

PMBDA REVOLVING LOAN FUND CAPITALIZATION PROGRAM

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Table of Contents

Section I	General	1
A.	Background	1
B.	Eligible Applicants	1
C.	Evaluation Factors	3
D.	Eligible Projects	3
E.	Eligible Costs	3
F.	Terms	4
G.	Loan Size	4
H.	Interest Rate	4
I.	Restrictions	4
J.	Non-discrimination	4
K.	Ineligible Activities	5
L.	Submission	5
M.	Processing Applicant Submissions	6
Section II	Application	7

Section I – General

A. Background

The Pennsylvania Minority Business Development Authority (PMBDA) Program is designed to stimulate the creation, retention and expansion of minority owned businesses and to create jobs in Pennsylvania. PMBDA provides low-interest loans to finance a portion of the costs of land, building, machinery and equipment, and working capital to minority business enterprises unable to fully finance these projects with equity, bank financing, or other private and public sources.

Start-up and early stage businesses often need two key ingredients in order to better ensure success: access to technical assistance to guide the business owner on financial, marketing, human resources, state and federal requirements, and other issues that arise in the course of day to day business activities; and access to capital to insure sufficient financial resources to meet the demands for daily business operations.

The U.S. Congress provided for the establishment of Community Development Financial Institutions (CDFIs) to foster growth. In addition to the CDFIs, many communities have developed their own successful locally based revolving loan funds (RLFs).

With this new program, PMBDA seeks to take advantage of the successful programs already in existence in the commonwealth and to partner with these organizations by providing a source of funds to capitalize successful CDFIs and RLFs with extended repayment terms.

B. Eligible Applicants

Community Development Financial Institutions (CDFIs) – local, non-governmental organizations that are certified in accordance with the Community Development Banking and Financial Institutions Act of 1994 and that have operated a revolving loan fund for at least 12 months.

Community-based Revolving Loan Funds (RLFs) – revolving loan funds operated by non-profit, community-based corporations that have as a purpose the promotion of business development within the community that they serve.

To be eligible for the PMBDA Revolving Loan Fund Capitalization Program the applicant must meet the following tests:

1. The Applicant must be based in Pennsylvania.
2. The Applicant will use funds issued by PMBDA to provide loans for business activities and projects based in Pennsylvania.
3. If the Applicant is a Community Development Financial Institution they must be certified by the U.S. Department of Treasury.
4. The Applicant should:
 - a. Have a primary mission of community development, and
 - b. Serve an under-served investment area or targeted population, and
 - c. Have as a predominant business activity the provision of loans or investments.

5. The Applicant or its sponsoring organization must have a minimum of 24 months experience in direct lending activities.
6. The loans being funded with PMBDA funds must be for community and economic development activities.
7. The Applicant must provide financial statements, satisfactory to PMBDA, and prepared by an independent Certified Public Accountant, prepared in accordance with Generally Accepted Accounting Principles (GAAP). The form, content and number of years of statements submitted will be determined by the asset size of the organization and the length of time the organization has been operating.
8. The Applicant must demonstrate a strong historical performance including underwriting practices, portfolio management, risk management, overall financial performance and internal audit procedures.
9. The Applicant must be willing to submit all documentation required by PMBDA and be willing to invite PMBDA for on-site visits, so that PMBDA may complete an extensive review and analysis of the organization.
10. The Applicant's Board of Directors must:
 - a. Include representatives from the community it serves or population it targets; and
 - b. Must support the core mission of providing loans or investments to its target geography/population; and
 - c. Must have a majority of its representatives from the private sector.
11. The Applicant will submit a current Five (5) Year Comprehensive Business Plan, describing all of the following items:
 - a. Depth, breadth and stability of management experience in community and/or economic development lending;
 - b. Management's capacity to maintain successful operations;
 - c. Market analysis including methodology of determining client needs and statistical data that supports financial projections;
 - d. Response to market needs including specific information on how the organization supports a traditionally under-served market;
 - e. Marketing and outreach plans to loan customers that supports the financial projections;
 - f. Product offerings including loan terms and interest rates;
 - g. Policies for underwriting, loan administration, risk management, portfolio management, budget requirements, funding/capitalization strategies and financial projections for the period of the plan.

Applying for a Loan

Loan Application guidelines and forms are available at dced.pa.gov. Following approval of the loan application, the CFDI or RLF organization will execute a Credit Agreement with PMBDA in order to establish financing terms and conditions.

C. Evaluation Factors

The comprehensive evaluation of an applicant will include the review of all the following factors:

1. The applicant's track record, financial strength and current operations.
2. The capacity skills and experience of the management team.
3. The current and historical performance of the applicant's loan and/or development investment portfolio.
4. The quality of the applicant's comprehensive business plan and implementation of plan objectives.
5. The applicant's potential to sustain successful operations as a financial institution.
6. The applicant's ability to repay the loan with PMBDA.

D. Eligible Projects

Successful locally based financing efforts that will target business development for existing or start-up businesses involving minority business owners. Projects must demonstrate that technical assistance will be provided to borrowers or potential borrowers of loan funds. Preference will be given to projects that are also able to demonstrate one or more of the following: matching funds to be provided by other private, federal or local sources; partnerships with area commercial lending institutions; active outreach efforts to the minority business community.

E. Eligible Costs

1. **Land Costs** – Land costs directly associated with the purchase, renovation, or new construction of a building or production facility, including, but not limited to, acquisition, site preparation and testing, utilities, site mapping, landscaping, legal, and other related costs.
2. **Building Costs** – Building costs may include, but are not limited to, building acquisition, construction, rehabilitation, engineering, architectural, legal, and other related costs. New construction projects are permitted to lease up to 49% of the space to tenants who would qualify as eligible applicants for PMBDA funds.
3. **Machinery and Equipment Costs** – Machinery and equipment costs may include, but are not limited to, costs of acquisition, delivery, and installation. Such costs are eligible if associated with acquisition of machinery and equipment that the applicant has newly purchased, even if such machinery had previously been in service with an unrelated user.
4. **Working Capital** – Capital used by a business for operations, including without limitation, personnel and training costs.

Limitations on Costs

1. Unrealized appreciation in land or building value may NOT be considered in determining eligible costs.
2. Costs of mobile equipment are eligible if, and only if; such equipment is not titled or registered for highway use.

F. Terms

Loans will be awarded for a period of five years, with interest only paid semi-annually. A balloon payment of the principal balance will be due at the end of the term; however, upon satisfactory performance, PMBDA may renew the agreement for one or more additional five year periods. If the CDFI or RLF is unable to comply with the terms and conditions of the loan, or if the loan fund ceases activity, PMBDA may accelerate principal payments.

G. Loan Size

Maximum \$400,000 per applicant (programmatic limit of \$2,000,000)

H. Interest Rate

1.5%.

I. Restrictions

1. **No Delinquencies** – The applicant and its principals may not be delinquent in or in default of any existing private or public loan or other obligation relating to the applicant, unless the applicant or principal has entered into a workout agreement with the respective creditor(s) and are fully in compliance with the terms of that agreement. The applicant and its principals will be required to execute an affidavit to that effect. For purposes of the program, a “principal” of an applicant is any record or beneficial owner of 20% or more of an ownership interest in the applicant.
2. **Taxes Current** – The applicant and its principals must be current in payment of all applicable federal, state and local taxes unless they have entered into a workout agreement with each respective taxing authority and are fully in compliance with the terms of that agreement.
3. **Conflicts of Interest** – An officer, director, or employee of an applicant who is a party to or has a private interest in a project being funded by this program shall disclose the nature and extent of the interest to the governing body of the applicant, and may not vote on action of the applicant concerning the project, nor participate in the deliberations of the applicant concerning the project.

J. Non-discrimination

No assistance shall be awarded to an applicant under this program unless the applicant and the subrecipient both certify that they shall not discriminate against any employee or against any person seeking employment by reason of race, gender, creed, color, sexual orientation, gender identity or expression, or in violation of the Pennsylvania Human Relations Act, which prohibits discrimination on the basis of race, color, religious creed, ancestry, age, sex, national origin, handicap or disability, or in violation of any applicable federal laws. All loan agreements funded by this program must contain the commonwealth’s official nondiscrimination clause.

K. Ineligible Activities

Projects are not eligible for funding if they involve any of the following:

1. A restaurant, except for regional or national franchises.
2. A bar, tavern or other business enterprise established for the principal purpose of dispensing alcoholic beverages.
3. Refinancing any portion of the total project cost, except for short-term “bridge” financing where the bridge financing is being promptly replaced by the proceeds of the loan and the bridge financing has been disclosed to PMBDA in connection with its review of the loan.
4. Speculation in any type of property, real or personal, except for new construction where 49% of the project will be leased to PMBDA eligible businesses.
5. Providing funds, directly or indirectly, for payment, whether as loan repayment, dividend distribution, return of capital, loans, or otherwise, to principals, owners, partners or shareholders of the applicant, except as ordinary compensation for services rendered.
6. Related party transactions where the buyer and the seller are one and the same or are related to each other by blood, marriage, or law.
7. Projects which have commenced, or to which the applicant has committed, before receiving approval of the PMBDA loan, unless the applicant has received non-prejudicial approval from the lender to commence. In such instances, the applicant is continuing at its own risk in the event that the lender does not approve the loan.

L. Submission

An original and three (3) copies of the Application and Supplemental Information may be submitted to:

PA Department of Community & Economic Development
Pennsylvania Minority Business Development Authority
Center for Business Financing, Loans Division
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225

For further information or if you have any questions about the programmatic requirements for the program, please contact the PMBDA, at the above listed address, or by telephone at (717) 214-5321 or dced.pa.gov.

M. Processing Applicant Submissions

1. The initial phase of evaluation will be a thorough review of the applicant's submission of written materials as required in the attached application form.
2. PMBDA staff will follow-up with a site visit to the CDFI or RLF headquarters, to observe general operations and further assess organizational capacity.
3. To the best of the Department's ability, site visits will be scheduled at a mutually convenient time for all parties.
4. Site visits will include, but not be limited to, interviews with key management and staff and key Board members.
5. Site visits may include interviews with CDFI or RLF clients, as deemed necessary by the evaluator.
6. Site visits may be used to review certain items that are too cumbersome to submit in the Loan application, e.g., client files.
7. Site visits may be used to obtain answers to questions that arise during the evaluation of submitted materials.
8. PMBDA has sole discretion in selecting applicants to be awarded RLF Capitalization Loans.



PMBDA REVOLVING LOAN FUND CAPITALIZATION PROGRAM APPLICATION

Please refer to the Application Guidelines for details on the submission requirements for this application.

A. APPLICANT INFORMATION

1. ORGANIZATION NAME:

2. PRIMARY BUSINESS ADDRESS:

3. PHONE NUMBER:

4. FAX NUMBER:

6. EMAIL ADDRESS:

7. PRIMARY CONTACT:

8. TITLE

9. IF ORGANIZATION OR PARENT/AFFILIATE IS HEADQUARTERED IN A DIFFERENT STATE/COUNTRY, PLEASE INDICATE HERE AND LIST ADDRESS:

B. INVESTMENT AREA(S) – TARGETED POPULATION(S)

1. **INVESTMENT AREA(S):** INDICATE NAME(S) OF COUNTY OR COUNTIES SERVED BY THE APPLICANT:

If market is too large to list, attach information on separate sheet.

2. **TARGETED POPULATION(S):** IDENTIFY POPULATION SERVED, IF TARGET MARKET IS NOT DEFINED IN GEOGRAPHIC TERMS.

Summary information is acceptable.

C. ORGANIZATIONAL HISTORY

1. DATE OF INCORPORATION:	2. DATE LENDING OPERATIONS COMMENCED:	3. DATE INVESTMENT OPERATIONS COMMENCED:
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4. HAS THERE BEEN ANY BUSINESS INTERRUPTION OR ORGANIZATIONAL MORATORIUM OF LENDING/INVESTING SINCE INCEPTION OF OPERATIONS?

Yes No

If so, please describe in detail, the timeframe and reason for lending/investment interruption:
(Attach separate sheets if needed)

D. COMPREHENSIVE BUSINESS PLAN

PMBDA understands that there are many techniques and alternative approaches to community development finance and investment. In an effort to be responsive to applicant's needs and flexible in review of information there is no required "standard format" for the Comprehensive Business Plan. However all areas listed below are to be addressed in this application. If information is not included in the Comprehensive Business Plan, it must be attached as supplemental material. Please make every attempt to clearly document where information is located within the submission, through the use of table of contents, indexes or cross-referenced notes.

1. Each applicant must submit a current Five (5) Year Comprehensive Business Plan describing:
 - a. Depth, breadth and stability of management experience in community and/or economic development lending.
 - b. Management's capacity to maintain successful operations.
 - c. Market analysis including methodology of determining client needs and statistical data that supports financial projections.
 - d. Response to market needs including specific information on how the CDFI supports a traditionally under-served market.
 - e. Marketing and outreach plans to loan customers that support the financial projections.
 - f. Product offerings including loan terms and interest rates.
 - g. Policies for underwriting, loan administration, risk management, portfolio management.

2. If not incorporated into the Business Plan, please also include the following supplemental information:
 - a. Description of all relevant practices employed to measure organizational performance, including frequency of reporting, process of reviewing reports and report dissemination.
 - b. A list of active loan accounts in the format the organization uses to monitor loan activity. If more than one report is used, please attach and describe in what capacity each report is used.
 - c. A list of delinquent loan accounts, information on loans in default and loans charged off in the past five years. If lending for fewer than five years, reports should reflect information since organization's inception.
 - d. An organizational chart and corresponding written job descriptions for each of the key management and lending positions identified on the organizational chart.
 - e. Summarized community development lending experience of the incumbent holding the following positions:
 1. Executive Management
 2. Board members
 3. Loan Committee members, if different than Board members
 4. Key lending/investment personnel
 - f. Description of how the organization engages in Business Planning and/or Strategic Planning activities, including frequency, process, participants and how plans are implemented. (No more than three paragraphs.)
 - g. Attach the prior three years audited annual financial statements for the Applicant. (Please note that the PMBDA require the statements to be prepared by an independent Certified Public Accountant, in accordance with GAAP.)

Note: The PMBDA evaluator will review additional information during the site visit, so there is no reason to include superfluous information with this submission. Please DO NOT include with this submission the following items: Client files, Loan Committee Analysis or Credit Memoranda, Newspaper articles or other Public Relations items.

If you have any questions about the materials that should accompany this application, or other questions regarding the submission of the application, please contact PMBDA staff at (717) 214-5321.