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(3) RLF Income shall not be withdrawn from the RLF Capital base in a subsequent Reporting Period for any purpose other than lending without the prior written consent of EDA; and

(4) The RLF Recipient completes an RLF Income and Expense Statement (the "Income and Expense Statement") as required under §307.14(c).

(b) Compliance guidance. When charging costs against RLF Income, RLF Recipients must comply with applicable federal cost principles and audit requirements as found in:

(1) 2 CFR part 225 (OMB Circular A–87 for State, local, and Indian tribal governments), 2 CFR part 230 (OMB Circular A–122 for non-profit organizations other than institutions of higher education, hospitals or organizations named in OMB Circular A–122 as not subject to such Circular), and 2 CFR part 220 (OMB Circular A–21 for educational institutions); and

(2) OMB Circular A–133 for Single Audit Act requirements for States, local governments, and non-profit organizations and the Compliance Supplement, as appropriate.

(c) Priority of payments on defaulted RLF loans. When an RLF Recipient receives proceeds on a defaulted RLF loan that is not subject to liquidation pursuant to §307.20, such proceeds shall be applied in the following order of priority:

(1) First, towards any costs of collection;

(2) Second, towards outstanding penalties and fees;

(3) Third, towards any accrued interest to the extent due and payable; and

(4) Fourth, towards any outstanding principal balance.

§ 307.15 Revolving Loan Fund semi-annual report and Income and Expense Statement.

(a) Frequency of reports. All RLF Recipients, including those receiving Recapitalization Grants for existing RLFs, must complete and submit a semi-annual report (Form ED–209 or any successor form) in electronic format, unless EDA approves a paper submission.

(b) Report contents. RLF Recipients must certify as part of the semi-annual report to EDA that the RLF is operating in accordance with the applicable RLF Plan. RLF Recipients also must describe (and propose pursuant to §307.9) any modifications to the RLF Plan to ensure effective use of the RLF as a strategic financing tool.

(c) RLF Income and Expense Statement. An RLF Recipient using either fifty...
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(50) percent or more (or more than $100,000) of RLF Income for administrative costs in a six-month (6) Reporting Period must submit to EDA a completed Income and Expense Statement (Form ED–209I or any successor form) for that Reporting Period in electronic format, unless EDA approves a paper submission.

§ 307.15 Prudent management of Revolving Loan Funds.

(a) Accounting principles. (1) RLFs shall operate in accordance with generally accepted accounting principles (“GAAP”) as in effect from time to time in the United States and the provisions outlined in OMB Circular A–133 and the Compliance Supplement, as applicable.

(2) In accordance with GAAP, a loan loss reserve may be recorded in the RLF Recipient’s financial statements to show the fair market value of an RLF’s loan portfolio, provided this loan loss reserve is non-funded and represents non-cash entries.

(b) Loan and accounting system documents. (1) Within sixty (60) days prior to the initial disbursement of EDA funds, an independent accountant familiar with the RLF Recipient’s accounting system shall certify to EDA and the RLF Recipient that such system is adequate to identify, safeguard and account for all RLF Capital, outstanding RLF loans and other RLF operations.

(2) Prior to the disbursement of any EDA funds, the RLF Recipient shall certify that standard RLF loan documents reasonably necessary or advisable for lending are in place and that these documents have been reviewed by its legal counsel for adequacy and compliance with the terms and conditions of the Grant and applicable State and local law. The standard loan documents must include, at a minimum, the following:

(i) Loan application;
(ii) Loan agreement;
(iii) Board of directors’ meeting minutes approving the RLF loan;
(iv) Promissory note;
(v) Security agreement(s);
(vi) Deed of trust or mortgage (as applicable);
(vii) Agreement of prior lien holder (as applicable); and
(viii) Signed bank turn-down letter demonstrating that credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed. EDA will accept alternate documentation only if such documentation is allowed in the RLF Recipient’s EDA-approved RLF Plan.

(c) Interest rates—

(1) General rule. An RLF Recipient may make loans to eligible borrowers at interest rates and under conditions determined by the RLF Recipient to be appropriate in achieving the goals of the RLF. The minimum interest rate an RLF Recipient may charge is four (4) percentage points below the lesser of the current money center prime interest rate quoted in the Wall Street Journal, or the maximum interest rate allowed under State law. 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.

(2) Exception. Should the prime interest rate listed in the Wall Street Journal 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.

(d) Private leveraging. (1) RLF loans must leverage private investment of at least two dollars for every one dollar of such RLF loans. This leveraging requirement applies to the RLF portfolio as a whole rather than to individual loans and is effective for the duration of the RLF’s operation. To be classified as leveraged, private investment must be made within twelve (12) months prior to approval of an RLF loan, as part of the same business development Project, and may include:

(i) Capital invested by the borrower or others;
(ii) Financing from private entities; or
(iii) The non-guaranteed portions and ninety (90) percent of the guaranteed portions of the U.S. Small Business Administration’s 7(A) loans and 504 debenture loans.