SANTA BARBARA COUNTY
BOARD AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:	
Prepared on:	6/29/06
Department Name:	Housing/Community Development
Department No.:	055
Agenda Date:	7/11/06
Placement:	Administrative
Estimate Time:	
Continued Item:	NO
If Yes, date from:	

TO: Board of Supervisors

FROM: Ed Moses
Director

STAFF CONTACT: Mike Sederholm, Housing Specialist
560-1090

SUBJECT: Revisions to the County Community Development Block Grant Program Income Reuse Plan

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Recommendation(s):

That the Board of Supervisors:

1) Adopt the attached resolution (Attachment A) approving a revised CDBG Program Income Reuse Plan for Santa Barbara County (Attachment B), and Guidelines for Santa Barbara County's Small Business Revolving Loan Account Program. (Attachment C)

2) Approve a transfer of $50,000 from the Santa Barbara County Homebuyer Assistance Program Revolving Loan Account to the Santa Barbara Countywide Housing Rehabilitation Program Revolving Loan Account.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with actions required by law or by routine business necessity.

Executive Summary and Discussion:

The Board of Supervisors authorized Housing and Community Development to submit a grant application to the State of California in 2005 for Community Development Block Grant (CDBG) funds. The State of California awarded the grant application committing funds for two projects: La Morada Youth Residential Crisis Center and a program providing funding to retrofit and rehabilitate specific housing units for people with disabilities in compliance with the Americans with Disabilities Act. County and State HCD finalized the contract for these grants on May 18th, 2006. County HCD now has 90 days to clear various special conditions in order to begin receiving money from this grant.

One of the special conditions HCD must clear is to obtain a resolution from the Board of Supervisors formally approving the County's Program Income Reuse Plan. The Plan was written in accordance with State of California guidelines, and the State has already approved the draft Plan in the form of Attachment B. The Program Income Reuse Plan is being amended at this time to comply with administrative changes required by the State of California. These minor changes include a necessity to have specific guidelines for the County's Small Business Revolving Loan Account, and a requirement that Program Income not be allowed to be amended into an open Planning and Technical Assistance grant.

The Economic Development Division of County HCD has worked closely with State HCD to develop guidelines for the County's Small Business Revolving Loan Account (Attachment C). These comprehensive guidelines meet the requirements set forth by State HCD with regard to loaning Program Income for Economic Development activities. Your Board's approval of the attached Guidelines fulfill one of the requirements necessary to have Santa Barbara County's Program Income Reuse Plan in compliance with the State of California.

Related Items

The second Recommendation of this Board Letter seeks authorization from the Board of Supervisors to shift $50,000 dollars from the County's Homebuyer Assistance Program Revolving Loan Account to the County's Housing Rehabilitation Revolving Loan Account. State HCD requires that a public hearing be held if more than $5,000 dollars is transferred from on revolving loan account to another. This hearing of the Board of Supervisors fulfills that requirement.

The request to shift $50,000 from the Homebuyer Assistance Program Revolving Loan Account to the Countywide Housing Rehabilitation Loan Account is necessary to meet State HCD's requirements for lending Program Income. The County's Homebuyer Assistance Program has become inactive in recent months due to ongoing discussions of potential changes to the program. These discussions have frozen a significant amount of Program Income, and have had a negative impact on County HCD's utilization of Program Income.

In order to utilize these funds in a timely manner, County HCD proposes to increase the amount of Program Income available to projects through the Housing Rehabilitation Revolving Loan Account. With your Board's approval, County HCD will use Program Income to provide loans to rehabilitate existing housing units currently in need of repair. These loans, along with all uses of CDBG funds, must benefit Targeted Income Groups (TIG), as defined by the United States Department of Housing and Urban Development. In general, TIG refers to households with incomes less than 80% of the County median income.

Program Income Defined, and other Background Information

Program Income is gross income the County receives directly through the use of Community Development Block Grant (CDBG) funds. One of Santa Barbara County's most significant sources of Program Income is the repayment of principal and interest from CDBG loans issued through the County's Housing Rehabilitation Program. The County also receives Program Income from Economic Development activities.

Federal and State law requires that the County place all CDBG Program Income into revolving loan accounts for both housing and economic development activities. These revolving loan accounts are included within the County's Program Income Reuse Plan.

A jurisdiction is required to have a State-approved Program Income Reuse Plan once its program income account exceeds $25,000. Santa Barbara County currently has approximately $203,000 of Program Income on hand, and therefore is required to have a State-approved Program Income Reuse Plan.

Your Board last amended the Program Income Plan on November 8, 2005 in compliance with minor administrative changes required by the State of California. This amendment is similar in that it is in response to minor administrative changes required by the State.

Mandates and Service Levels:

The County Housing and Community Development Department has 90 days from May 18^{th} to obtain a resolution (Attachment A) from the Board of Supervisors approving the amended Program Income Reuse Plan (Attachment B.) The State of California mandates that all organizations receiving CDBG funds which have Program Income in excess of $25,000 have a State-approved Program Income Reuse Plan. The State further mandates that any transfer of funds between revolving loan accounts in excess of $5,000 requires a public hearing.

The Program Income Reuse Plan satisfies the requirements specified in Federal statute and regulation at Section 104 (j) of the Housing and Community Development Act, as amended in 1992 and 24 CFR 570.489 (e) (3).

Fiscal and Facilities Impacts:

If Santa Barbara County is unable to clear all special conditions, including the Program Income Reuse Plan requirement, within 90 days of May 18^{th}, grant funds totaling $750,000 dollars could be deobligated by the State of California.

Special Instructions:

Please send one copy of the Minute Order approving this Board letter and a certified copy of the resolution to Mike Sederholm, Housing and Community Development.

Concurrence:

Auditor Controller

County Counsel

Office of the County Executive Officer

Attachment A

RESOLUTION OF THE BOARD OF SUPERVISORS
COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA

A RESOLUTION APPROVING A REVISED PROGRAM	)
INCOME REUSE PLAN FOR THE COUNTY HOUSING	)
AND COMMUNITY DEVELOPMENT DEPARTMENT	) Resolution # ____________
TO REVISE THE COUNTY-WIDE HOUSING AND	)
ECONOMIC DEVELOPMENT PROGRAM INCOME REUSE	)
PLAN AND TO TRANSFER FUNDS BETWEEN REVOLVING	)
LOAN ACCOUNTS	)

WHEREAS:

A. The County of Santa Barbara, a political subdivision of the State of California, has received State Community Development Block Grant (CDBG) funding to create a County Housing Rehabilitation Program (HRP) to provide low interest loans to low and very-low income households;

B. The County has received State Economic Development Block Grant funding to fund small business enterprises;

C. As a requirement of the CDBG funding, a Program Income Reuse Plan is necessary once the total of all rehabilitation loan repayments exceeds $25,000 to establish a revolving loan fund. Program income is primarily generated from principal and interest payments from the HRP and Small Business loans;

C. The purpose of the Program Income Reuse Plan is to establish guidelines on the policies and procedures for the utilization of program income received as a result of activities funded under the State CDBG program;

D. The Board had initially approved the Program Income Reuse Plan on January 5, 1999 and revised and approved on November 11, 2005. The revised Program Income Reuse Plan incorporates the State mandated changes.

IT IS NOW THEREFORE RESOLVED THAT:

1. The Board of Supervisors has reviewed and hereby approves the revised Program Income Reuse Plan.

2. The Board of Supervisors has reviewed and hereby approves Guidelines for the Santa Barbara County Small Business Revolving Loan Account.

3. The Board of Supervisors hereby approves a transfer of $50,000 from the Santa Barbara County Homebuyer Assistance Program Revolving Loan Account to the Santa Barbara Countywide Housing Rehabilitation Program Revolving Loan Account.

PASSED, APPROVED, AND ADOPTED, by the Board of Supervisors of the County of Santa Barbara, State of California, on the ______ day of _________, 2006 by the following vote.

AYES:

NOES:

ABSENT:

____
Joni Gray
Chair of the Board of Supervisors
County of Santa Barbara

ATTEST:

Michael Brown
Clerk of the Board of Supervisors

By:____
Deputy Clerk

APPROVED AS TO FORM:
STEPHEN SHANE STARK
County Counsel

By:____
Deputy County Counsel

APPROVED AS TO FORM:
ROBERT W. GEIS
Auditor – Controller

By:____

Attachment B

PROGRAM INCOME REUSE PLAN

SANTA BARBARA COUNTY

A Reuse Plan Governing Program Income From CDBG-Assisted Activities

Adopted by the Board of Supervisors on July 11, 2006

The purpose of the plan is to establish guidelines on the policies and procedures for the administration and utilization of program income received as a result of activities funded under the State Community Development Block Grant Program.

Need for Plan Governing Reuse of Program Income. This Reuse Plan is intended to satisfy the requirements specified in Federal statute and regulation at Section 104 (j) of the Housing and Community Development Act ("the Act"), as amended in 1992 and 24 CFR 570.489 (e) (3). These statutory and regulatory sections permit a unit of local government to retain program income for CDBG-eligible community development activities. Under federal guidelines adopted by the State of California's CDBG program, local governments are permitted to retain program income so long as the local government has received advance approval from the state of a local plan that will govern the expenditure of the program income. This plan has been developed to meet that requirement.

Program Income Defined. Program income is defined in federal regulation at 24 CFR 570.489 (e) Program income is the gross income received by the jurisdiction that has been directly generated from the use of CDBG funds. (For those program income generating activities that are only partially funded with CDBG funds, such income is prorated to reflect the actual percentage of CDBG participation). Examples of program income include: payments of principal and interest on housing rehabilitation or business loans made using CDBG funds; interest earned on program income pending its disposition, and interest earned on funds that have been placed in a revolving loan fund account; net proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds; income (net of costs that are incidental to the generation of the income) from the use or rental of real property that has been acquired, constructed or improved with CDBG funds and that is owned (in whole or in part) by the participating jurisdiction or subrecipient.

If the total amount of income generated from the use of CDBG funds (and retained by the County) during a single program year (July 1 through June 30) is less than $25,000, then these funds shall not be deemed to be program income and shall not be subject to these polices and procedures. However, Quarterly and Annual Program Income Reports must be submitted regardless of whether the $25,000 threshold is reached or not.

General Administration (GA) Cost Limitation. Up to eighteen percent (18%) of the total program income expended on all activities during a single program year may be used for CDBG general administration expenses.

Activity Delivery Cost Limitation. Of the total program income expended on all activities, a certain percentage can be used during a single program year for activity delivery costs, depending on the activity. The percentages for activities are as follows:

- Up to nineteen (19%) percent on housing rehabilitation activities,
- Up to eight (8%) percent public services and housing acquisition and a
- Minimum of eight percent (8%) for community facilities and public works may be used for CDBG activity delivery expenses. This percentage may be higher depending on the degree of difficulty in administering State prevailing wages.

Reuses of Program Income. Program income must be: a) disbursed for an activity funded under an open grant prior to drawing down additional Federal funds; b) forwarded to the State of California, Department of Housing and Community Development (Department); or c) distributed according to this Program Income Reuse Plan that has been approved by the Department. The County's program income will be used to fund *eligible* CDBG activities that meet a *national objective*. Eligible activities and national objective requirements are specified in federal statute at Section 105(a) and in federal regulations at 24 CFR 570.482 and 24 CFR 570.483. ***The Reuse Plan shall specify all proposed uses of these funds and the plan shall be adopted by the local governing body after compliance with the locality's citizen participation process as specified in Federal Regulations at 24 CFR 570.486, Local Government Requirements.***

The County reserves the options of utilizing program income to fund/augment a CDBG-eligible activity that is included in a CDBG Program grant agreement. In either case, the County must first follow the citizen participation process and obtain approval from the State CDBG Program.

Planning Activities. The County reserves the option of utilizing program income, within the 18 percent general administration annual cap, to fund planning for CDBG-eligible activities. Such planning activities may include: cash match for a State CDBG Planning and Technical Assistance Grant; environmental reviews or other studies necessary for CDBG-eligible projects or programs; or application preparation for CDBG or other grants/loans to supplement funding for CDBG-eligible activities. The costs of such planning activities may be charged to an RLA if the planning is for the same activity as the RLA. Otherwise, PI may only be expended on planning activities in conjunction with an open CDBG Planning and Technical Assistance grant.

Distribution For Reuse of Program Income. The County's program income will be distributed, as follows:

Four revolving loan accounts (RLAs) are established to utilize the program income.

The allocations to the RLAs are as follows:
a) One Hundred percent (100 percent) of all program income obtained from CDBG General Allocation grants and activities will be deposited into the Housing Revolving Loan Accounts.
b) One Hundred percent (100 percent) of all program income obtained from CDBG Economic Development grants and activities will be deposited into the Small Business Revolving Loan Account.

Funds shall not be transferred between RLAs without conducting a properly noticed CDBG Citizen Participation public hearing. If it becomes necessary to transfer funds between RLAs we will consider revising the above distribution formula. 100% program income generated as a result of RLA lending will be deposited back into the RLA from which the loan was made.

The purposes and allowed uses of funds under these Revolving Loan Accounts are, as follows:

A. HOUSING

1. Countywide Housing Rehabilitation RLA

This RLA will be used for the purpose of making loans to rehabilitate residential units occupied by households which have an annual income which is 80 percent (80%) or less of the County's median income. At least 51% of the funds expended for activities funded under this RLA shall be done so in the form of non-forgivable loans.

No more than thirteen percent (13%) of the program income funds expended during the program year under this RLA shall be expended for housing related grants. No more than 18 percent of the funds expended from this RLA shall be used for activity delivery costs. No more than eighteen percent (18 percent) of the total amount of PI expended annually may be expended for general administrative costs related to this RLA activity (optional, see page 1). In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration) shall not exceed 49 percent of the total funds expended during the program year (July 1 thru June 30).

2. Homebuyers Assistance Program (HAP) RLA

This RLA will supplement this existing County HAP program, which is the County's first time homebuyers program. The funding will be applied towards the administration and loan pool of the program. In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration, as well as other non-housing rehabilitation CDBG eligible activities as mentioned in the County's Consolidated Plan) shall not exceed 49% of the total funds expended during the program year (July 1 through June 30). At least 51% of the funds expended for activities funded under this RLA shall be done so in the form of non-forgivable loans.

3. Move-in Costs Program RLA

The RLA will fund a program specifically designed to assist persons with disabilities move into a rental unit. The program will provide financial assistance to the renter to help cover any costs that may be associated with moving into the rental unit. Some of the eligible costs include security deposit, first/last months rent, deposit for utilities, and other move in expenses. Most of the funds will be recaptured when the tenant vacates the unit. In any event, the total amount to be expended for non-revolving activities (grants, activity delivery costs, and general administration, as well as other non-housing rehabilitation CDBG eligible activities as mentioned in the County's Consolidated Plan) shall not exceed 49% of the total funds expended during the program year (July 1 through June 30). At least 51% of the funds expended for activities funded under this RLA shall be done so in the form of non-forgivable loans.

The review and funding of requests for CDBG loan or grant assistance under these Housing RLAs shall be conducted under the Housing Program Guidelines that have been adopted by the County. All assistance provided to activities under this RLA shall be made for activities that are located within the County's jurisdiction.

B. ECONOMIC DEVELOPMENT

1. Small Business RLA

This fund will be used to provide "gap" financing for businesses that can document the need for CDBG assistance and that will create or retain qualifying permanent jobs that will be principally filled by members of households which have an annual income that is 80 percent or less than the county's median household income, adjusted for household size. At least 51 percent of the funds expended for activities funded under this RLA during the program year shall be spent on revolving activities (i.e., loans). No more than 21 percent of the program income funds expended during the program year under this RLA shall be for grants for public infrastructure improvements that are needed to accommodate a specific business expansion or retention project. No more than 10 percent of the total funds expended for business assistance activities shall be used for activity delivery costs. No more than eighteen percent (18 percent) of the total amount of PI expended annually may be expended for general administrative costs related to this RLA activity. In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration) shall not exceed 49 percent of the total funds expended during the program year (July 1 thru June 30).

The review and funding of requests for CDBG loan or grant assistance under the Small Business RLA shall be conducted under the Small Business Program Guidelines that have been adopted by the County. All assistance provided to activities under this RLA shall be made for activities that are located within the County's jurisdiction.

If the activities funded under the RLAs listed above in both Housing and Economic Development are for the same activities as those funded under an open State CDBG grant agreement, then the funds available in these RLAs shall be expended prior to drawing down funds from the State CDBG program.

Reporting and Federal Overlay Compliance.

The County shall comply with all State CDBG reporting requirements, including submittal of an annual Grantee Performance Report for each RLA and submittal of the required Quarterly and Annual Program Income Reports, which shows combined receipts from all RLAs on one report (due by August 15). The County shall ensure that the use of program income under this Reuse Plan complies with all CDBG program requirements, including citizen participation, environmental review, equal opportunity, lead-based paint, labor standards, *Section 3, acquisition, relocation*, procurement and property management, and maintenance of adequate accounting and recordkeeping systems. To ensure ongoing compliance with CDBG requirements, the County shall utilize the latest available State CDBG Program Grant Management Manual for guidance on compliance procedures and polices. The County shall obtain the Department's written approval before proceeding with any PI-funded activity.

Maximum Funds in Revolving Loan Accounts.

Program Income received by the RLAs during the program year (July 1 through June 30) shall be substantially expended by the end of the program year (June 30). At any given time, the funding balance for either of the RLAs should not exceed the typical cost of a single RLA project, plus reasonable administration costs (up to 18 percent of total expended costs). ***For example, if a typical Housing Rehabilitation PI loan cost is $58,000, the balance of the Housing Rehabilitation RLA should not typically exceed this amount.***

Revising this plan. The Board of Supervisors has the authority to amend this document with a properly noticed Board meeting and approval by the State Department of Housing and Community Development (HCD) to amend an open grant.

Attachment C

SMALL BUSINESS REVOLVING LOAN ACCOUNT GUIDELINES

1.0 INTRODUCTION:

The Women's Economic Ventures Micro-Enterprise Loan Program (PROGRAM) is designed to provide for the critical and necessary needs of businesses located or to be located within the County of Santa Barbara. The PROGRAM is primarily capitalized with funds from the State of California Small Cities Community Development Block Grant (CDBG) Program. The intent of the PROGRAM is to provide necessary, reasonable, and appropriate assistance to businesses and real estate projects, which in turn will create and/or retain jobs. A Revolving Loan Fund (RLF) refers to a loan program in which loan repayments are "revolved" or "recycled" to be loaned again in the same program. Therefore, the recaptured initial funds that capitalize the loan PROGRAM will be used again to create additional jobs by assisting area businesses.

2.0 PURPOSE AND OBJECTIVES

2.1 PURPOSE

The PROGRAM is intended to provide no more than one-third of a project's total financing requirements. The PROGRAM will only provide the funds necessary to bridge the "financial gap" that allows the project to move forward. The PROGRAM is targeted to businesses and projects that have the greatest potential for long-term job creation/retention, particularly jobs created and/or retained for low and moderate income persons. The PROGRAM will assist businesses and projects that start-up, expand, and/or locate within the Santa Barbara area. The PROGRAM proceeds can be used to fund:

- Working Capital/Lines of Credit
- Inventory/Equipment Acquisition
- Existing Commercial Property Acquisition
- Furniture/Fixtures/Leaseholds
- **Loan Down Payment/Loan Fees**
- Loan Consolidation and Refinancing
- Business Acquisition

2.2 ECONOMIC BENEFITS & OBJECTIVES

The following elements are critical in the selection of loans for the PROGRAM:

- Existence of a "financial gap" that hinders the business or project from obtaining or affording the Project without the PROGRAM loan.

- That the terms and conditions of the PROGRAM loan are "necessary and appropriate."

- At least 51% of the jobs created and/or retained must be from the Target Income Group (TIG). The TIG is low/moderate income person whose household income does not exceed 80% of county median household income. In order to meet the criterion for created/retained jobs, the employee must be from the TIG at the time they are hired or retained. One hundred percent income verification is required.

- The loan meets the PROGRAM's underwriting criteria.

2.3 SOURCE OF FUNDING

The primary source of funding for the PROGRAM is the State of California Small Cities Community Development Block Grant PROGRAM, however, all public and private sources of funding will be pursued. Loans are not from the County's General Fund or from the Redevelopment Agency.

3.0 DESCRIPTION OF FUNDING

3.1 GUIDELINES & FEATURES

Loan Amount: The minimum loan will be $5,000 and the maximum loan will generally be $50,000. This loan amount only applies to the PROGRAM portion of the project. The maximum amount of the PROGRAM loan may be exceeded on a case-by-case basis, however, PROGRAM loans above $50,000 will require additional approval by the State Department of Housing and Community Development (HCD).

Leveraging: The PROGRAM 's overall goal is to leverage two private dollars from equity and/or debt for every one PROGRAM dollar loaned. A private dollar can be either a loan from a regulated lender or a business owner's equity. Expenditures made by the loan applicant prior to the PROGRAM loan award are not counted unless made a part of the submittal or made within 150 days of the PROGRAM loan submittal and related to and in anticipation of such submittal.

Loan Terms: Generally five years though they may be shorter or longer under special circumstances, such as, the asset being financed, the "financial gap," and the demonstrated need for the PROGRAM funds. Some loans such as working capital may only be for one year and others, such as real estate acquisition can be for as long as fifteen years.

Interest Rate: The interest rate will be fixed at a rate justified by a 24-month cash flow analysis and fully amortized over the life of the loan. Payments may be deferred if justified by the cash flow analysis.

Loan Origination Fee: One Percent (1%), payable at time of closing. This fee is for costs not paid with CDBG grant funds or PROGRAM income. It will generally be used to cover business counseling cost and processing cost arising out of delinquencies.

Prepayment Penalty: None, if the loan principal is paid off in full and there are no delinquencies or pending defaults. Advanced monthly payments cannot be received.

Collateral Requirements: All PROGRAM loans shall be secured by collateral whenever possible. The collateral will usually be in the property of the WEV and will generally be subordinated to the interest of any private lender(s) when required. Collateral may include liens on real property, machinery, equipment, fixtures, accounts receivable, lease assignments, guarantees, and other collateral.

3.2 GENERAL ADMINISTRATIVE FEATURES:

The PROGRAM Administrator (PA) of WEV will be responsible for the overall project marketing, loan evaluation, loan packaging, loan approval recommendations, monitoring, quarterly, and annual reports, and loan servicing. The PA will present each complete loan application the County receives to a five-member Loan Committee. The Loan Committee will review the loan request (provided no member of the Committee appears to have a conflict of interest that may violate the California Government Code S89100 et seq).

The PA will apprise each applicant of the Loan Committee's recommendation in either a conditional commitment letter or a letter of decline with an explanation of the appeals process. The commitment letter is sent to the appropriate State office along with a request for a draw down of funds if it appears likely that the applicant can meet all conditions within 30 days.

The PA will coordinate all operations, actions, and recommendations of the loan committee, and will review loan rejections and other decisions when requested. The PA will prepare and implement recommendations on behalf of the Loan Committee. The County Board of Supervisors has given the Director of Housing and Community Development (HCD) signature authority over the PROGRAM.

HCD will be responsible for receipt and disbursement of funds. WEV will notify HCD and the borrower of loan deficiencies and defaults. Loan recipients will be counseled by representatives of WEV's technical assistance team on an as-needed basis after a loan has been approved and when loan payments become delinquent.

3.3 PROJECT EVALUATION

- The number of jobs created/retained.
- The number of jobs benefiting members of the Targeted Income Group (TIG).
- The amount of private dollars leveraged by PROGRAM funds.
- The financial viability of the proposed project.
- The demonstrated need for the PROGRAM funds (necessary and appropriate test).

3.4 GENERAL CREDIT REQUIREMENTS

A Loan Applicant must be of good character, show ability to operate a business successfully, have enough borrowing ability or equity to operate with the PROGRAM loan on a sound financial basis, show that the proposed loan is of sound value, reasonably secured and assured repayment and show that the past earnings record and future prospects of the firm indicate an ability to repay the loan and other fixed debt out of the profits of the Micro-Enterprise concern.

3.5 LOAN PACKAGING

The PA will be responsible for PROGRAM loan packaging activities.

3.6 LOAN REVIEW

The PA will present funding applications that are recommended for approval to the Loan Committee.

An applicant may appeal a decision or lack of a decision by notifying the PA in writing. The PA may appoint any members from the Loan Review Committee or anyone else deemed necessary, to review the loan application and meet with the loan applicant at a time and place set by the PA. All clerical and personnel cost associated with the appeal will be charged against the applicant's deposit. The decision of the ART will be in writing and communicated to both the applicant and the State. The ART may set special conditions on their approvals.

The Loan Committee will be engaged if a loan recipient is delinquent in payments. The Loan Committee will instruct the PA to proceed with collection procedures or devise a loan workout schedule.

3.7 LENGTH OF REVIEW PROCESS:

Loan applications will be scheduled for review by the Loan Committee immediately after all the required documents are received by the PA. A preliminary review can be made within four or five days after all preliminary information has been received by the PA. Loans over $50,000 must be reviewed and approved by the State Department of Housing & Community Development. Final approval may also be contingent upon the decision of a private lender, the SBA, or verification of private matching funds and/or equity.

3.8 LINKING JOBS WITH LONG-TERM UNEMPLOYED

The County of Santa Barbara will work closely with the Workforce Development Office (WDO) to support the Workforce Investment Act (WIA) programs and services that provide assistance to the unemployed and low/moderate income persons. The training, recruitment, and placement activities currently operating in the community by the State Employment Development Department and the WDO constitute the primary vehicle for insuring that the unemployed, underemployed, and low- and moderate-income persons are linked with the jobs created through the PROGRAM. All loan recipients will be required to sign a Loan Agreement.

4.0 ELIGIBILITY

4.1 ELIGIBLE APPLICANTS

Eligible applicants include existing and start-up private, for-profit business concerns, licensed and located in or expanding to Santa Barbara County. The project to be financed with the PROGRAM must be within the County of Santa Barbara.

4.2 ELIGIBLE USES:

PROGRAM funds can only be used for permanent financing, working capital, inventory, equipment, real property acquisition, furniture, fixtures, business acquisition, loan down payments, loan fees, loan consolidation and refinancing.

4.3 INELIGIBLE USES:

Projects must be located in the County of Santa Barbara. Projects cannot be residential in nature or for new construction or real estate or leasehold improvements over $2,000.00. Projects must have reasonable assurance of repayment. Projects are not eligible if they create a conflict of interest pursuant to California Government Code S87100 et seg. for any current County employee or Loan Review Committee member. Projects must create or retain jobs, primarily for the Targeted Income Group, and must leverage private or equity funds.

4.4 ELIGIBLE PROJECTS:

Project eligibility is based on the project satisfying the CDBG PROGRAM's national objective of principally benefiting targeted income group persons through job creation/retention. Additionally, the eligibility of a project is dependent on the appropriate determination being made to justify the provision and extension of CDBG assistance.

5.0 ROLE OF THE PARTICIPANTS:

5.1 ROLE OF THE PROGRAM ADMINISTRATOR (PA):

- Publicize and market the PROGRAM;
- Screen all applicants for loans;
- Refer candidates that are not eligible, do not meet the PROGRAM criteria or need technical assistance to cooperating agencies;
- Ask promising candidates to submit financial information and an application;
- Prepare loan packages;
- If approved, process and close loan; and,
- Once closed, WEV will service and monitor the loan, maintain the loan payment records, and prepare monthly, quarterly, and annual reports.

WEV staff will make the daily decisions called for or implied regarding the activities of the PROGRAM. Decisions to foreclose and declare defaults will be the responsibility of the Loan Committee, in consultation with legal counsel and based upon recommendations of the PA. The PA and representatives of the SBDC will monitor on-going operations of the loan recipient. Staff will review all reports, financial information, and performance reports on each loan during the term of the loan. The PA will serve as the contact for the State Department of Housing & Community Development. WEV staff will refer potential loan applicants, including those ineligible or denied PROGRAM financing, to the appropriate organization. This may include referrals to the Small Business Development Center, the SCORE Program, or other financing programs. As a condition of the loan, applicants may be required to receive pre- and/or post-loan counseling. WEV staff and/or the ART may require applicants who have received loans to undertake business counseling if it appears that the applicant's financial position is declining and the PROGRAM loan may become delinquent.

5.2 ROLE OF THE LOAN COLLECTION AGENT

Women's Economic Ventures will collect all loan payments and notify both the County and the loan recipient of any loan deficiencies. The County of Santa Barbara or WEV may employ an outside agent to fulfill collection duties under this section. The duties of the PA will include loan servicing and initiating delinquent loan collections when instructed to do so by formal action of the Loan Committee.

6.0 LOAN SELECTION & APPROVAL PROCESS:

6.1 MARKETING:

The marketing of the PROGRAM will come primarily from the lenders which are participating in the PROGRAM. The Small Business Development Center, local realtors, and business associations will also refer potential applicants. The County will use its existing business and community network to market the PROGRAM.

6.2 PROCEDURE:

Once a potential project has been identified, the PA will conduct a preliminary review for eligibility within the PROGRAM criteria. If another lending source is more appropriate, or the project does not meet the PROGRAM criteria, the PA will refer the prospective borrower to another organization for assistance.

If the project appears to meet the criteria, the applicant will be asked to submit preliminary information and supporting documents including, but not limited to, business and personal tax returns for the last three years or since the commencement of operations, business financial statements and pro forma financial statements, including balance sheets, tax returns, and P&L statements for the previous three years, and a break-even analysis depicting cash flow with the proposed financing, a projected monthly cash flow for start-up businesses, resumes, a credit report, a proposed project summary, a list of uses, evidence of private fund injections, and other items as called for.

The preliminary information will be reviewed by PA. If the project is viable, a loan analysis will be prepared by the PA and a preliminary title report and credit report will be ordered.

The PA will determine project needs/conformance with local requirements, as well as determine the necessary level of the environmental review for the project. The applicant in conjunction with County staff and the WDO will develop the employment plan. Upon completion of the necessary information, and either a receipt of the private lender commitment or if the private funds are from equity, then visual proof that the equity is within a bank account the PA and the loan committee will recommended the terms and conditions of a loan, based upon the identified "financial gap" and "the necessary and appropriate test" undertaken by PA. A “Necessary and Appropriate Checklist" initialed and dated by the PA, must accompany each loan application presented to a loan committee. The credit report, tax returns, financial statements and other "personal" items will not be shared with anyone outside of the loan committee. WEV staff will review the loan package for completeness and regulatory compliance with the PROGRAM guidelines and criteria.

6.3 LOAN CLOSING:

WEV will generally use an escrow/title company to execute documents and agreements and disburse loan proceeds to an applicant. The complexity or special considerations of each loan request will dictate whether or not an escrow is required. The County will request a draw down of funds from the State Department of Housing & Community Development (the timing of the request may vary depending on the project), or funds may be taken from the RLF when capital is sufficient to do so. The PA will prepare the loan escrow instructions and all loan documents, as required. Upon the proper recording of liens by WEV staff, and in accordance with instructions, funds will be transferred to the appropriate parties.

<u>6.4 LOAN MONITORING AND REPORTS:</u>

Two separate loan files will be maintained by the PA. The first is the legal file which holds all the original loan documentation. This file shall be kept in appropriate fire-proof storage for safekeeping. The second is a credit file which shall contain the day-to-day administrative records of the loan. The legal file shall include as appropriate: the Note, the original Loan Agreement, General Security Agreements, Deed of Trust FLAG or Deed of Trust, UCC filings, Personal Guaranty, Hazard Insurance Policy and Assignments.

The second file, a "credit file" shall contain, at a minimum, the loan application, the loan agreement recommendation, disbursement records, reports of site visits, updated financial information provided by borrower, job creation/retention date, and payment receipts. A reporting system will be established by the PA for each loan and the loan portfolio as a whole.

A quarterly report will be presented to the WEV Board of Commissioners. The PA shall be responsible for preparation of this report. The report will be used by the PA and the County to monitor the loans and identify problems. The report will contain the following:

Fund Report Balance: A monthly summary of the beginning fund balance, principal and interest recaptured during the month, disbursements made during the month and funds committed but not yet disbursed, and amount remaining in the PROGRAM which is unencumbered. The County Auditor-Controller Department will be solely responsible for this report.

Portfolio Summary Report: A quarterly summary of the total loans obligated and authorized. The quarterly report shall include the total job and private fund contribution. Delinquent loans shall be identified and a summary of actions to date to collect delinquent loans shall be included.

Tickler File: A listing of the current loan portfolio and dates for receipt of financial statements, employment information, dates for insurance renewal and other information. In addition, the tickler shall include a summary of the monitoring requirements of the State Department of Housing and Community Development.

<u>7.0 LOAN UNDERWRITING GUIDELINES</u>

<u>7.1 NECESSARY & APPROPRIATE:</u>

In order to receive PROGRAM funds a project must have a "financial gap." This gap must be documented. There are three types of financial gaps:

7.1.1 Unavailability of Capital.

The project can afford the cost of financing, but is unable to obtain the funds from either debt and/or equity sources. In regards to debt the gap may be a result of a lenders loan to value requirements or the inherent risk of the industry or project. For example, the lender will only loan 70% of the projects cost. In this case, the business may not have the cash to bridge the gap, or if the business bridges the gap, it’s cash flow may be so restricted as to jeopardize the business. In order to document this gap, several steps need to be undertaken. The lender needs to be contacted to determine if there is any ability to increase the size of their loan. Other lending sources, both public and private, need to be explored. This includes looking at the business owner(s) personal financial statements for potential funds, including home equity loans. Finally, in addition to looking at the business and personal financial statements and tax returns, a pro forma cash flow analysis needs to be prepared and analyzed, with and without PROGRAM funds, to demonstrate the gap.

7.1.2 Cost of Capital.

The project cannot support the interest rate, loan term and/or collateral requirements of a lender. In analyzing this gap discussions with the lender are important to determine any flexibility in terms. A single project may not be able to support the rate, terms and collateral requirements, or may just face a single hurdle. In addition, the gap may only exist in the early years of the project. To determine the gap, business and personal financial statements and tax returns shall be analyzed. Sources of equity shall be explored. Public and private funding sources that would bridge the gap shall be evaluated. Pro forma cash flow analysis shall be developed with and without the RLF fund to demonstrate the gap. Depending on the gap, the terms or rate shall be adjusted to a rate that allows the project to proceed but is not too generous. Terms can be adjusted to allow for deferrals of principal and/or interest or to allow loans to be amortized over a longer period.

7.1.3 Rate of Return:

The project's financial returns are projected to be too low to motivate the business and/or investor to proceed with the project. The risks of the project outweigh the returns. The return is the amount of cash that the investor/business is projected to receive in relation to their initial equity. To analyze this gap, the projected return on investment must be compared to the return on investment on similar projects. If it is shown that a gap does exist then the RLF financing rate and terms must be set at a rate which provides a return equal to the "market rate." Real estate appraisers and lenders are important sources of information on "market rate" returns.

In determining any of the three gaps, the current and past financial statements for both the business and individuals must be analyzed, along with tax returns and projections. The assumptions behind the projections must be critically analyzed. Income and expense costs shall be evaluated and compared to past history, where applicable, and compared to industry averages (using guides such as Robert Morris' Annual Financial Statements). Project costs, including both hard and soft costs, must be determined to be reasonable. Accurate project costs are vital to determining project feasibility and subsequent necessary and appropriate analysis. Outside sources shall be used to verify cost estimates.

As part of the financial analysis, past, current and projected financials shall be analyzed to determine if the job estimates are reasonable and supportable. Labor costs shall be checked against industry averages. Variations should be explained in the loan analysis. The above discussion on "financial gap" is important to determine that RLF assistance is necessary. If "necessary," then the terms and conditions of the RLF loan must be appropriate. In general, the interest rate shall be set at a rate where available cash flow is able to meet debt obligations, after other obligations are met with enough cash flow remaining to operate successfully. The loan term typically is based in the asset being financed. The term should not exceed the economic life of the asset being financed. However, a longer loan amortization schedule, with the loan due at the end of the economic life may be justifiable. Each loan shall include a written explanation of the necessary and appropriate analysis that was undertaken, and the reason the terms and conditions of the loan were approved.

7.2 FINANCIAL ANALYSIS

The purpose of the financial analysis is to not only be able to determine the gap, and structure the terms and conditions of the loan, as discussed above, but also to determine that the proposed loan is feasible. In addition, using prudent underwriting guidelines, demonstrating that the proposed loan is of sound value and that past earnings (if appropriate) and future prospects indicate an ability to meet debt obligations out of profit.

Information that will be required to be submitted by the applicant will depend on the project ownership structure and whether it is an on-going or start-up business. In general, the information required is outlined in the PROGRAM checklist. The analysis will generally include (for existing businesses) a spread of the current financial statements to determine trends. The pro forma statements will then be compared to these past statements. Key financial ratios will be analyzed. The statements and key ratios will be compared to industry averages. For start-up business the projections will be analyzed and key ratios developed, and both compared to industry averages. Start-up may be required to supply several additional items, such as, monthly cash projections.

7.3 KEY RATIOS:

7.3.1 Current Ratio: Current assets/current liabilities. This ratio is a rough indication of a business' ability to service its current obligations. A ratio of 2:1 is considered secure but the PROGRAM may choose a much more lenient ratio.

7.3.2 Quick Ratio: Cash & equivalents plus accounts and notes receivable/current liabilities. This ratio is a refinement of the current ratio. A ratio of 1:1 usually indicates ample liquidity but the PROGRAM may chose a much more lenient ratio.

7.3.3 Cash Flow Coverage: Net profit and depreciation and depletion-amortization expenses/current portion of long term debt. This ratio is a measure of the ability to service long term debt. Although the PROGRAM would like to see 100% debt coverage, a more lenient ratio may be accepted.

7.3.4 Debt to Worth: Total liabilities/tangible net worth. This ratio the relationship between debt and a business' net worth. A lower ratio is an indication of greater long-term financial safety and greater flexibility to borrow. There are expectations when the industry average is high due to its capital-intensive nature or when projections show the ratio lowering quickly. In general, a debt to worth ratio of higher than 5:1 should not be exceeded but the PROGRAM will use more lenient criteria when other factors offset the unfavorable ratio.

7.4 CALCULATING PRIVATE LEVERAGE

Private investment used by WEV staff to calculate the private leverage ratio will include funds from private sources to be expended after the date of the CDBG award. The only exception is where the County has approved in writing an expenditure for real and personal property made in anticipation of receiving an award of CDBG funds. Approval of prior expenditures to be considered as leverage must be requested in writing prior to the submittal of the application. Without exceptions prior expenditures must have occurred during the prior six month period before the filing date. All costs of the project should be clearly documented in the PROGRAM application. The cost of capital equipment and personal property acquisition, including installation, should be documented by vendor quotes or, when appropriate, a non-binding purchase agreement.

For purposes of calculating private leverage ratio, the following expenditure shall be included (acceptable):

1. INVESTMENTS TO DEVELOP OR IMPROVE REAL PROPERTY provided that no CDBG funds will be used or planned to be used for this purpose.

2. FURNITURE, FIXTURES, AND EQUIPMENT.

3. "SOFT" DEVELOPMENT COSTS, such as construction period interest and taxes, legal expenses, architectural and engineering fees, if paid to independent third parties.

4. TENANT IMPROVEMENTS to be paid by the tenant only if the tenant has committed to a lease, supplied a firm commitment to spend funds, supplied third party verification of cost estimates, and documented the source of financing.

5. Funding for any of the above uses originating from a private loan guarantee, by a public agency or a loan from a regulated lender in conjunction with the PROGRAM .

For purposes of calculation private leverage, the following shall be excluded:

1. Any cost incurred prior to CDBG funding, including contractual obligation incurred prior to award unless they are contingent upon award of PROGRAM funds and have received PROGRAM approval prior to the final filing date.

2. Investment in working capital, advertising, training, operating losses**,** start-up cost or similar cost.

3. Expenses paid to any individual or concern that is not an independent third party to the project.

4. Developer fees, profit and overhead, and PROGRAM application preparation costs, including appraisal, credit report, etc.

7.5 DELINQUENCY AND DEFAULT/FORECLOSURE GUIDELINES

Whenever a CDBG loan recipient becomes delinquent, WEV will notify the loan recipient and the CDBG PROGRAM Administrator in writing. The PA will notify the private lender if there is one. When and if a CDBG recipient is either delinquent for two (2) consecutive months or has been delinquent six (6) non-consecutive times they will be notified in writing of their delinquency and referred to WEV for business counseling. This provision for counseling will be covered within the loan agreement between the WEV and the loan applicant.

WEV will provide a written report that recommends a course of action which may include foreclosure. If the Center recommends foreclosure or changes to an executed agreement, the PROGRAM Administrator will schedule a meeting with the Loan Committee (LC) to decide on a course of action if it is different from those action(s) called for within the executed agreements. All formal actions resulting from this meeting will be reduced to a written statement from the PROGRAM Administrator to the loan recipient, HCD, the private lender, and if necessary, the State Department of HCD. If, during this time, the loan recipient becomes four months delinquent for whatever reason, default provisions within the executed documents will immediately take affect.

TIMELINE OF ACTIVITY FOR DELINQUENT LOANS

1. Monthly - County Auditor/Controller Office submits report to WEV PROGRAM Administrator

2. 15 days - PROGRAM Administrator contacts Auditors office to confirm payments made for that month.
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3. 30 days - Letter of reminder from County Auditor-Controller office. PA phones borrowers whose payments have not yet been received to “see how things are going.“ PA will arrange business consulting session with business and SBDC consultant, if necessary. Collateral will be verified, and a site visit will be conducted.

4. 45 days - PROGRAM Administrator makes follow up phone call after 15th of month if previous payment still not received.

5. 60 days - Second letter and follow up call to requesting immediate payment and copy of current financial statements. Credit report will be ordered, and will be reviewed along with current financials by PROGRAM Administrator and SBDC Consultant. Recommendations will be made for Loan Committee review. Recommendations may include: temporary deferral of payment, restructuring of loan, or default/foreclosure.

6. 90 days - Loan Committee reviews delinquent loan and staff recommendations. If foreclosure is determined to be an option to pursue, County Counsel will be immediately notified.

7. 120+ days - Immediate default declared. Proceed with foreclosure when approved by Loan Committee.

ATTACHMENT "A" TO SMALL BUSINESS RLA GUIDELINES

EVALUATING A CDBG ECONOMIC DEVELOPMENT PROJECT

GUIDELINES AND OBJECTIVES

HUD requires that the state or local government conduct basic financial underwriting prior to the provision of CDBG financial assistance to a business. HUD has developed guidelines that are designed to provide grantees with a framework for financially underwriting and selecting CDBG-assisted economic development projects which are financially viable and will make the most effective use of the CDBG funds. The State CDBG program requires that these HUD underwriting guidelines be utilized to determine whether a proposed CDBG subsidy is appropriate to assist a business expansion or retention project. In addition, the project must be reviewed to determine that a minimum level of public benefit will be obtained from the expenditure of the CDBG funds in support of the project.

HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and, in the case of a microenterprise or other small business, to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

The objectives of the underwriting guidelines are to ensure that:

1. project costs are reasonable;
2. all sources of project financing are committed;
3. to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
4. the project is financially feasible;
5. to the extent practicable, the return on the owner's equity investment will not be unreasonably high; and
6. to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project.

Project Costs are Reasonable. Reviewing costs for reasonableness is important to help avoid providing either too much or too little CDBG assistance for the proposed project. Therefore, it is suggested that the grantee obtain a breakdown of all project costs and that each cost element making up the project be reviewed for reasonableness. The amount of time and resources expended evaluating the reasonableness of a cost element should be commensurate with its cost.

For example, it would be appropriate for an experienced reviewer looking at a cost element of less than $10,000 to judge the reasonableness of that cost based upon his or her knowledge and common sense. For a cost element in excess of $10,000, it would be more appropriate for the reviewer to compare the cost element with a third-party, fair-market price quotation for that cost element. Third-party price quotations may also be used by a reviewer to help determine the reasonableness of cost elements below $10,000 when the reviewer evaluates projects infrequently or if the reviewer is less experienced in cost estimations. If a reviewer does not use third-party price quotations to verify cost elements, then the reviewer would need to conduct a cost analysis using appropriate cost estimating manuals or services.

Particular attention should be paid to any cost element of the project that will be carried out through a non-arms-length transaction. A non-arms-length transaction can occur when the business entity receiving the CDBG assistance procures goods or services or acquires property from itself or from another party with whom there is a financial interest or family relationship. If abused, non-arms-length transactions misrepresent the true cost of the project.

Commitment of All Sources of Project Financing. A review of all proposed sources of funding for a project should be conducted to evaluate whether the project is financially feasible given the availability and commitment of other proposed funding sources. This review is necessary to ensure that time and effort is not wasted on assessing a proposal that is not able to proceed.

To the extent practicable, prior to the commitment of CDBG funds to the project, the project review should verify that: sufficient sources of funds have been identified to finance the project; all participating parties providing those funds have affirmed their intention to make the funds available; and the participating parties have the financial capacity to provide the funds.

Avoid Substitution of CDBG Funds for Non-Federal Financial Support. The proposed CDBG economic development project should be reviewed to ensure that, to the extent practicable, CDBG funds will not be used to substantially reduce the amount of non-Federal financial support for the activity. This will help the grantee to make the most efficient use of its CDBG funds for economic development.

To reach this determination, the reviewer should conduct a financial underwriting analysis of the project, including reviews of appropriate projections of revenues, expenses, debt service and returns on equity investments in the project. The extent of this review should be appropriate for the size and complexity of the project and should use industry standards for similar projects, taking into account the unique factors of the project such as risk and location.

Because of the high cost of underwriting and processing loans, many private financial lenders may not finance commercial projects that are less than $100,000. Reviewers should familiarize themselves with the lending practices of the financial institutions in the community. If the project's total cost is one that would normally fall within the range that financial institutions participate, then the project review should determine the following:

1. Whether or not the participating business or other entity having an equity interest has applied for private debt financing from a commercial lending institution and whether that institution has completed all of its financial underwriting and loan approval actions resulting in either a firm commitment of its funds or a decision not to participate in the project; and

2. Whether or not the degree of equity participation is reasonable given general industry standards for rates of return on equity for similar projects with similar risks and given the financial capacity of the entrepreneur(s) to make additional financial investments.

If the project involves providing assistance to a microenterprise owned by a Targeted Income Group (TIG) person, then the reviewer might only need to determine that non-Federal sources of financing are not available at terms appropriate for such financing in the community to serve the TIG entrepreneur.

Financial Feasibility of the Project. The public benefit a grantee expects to derive from the CDBG-assisted project (a separate eligibility requirement) will not materialize if the project is not financially feasible. To determine if there is a reasonable chance for the project's success, the grantee should evaluate the financial viability of the project. A project would be considered financially viable if all of the assumptions about the project's market share, sales levels, growth potential, projections of revenue, project expenses and debt service (including repayment of the CDBG assistance if appropriate) were determined to be realistic and met the project's break-even point at which all revenues are equal to all expenses. Generally speaking, an economic development project that does not reach this break-even point over time is not financially feasible. The following should be noted in this regard:

1. Some projects make provisions for a negative cash flow in the early years of the project while space is being leased up or sales volume built up, and the project's projections should take these factors into account and provide sources of financing for such negative cash flow; and

2. It is expected that a financially viable project will also project sufficient revenues to provide a reasonable return on equity investment. The reviewer should carefully examine any project that is not economically able to provide a reasonable return on equity investment. Under such circumstances, a business may be overstating its real equity investment and actual costs of the project, or it may be overstating some of the project's operating expenses in the expectation that the difference will be taken out as profits, or the business may be overly pessimistic in its market share and revenue projections and has downplayed its profits.

In addition to the financial underwriting reviews carried out earlier, the reviewer should evaluate the experience and capacity of the assisted business owners to manage an assisted business to achieve the projections. Based upon its analysis of these factors, the reviewer should identify those elements, if any, that pose the greatest risks contributing to the project's lack of financial feasibility.

Return on Equity Investment. To the extent practicable, the CDBG assisted activity should not provide more than a reasonable return on investment to the owner of the assisted activity. This will help ensure that the grantee is able to maximize the use of its CDBG funds for its economic development objectives. However, care should also be taken to avoid the situation where the owner is likely to receive too small a return on his/her investment, so that his/her motivation remains high to pursue the business with vigor. The amount, type and terms of the CDBG assistance should be adjusted to allow the owner a reasonable return on his/her investment given industry rates of return for that investment, local conditions, and the risk of the project.

Disbursement of CDBG Funds on a Pro Rata Basis. To the extent practicable, CDBG funds used to finance economic development activities should be disbursed on a pro rata basis with other funding sources. Grantees should be guided by the principle of not placing CDBG funds at significantly greater risk than non-CDBG funds. This will help avoid the situation where it is learned that a problem has developed that will block the completion of the project, even though all or most of the CDBG funds going in to the project have already been expended. When this happens, a grantee may be put in a position of having to provide additional financing to complete the project or watch the potential loss of its funds if the project is not able to be completed. When the grantee determines that it is not practicable to disburse CDBG funds on a pro rata basis, the grantee should consider taking other steps to safeguard CDBG funds in the event of a default, such as insisting on securitizing assets of the project.