

Welcome to EDA Defederalized Funds 101



**RLF
Community
of Practice**

Catalyze

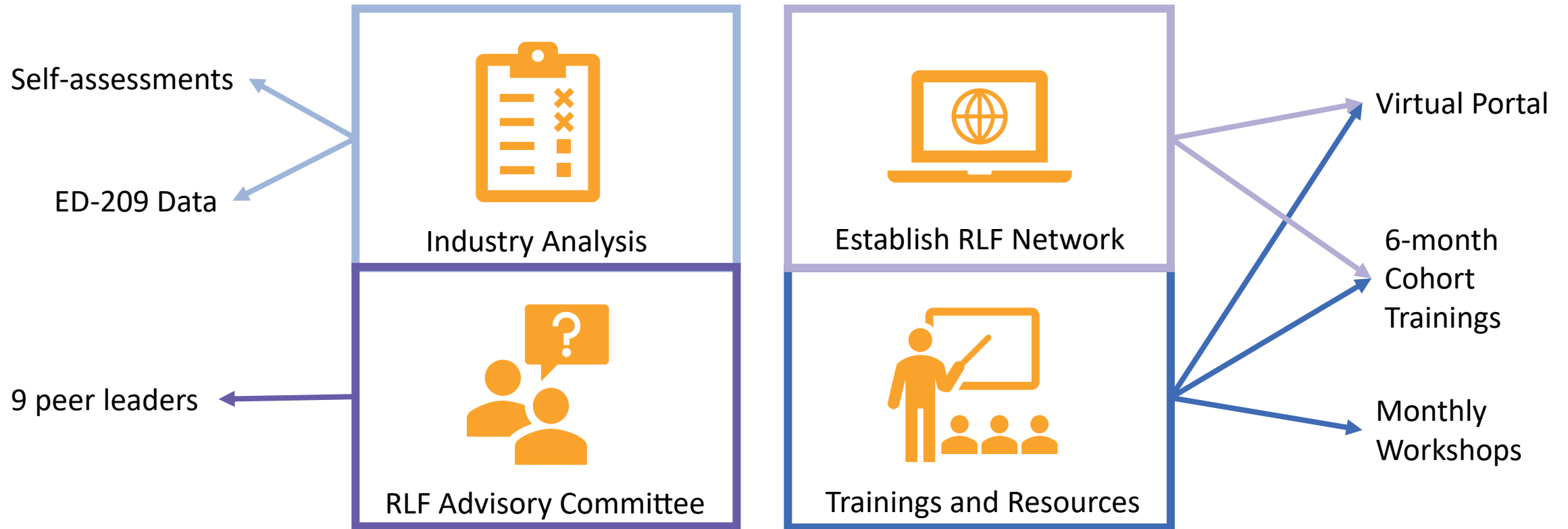
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RLF CoP Objectives

Increase the capacity of RLFs to meet the needs of their local economic develop strategies.

1. Increase organizational capacity.
2. Increase the volume of loans and loan capital.
3. Establish a peer-to-peer group of RLFs to collaborate on needs, strategies, capacities, and program impact.
4. Increase understanding of broader economic development strategies through training and curriculum.

RLF CoP Activities



Mechanics of Portfolio Management



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Tuesday, April 22nd

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Today's Topics

1. Reinvigorating Lending for the Future Act
2. General Requirements to Defederalize
3. Defederalization Process
4. Required Documentation
5. Benefits to Defederalization
6. How RLF Administrators have Used Defederalized Funds
7. Innovative Ways to Use Your Defederalized Funds
8. Panel Discussion and Audience Q&A

Reinvigorating Lending for the Future Act (RLF Act)

This legislation...

- Enables EDA to release Federal Interest in RLF Award
 - NOTE: Section 602 (Davis Bacon) requirements continue to apply
- Confirms the process to defederalize RLF funds:
 - RLF recipient makes written request for release
 - EDA makes determination in 180 day
 - RLF Act enables EDA an additional 180 days, if necessary

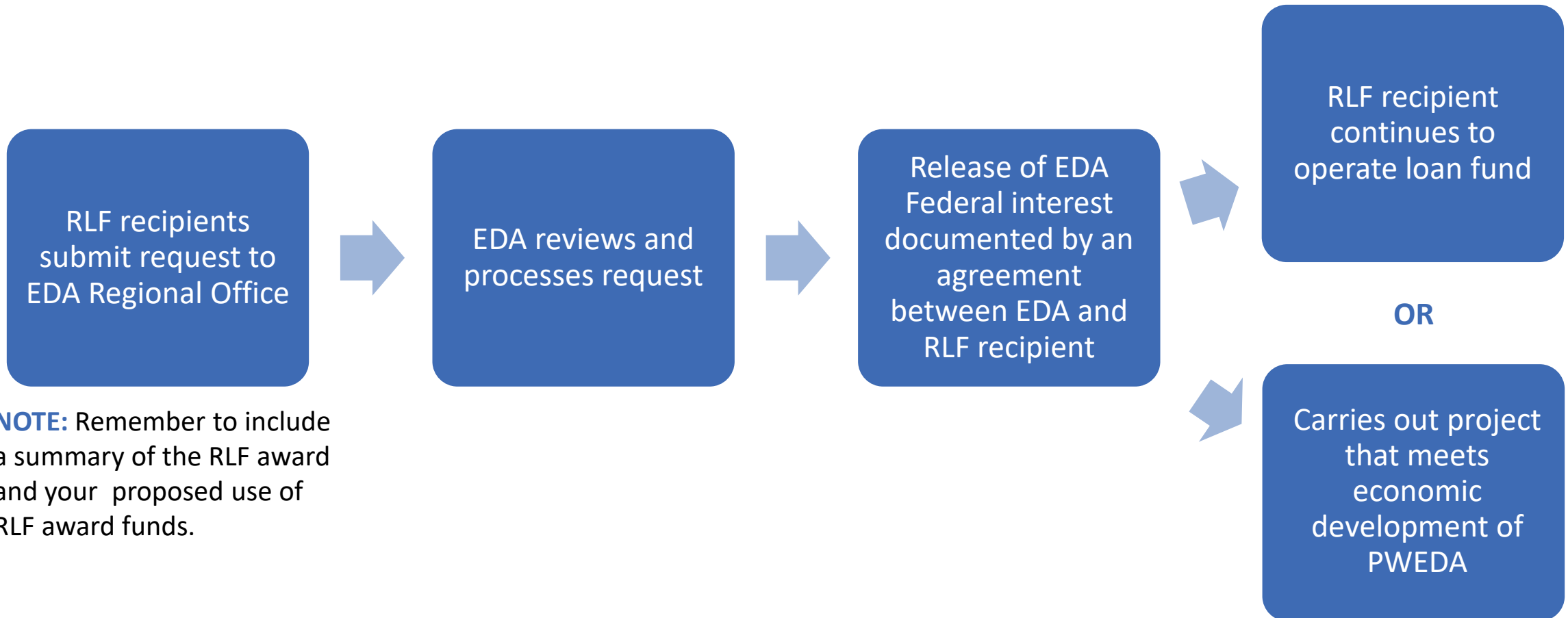


General Requirements to Defederalize

- More than 7 years have passed since the final EDA disbursement
- The RLF recipient has complied with the terms and conditions of the RLF award
- The RLF award funds will be used to carry out one or more activities that continue the economic development purposes
- Requests describe how funds will be used



Defederalization Process



NOTE: Remember to include a summary of the RLF award and your proposed use of RLF award funds.

Required Documentation

- ❑ Letter identifying award information, including:
 - award number, date of award, federal investment rate
 - certifications that your organization has complied with the terms and conditions of the RLF award
 - evidence final disbursement occurred more than 7 years ago
- ❑ Final RLF Financial Report (ED-209)
 - value of the RLF capital base



Required Documentation

- ❑ Proposed use of RLF award funds:
 - continued operation of the RLF,
 - one or more activities that continue to carry out the economic development purposes of PWEDA
- ❑ Resolutions/letter from your organization's Board of Directors:
 - supporting the request to release EDA's federal interest
 - committing to using the RLF for one or more activities that continue to carry out the economic development purposes of PWEDA in compliance with ongoing restrictions required by the Act as articulated in the release agreement

Benefits of Defederalization

No More Reporting

Board/Committee Decides on Guidelines

- Lending area
- Job creation ratio
- Leverage ratio
- Combine with other accounts

Flexible Lending

- Amount/Rate/Terms
- No Third-Party Lender required
- Reduced equity requirement

How RLFs have Used Defederalized Funds

Grow America used its defederalized funds for a state-wide loan fund in WA.

In the Atlanta region, an EDD had an SBA lending area larger than their EDA lending area. They used their defederalized funds to expand into other counties outside the EDD and in their SBA lending area.

An RLF in California used its defederalized funds as the match for a new EDA grant award application that will be used to expand its existing RLF.

Many organizations have used their defederalized funds for construction



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Building a new
capital ecosystem

Uses of Defederalized RLF Funds

1. Doubling Down - Improving/Expanding RLF
2. Broadening Offerings & Capital Products
3. *Active* Partnerships
4. *Passive* Partnerships
5. Reallocation to Mission-Aligned Partners

First - **understand** the unique, *current* dynamics of your local capital market(s) and local implications of broader national trends:

1. **For-profit “Fintech” companies** have proliferated and integrated into small business operations. MCAs = aggressive debt @ unknown scale
2. Growth of digital-first, direct to consumer lending operations = **fierce competition on speed and price** of capital
3. **CDFIs** and **impact investors** have expanded in size and reach over last 5 years, both physically and online
4. **Local bank branches** continue on trend of closures, with the highest rates of decline in LMI communities
5. Novel platforms like **crowdfunding & micro-equity** offer new pathways

Option #1

Doubling-Down

Continuing in-house RLF operations, with increased flexibility and improved outcomes (*~95% of de-fed. funds to date*)

Retain your RLF's team, operations, and organizational structure, simply **increase flexibility**:

1. Defederalized RLF funds offer flexibility to **refinance** with existing borrowers or restructure bad debt for outside borrowers.
2. Offer loans with **terms/conditions** outside of the EDA mandated range
 - I.e low interest loans (**as low as 1%**), zero collateral loans, grace periods, etc.
3. **Expand your lending geographically** into territories previously restricted by EDA RLF mandate
4. For eligible institution types*, use defederalized funds to **invest in infrastructure** or administrative capacity (i.e. team, tools, resources)

Option #2

Broadening Offerings

Expanding options for direct offerings of capital to local businesses

Continue funding local businesses, but **expand your offerings:**

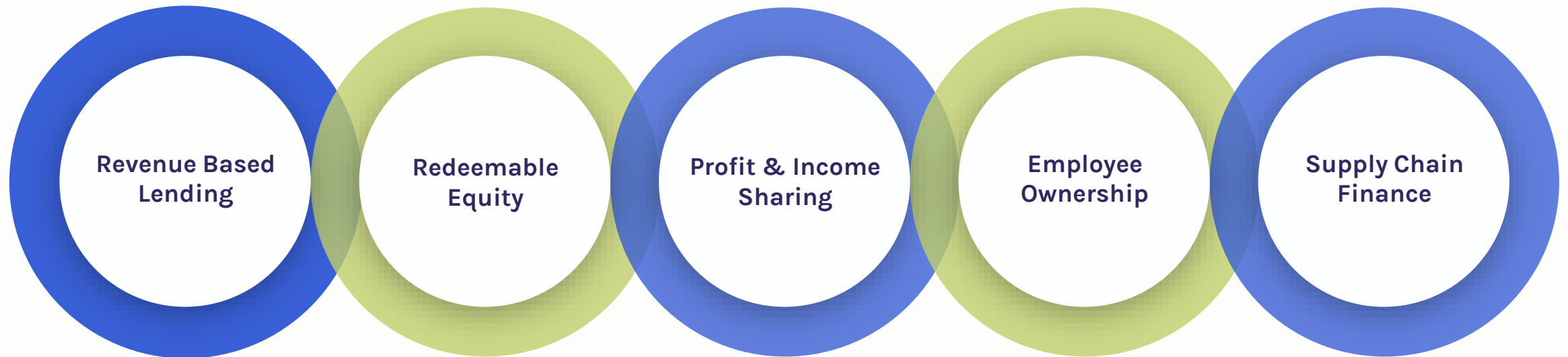
1. Flexible **lines of credit**, purchase order financing, invoice factoring
2. **Equity** Financing - growth capital for higher risk/return prospects
3. **ESOP**/ Employee Ownership Financing - major opportunity for generational wealth transfer with “silver tsunami”
4. Provide hard-to-find **bridge capital** for growing firms between larger raises
5. **Nonprofit Finance**, recoverable grants, bridge financing for grant fundraising
6. Revenue Based Financing (**RBF**), Redeemable Equity Investing (**RE**)

Likely requires **capacity building**, or partnership with service providers

Many capital options exist beyond debt & equity

Innovative capital products have the potential to improve access to capital for underserved entrepreneurs who have been overlooked by traditional equity + lending markets.

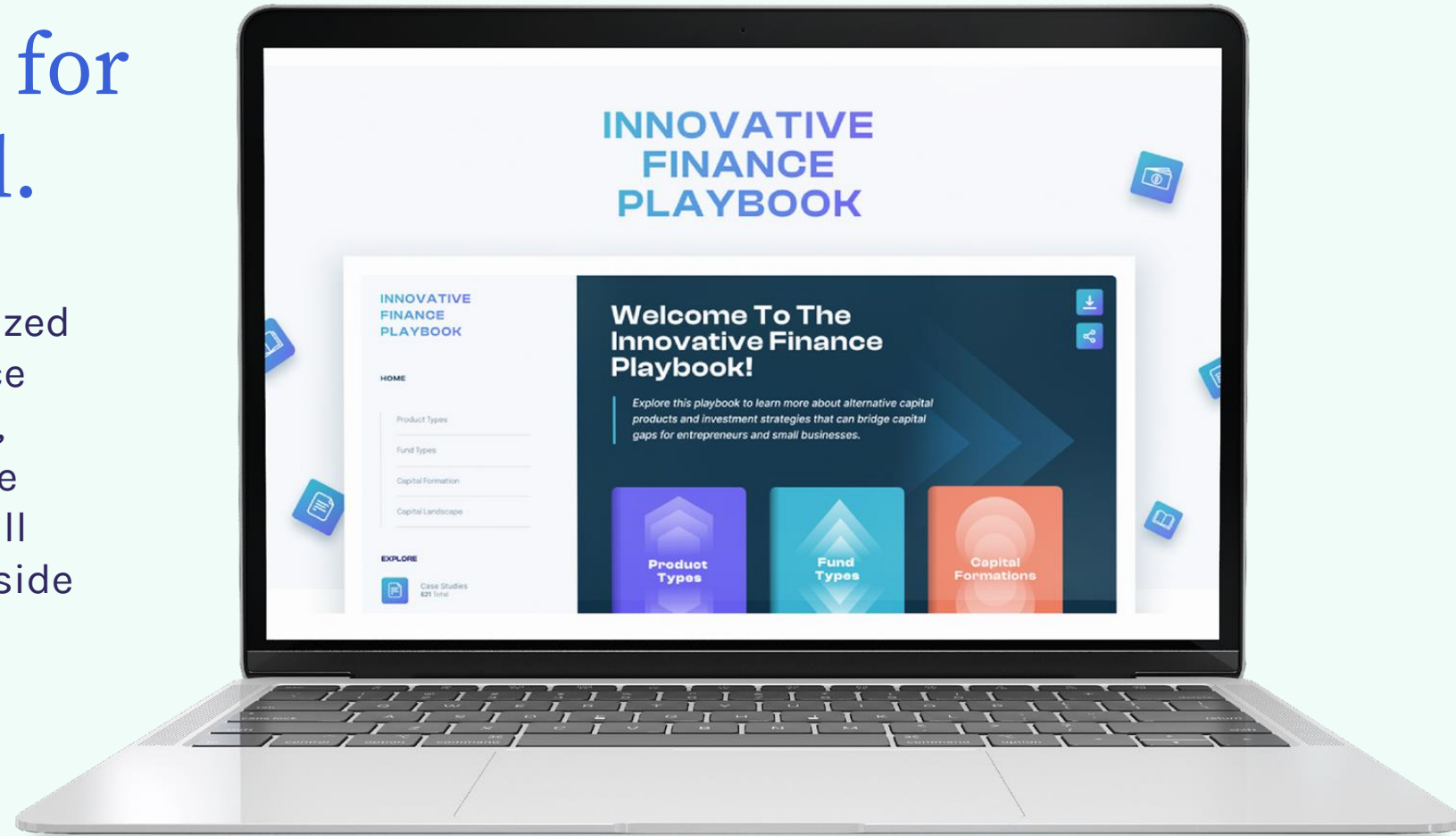
Catalyze supports partners with exploring, implementing, launching, or deploying innovative strategies, including:



The resource hub for alternative capital.

Our team created a digital, centralized resource hub for Innovative Finance strategies that includes overviews, term sheets, financial models, case studies and more. This resource will continue to grow and evolve alongside the ecosystem.

innovative.finance



Option #3

Active Partnerships

Retaining full control and active decision-making over defederalized funds, deploying with local partners

Select and lean on partners for deal generation, using defederalized funds as **risk-tolerant, catalytic capital** to accomplish mutual economic development goals:

1. Matching capital for “community rounds” and **crowdfunding** campaigns
2. Participation in **deals led by CDFI partners** - first loss capital to de-risk almost do-able deals - i.e. exceeding max size, Itv, collateral shortfall, etc.
3. **Debt pairing** with local equity investors - reduce ownership dilution
4. **Nonprofit funding** - working capital to complement grant fundraising

Option #4

Passive Partnerships

Leveraging defederalized funds to be deployed in partnership with local organizations according to established agreements

Establish program for partnership with aligned institution(s), using defederalized funds as **guaranteed, catalytic capital** for:

1. **Loan Loss Reserve** pool of funds to be leveraged by local CDFIs or mission-driven-lenders to increase their lending capacity.
2. Make funds available as a **collateral shortfall guarantee** - offering deal-level support for local lenders to de-risk loans with insufficient collateral
3. Private matching capital for **State Small Business Credit Initiative** (SSBCI) programs, including *direct investments, fund investments, and loan fund subsidy* programs
4. Guaranteed **grant funding for entrepreneurs** or startups participating in local business support programs (i.e. accelerators, incubators)

Option #5

Reallocation of RLF Funds

Identification of mission-aligned recipients for some or all defederalized funds to continue economic development goals

Stewards of defederalized RLF funds have the potential to **create generational impact** by reallocating to mission aligned institutions or projects:

1. Pass through RLF funds to CDFIs or mission-driven-lenders (via grants or low interest loans) to be used as **lending funds** in the community
2. Find and fund local **impact investing institution(s)** who can use defederalized funds to bolster the economic viability of their multiple-bottom-line investment funds
3. **Fund development of key ecosystem components** such as business development centers, accelerator programs, capacity building initiatives, etc

In summary:

RLFs are flexible, defederalized funds are even more

*Especially with defederalized funds, EDA is most concerned with RLF impact outcomes, and less with **specifics** of implementation.*

Defederalization offers the opportunity to:

- **Listen** to the needs of your community and creatively structure capital to match specific circumstances
- Consider funding projects, partnerships or uses of funds **that other funders can't**

Panel Discussion



Mary Louk, Grow America
Panel Facilitator



Amber Metz,
Lake Agassiz Development Group



Brian Rose,
Region 9 EDD



Brendan Cosgrove,
Catalyze

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For more information, visit:

<https://rlf-cop.growamerica.org/resource/defederalized-eda-rlfs-workshop/>



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