**DRAFT REVOLVING LOAN FUND (RLF) PLAN TEMPLATE**

A Revolving Loan Fund (RLF) Plan is a document developed by the RLF Recipient that sets forth the strategies, policies, operating rules, and administrative procedures for operating the RLF. EDA’s prior approval is required before the RLF Plan can be used to govern the use of an EDA-funded RLF. After EDA’s initial approval, a Recipient may update its EDA approved plan as needed to address changing economic conditions, but it must inform EDA of any changes and get prior EDA approval for any material change. At a minimum, all changes (material or other) must be submitted to EDA with a cover letter describing the change and a revised copy of the RLF Plan (in both electronic and hard copy format) with a revision date on the affected page(s).

The checklist below is intended to provide additional guidance to RLF Recipients to develop the RLF Plan. The format and content of the RLF Plan may vary from the outline, but the basic information listed below should be contained in every RLF Plan. Applicable EDA regulations outlined in 13 CFR 307 are cited as appropriate. For additional references, see EDA regulations within 13 CFR 307 and the EDA RLF Standard Terms and Conditions dated May 1, 2013. It is recommended that a draft RLF Plan not exceed 25 pages.

**TITLE PAGE**

**1. Title page:** Include with the RLF Applicant’s name and the date of the draft (for draft plans being submitted for review) or date the Applicant’s Board adopted the RLF Plan (for submittal of final plans).

**PART I: REVOLVING LOAN FUND STRATEGY**

Part I should summarize the Comprehensive Economic Development Strategy (CEDS), or other comparable document, and discuss the use of the RLF financing as part of the broader business development strategy developed to support achievement of the goals and the objectives established through the CEDS process.

**A. ECONOMIC ADJUSTMENT OVERVIEW**

This section should briefly discuss the state of the local and/or regional economy. A short description of the area’s CEDS, or other comparable document, should be provided, outlining the full range of activities planned and being implemented and explaining how the RLF will be used to support those activities.

**1.** Describe the nature and scale of the economic adjustment problem(s) and economic distress to be addressed by the RLF.

**2.** Identify the plan(s) or strategies developed to deal with the economic adjustment problem(s) and economic distress, and discuss elements of the CEDS or economic adjustment strategy, as appropriate. *See 13 CFR 307.9(b)(1).*

**3.** Describe how the RLF will be used to support specific economic adjustment activities identified in the CEDS or economic adjustment strategy for the area. *See CFR 13 307.9(b)(2).*

**B. BUSINESS DEVELOPMENT STRATEGY**

This section should discuss the business strategy developed through the CEDS or other economic development planning process. The business development strategy enables the community to determine the need for the RLF and the type of RLF investments that would be most effective in complementing other types of business assistance. The following features of business development strategy should be addressed:

**1. Objectives:** Identify the objectives of the business development strategy (i.e. increase the capacity of local business to supply parts and services to a major local manufacturer, encourage the creation of firms to develop and commercial products that add value to a local resource, assist small manufacturing firms incorporate new production technologies or develop new markets).

**2. Targeted businesses:** Identify the pertinent characteristics of the businesses or perspective businesses in the economic sectors targeted by the business development strategy, such as size, age, ownership, management, products, markets, competitiveness, production process, capital, type of jobs, etc.

**3. Business needs:** Describe the types of assistance needed by targeted businesses (access to technical information, technical assistance, financing, and incubator space) and how these needs were identified.

**4. Other programs and activities:** Describe programs and activities undertaken by the public sector and/or economic development organizations to address the needs of targeted business.

**C. FINANCING STRATEGY**

This section should discuss the financing strategy for the RLF based on the sources of financing (both public and private) available to support the business development objectives and the differing needs of the types of business targeted for investment. Analysis of the characteristics of the demand for and supply of financing will determine the appropriate niche for the RLF. This should be discussed in the terms of the following:

**1. Financing needs:** Describe the type of financing needs and opportunities for target businesses identified in the business development strategy.

**2. Local capital market:** Include an assessment of the local capital market discussing the area’s financial needs/problems and its impact on the area’s development.

* The current availability of private financing in the area and the prevailing commercial lending policies and restrictions.
* The current availability of public financing in the area including any other RLF’s or other similar lending programs
* Role of public and private lenders in supporting the community’s business development strategy.
* Any financing problems or gaps in the local capital market.

**3. RLF Financing niche:** Discuss the financing niche that the RLF will occupy including the types of businesses or firms (for example: start-ups, business expansions, size of business), types of financing (for example: fixed asset, working capital), and the type of terms (for example: repayment terms, collateral requirements, interest rates, etc.)

**D. FINANCING POLICIES**

This section should discuss the specific policies designed to guide RLF financing, taking into consideration the need to manage and protect the RLF capital while accomplishing the objectives of the Business Development Strategy. Discuss the standard lending terms and any special financing techniques that the RLF may utilize. The financing policies must be consistent with EDA policies and requirements. *See 13 CFR 307.9(b)(2)(ii).*

**1. Eligible Lending Area:** Define the eligible lending. Applicants representing a larger area than the RLF eligible area (for example: a multi-county planning district with an RLF for only some of its counties) may target to the smaller area, but it should clearly state that other eligible lending areas may be added in the future with EDA’s prior written approval.

**2. Allowable borrowers:** Indicate the allowable type of borrowers (for profit, nonprofit, start-up businesses, business expansions, etc.) and allowable sectors (retail, commercial service, industrial, etc.)

**3. Allowable lending activities:** Indicate the allowable lending activities. The RLF Plan should also list the prohibited uses of RLF capital. At a minimum, the prohibited uses outlined in EDA regulations should be included. *See 13 CFR 307.17(b).*

**4. Loan size:** Indicate the range of loan sizes that the RLF will consider. A maximum loan size must be indicated. In order to protect the assets, the maximum loan size should not exceed 25% of the RLF capital base. As the RLF capital base grows, the Recipient may consider amending the RLF Plan to increase the maximum allowable loan size.

**5. Interest Rates:** Indicate the range of allowable interest rates the RLF will change borrowers. The RLF Plan should include the language from the EDA minimum interest rate regulations. *See 13 CFR 307.15(c).*

**6. Terms:** Indicate the standard and maximum repayment term s for each type of loan.

**7. Fees:** Indicate standard loan fees, if any, which will be charged to borrowers and their amounts.

**8. Equity & Collateral:** Indicate the types of equity and collateral to be required of borrowers.

**9. Moratoria:** Indicate whether moratoria will be permitted on principal payments, and if so, indicate the maximum moratorium. Also, describe the procedures for determining whether a moratorium will be permitted for a particular loan.

**10. Start-ups:** Indicate policies that are different, if any, for loans to start-ups (new businesses) versus loans for retention or expansion of an established business.

**11. Working Capital:** Indicate whether working capital loans are allowed.

**12. Credit not otherwise available:** The RLF Plan must include a policy that RLF cannot be used to substitute for available private capital and potential borrowers must demonstrate that credit is not otherwise available. *See 13 CFR 307.15(b)(2)(viii); also RLF Standard Terms and Conditions Part III.A.2.* This would typically be in the form of a bank “turn-down” letter or letter indicating that the bank can only finance a portion of the money the borrower needs.

**E. PORTFOLIO STANDARDS AND TARGETS**

The RLF Portfolio Standards and Targets are used by EDA to measure the economic performance of the RLF. The Portfolio Standards and Targets must be consistent with EDA policies and requirements. *See 13 CFR 307.9(b)(2)(ii).*

**1. Target Percentages:** Indicate the targeted percentage, if any, of RLF investments based on:

* Land use (i.e. industrial, commercial, service commercial, etc.)
* Business status (start-up, expansion, retention)
* Fixed asset loans vs. working capital loans

**2. Private Sector Leverage:** Indicate the ratio of private sector dollars to be leveraged by RLF funds. EDA requires a minimum ratio of $2 in private financing for every $1 in RLF financing, for the portfolio overall. *See 13 CFR 307.15(d).*

**3. Job Cost ratio:** Indicate the RLF’s target job/cost ratio.

**4. Job Cost ratio:** Indicate the criteria, if any, for the types of jobs to be created/saved (for example: semiskilled, industrial, commercial or other types suited to the target population).

**F. RLF LOAN SELECTION CRITERIA**

This section should discuss the economic impact criteria to be used to evaluate proposed loans. EDA recommends the following:

**1.** Is the proposed loan consistent with the RLF Plan? *See 13 CFR 307.17(a).*

**2.** Does the proposed loan application capitalize on regional assets?

**3.** Will the proposed loan support and advance innovation and increase productivity in a particular industry or sector of the economy?

**4.** Is the potential borrower part of an existing or emerging industry cluster?

**5.** To what extent will the potential borrower maximize private investment that would not otherwise come to fruition without the RLF’s investment?

**6.** Will the proposed loan result in the creation or retention of higher-skill and higher-wage jobs?

**E. PERFORMANCE ASSESSMENT PROCESS**

This section should briefly discuss how the Recipient will assess the performance of the RLF.

**1.** Discuss how the performance of the RLF will be evaluated. Include the frequency and the staff or entity involved in the assessment.

**2.** Discuss the process for reviewing and updating the RLF Plan as needed. At a minimum, the RLF Plan should cite the EDA requirement that the RLF Plan must be updated every five years. *See 13 CFR 307.9(c)(1).*

**PART II: REVOLVING LOAN FUND OPERATIONAL PROCEDURES**

This section should serve as the Applicant’s internal operating manual and set out administrative procedures for operating the RLF consistent with the “Prudent Lending Practices,” as defined in 13 CFR 307.8. In administering the RLF, the Recipient must adopt procedures to comply, and ensure that potential borrowers comply, with applicable laws and regulations including but not limited to 13 CFR Part 307.

**A. ORGANIZATION STRUCTURE**

**1. Critical Operational Functions:** provide an overview of the organizational structure which the RLF will be operated. For each of the functions critical to the RLF’s lending activities, identify the responsible parties including any from outside the organization. Use a schematic diagram or table if helpful. Critical operational functions include:

* Marketing the RLF (identifying and developing appropriate financing opportunities)
* Business assistance and advisory services to prospective and actual borrowers (identify the types and sources of services available)
* Environmental review
* Loan processing (reviewing applications, conducting credit analysis, preparing loan write-ups and recommendations)
* Loan closings
* Loan servicing (administering loan collections, handling defaulted loans and foreclosures)
* Organizational administration (financial record keeping, ensuring compliance with EDA requirements)

**2. Loan Administration Board:** Describe the general composition and policies for the Loan Administration Board responsible for making final loan decisions. RLF Recipients may have separate loan review boards or other preliminary screening procedures, but the formal Loan Administration Board with final responsibility for RLF decisions must be clearly identified. The section describing the Loan Administration Board must include:

* Size and general composition of the loan administration board
* Experience and occupational requirements (i.e. lender experience)
* Process for appointing members
* Membership terms
* Quorum requirements

**3. Conflicts of Interest:** address how the organization will identify and deal with conflicts of interest. At a minimum, the RLF Plan must include the language from EDA’s conflict of interest regulations in the RLF Plan. *See 13 CFR 302.17; also Part II.D of the RLF Standard Terms and Conditions.*

**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 including any loan application fees that may be required. It is acknowledged that not all checklist items will apply for each loan applicant and that certain situations may require additional items not on the list.

**2. Credit and Financial Analysis:** Indicate the process and procedure for credit and financial analysis of loan applicants.

* Credit reports
* Standard collateral requirements (personal guarantees, mortgages, insurance)
* Standard Equity requirements (how will they be documented/confirmed)
* Appraisal Reports
* Credit not otherwise available (bank letter)

**3. Environmental Reviews:** Discuss how the Recipient will ensure compliance with applicable environmental laws and regulations, including but not limited to 13 CFR Parts 302 and 314, the National Environmental Policy Act of 1969 and other Federal environmental mandates. A staff person responsible for ensuring compliance should be identified (by title). At a minimum, the RLF Plan should include the following procedures for environmental review of loan applications for construction projects:

* Determine whether the project will result in a significant adverse environmental impact. The application may be asked to submit additional documentation as necessary to make the determination. No activity shall be financed which would result in a significant adverse environmental impact unless that impact is to be mitigated to the point of insignificance. When necessary to ensure compliance, any required mitigation shall be made part of the loan conditions.
* Determine whether the project involves new above-ground development within a floodplain based on a review of the proposed development against FEMA Flood Insurance Rate Maps. No activity shall be financed which would result in new above-ground development in a 100-year floodplain, per E.O. 11988. This determination will be made by reviewing the proposed development against FEMA Flood Insurance Rate Maps.
* Determine whether the project will be located within or adjacent to any wetland area. The applicant may be required to provide wetland delineation information as necessary. No activity shall be financed which would result in alternation of any wetland or in any adverse impact on any wetland without consultation with the U.S. Department of the Interior Fish and Wildlife Service and, if applicable, a Section 404 Permit with the Army Corp of Engineers shall be obtained.
* The RLF Plan should indicate that the Recipient shall notify the State Historic Preservation Officer (SHPO) of each approved loan that involves significant new construction and expansion and request and receive comments on the effect of the proposed activity on historic and archaeological resources prior to closing of the loan. In cases where SHPO has recommended actions or has determined an adverse impact, the Recipient and loan applicant must work with the SHPO and EDA to address any issues identified before the loan is closed.
* The RLF Plan should indicate that all loan applicants are required to provide information regarding whether or not there are hazardous materials such as EPA listed hazardous substances (see 40 CFR 300), leaking underground storage tanks, asbestos, p polychlorinated biphenyls (PCB), or other hazardous materials present on or adjacent to the affected property that have been improperly handled and have the potential of endangering public health, If deemed necessary, loan applicant may be required to perform or provide evidence of performance of a Phase I Site Assessment to identify possible sources of contamination, a Phase II Site Assessment to test soil and/or groundwater samples, and a Phase III Site Remediation involving mitigation of applicable contaminants. No activity shall be financed which involve unresolved site contamination issues. Loan applicant shall be responsible for working with the appropriate state environmental agency office to resolve any outstanding issues before any loan can be approved for the affected site.

**4. Loan Write-up:** the loan write-up is intended to summarize the key aspects of the loan such as firm history, management, product, productions capability, market conditions, financing, collateral, repayment ability, consistency with the RLF’s financing policy and whether there are any environmental issues.

**5. Procedures for Loan Approvals:** Describe the procedure for loan approvals, making sure that the following elements are clearly explained.

* How will loan applications be presented to the Loan Administration Board.
* Is there a recommendation committee (i.e. is the loan administration board making the final loan decision or are they forwarding a recommendation to another entity such as a governing board or city council?)
* How the RLF Recipient will ensure that the Loan Administration Board reviews and approves loans in accordance with the approved financing policies, targeting criteria, and loan selection criteria of the RLF Plan.
* What kind of vote constitutes an approval (i.e. majority, 2/3, etc.)
* How will approvals be documented in the loan file (board meeting minutes, resolutions, etc.)

**C. LOAN CLOSING AND DISBURSEMENT PROCEDURES**

**1. Loan Closing Documents:** Provide a list of documents that will be required for the types of loans made under the RLF and any special timing requirements. Per 13 CFR 307.15(b)(2), the required documents should at a minimum include:

* loan application
* loan agreement
* Board meeting minutes approving the RLF loan
* promissory note
* security agreement(s)
* Deed of trust or mortgage (as applicable),
* agreement of prior lien holder (as applicable)
* a signed bank “turn-down” letter demonstrating that credit is not otherwise available.

**2. Loan Agreement Provisions:**

* Indicate how the Recipient will ensure that RLF funds are used as intended. Each loan agreement must clearly state the purpose of each loan. See 13 CFR 307.17(a).
* All RLF loan documents and procedures must protect and hold the Federal government harmless from and against all liabilities that the Federal government incur as a result of providing an RLF Grant to assist directly or indirectly in site preparation or construction, as well as the direct or indirect renovation or repair of any facility or site. *See 13 CFR 307.10(c).*
* Indicate the procedure for ensuring that prospective borrowers, consultants, or contractors are aware of and comply with the Federal statutory and regulatory Indicate borrower requirements for drawing loan funds, if any, including any pre-disbursement requirements for working capital loans, construction financing, and any other disbursement procedures that are necessary to protect RLF assets (i.e. a borrower may be required to provide evidence, such as 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).requirements that apply to activities carried out with RLF loans. All EDA RLF loans must include loan call stipulations for instances of non-compliance. *See 13 CFR 307.10(b).*

**3. Loan Disbursement:** Explain how loans will be disbursed.

**D. LOAN SERVICING PROCEDURES**

**1. Repayment:** Indicate the standard method(s) of loan payment by RLF borrowers and indicate any procedures for protection and timely deposit of RLF loan payments.

**2. Monitoring:** Indicate the standard procedures for monitoring loan conditions including requirements procedures for financial statements, annual insurance renewals, UCC refilling, borrower site visiting, tickler files and any Federal requirements of the grant award. Describe how initial job creation claims will be reviewed and how jobs will be tracked after loan approval.

**3. Loan Files:** Describe how loan files will be maintained. Indicate what should be included in an RLF loan file in addition to the loan application and closing documents.

* This should include at a minimum: copy of private lender loan agreement, financial statements, annual insurance certifications, annual site visit reports, general correspondence and job reports. *See 13 CFR 307.13.*
* Indicate the procedures for safekeeping loan documents particularly 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.

**4. Job Creation:** Describe how initial job creation claims will be reviewed and how jobs will be tracked after loan approval*.*

**5. Defaulted Loans:** Indicate the standard procedures for handling defaulted loans that are in arrears up to 90 days and discuss any late penalty requirements (which should be stated in the promissory note). Include an explanation on how the priority of payments on defaulted RLF loans, which should be in accordance with the order of priority outlined in EDA regulations. *See 13 CFR 307.12(c).*

**6. Write-Offs:** Indicate the standard procedure for handling and accounting for loan write-offs and how a determination will be made that a loan is not collectable.

**E. ADMINISTRATIVE PROCEDURES**

**1. New RLF’s:** Indicate how the Recipient will ensure that the cash local share of the RLF will only be used for lending purposed and at a rate in proportion to the grant funds or at a faster rate than grant funds, if applicable.

**2. Accounting:** Describe the procedures for managing RLF Capital. At a minimum, a separate bank account should be established for the RLF so that repayments and interest income are clearly identifiable and auditable. The EDA RLF portfolio and cash must be clearly distinguishable from any other Recipient loan program. This includes both the EDA and local share portions of the RLF. The RLF Plan should state that the Recipient will ensure that the RLF is operating in accordance with Generally Accepted Accounting Principles (GAAP). *See 13 CFR 307.15(a).*

**3. Administrative Costs:** Indicate the source of RLF administrative costs. State whether the Recipients intends to use RLF income to cover administrative costs and if so, the anticipated maximum percentage of income to be used for expenses. The Recipient must indicate a source of funding for administrative costs which exceed RLF income. *See 13 CFR 307.12.* Also *d*escribe how RLF administrative costs will be tracked and charged to the RLF. The Recipient must maintain adequate accounting and source document to substantiate the amount and percent of RLF income expended to the RLF. *See in 13 CFR 307.13(b).*

**4. Allowable Cash Percentage:** Indicate how the Recipient will ensure that the RLF Portfolio is in compliance with applicable allowable cash standards. *See 13 CFR 307.16(c).*

**5. EDA Reporting:** The RLF Plan should acknowledge that EDA requires a Recipient to file a semi-annual or annual report with EDA. *See 13 CFR 307.14.*

**6. Audits:** The RLF Plan should acknowledge that EDA RLF funds are subject to an annual audit requirement and the full value of the RLF (outstanding loans and available cash) must be shown every year on the Recipient’s Schedule of Federal Expenditures. If the dollar amount of the RLF qualifies the RLF as a major federal program, the Recipient must ensure that the auditor performs the required federal audit procedures. *See RLF Standard Terms and Conditions Part I.F.*