Development Administration

Denver Regional Office

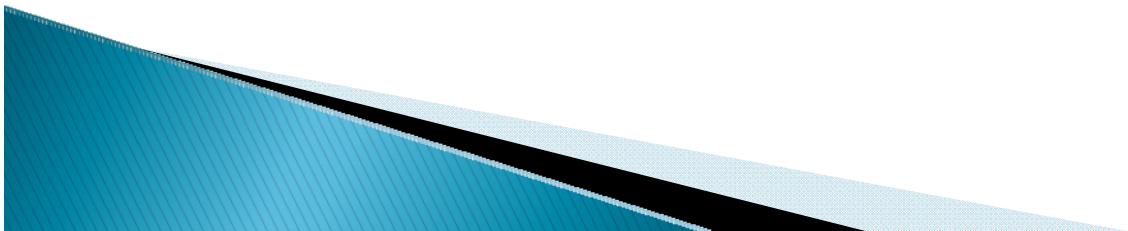
Iowa Association of Regional Council

2011 Revolving Loan Fund Conference



Revolving Loan Fund Workshop Introduction

- Ms. Laura Stein, EDA Economic Development Representative





Workshop Overview

- EDA Revolving Loan Fund Reporting Requirements
- EDA Revolving Loan Fund Compliance
- Sequestered Funds
- Revolving Loan Fund Marketing
- Q & A



RLF Reporting Requirements

- ED -209S: RLF Semi-Annual Reports
- March 31st and September 30th
- RLFMS Certification
- Audit Certification
 - Federal Audit Clearinghouse
 - (<http://harvester.census.gov/sac/>)
- ED 209I: Income and Expense reports
(13 CFR § 307.14 (c))

RLF Reporting Requirements



- Revolving Loan Fund Management System (RLF MS)
 - Use of Summary Spreadsheet
 - EDA updated the RLFMS User Guide

RLF Monitoring



EDA Compliance Review of:

Prudent Management of the RLF – Administrative Procedures

- Ensure Accountability
- Safeguard RLF assets
- Compliance with Federal and local laws
- Prudent Lending

RLF Monitoring



EDA Compliance Review of:

Prudent Management of the RLF - Borrower Files

➤ *13 CFR § 307.15:*

- Loan Application
- Loan Agreement
- Meeting Minutes
- Promissory notes

RLF Monitoring



EDA Compliance Review of:

Prudent Management of the RLF - Borrower Files

➤ *13 CFR § 307.15:*

- Security Agreement(s)
- Deed of Trust or Mortgage (as applicable)
- Agreement of prior lien holder (as applicable)
- Signed bank turned down letter

➤ Reference Borrower File Checklist



RLF Monitoring

EDA Compliance Review of:

Prudent Management of RLF – Interest Rate

- Operate in accordance with generally accepted accounting principles (GAAP)
- Interest Rate:
 - 4 percentage points below the lesser of :
 - current money center prime interest rate quoted in Wall Street Journal; or
 - maximum interest rate allowed under State law

RLF Monitoring



EDA Compliance Review of:

Prudent Management of RLF – Private Leveraging

- 2:1 Private Leveraging
 - At least 2 private investment dollars for every 1 dollar of RLF funds
 - Applies to portfolio as a whole

- Maximum Loan Amounts
 - No more than 25% of Capital Base to one borrower
 - Threshold reflected in RLF Plan

RLF Monitoring



EDA Compliance Review of:

Prudent Management of RLF – Operational Procedures

- Loan portfolio management procedures
 - Loan processing
 - Underwriting
 - Closing
 - Disbursement
 - Collection
 - Monitoring
 - Foreclosure

RLF Monitoring

EDA Compliance Review of:



Prudent Management of RLF – RLF Plan

➤ RLF Plan Requirements 13 CFR 307.9:

Serves as internal operating tool and sets out administrative procedures for operating the RLF consistent with Prudent Lending Practices, 13 CFR 307.8

- Title Page
- Revolving Loan Fund Strategy
- Operational Procedures
- Conflict of Interest

Sequestration of the RLF



Capital Utilization Standard 13 CFR 307.16 (c):

- 75% of current RLF capital loaned out or committed
- Remaining 25% of current RLF capital base is the capital utilization standard
- Excess funds for 2 consecutive reporting periods

Sequestration of the RLF



Calculation of Sequestered Funds:

- ▶ Current balance available (*RLFMS Part III.D.4*) ÷ Current level of RLF Capital Base (*RLFMS Part III.C.4*)
 - Ex: $\$125,000 \div \$145,000 = 86\%$ of RLF Capital Base not being lent out
 - Over 25% then must sequester funds
- ▶ Current level of RLF Capital Base x 25% = capital utilization standard
 - Ex: $\$145,000 \times 25\% = \$36,250$
- ▶ Current balance available less capital utilization standard = excess funds to deposit in sequestered funds account (*RLFMS Part V.B.1*)
 - Ex: $\$125,000 - \$36,250 = \$88,750$

Sequestration of the RLF



Interest Payments to EDA:

- Submit interest on EDA's portion of sequestered funds (grant rate)
- Submit evidence of quarterly interest payment to EDA within 30 days of end of each quarter – December 31, March 31, June 30, and September 30
- Provide EDA with copy of check, wire transfer, proof of direct deposit

Sequestration of the RLF



- Persistent non-compliance with capital utilization standard 13 CFR 307.16(c)(2)(ii):
- May result in termination of the RLF grant

Sequestration of the RLF



Recapitalized RLF:

- ▶ Funds should be disbursed within 36 months
- ▶ Time extension should be requested
- ▶ Provide justification with compelling reason(s) for time extension
- ▶ Time extensions, generally, do not exceed 1 year.



Sequestration of the RLF

Recapitalized RLF:

- EDA may establish thresholds as a special condition to the time extension
- Funds may be de-obligated completely or proportionately if conditions are not met
- De-obligated not the same as sequestered
- Funds are permanently returned to the Treasury



RLF Defaults

Default Rate 13 CFR 307.16 (d):

- If default rate greater than 20% provide EDA with
 - Written analysis which includes
 - Revolving Loan Fund Plan
 - Loan and collateral policies
 - Loan servicing and collection policies and procedures
 - Detailed information of all loans in default
 - Corrective action plan
 - Specific actions taken/to be taken to reduce loan default rate

- If default rate greater than 30% EDA will conduct onsite visit to determine risk and value analysis of portfolio

RLF Defaults



- Review types of loans being made
- Consider revising the RLF Plan and adjust the percentage of loans made to that respective industry (i.e. startups)
- Percentage adjustments should remain in place until default rate decreases
- Establish more stringent requirements (i.e. better collateral, personal guarantees)
- Conduct a more comprehensive analysis prior to making the loan

RLF Marketing



- Marketing program
- Contact chambers of commerce
- Utilizing Board Members
- Other ideas???



Q & A

