



U.S. Department of Commerce
Economic Development Administration

**Revolving Loan Fund
Plan Guidelines**

September 30, 2002



PREFACE

These Economic Development (EDA) *Revolving Loan Fund Plan Guidelines*, provide additional guidance to grant recipients for the preparation of the Revolving Loan Fund (RLF) Plan. As such, the guidance provided in the *Revolving Loan Fund Plan Guidelines* is intended to expand and further explain, but not diminish the RLF Plan requirements described in EDA regulations at 13 CFR § 308.9 and other pertinent regulations. The text of 13 CFR § 308.9 and references to other pertinent regulations are included in this document solely for the reader's convenience. These guidelines are intended to assist grant applicants prepare and document an RLF Plan that (1) is tailored to supporting implementation of the area's Comprehensive Economic Development Strategy, (2) provides for administrative clarity, continuity and consistency, and (3) is acceptable to EDA.

THE REVOLVING LOAN FUND PLAN REQUIREMENTS

A Revolving Loan Fund (RLF) Plan is a document developed by the RLF grant award recipient that sets forth the strategy, policies and operating rules that the recipient will use to administer the RLF. RLF recipients must manage their RLF in accordance with an RLF Plan (Plan) as described in this part. For all RLF recipients, the Plan must be submitted to and approved by EDA prior to the grant award. Unless otherwise provided for in special award conditions, EDA approval of an RLF award constitutes approval of the RLF plan. For RLF recipients other than states, the Plan must have been passed by resolution of the organizations' governing board, and such resolution must be submitted to EDA along with the Plan prior to the grant award; political subdivisions of states may be exempted from the governing board resolution requirement with EDA approval.

(See 13 CFR § 308.9)

1. Format and content The required content and recommended format for the RLF Plan is as follows:

- a.** The title page of the Plan should show the RLF recipient organization's name and the date the Plan was adopted.
- b.** Part I of the Plan, titled Revolving Loan Fund Strategy, summarizes the area CEDS and business development objectives, and describes the RLF's financing strategy, policy and portfolio standards. Organization of the material and the level of detail provided in the subsections of Part I may be varied to improve the narrative flow, provided the substantive content is adequately covered.
- c.** Part II of the Plan, titled Operational Procedures, serves as the internal operating manual for the RLF. In administering the RLF, the RLF recipient must adopt procedures to comply, and ensure that potential borrowers comply, with applicable laws and regulations including, but not limited to 13 CFR §§ 316.1, 316.3, 316.7, 316.8, 316.15, and 317.
(See 13 CFR §§ 308.9(a) and 308.10)

2. Evaluation of Plans EDA will use the following criteria in evaluating Plans:

- a.** The Plan must flow from and be consistent with the EDA-approved CEDS for the area.
- b.** The Plan must be an internally consistent, coherent statement of the strategic purpose of the particular RLF and the various considerations influencing the selection of its financing strategy, policies, and loan selection criteria encompassing:
 - (1)** A financing strategy that demonstrates a knowledgeable analysis of the local capital market and the financing needs of the targeted businesses; and
 - (2)** Financing policies and portfolio standards that are consistent with EDA policies and requirements.

- c. The strategic objectives defined must be sufficiently meaningful, though not necessarily quantified, so that progress toward them can be assessed over time.
- d. The administrative procedures for operating the RLF must be consistent with generally accepted prudent lending practices for public lending institutions.
(See 13 CFR § 308.9(b))

3. **RLF Plan Modifications** While EDA encourages RLFs to be responsive to their communities, any modifications to the RLF Plan must first be approved by the RLF Board (if applicable) and by EDA. Economic development often requires the forwarding of new approaches, or revisions to old ones, to help stimulate stagnant economies. Such changes may be required for the RLF to remain supportive of updates made to an area CEDS. Modification of the RLF Plan also may be necessary to ensure effective use of the RLF as a strategic financing tool.
(See 13 CFR § 308.14(b))

ADDITIONAL RLF PLAN GUIDANCE

The following sections provide additional guidance to grant recipients for the preparation of the RLF Plan. As such, the following guidance is intended to expand and further explain, but not diminish the RLF Plan requirements described by the EDA regulations presented above and referenced (see regulation citations) throughout this document.

FORMAT AND CONTENT The format for the Plan provides for two distinct parts: the Revolving Loan Fund Strategy and the Operational Procedures. Each part contains a number of sections designed to facilitate the orderly and logical presentation of the required information. However, the organization of the material and the level of detail provided in the subsections of Part I may be varied to improve the narrative flow, provided the substantive content is adequately covered.

The title page of the Plan document should show the grant recipient organization's name and the date the Plan was approved. Normally, approval is required to be by resolution of the organization's governing board. States are exempted from this requirement.

PART I: THE REVOLVING LOAN FUND STRATEGY

The RLF strategy is the approach selected by the grant recipient organization for using RLF financing as part of the broader business development strategy designed to support achievement of the goals and objectives established through the area/community's Comprehensive Economic Development Strategy (CEDS) process. The sequence of the subsections of this Part are designed to lead the reader from the general to the more specific, providing the reader with an understanding of how the RLF strategy was arrived at, and establishing the strategic, organizational and programmatic context for the proposed use of the RLF.

A. ECONOMIC ADJUSTMENT PROGRAM OVERVIEW

A **short** description of the area's CEDS, i.e., the strategy and the full range of activities planned and being implemented, should be provided. The following topics must be included:

1. The nature and scale of the economic adjustment problem(s) underlying the economic distress statistics that resulted in the area becoming eligible for Economic Adjustment assistance.
2. The process through which the CEDS was developed. Was it an outgrowth of an ongoing economic development program, such as a CEDS required for other forms of EDA assistance, or a special initiative undertaken in-house or by a consultant? What community organizations and interest groups were, and continue to be, involved in further refining the strategy and overseeing its implementation?
3. Area resources/assets (potential or actual growth industries, industries that could be more productive, work force skills, natural resources, etc.) on which the strategy is designed to build. What specific opportunities have been identified for expanding or strengthening existing economic activities and/or creating new activities?

4. The strategic adjustment goals and objectives derived from the conclusions described above and an assessment of the capacity of the community to invest in pursuing the opportunities identified.
5. The implementation programs and activities, both underway and planned, that support the strategic objectives. Note that while business development activities should be identified here, in addition to other activities, Section B requires a detailed discussion of the business development strategy.
6. The organizational structure and distribution of responsibility for managing the on-going adjustment program. What agency is responsible for maintaining the CEDS, evaluating results and updating it as needed? What agencies/organizations manage or coordinate implementation of key elements in the CEDS, in particular, the business development strategy of which the RLF is to be a component.

B. THE BUSINESS DEVELOPMENT STRATEGY

As emphasized in EDA's guidelines for preparing a CEDS, a key element of any community's adjustment program should be its business development strategy. A community's business development strategy will depend on the particular opportunities identified for stimulating business investment and productivity. Participation of the business community in the development of the business development strategy is essential, as is a firsthand knowledge of the characteristics of firms within the targeted economic sectors and their individual needs for assistance.

It is the experience of working with the business sector in designing and implementing a business development strategy that enables the community to (1) determine the need for an RLF, and (2) define the types of RLF investments that will be most effective in complementing other types of business assistance in supporting the objectives of the adjustment program.

If the business development strategy is already well documented in the community's CEDS, it need only be summarized sufficiently to provide a bridge between the CEDS and the RLF financing strategy. If not well documented, it should be described in more detail. The following features of the business development strategy should be addressed:

1. The objectives of the business development strategy, for example, increase the capacity of local firms to supply parts and services to a major local manufacturer, encourage creation of firms to develop and commercialize products that add value to a local resource, assist small manufacturing firms incorporate new production technologies and/or develop new markets, etc.
2. The pertinent characteristics of the businesses or prospective businesses in the economic sectors targeted by the strategy; for example, their size, age, ownership, management, products, markets, competitiveness, production processes, capital, etc.
3. The types of assistance needed by these businesses and would-be entrepreneurs to take advantage of the opportunities identified; for example, access to technical information (market data, new technologies and production processes, exporting), hands-on management and technical assistance, financing, incubator space, etc. How were and are these needs being identified:

surveys, on-site interviews, business forums, etc?

4. The programs/activities being undertaken by the public sector and/or development organizations to address the identified needs. Are there other sources of assistance available; for example, a technical college, business development center, industrial extension service, SCORE program, an SBA Small Business Development Center and/or a Certified Development Corporation, etc.? Are there private sector organizations, industry and/or business associations that promote information exchange and technical support?

C. THE FINANCING STRATEGY

The community's financing strategy should take into account all the sources of financing, public and private, available to support its business development objectives, and should identify the best and appropriate sources to meet the differing creditworthiness and needs of the types of businesses targeted for investment. Analysis of the characteristics of the demand for and supply of financing will determine the appropriate financing niche for the RLF. This should be discussed in terms of the following:

1. The current types of financing needs and opportunities in the targeted business sectors and specific types of firms within them. What further needs and opportunities are expected to emerge as implementation of the strategy progresses?
2. The current availability of public and private financing in the area. What are the prevailing commercial lending policies/restrictions? What role is anticipated for the public and private lenders in supporting the community's business development strategy?
3. The characteristics of the financing niche that the RLF would occupy.
 - a. Types of businesses/firms?
 - b. Types of financing?
 - c. Types of terms?
4. The impact RLF financing is anticipated to have on accomplishing the community's economic adjustment objectives in the next 3-5 years. For example:
 - a. **The RLF should be market-based.** Investments should capitalize on the community's unique regional assets and strengths to build comparative advantages for future business investment.
 - b. **The RLF's financing strategy should be proactive in nature and scope.** RLF investments should support and advance innovation and increased productivity. The RLF should enhance a community's success in achieving a high and rising standard of living.
 - c. **The RLF looks beyond the immediate economic horizon, anticipates economic**

changes, and diversifies the local and regional economy. RLF investments should be part of an overarching, long-term regional strategy that includes expanding existing industry clusters and developing emerging, new clusters. Investments should create the conditions for sustained productivity.

- d. RLF investments maximize the attraction of private sector investment and would not otherwise come to fruition absent the EDA RLF's investment.** The RLF should serve as a unique public sector source of capital to assist distressed communities that otherwise would be at a distinct competitive disadvantage in attracting the higher levels of private capital investment in facilities and equipment that drives the creation of higher-skill, higher-wage jobs.
- e. The RLF should have a high probability of success.**
 - (1) The RLF should have a high level of local, state, and private matching funds.** EDA funds are limited and should be highly leveraged with matching funds to the greatest extent possible. A larger local, private match indicates a higher level of commitment to successful completion by the public sector and higher market-based credibility by the private sector.
 - (2) High degree of commitment of local political "capital" by elected officials.** Local officials' support should not be "pro forma" but should reflect their willingness to champion the cause. Shared vision on the part of local elected officials significantly enhances a sustained economic development strategy.
 - (3) Significant commitment of human resources talent to ensure achievement of project outcomes.** Strong leadership is a necessary part of any successful economic development strategy, initiative, or investment.
- f. The RLF should contribute to an environment where higher-skill, higher- wage jobs are created.** While wages should be evaluated in comparison to regions' average wages and skills, the jobs created or retained as a result of the EDA RLF investments should be higher than the average wage and skill level for the community. The goal of economic development is to achieve a high and rising standard of living.
- g. The RLF should maximize Return on Taxpayer Investment.** EDA RLFs should do more than merely preserve the taxpayers' dollars. RLF investments should generate a return for the taxpayer by attracting private capital investment and high wage jobs that promote regional prosperity through the consumer demand they create. Successful economic development investments promote economic self-sufficiency; provide the resources for building safe, healthy, and attractive communities; and minimize poverty.

D. FINANCING POLICIES

Consistent with the role identified for the RLF in the community's financing strategy, and with due consideration for the need to manage and protect the RLF capital, the specific policies designed to

govern RLF financing should be discussed as follows: the standard lending terms, and any concessionary or special financing techniques that the RLF will entertain to accomplish the objectives of the business development strategy. Discuss the key factors that will determine how such techniques might be employed.

1. The range of allowable interest rates the RLF will charge borrowers.
2. Requirements for equity or cash injections to be provided by the RLF borrower.
3. Will the policy be the same for new as opposed to established businesses?
4. Will any deviations be allowed, e.g., for working capital loans.
5. The standard repayment terms for both working capital and fixed asset loans, and any deviations.
6. If the RLF anticipates moratoria on principal payments, specify the *maximum* moratorium period.
7. What key factors will determine when any deviations will be employed?
8. The types of collateral to be required of borrowers.
9. The minimum and maximum loan sizes that the RLF will entertain.

E. PORTFOLIO STANDARDS AND TARGETS

RLF portfolio standards and targets are used by EDA as surrogate measures for the economic performance of an RLF. EDA recommends the following:

1. The anticipated percentage of RLF investments in each of the following:
 - a. Industrial/Commercial/Service businesses (Show any subcomponents, if significant and if identified in the business development strategy.)
 - b. New businesses/expansion/retention.
2. The anticipated percentage of the RLF portfolio that will be targeted towards working capital loans and fixed asset loans.
3. Private investment leveraging ratio for the portfolio overall. Sources of private investment that may be included are: financing from other lenders (e.g., banks, investment companies, etc.) or private investment on the part of the borrower or other firms in conjunction with the RLF financing.
4. Cost per job for the portfolio overall.

F. RLF LOAN SELECTION CRITERIA

In addition to the required selection criterion that financing is not otherwise available, what "economic impact" criteria will be used to evaluate proposed loans? *The impact factors described in Section C. 5. of the Financing Strategy should be incorporated into the loan selection criteria.*

G. PERFORMANCE ASSESSMENT PROCESS

Describe the process and factors that the grant recipient will use (1) to periodically assess the performance of the RLF in accomplishing its stated economic adjustment objectives, and (2) to modify the RLF Plan as needed.

PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES

This part of the RLF Plan is designed to cover in detail the specific operational procedures to be followed by the grant applicant/recipient in administering the RLF.

Section A describes an overview of the organizational distribution of responsibility for the key elements in operating the RLF. Sections B. through E. include, for each item indicated, a short description of (1) how it will be addressed, the procedure/requirement to be used, if any, (2) the documentation that will be used, (3) the party(ies) responsible for carrying out the requirement, and (4) the time frame within which it is to be implemented.

A. ORGANIZATIONAL STRUCTURE

1. Provide an overview of the organizational structure within which the RLF will be operated. For each of the functions critical to the conduct of the RLF's lending activities, identify the responsible parties including any from outside the organization. Use a schematic diagram if helpful.

Critical operational functions include: identification and development of appropriate financing opportunities; provision of business assistance and advisory services to prospective and actual borrowers (identify the types and sources of services available); environmental reviews; and loan management (loan processing, credit analysis, loan write-ups and recommendations, closings, collections and servicing, handling defaulted loans and foreclosures, and compliance with grant requirements). Note that a more detailed description of how some of these functions will be handled is requested in sections below.

2. Describe the size and general composition of the organization's RLF loan board; include experience and occupational requirements. Describe its duties and responsibilities, membership terms and quorum requirements.

For example: An RLF loan board must be responsible for approving loans, all major loan modifications (or waivers), and loan foreclosure actions. It must also be responsible for at least recommending RLF loan policy (actual approval of loan policy may take place at a higher level). The loan board will include members with business experience (representation of targeted industries and/or business sectors is desirable provided it will not cause a conflict of interest),

members with financing experience, members from both the public and private sectors and minority members representative of the community. At least one member with financing experience (similar to the type of loans to be made under the RLF program) must be present for each loan decision.

3. Address how the organization will identify and deal with conflict of interest situations. (See 13 CFR §308.15(e))

B. LOAN PROCESSING PROCEDURES

1. Standard Loan Application Requirements - include a list of items or a checklist showing the items to be required of RLF loan applicants. [It is acknowledged that not all checklist items will apply to each loan applicant and that certain situations may require additional items not on the list.]
2. Credit Reports.
3. Appraisal Reports.
4. Environmental Reviews.
5. Standard Collateral Requirements - include requirements for personal guarantees and insurance (hazard, keyman life, flood, and title).
6. Standard Equity Requirements - when listing equity requirements, differentiate between existing and new companies, and fixed asset and working capital loans. Note that an allowable requirement for a working capital loan may simply require a borrower to have a certain net working capital position. Equity is defined as an amount or percentage of capital (or lien free assets) that is required to be added to a project from borrower or investor sources.
7. Loan Write-up - indicate the items to be addressed in the RLF loan write-up. At a minimum, a loan write-up must discuss how the proposed RLF loan is not replacing private lender funding sources (see 13 CFR § 308.18(c)). Other items should include a summary of the firm's history, management, product, production capability, market conditions, financing, collateral, repayment ability, consistency with the RLF's financing policy and whether there are any environmental problems associated with the project. A Loan Write-up summarizes the key aspects of a loan; it is prepared by the RLF grant recipient and is usually provided to the RLF loan board prior to the loan decision.
8. Procedures for loan approvals, documentation of loan board decisions, and notification of borrowers.

C. LOAN CLOSING AND DISBURSEMENT PROCEDURES

1. General Closing Requirements - include documentation required to confirm any needed equity injection and private lender financing.

2. Loan Closing Documentation Requirements - provide a checklist of the standard documents that will be required for the types of loans to be made under the RLF. Indicate any special timing requirements, e.g., Uniform Commercial Code (UCC) searches prior to and/or subsequent to a UCC filing on personal property.
3. Loan Disbursement Requirements - indicate borrower requirements for drawing loan funds, i.e., is a borrower required to provide any evidence (e.g., an invoice) that it has ordered an asset prior to receiving loan funds to ensure that funds are ordered only when actually needed and that they will be used as agreed in the loan agreement, any pre-disbursement requirements for working capital loans, any special requirements for construction financing, and any other disbursement procedures that are necessary to protect RLF assets.

D. LOAN SERVICING PROCEDURES

1. Loan Payment and Collection Procedures - indicate the standard method(s) of loan payment by RLF borrowers, e.g., payment coupon books, automatic payment withdrawals, or other methods. Indicate any procedures for protection and timely deposit of RLF loan payments.
2. Loan Monitoring Procedures - indicate the standard procedures for monitoring loan conditions, including requirements/procedures for financial statements, annual insurance renewals, UCC refilings, borrower site visits, tickler files, and compliance with any Federal requirements of the grant.
3. Late Payment Follow-up Procedures - indicate the standard procedures for handling loans that are in arrears up to 90 days and discuss any late penalty requirements (which should be stated in the note).
4. Procedures for Handling Loans over 90 days in arrears.
5. Write-off Procedures - indicate how the RLF will account for loan write-offs.

E. ADMINISTRATIVE PROCEDURES

1. Procedures for Loan Files and Loan Closing Documentation - indicate what should be included in an RLF loan file, e.g., the application, loan commitment letters, copy of private lender loan agreement, financial statements, annual insurance certifications, annual site visit reports, general correspondence, job reports, etc. Indicate any procedures for safekeeping loan documents, particularly the loan closing documents. At a minimum, all original notes, loan agreements, personal guarantees and security agreements should be placed in a fireproof facility or container.
2. Procedures for Complying with EDA Reporting Requirements - provide an overview of how RLF loan payments and RLF Income sources will be tracked and accounted for in order to meet EDA reporting requirements. [RLF Income sources including interest from loans and from accounts holding idle RLF funds, loan fees, late payment fees, and any other sources of RLF

revenue.]

3. Grantee control procedures for ensuring compliance with all grant requirements and for monitoring the RLF portfolio.