

**CDFI Recovery Loan Loss Reserve Fund
Proposed Program Specifications**

<p>Funding Source</p>	<p>\$25,000,000 – State Small Business Credit Initiative (SSBCI)</p> <p>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.</p>
<p>Program Purpose</p>	<p>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.</p>
<p>Eligibility Criteria (for CDFIs/MDIs i.e. NJEDA applicants):</p>	<p>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.</p> <ul style="list-style-type: none"> • 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):	<p>Loan guarantees are only applicable to new or existing lending programs that would include the following features:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>Ineligible expense uses:</p> <ul style="list-style-type: none"> - 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. <ul style="list-style-type: none"> • 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**

<p>Guarantee Amounts (or Allocation) awarded per CDFIs/MDIs:</p>	<p>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.</p> <ul style="list-style-type: none"> • 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. <ul style="list-style-type: none"> •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: <ul style="list-style-type: none"> •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
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**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**

	<p>considered to ensure the aggregate of the full \$25 million is fully utilized to support loans.</p> <p>NJEDA will not be required to provide a guarantee for an ineligible business or use.</p>
<p>CDFI/MDI Application Process:</p>	<p>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.</p> <p>As part of the evaluation of each organization’s guarantee application, an applicant:</p> <ul style="list-style-type: none"> • 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**

	<p>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.</p> <ul style="list-style-type: none"> • 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.
<p>Board Approval</p>	<p>Delegation of authority to the Chief Executive Officer or his appointed designees.</p> <p>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).</p>
<p>Funding Disbursement</p>	<p>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.</p>

**CDFI Recovery Loan Loss Reserve Fund
Proposed Program Specifications**

Fees:	<ul style="list-style-type: none">• NJEDA application fee for CDFIs/MDIs (non-refundable): \$1,000.00 per application
Reporting:	<ul style="list-style-type: none">• 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.