

## RLF Prudent Lending Best Practices for Successful RLFs

A Revolving Loan Fund (RLF) Plan is a document developed by the RLF Recipient that sets forth the strategies, policies, and administrative procedures for operating the RLF, and incorporates prudent lending practices and ensures due diligence. This document aims to provide guidance on frequently asked questions around [Prudent Lending Practices](#), which refers to the generally accepted underwriting and lending practices for public loan programs to protect Federal and lender interests. Prudent Lending Practices include loan processing, documentation, loan approval, collections and recovery, servicing, administrative procedures, and collateral protection.

A complete list of what is required in the RLF Plan can be found at [13 CFR 307.9\(a\)](#). For additional references, see EDA RLF regulations at [13 CFR part 307, subpart B](#), [EDA RLF Standard Terms and Conditions](#) (November 2020), and the [Department of Commerce Financial Assistance Standard Conditions](#) (November 2020).

### Processing

- The processes for credit and financial analysis of loan applicants should include policies on credit reports, collateral requirements, equity requirements, and appraisal reports. RLFs with a focus on improving equitable outreach may also consider alternatives to credit reports to reach underbanked populations, but evidence of due diligence is required.
- Review the [requirements before disbursement](#) of EDA funds to make the first round of loans from a new award. Also, review the requirements for record retention of [evidence of adequacy of accounting system, appropriateness of loan documents, and existence of unexpired fidelity bonds](#).
- The RLF Plan should detail anticipated loan size and minimum and maximum loan size which is often relative to the RLF Capital Base, the minimum supporting credit and financial information, frequency for collection of information, and verification of information required in relation to loan size, complexity, and risk exposure. Exceptional circumstances to any of these criteria should be backed up with supporting documentation for why the loan still follows prudent lending practices.

### Documentation

- Review the list of [administrative records that must be maintained](#) at all times and [required loan documents](#). High performing RLFs also ensure due diligence by looking at current financial statements, the most recently available credit reports, and borrowing history among other performance indicators. Examples of items to flag in a potential borrower's debt history include loans made by non-corporate entities (including those from family members and acquaintances) and loans that may have been received from other federal lending programs according to information available in the public domain (for example, SBA's public PPP dataset) but not disclosed in the borrower's RLF application.
- [Evidence that credit is not otherwise available](#) may take the form of a bank turn-down letter but may also comprise an analysis of the local capital market or comparison of the borrower's credit profile to local creditor requirements.
- Construction Projects trigger Davis-Bacon wage requirements and Contract Wage Hours and Safety Standards Act ([EDA RLF Standard Terms and Conditions](#) page 10) and may have more in-depth environmental requirements. The RLF Plan should explain how environmental information will be collected from the applicant and determine level of environmental review required from the [environmental language section \(page 27-32\)](#). Loans for working capital and equipment are typically "categorical exclusions" which require no further review.

### Loan Approval

- RLF loans must [leverage additional investment](#) of at least two dollars for every one dollar of such RLF loans. This requirement applies to the entire RLF portfolio, not on a loan-by-loan basis.
- RLFs should detail their processes for due diligence that address how they will review and approve loans, ensure complete applications and paperwork, complete credit checks or similar process to evaluate the business' ability to repay, and review additional sources of debt.

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## Collections and Recovery Actions

- The RLF Plan must detail standards for loan disbursement, servicing, and collections. High performing RLFs issue 1099-Cs to report the amount of loan principal written off as income to the borrower to prevent write-offs.
- Documentation for each loan transaction must demonstrate compliance with the loan underwriting standards or the compensating factors identified in the RLF Plan that support the RLF's expectation that the loan will be repaid.
- The RLF Plan must detail what actions will be taken for the recovery of funds in the event of a default. The RLF Administrator will hold the RLF accountable to follow these processes and to [diligently correct instances of non-compliance](#) and pursue all avenues to recover funds.

## Servicing

- The RLF Plan must detail how the RLF will receive and track payments and monitor a business' ability to repay on an ongoing basis. Prudent lenders collect financial statements annually and make site visits to engage with their businesses.
- [Expected interest rate and minimum interest rate](#) should describe how the RLF will establish specific rates depending on loan structure, borrower and lending area characteristics, and economic development justifications. All loan pricing practices should be detailed with measurable standards for underwriting loans.
- All grant funds disbursed by EDA to the RLF Recipient [must be held in an interest bearing account](#), as well as [RLF cash available for lending](#).

## Administrative Procedures

- Promoting the RLF should consider accessibility concerns such as whether borrowers are able to apply for a loan through the website or in person, and whether materials are available in languages reflecting the lending area population.
- Describe the procedures to [prevent conflicts of interest](#). Recipients of EDA awards are required to have written Standards of Conduct. High performing RLFs require that Board members, loan committee members, and staff annually certify that they are in compliance with the Standards of Conduct.
- RLF income within the current fiscal year may be used to pay administrative costs during the [revolving phase](#) and the [disbursement phase](#).

## Collateral Protection

- Collateral requirements including appraisal, advance rates, whether subordinated lien positions are acceptable and whether the plan will allow loans without collateral.
- Detail the requirements (if any) for minimum equity injection, personal guarantees, credit reports, or for borrowers to maintain appropriate insurance.
- Detail the requirements for determining that an applicant has the operational, financial, and management resources necessary to repay the debt from cashflow, and how collateral will be recovered. These requirements should consider the nature and type of credit risk, amount of the loan, and enterprise being financed.

Questions regarding this document may be directed to your RLF Administrator. If you need to look up your RLF Administrator, please see <https://www.eda.gov/contact/>. Your RLF Administrator may have additional materials to help guide the development of your RLF Plan.