NJEDA

MEMORANDUM

TO: Members of the Authority

FROM: Tim Sullivan
Chief Executive Officer

DATE: September 14, 2022

SUBJECT: SSBCI - Recovery Loan Loss Reserve

Summary

The Members are asked to approve:

1. The creation of the Recovery Loan Loss Reserve, which will offer a guarantee to Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) that create a recovery loan program with their own funding. This program will provide eligible entities a loan guarantee of 50% for all eligible loans that meet the necessary state and federal criteria. Each entity is eligible for an allocation of up to $2.5 million per entity.

2. Utilization of up to $25 million from SSBCI to fund the Recovery Loan Loss Reserve once approval is received.

3. Delegation of authority to the Chief Executive Officer to:

    - Approve individual applications for the Recovery Loan Loss Reserve in accordance with the terms set forth in this memo and the attached program specifications.

    - Delegation to the CEO to impose any additional requirements imposed by the U.S. Department of the Treasury in connection with SSBCI funding, provided that the requirements are consistent with the parameters of the program as approved by the Board.

Background

In March 2020, the Members approved the creation of a CDFI COVID Emergency Loan Loss Reserve. In response to the economic disruption caused by the COVID-19 outbreak this product created a fund that provided NJ based CDFIs the ability to leverage their resources and provide financial assistance to businesses impacted by the novel coronavirus ("COVID-19") pandemic. The Fund sat on NJEDA's balance sheet, but was available to be drawn down by CDFIs, if COVID-19 related working capital loans that fit within certain approved parameters defaulted in the future. By lowering the CDFI's internal risk ratings, the Authority enabled the CDFIs to reserve less capital against potential future losses, thereby increasing the capital available to lend to other COVID-19 impacted businesses.

The CDFI COVID program provided a guarantee to CDFIs for working capital loans that met the following criteria:

- Made to a company that certifies to the CDFI that it has been adversely impacted by the emergency (e.g., closed, reduced hours, 20% reduction in revenue, 25% reduction in staff availability, material disruptions to its supply chain);
- Focused on working capital needs of a micro or small business;
- Does not exceed $75,000;
- Does not have an interest rate above 3.75%;
- Provide flexible loan structures (e.g. deferred payments, moratoriums or interest only for up to 6 months); and
- Does not exceed a term of five years.

The Authority invited New Jersey CDFIs that focus on micro and small business lending programs to apply to participate in this program. As part of the application process, each CDFI had to:

1. Demonstrate operational and financial capacity;
2. Demonstrate 10 years of experience working with underserved business segments;
3. Demonstrate 10 years of experience working in communities underserved by other financial institutions;
4. Provide a description of its proposed COVID-19 working capital loan program, which must demonstrate that the CDFI serves the targeted borrowers described above; and
5. Demonstrate established underwriting criteria that will be utilized for their emergency loan which must meet the above criteria.

NJEDA received six applications from NJ based CDFIs to utilize the full allocation of $10 million. To date these entities closed on 413 loans that total to $9.3 million. To date only one loan has defaulted.

Background on the State Small Business Credit Initiative

The funding source for the Recovery Loan Loss Reserve will be $25,000,000 from New Jersey's expected allocation of $255,197,631 from U.S. Treasury's State Small Business Credit Initiative (SSBCI). Funding is contingent on final approval of the SSBCI application by U.S. Treasury and execution of an allocation agreement between U.S. Treasury and New Jersey Department of the Treasury. On February 9, 2022, the Board approved delegated authority for the CEO to apply, as contracted entity to NJ Treasury, for SSBCI funding for six program concepts and corresponding funding allocations, including the Recovery Loan Loss Reserve. The Board also approved a Memorandum of Understanding between the New Jersey Department of the Treasury and the NJEDA regarding NJEDA's participating as the contracted entity to implement the six programs.

SSBCI is a federal program administered by the US Department of the Treasury. The program's purpose is to strengthen eligible jurisdictions that support private financing to small businesses. The program was first established in 2010, and a second round was funded by the American Rescue Plan Act (ARP) in the spring of 2021. This second ARP round has $10 billion available overall, allocated non-competitively to states, territories, and Tribal governments. New Jersey is expected to be eligible for a total of $255 million. New Jersey's allocation includes sub-allocations specifically for very small businesses ($15,689,280) and businesses owned by socially and economically disadvantaged individuals, or SEDI businesses ($27,521,719). Incentive funds are available for jurisdictions that demonstrate strong support for SEDI businesses.

SSBCI is designed to cause and result in the lending and investment of private capital into small businesses. Each dollar of SSBCI capital must be matched by at least another dollar of private capital. Public funding, including NJ state funding, does not count toward that match. The allocation of funding is designed to allow the portfolio to reach a leverage ratio (private capital to SSBCI funds) of 10:1 over a ten-year period. Therefore, State programs using SSBCI funding must be designed to stimulate new lending and investment, unlocking capital for small businesses and start-ups that would otherwise not have access to it.

Because U.S. Treasury requires that state-level SSBCI applicants be a state department or agency that can obligate the State, the Governor has designated N.J. Treasury as the lead applicant, with NJEDA acting as a contracted entity to implement the program for purposes of the current pending federal SSBCI application. New Jersey utilized a similar structure for the SSBCI 1.0 program established in 2010. The final application was submitted by NJ in 2011 which was accepted and approved by the U.S. Treasury. In February 2022, the Board approved an MOU between the NJEDA and NJ Treasury regarding the arrangement for SSBCI 2.0.

New Jersey's SSBCI application proposes six programs:

- Blended Capital Investment ($50M);
- Clean Energy Business Financing ($80M);
- Life Science Investment ($60M);
- SEDI Seed Fund ($20M);
- Angel Match Program ($20M); and
- Recovery Loan Loss Reserve ($25M), the subject of this memo.

New Jersey's SSBCI application remains under review by U.S. Treasury. Following approval, an allocation agreement will be issued by U.S. Treasury to NJ Treasury, as the lead applicant. However, SSBCI statute requires that all proposed programs be "fully positioned, within 90 days of the State's execution of the allocation agreement with the Secretary [of the Treasury] to act on providing the kind of credit support that the State program was established to provide." Although New Jersey's SSBCI application has not yet been approved, staff is bringing this program to the board at this time to ensure it is prepared and better able to meet the required 90-day timeline following execution of the allocation agreement. Staff will be bringing further details of the remaining programs, including specifications, program solicitation award(s), or investment, where applicable, to the Board in the coming months.

SSBCI funds are disbursed to jurisdictions in three tranches. The first is disbursed after U.S. Treasury approves the application and NJ Treasury signs and executes the allocation agreement with U.S. Treasury. The second and third tranches will be disbursed when the NJ Treasury certifies that it has expended, transferred, or obligated at least 80% of the prior disbursement of allocated funds. The second tranche must be drawn down at or before the three-year anniversary of the signing of the allocation agreement, and the final tranche must be drawn down at or before the six-year anniversary of the signing of the allocation agreement. US Treasury has informed EDA staff that the expected deadline to disburse the funds is 10 years. SSBCI administrative costs are limited to 5% of SSBCI funds in the first tranche and 3% of SSBCI funds in the second and third tranches.

Since NJEDA will be receiving SSBCI funding, a portion of the funding ($25 million) will be utilized to support an expanded version of a loan loss reserve. This new version will also allow for CDFI partners outside and inside of NJ to participate, plus expand the eligibility to allow MDIs to be able to apply all to support NJ based businesses. The product will also allow the CDFIs and MDIs to offer an expanded loan product to create a more robust product that can better serve the entities and small businesses throughout NJ.

Diversity, Equity, and Inclusion

The federal SSBCI program supports the expansion of businesses owned by socially- and economically-disadvantaged individuals by mandating a portion of a State's allocation be directed to SEDI businesses. From New Jersey's total allocation of $255,197,631, New Jersey must expend at least $27,521,719 to benefit SEDI businesses. Over time, U.S. Treasury may reduce New Jersey's total SSBCI allocation if the State is not on track to meet this minimum threshold. The SSBCI program also includes a SEDI incentive. New Jersey is eligible for incentive funds of up to $14,678,250 based on the share of the $255 million allocation that is deployed to support SEDI businesses, with the maximum incentive reached if New Jersey expends 31.01% of the $255 million allocation to benefit SEDI business. The NJEDA defined and articulated a strategy to do outreach to and deploy funds into SEDI businesses as part of the NJEDA's SSBCI application.

Program Details

Staff propose that a portion of the SSBCI funding ($25 million) be utilized to support a Recovery Loan Loss Reserve, an expanded version of the CDFI COVID Emergency Loan Loss Reserve. This new version would expand on the original program by allowing for CDFIs and MDIs that are based outside of NJ but serve NJ-based businesses to participate. The product will also permit CDFIs and MDIs to offer an expanded loan product to better serve small businesses throughout NJ.

The Recovery Loan Loss Reserve Program offers eligible CDFIs and MDIs a 50% guarantee on loans that meet the eligibility criteria. This product will allow these entities to opt in for an allocation up to $2.5 million per entity. NJEDA will look to do specific outreach to offer this product to CDFIs and MDIs that are not just NJ-based, though all applying entities would only be able to register loans for NJ-based businesses.

There are several unique features to the proposed guarantee:

1) The guarantee will not be approved by the Authority for a specific CDFI or MDI loan, but rather will be available to the CDFI or MDI to allocate among their eligible loans. The CDFI or MDI will determine which loans require the support of the guarantee, with the knowledge that the maximum amount the Authority will pay in the aggregate is limited once they are approved. It is up to the CDFI or MDI to determine how many loans to attach to the guarantee, subject to the other requirements of this program.

2) The guarantee will be a first loss guarantee, meaning a) to the extent there is any collateral to be liquidated, the CDFI or MDI is made whole before EDA is repaid and b) to the extent the CDFI or MDI is repaid by the borrower, it is made whole before the EDA is repaid.

3) For each CDFI or MDI that is approved, the Authority will guarantee up to 50% of each eligible individual loan for a maximum of seven years. The exact percentage of the loan guarantee will be determined by each CDFI or MDI. Regardless of the number of loans that are guaranteed, the Authority will never pay out more than each CDFI's or MDI's approved loan loss reserve fund amount.

4) NJEDA is not undertaking any selection or review, including underwriting analysis, of individual loans. Each CDFI or MDI will utilize their own credit terms, underwriting practices, and application processes for the administration of the loans backed by the Authority's guarantee. Upon approval of a loan, the CDFI or MDI will send the Authority notice of the approval by registering the loan as per the Master Guarantee Agreement. It is up to the CDFI and MDI to ensure all loans are eligible and meet the necessary criteria to be eligible. All documents must be received by NJEDA, and if any necessary information is missing due to the CDFI or MDI not providing it, NJEDA will not be held responsible for guaranteeing the loan.

As with all guarantees, the EDA will hold the funds until they are drawn on. Before it may draw upon the guarantee, the CDFI or MDI must demand full repayment from the business and forward that demand to the Authority. Upon paying the guarantee, the Authority will require the CDFI or MDI to use its best efforts to collect the debt and remit repayment to the Authority on a first loss basis. All loans must be registered with NJEDA within 90 days from closing. If any loan is beyond that window the loan will be deemed ineligible for the benefit of a guarantee.

NJEDA will look to CDFIs and MDIs to apply for this product. To be eligible they must meet the following criteria:

- Must have small and micro business lending experience. These entities can be based outside of NJ but must use funds to service eligible NJ based businesses only.
- Must be a certified Community Development Finance Institutions (CDFI) by the US Department of Treasury or a Minority Depository Institution (MDI) recognized by FDIC.
- Must be able to provide a current CDFI certification provided by the U.S. Department of Treasury or FDIC to support status as a MDI.
- Must be able to demonstrate the capacity to create, underwrite, and approve new financial assistance (loan program) that meet the defined parameters as stated in the memo.
- Must provide a current NJ Tax Clearance Certificate
- Must be verified in good standing with Department of Labor and Department of Environmental Protection
- Must complete a legal debarment questionnaire.
- Must provide an assurance affirming that no principal of the financial institution lender has

been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. § 16911).

CDFIs and MDIs can apply to NJEDA online. At time of application, the CDFIs/MDIs will opt into the allocation they are seeking under this fund. NJEDA will require applicants to complete an online application, provide a 1-3-page narrative proposal detailing how the Authority's fund would be used, and disclose key financial metrics, such as availability of capital, that demonstrate capacity to offer loan products and other key factors identified below.

As part of the evaluation of each organization's guarantee application, an applicant:

- Must demonstrate lending experience to micro and small businesses. Must provide a recap of all portfolio activity up to date of application to demonstrate growth in capacity and lending efforts in the last year. This can be demonstrated in the financials or balance sheets.
- Must provide detailed information related to the loan products that are currently offered or will be created and supported by this product. Information provided must include: product term sheets, eligibility criteria, loan terms, fees, underwriting criteria and any other necessary criteria.
- Must explain the applicant's policy or plan serving communities and business segments underserved by the banking sector and other financial institutions and show significant experience complying with such policy or plan.
- Must provide a detailed marketing plan on how this product will be marketed to attract new businesses. This marketing plan should highlight what steps will be taken to ensure their product will serve small business owners. Applicants must offer their product information in in multiple languages and specify which ones on their application.
- Must provide staffing information to demonstrate that the CDFI/MDI has operational and financial capacity to use the guarantee effectively.

Each CDFI or MDI that applies to this program may use either a new lending program or an existing one, but in neither case utilize federal funding. Each lending product must meet the following criteria to be deemed eligible:

- Loan minimum is $10,000 and the maximum is $250,000.
- Applicants must be profit or non-profit entities with commercial business locations within NJ.
- Loan interest rate cannot exceed 12%.
- Loan can include deferred payments, moratoriums or interest only for up to 12 months.
- Loan term cannot exceed 7 years.
- Collateral and personal guarantees are permissible but not required.
- Minimum global debt service coverage ratio of 1.0.
- No-fee or reduced application fees must be offered to small businesses.
- If creating a new program, then minimum credit score must be under 650.
- Loans may be used by the business for any purpose except any refinancing of existing debt,

purchases of equipment, construction, reconstruction, demolition, alteration, repair work, maintenance work, or construction related to installation of equipment where such activity exceeds $1,999.99. Examples of permitted uses are operating expenses such as payroll, marketing, inventory, rent, mortgage/property tax payments, utilities, or any other expenses that are applicable to the daily operation of the business.

- Loans must be made to applicants that are in good standing with taxation and must collect a current tax clearance certificate when the loan is registered with NJEDA.
- CDFIs and MDIs that have received grants from NJEDA to create lending products cannot use this guarantee as well to support that product.
- CDFIs and MDIs that have received grants from NJEDA to provide technical assistance can use that grant to support businesses applying for loans that are supported by this guarantee.
- Loans provided by the CDFIs and MDIs and registered under the product must meet all SSBCI requirements.
- CDFIs/MDIs must provide an assurance affirming that no principal of the financial institution lender has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. § 16911)).
- CDFIs/MDIs cannot loan to prohibited businesses which include, but are not limited to:
    - Businesses engaged in gambling or gaming activities; the conduct or purveyance of "adult" (i.e., pornographic, lewd, prurient, obscene or otherwise similarly disreputable) activities, services, products or materials (including nude or semi-nude performances or the sale of sexual aids or devices); any auction or bankruptcy or fire or "lost-our-lease" or "going- out-of-business" or similar sale; sales by transient merchants, Christmas tree sales or other outdoor storage; any activity constituting a nuisance; or any illegal purposes.
    - Businesses engaged in speculative activities that profit from fluctuations in price, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business or through the normal course of trade;
    - A business that earns more than half of its annual net revenue from lending activities, unless the business is (1) a CDFI/MDI that is not a depository institution or a bank holding company, or (2) a Tribal enterprise lender that is not a depository institution or a bank holding company;
    - A business engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants;
    - A business engaged in activities that are prohibited by federal law or, if permitted by federal law, applicable law in the jurisdiction where the business is located or conducted (this includes businesses that make, sell, service, or distribute products or services used in connection with illegal activity, unless such use can be shown to be completely outside of the business's intended market); this category of businesses includes direct and indirect marijuana businesses, as defined in SBA Standard Operating Procedure 50 10 6; or
    - A business deriving more than one-third of gross annual revenue from legal gambling activities, unless the business is a Tribal SSBCI participant, in which case

the Tribal SSBCI participant is prohibited from using SSBCI funds for gaming activities, but is not restricted from using SSBCI funds for non-gaming activities merely due to an organizational tie to a gaming business; "gaming activities" for purposes of Tribal SSBCI programs is defined as Class II and Class III gaming under the Indian Gaming Regulatory Act (IGRA), 25 U.S.C. § 2703.

Each CDFI or MDI can apply and opt in to participate for up to $2.5 million at time of application. If, after the initial review of applications, the total approved amount of the guarantees under the Loan Loss Reserve Fund is less than the aggregate program size of $25 million, additional guarantee amounts can be approved for one or more CDFIs/MDIs that could result in the maximum guarantee exceeding $2.5 million.

At three years from closing date, NJEDA staff will access overall performance to ensure the full allocation is being utilized. If the CDFI/MDI does not utilize at least 50% of the loan loss reserve by registering enough loans then their agreement can be reduced or terminated as per their Master Guarantee Agreement.

This may allow NJEDA to reallocate any remaining balances that may remain to either existing awardees that may need the additional support based on their loan volume. If no additional support is needed by other awardees, then new applications can be considered to ensure the aggregate of the full $25 million is utilized to support loans.

The Master Guarantee Agreement with each awardee will last the term of the allocation agreement unless terminated earlier. This term will be based on the execution date of the NJEDA's allocation agreement with US Treasury, which NJEDA anticipates will be finalized in the near future.

Staff is recommending that in addition to the eligibility parameters stated above, the applicant must also be in good standing with the New Jersey Department of Labor and Workforce Development (LWD) and NJ Department of Environmental Protection at the time of application to be eligible. A current tax clearance will need to be provided prior to approval to demonstrate the applicant is in good standing with the NJ Division of Taxation. An application fee of $1,000 would be collected at time of application per applicant.

Finally, the Members are requested to grant delegated authority on all approvals to be granted to the CEO to then designate the appropriate staff. The delegated authority requested for approval also includes the delegated authority to decline for any declinations based solely on non-discretionary reasons.

Entities whose applications are denied will have the right to appeal. Appeals must be filed within the timeframe set in the declination letter (which must be at least 10 business days). The Director of Legal Affairs will designate Hearing Officers who will review the applications, the appeals, and any other relevant documents or information. The Hearing Officer will recommend a final administrative decision. For final administrative decisions based solely on non-discretionary reasons, delegated authority is requested for approval to be granted to the CEO to then designate the appropriate staff.

NJEDA is responsible for meeting extensive reporting requirements set by U.S. Treasury, covering each SSBCI transaction. To ensure these requirements can be met, all CDFIs/MDIs will be responsible for collecting the necessary documentation from borrowers and providing all necessary documentation to NJEDA. When a CDFI/MDI registers a loan with NJEDA, the CDFI/MDI will be required to provide data and documentation as listed on an NJEDA-provided checklist. CDFIs/MDIs will need to maintain all files and documentation in case of an audit. CDFIs/MDIs will be responsible for submitting all required reporting on a quarterly, annual, and on an as needed basis to NJEDA. All due dates and templates will be provided to the participating CDFIs/MDIs. These reporting requirements will be included in the Master Guarantee Agreement between NJEDA and each participating CDFI/MDI.

Recommendation

Approval is requested for: (1) creation of the Recovery Loan Loss Reserve Program, a program that will offer 50% guarantees to approved participants for their designation allocation; (2) Utilize SSBCI funding of $25 million to fund this initiative once NJEDA receives approval; (3) Delegation of authority to the Chief Executive Officer to: approve individual applications for the Recovery Loan Loss Reserve in accordance with the terms set forth in this memo and the attached program specifications, and impose additional requirements as may be required by SSBCI, provided that the requirements are consistent with the parameters of the program.

Tim Sullivan, CEO

Attachment:
Exhibit A – Product Specifications

CDFI Recovery Loan Loss Reserve Fund Proposed Program Specifications	
Funding Source	$25,000,000 – State Small Business Credit Initiative (SSBCI) The one-to-one match is met through leveraging CDFIs and MDIs to provide loans utilizing their own funding sources (can't use a federal funding source), and then a 50% guarantee is provided through this program in case of default. Funding is dependent on US Treasury approval of NJEDA's application and execution of allocation agreement between US Treasury and NJ Treasury.
Program Purpose	The creation of the Recovery Loss Reserve Fund ("the Fund") will provide Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) the ability to leverage their own non-federal resources and provide working capital loans that fit within certain approved parameters (as stated in the memo). CDFIs/MDIs can then register eligible loans in case of a future default up to 50% throughout the term of the loan allowing them to take on more risk and exposure to do more lending.
Eligibility Criteria (for CDFIs/MDIs i.e. NJEDA applicants):	All entities must have small and micro business lending experience. These entities can be based outside of NJ but must use funds to service eligible NJ based businesses only. • Must be a certified Community Development Finance Institutions (CDFI) by the US Department of Treasury or a Minority Depository Institution (MDI) recognized by FDIC and provide current certification by U.S. Department of Treasury or FDIC to support a MDI status. • Must be able to demonstrate they have the capacity to create/run a program and attract applicants, underwrite, and approve financial assistance (loan program) that meet the defined parameters as stated in the memo. • Must provide a current NJ Tax Clearance Certificate • Applicant must be in good standing with Department of Labor and Department of Environmental Protection • Must complete a legal debarment questionnaire. • Must provide an assurance affirming that no principal of the financial institution lender has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the

CDFI Recovery Loan Loss Reserve Fund Proposed Program Specifications	
	Sex Offender Registration and Notification Act (42 U.S.C. § 16911).
Eligible Loan Criteria (that can be supported by this guarantee):	Loan guarantees are only applicable to new or existing lending programs that would include the following features: • Loan minimum is $10,000 and maximum is $250,000 • Applicants can be for-profit or non-profit entities with commercial business locations within NJ. • Loan interest rate cannot exceed 12%, • Loan can include deferred payments, moratoriums or interest only for up to 12 months, • Loan term cannot exceed 7 years, • Collateral and personal guarantees are permissible but not required • Minimum global debt service coverage ratio of 1.0 • If creating a new program then minimum credit score must be under 650 • Loans may be used by the business for operating expenses only. Examples of permitted uses include payroll, marketing, inventory, rent, mortgage/property tax payments, utilities, or any other expenses that are applicable to the daily operation of the business. Ineligible expense uses: - any refinancing of existing debt - purchases of equipment, construction, reconstruction, demolition, alteration, repair work, maintenance work, or construction related to installation of equipment where such activity exceeds $1,999.99. • Loans must be made to applicants that are in good standing with NJ Department of Taxation and must provide a current tax clearance certificate when the loan is registered with NJEDA. • CDFIs and MDIs that have received grants from NJEDA to create lending products or provide technical assistance (i.e., Main Street Lenders Grant) cannot use this guarantee

CDFI Recovery Loan Loss Reserve Fund Proposed Program Specifications	
	program to support the same recipients of that loan program. Businesses could be served with the technical assistance support and be registered under this program. • Loans provided by the CDFIs and MDIs and registered under the product must meet all SSBCI requirements. • Must provide an assurance affirming that no principal of the borrowing entity has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. § 16911)). • Loan must be registered with NJEDA within 90 days after the closing date of the loan by the CDFI/MDI. Loans beyond this window will not be eligible to be covered by the guaranteed allocation.
Guarantee Amounts (or Allocation) awarded per CDFIs/MDIs:	•Each CDFI or MDI can apply and opt in to participate for up to $2.5 million at time of application. •If, after the initial review of applications, the total approved amount of the guarantees under the Loan Loss Reserve Fund is less than the aggregate program size of $25 million, additional guarantee amounts can be approved for one or more CDFIs/MDIs that could result in the maximum guarantee exceeding $2.5 million as requested. •Prohibited businesses to lend to include: •A business engaged in gambling or gaming activities; the conduct or purveyance of "adult" (i.e., pornographic, lewd, prurient, obscene or otherwise similarly disreputable) activities, services, products or materials (including nude or semi-nude performances or the sale of sexual aids or devices); any auction or bankruptcy or fire or "lost-our-lease" or "going- out-of-business" or similar sale; sales by transient merchants, Christmas tree sales or other outdoor storage; any activity constituting a nuisance; or any illegal purposes. •A business engaged in speculative activities that profit from fluctuations in price, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business or through the normal course of trade; •A business that earns more than half of its annual net revenue

CDFI Recovery Loan Loss Reserve Fund Proposed Program Specifications	
	from lending activities, unless the business is (1) a CDFI/MDI that is not a depository institution or a bank holding company, or (2) a Tribal enterprise lender that is not a depository institution or a bank holding company; •A business engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants; •A business engaged in activities that are prohibited by federal law or, if permitted by federal law, applicable law in the jurisdiction where the business is located or conducted (this includes businesses that make, sell, service, or distribute products or services used in connection with illegal activity, unless such use can be shown to be completely outside of the business's intended market); this category of businesses includes direct and indirect marijuana businesses, as defined in SBA Standard Operating Procedure 50 10 6; or •A business deriving more than one-third of gross annual revenue from legal gambling activities, unless the business is a Tribal SSBCI participant, in which case the Tribal SSBCI participant is prohibited from using SSBCI funds for gaming activities, but is not restricted from using SSBCI funds for non-gaming activities merely due to an organizational tie to a gaming business; "gaming activities" for purposes of Tribal SSBCI programs is defined as Class II and Class III gaming under the Indian Gaming Regulatory Act (IGRA), 25 U.S.C. § 2703. The Master Guarantee Agreement with NJEDA will last for the length of the SSBCI allocation agreement to be executed by US Treasury and NJ Treasury, and loans can be registered for up to this term. At 3 years from closing date NJEDA staff will access overall performance and if the CDFI/MDI does not utilize at least 50% of the loan loss reserve by registering enough loans then their agreement may be reduced or terminated as per their Master Guarantee Agreement. This would then allow NJEDA to be able to reallocate any remaining balances that may remain to existing awardees that may need the additional support if requested. If no additional support is needed by other awardees, then new applications can be

CDFI Recovery Loan Loss Reserve Fund Proposed Program Specifications	
	considered to ensure the aggregate of the full $25 million is fully utilized to support loans. NJEDA will not be required to provide a guarantee for an ineligible business or use.
CDFI/MDI Application Process:	CDFIs and MDIs can apply to NJEDA online. At time of application the CDFIs/MDIs will opt into the allocation they are seeking under this fund. NJEDA will require applicants to complete an online application detailing how the Authority's fund would be used, and disclose key financial metrics, such as availability of capital, that demonstrate capacity to offer loan products and other key factors identified below. As part of the evaluation of each organization's guarantee application, an applicant: • Must demonstrate the applicant has lending experience to micro and small businesses. Must provide a recap of all portfolio activity up to date of application to demonstrate growth in capacity and lending efforts in the last year. This can be demonstrated in the financials or balance sheets. • Must provide detailed information related to the loan products that are currently offered or will be created and supported by this product. Information provided must include: product term sheets, eligibility criteria, loan terms, fees, underwriting criteria and any other necessary criteria. • Must explain the applicant's policy or plan serving communities and business segments underserved by the banking sector and other financial institutions that the applicant serves and show significant experience complying with such policy or plan. • Must provide a detailed marketing plan on how this

CDFI Recovery Loan Loss Reserve Fund Proposed Program Specifications	
	product will be marketed to attract new businesses. Plan should highlight what steps will be taken to ensure their product will serve all business owners. Applicants must offer their product information in multiple languages, and identify what specific languages will be used. • Verify that the funding to for the loan program is available and not from a federal funding source. • Provide staffing information to demonstrate that the CDFI/MDI has operational and financial capacity to use the guarantee effectively.
Board Approval	Delegation of authority to the Chief Executive Officer or his appointed designees. Entities whose applications are denied will have the right to appeal. Appeals must be filed within the timeframe set in the declination letter (which must be at least 10 business days).
Funding Disbursement	Each approved entity will administer their own specific lending activity. The Master Guarantee Agreement will outline the process each entity should take to draw on the NJEDA's guarantee of the defaulted loan. Eligible loans will be registered with NJEDA as outlined in their agreement. Loans that do not fit the criteria of the eligible uses will not be eligible to use the guarantee.

CDFI Recovery Loan Loss Reserve Fund Proposed Program Specifications	
Fees:	• NJEDA application fee for CDFIs/MDIs (non-refundable): $1,000.00 per application
Reporting:	• All CDFIs/MDIs are expected to provide the necessary documentation from a business in order to have their loan approved and then properly registered with NJEDA. The CDFIs/MDIs will be responsible for collecting the necessary documentation from applicants and providing all necessary documentation to NJEDA to ensure loans are registered properly, in the event the necessary documentation is not provided or missing their loan will not be eligible to be covered in case of a default. • Loans will be registered with NJEDA at time of approval and will require the CDFI/MDI to provide items on an NJEDA provided checklist and will capture all relevant data to ensure loans are eligible at time of registration. • CDFIs/MDIs will need to maintain all loan files and documentation including loan disbursements and payments for the life of the loan and may be subject to audit. • CDFIs/MDIs will be responsible for collecting all applicant data related to business ownership and/or any demographic information to identify SEDI applicants. • CDFIs/MDIs will be responsible for submitting all US Treasury required reporting on a quarterly, annual, and on an as needed basis to NJEDA all due dates and templates will be provides to the participating CDFIs/MDIs.