## Who should be involved?

The RLF Committee is an essential facet of your program. It is considered a best practice and very beneficial to have a committee with diverse backgrounds to serve as a support structure. This provides well-rounded review and assistance in areas where staff may have minimal expertise.

Plus, a committee made up of leaders in your community will help legitimize your program and can be a good source of connections when you are seeking new opportunities to reach local businesses or assistance with an underperforming loan. Most RLF committees include the members with the following backgrounds and expertise:

- Accountants
- Lawyers
- Bankers
- Educators
- Local business owners

It is important to help committee members understand the mission, the basic terminology, and the essential components of risk so that they can help successfully lead the program.

As part of this process, a "backbone" or leadership organization should be designated as the RLF Committee's primary contact and be responsible for meeting logistics including schedule the meeting dates, times, and locations. This could either be the City of Murphysboro, Jackson Growth Alliance, or another entity.

## Fiscal Agent – Who manages/administers the funds?

The RLF Committee can either form its own organization (i.e. non-profit 501c3 or a for-profit LLC) to manage these funds or contract with a third party to administer the financials. Regardless of who manages the funds, the RLF Committee needs to determine the basic parameters of the program including the loan size, equity requirements, maximum loan terms, interest rates and collateral requirements.

Current proposed program parameters are below:

- <u>Loan Size</u>: Up to $30,000 per housing unit
- <u>Equity Requirements</u>: 80%
- <u>Maximum Loans</u>: Up to 6 housing units or $180,000 per loan
- <u>Interest Rates</u>: 1%[1]

[1] A 1% interest rate is optimal, but potentially may need to be raised based on available resources. Most RLF programs have interest rates roughly 0.25% above prime since the need to fill this financing gap is the result of a dearth of financing options for rural development. The general rule is the higher the risk the higher the rate needed to incentivize development.

- Terms: 10-year term with amortization scheduled up to 25-years[2]
- Collateral Requirements: Collateral is required on financed assets. Additional collateral may also be required.

The fiscal agent will also be responsible for ongoing monitoring and servicing of the loans. Routine management of each loan–and the overall fund portfolio–often means the difference between a marginally performing fund and a successful one. Payment monitoring should be routine and followed on a weekly basis. Identifying a troubled loan before it becomes past due will increase the opportunity to begin remediation, whether in the form of additional assistance or increased monitoring. Loans that become past due face a difficult hurdle returning to current status. Being aware of problems and reporting them promptly demonstrates your understanding of the RLF's value and its importance to your funders and the greater community.

Below are a few options for local fiscal agents to consider when setting up your RLF program:

- Champion Community Investments
- Greater Egypt Regional Planning and Development Commission
- Crosswalk Action Agency
- Western Egyptian E.O.C.

## Capitalizing a Revolving Loan Fund

Most revolving loan funds have at least one local public source for capitalization combined with other sources. If capitalization is exclusively local, the RLF may have greater flexibility in lending, as state and federal involvement tend to include restrictions that may not fit local business needs. State and local governments often use one or a combination of the following to capitalize an RLF:

- Tax set-asides
- General obligation bonds
- Direct appropriations from the state legislature
- Annual dues from participating counties or municipalities
- Funds directed from the state lottery

[2] A $180k loan would have a monthly payment of $678 for 120 payments and then pay a balloon payment of $113K at the end of the 10-year term with a 25-year amortization. A traditional 25-year loan with 25-year amortization would pay $1,577 a month for 120 payments closing out the loan.

For the Murphysboro Revolving Loan Fund, it is presumed funding would be split equally among the city (25%), Jackson County (25%), local businesses (25%), and the State of Illinois (25%). The first dollar in should be collected from the City as a show of good faith with local businesses to follow. With half the funding pledged, the County is more likely to support the loan fund. Once these the first three program partners have pledged their funds, the committee should approach the state with a formal request of funding to fully fund the program.

## Marketing

Committing an organization like the Murphysboro Chamber of Commerce or another local entity to lead the marketing of the RLF to a wider audience will be critical to its success. Having a strong web presence is of the upmost importance with routine updates of the most recent application materials and testimonials of existing participants, once the program is up and running. Connections should also be made with contractors and homebuilders throughout the region to make them aware of the available benefits.

Another marketing avenue are local banks and credit unions. This may be a better path toward connecting with more local builders and contractors interested in the program. Oftentimes, banks are unable to lend to non-qualifying borrowers due to a gap in financing. Their role in promoting the program may help them close a loan. Banks can also contribute to a revolving loan fund program and meet their Community Reinvestment Act (CRA) requirements to help meet the credit needs of the communities in which they operate, including low- and moderate-income (LMI) neighborhoods.[3]

## Managing Your RLF Program[4]

The following example for managing a RLF program is based on a non-profit entity called the Gateway Area Development District.

Loan Size: Loans will not ordinarily be made in an amount of less than $20,000 or greater than $150,000 to any one entity or company within one year. Generally, the RLF investment will be the lesser of 30% of the total project cost or $150,000.

Equity Requirements: The RLF will require a minimum of 10% equity injection to be provided by the borrower. The equity requirement for a working capital loans can be met if the borrower has existing net working capital of at least 10% of its working capital needs.

[3] https://www.fdic.gov/regulations/resources/director/presentations/cra.pdf
[4] Abridged from https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/revolving-loan-funds.html and https://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open=open&id=dfp3-edu-rlf.html

Maximum Loan Terms: The terms of the loans are matched to the use of funds, with long-term financing structured to the productive life of fixed assets. The terms of maturity of loans will vary depending on the needs of the applicant, but the following maximum repayment terms are generally considered appropriate:

- Buildings and Real Estate……………………15 years
- Machinery and Equipment……………………10 years
- Working Capital…………………………………5 years

Interest Rates: The interest rate on RLF loans will be indexed to the prime rate as published in the Wall Street Journal and will generally be at a fixed rate with the range of five (5) to eight (8) percent. In no event shall the interest rate be less than the lower of four (4) percent or 75 percent of the prime interest rate listed in the Wall Street Journal. However, should the prime interest rate exceed fourteen (14) percent, the minimum RLF interest rate is not required to be raised above ten (10) percent if doing so compromises the ability of the RLF recipient to implement its financing strategy. Interest rates shall be fixed and charged only on the unpaid balance of the principal for the actual time the money is outstanding on the loan. Interest will be compounded monthly.

Collateral Requirements: When an applicant participates with a private lending institution the lending institution will generally hold the first lien with the GADD taking a second or junior position. GADD employs standard collateral requirements; enough and appropriate collateral is required for all loans. Corporate guarantees or personal guarantees will be required of any entity having ownership interest in the business.