

**Proposed Changes to County of Monterey's  
Economic Development Small Business Revolving Loan Fund Program  
in Response to COVID-19**

**Background:**

The County of Monterey's Economic Development Department (County) operates a Small Business Revolving Loan Fund (SBRLF) that was originally capitalized by a U.S. Department of Commerce, Economic Development Administration (EDA) grant funding as the capital for an economic development tool designed to assist small businesses located within Monterey County, CA. The County currently contracts with the California Coastal Rural Development Corporation (Contractor) to assist with the SBRLF by developing new lending opportunities; underwriting and packaging new loan requests; and managing daily loan servicing obligations; preparing financial and portfolio activity reports; and acting as the County's fiscal agent for loan disbursements and collections. The Contractor is compensated for services provided to the County from loan fees and loan interest collected from the SBRLF. There is approximately \$661,000 in EDA funds available for lending.

**Business needs due to disruptions from COVID-19**

Based on conversations with economic development partners in several of the eligible counties, there is a strong need for quickly accessible, small-sized loans to newer, smaller businesses affected by closures due COVID-19. The addition of small-sized loans of \$25,000 or less through a streamlined process would not prohibit use of the regular process for larger loans which we would leverage with other types of loans.

**Proposed Emergency Microloan Fund:**

We propose setting aside a portion of the EDA funds to create an Emergency Loan Fund for businesses impacted by COVID-19. Businesses can apply for loans **up to \$25,000** at a reduced interest rate (**adjustable rate at 75% of WSJ Prime**). Loans will have up to a 5-year term, with payments deferred for up to 9 months (loan structure will be determined on a case-by-case basis depending on the Borrower's ability to pay). The underwriting, approval, and closing process will be streamlined and will be designed to facilitate rapid deployment of capital to businesses in need.

- In the event that EDA authorizes a lower interest rate than currently allowed by EDA Regulation, all loans funded through this Emergency Microloan Fund shall be converted to this lower rate as of the date the regulatory change or waiver takes effect.

**Eligibility:**

Businesses must be located within the boundaries of Monterey County. Additional parameters include:

- Operating business, not a passive real estate entity
- In business for a minimum of one year, and able to provide a 2018 Federal Tax Return and interim financial statements;
- Viable, demonstrating ability to pay the loan before disruptions from coronavirus COVID-19. The business must present a feasible plan to recover post-disruption.
- Current on federal income taxes.

**Size and Terms:**

**Loan Size:** up to \$25,000.

**Interest Rate:** The minimum interest rate authorized by EDA at the of lower of 4% or 75% of WSJ Prime Rate. (WSJ Prime Rate is currently at 3.25%, so the current rate would be 2.44%).

**Loan Term:** Up to 5 years (e.g. if a 60-month term, up to a 9-month deferment of loan payments, followed by a 51-month fully amortizing loan schedule. No balloon payments allowed).

**Repayment:** Principal and interest payments will be deferred for up to nine (9) months. The deferral period may be extended as needed. Loans may be prepaid, in part or whole, at any time without penalty.

**Application Fee:** none. Borrower pays any closing costs & fees which can be financed into the loan.

**Uses of Funds:**

Loan proceeds may be used for working capital (examples include but are not limited to payroll, rent, insurance, utilities, etc.).

**Collateral:**

UCC-1 financing statement best lien obtainable on business assets. Personal guarantee from every business owner that owns more than 20% of the business. If allowable, we will request a waiver of this personal guarantee requirement from EDA.

**Application Requirements**

1. 2018 tax returns (Federal Only)
2. 2019 Federal tax returns (if available) or year-end internal financial statements (balance sheet and profit and loss statement)
3. A current business interim financial statement (balance sheet and profit and loss statement)
4. Existing Debt Schedule
5. Disaster Impact Statement: Provide overview of the business, showing that it would be profitable without disaster disruption, and the impact of the disaster on the business. Business should explain why they need the loan amount requested. (1 page or less)
6. Personal Financial Statement.
7. Credit Report Release.
8. Additional items as requested.

**Approval Process**

1. Intake will be done by Contractor.
2. Contractor's Underwriter/package will review business financials and credit score and prepare a memo requesting approval.
3. Contractor's Chief Credit Officer, President and Loan Committee, will have approval authority. Loans made under this program will not need Contractor's Board of Directors approval.
  - a. County participation on the Loan Committee is highly desired but not necessary if County staff participation would delay consideration by the Loan Committee.

**Leverage**

Per County's SBRLF Administrative Manual and EDA program regulations, we are committed to leveraging EDA funds 2:1, primarily by leveraging non-federal sources (e.g. non-federal loans, equity/cash, etc.). If allowable, we will request a waiver of this leverage requirement from EDA.