

**DEPARTMENT OF COMMERCE****Economic Development Administration**

[Docket No. 990323079-9079-01]

RIN 0610-ZA10

**National Technical Assistance—Request for Proposals (RFP)**

**AGENCY:** Economic Development Administration (EDA), Department of Commerce (DoC).

**ACTION:** Notice of Availability of Funds.

**SUMMARY:** EDA solicits proposals for National Technical Assistance projects, under 13 CFR Part 307, Subpart C (64 FR 5347) to undertake and report on securitization of economic development loans from revolving loan funds. EDA anticipates making three to five awards from a total of \$1.0 million available, subject to available funding in fiscal year 1999.

**DATES:** Prospective applicants are advised that EDA will conduct a pre-proposal conference on May 18, 1999, at 2:00 p.m. in the Department of Commerce, Herbert C. Hoover Building, 14th and Constitution Avenue, NW, Washington, DC 20230, Room 1412, at which time questions on this RFP can be answered. Potential applicants are encouraged to provide written questions (See Address section below) by May 11, 1999. Prospective applicants unable to attend this pre-proposal conference may participate by telephone conference. Teleconference information may be obtained by calling (202) 482-4085 between 8:30-5:00 EDT on May 17, 1999.

EDA will also conduct pre-proposal conferences during the EDA regional conferences in Boca Raton, FL (June 7-9, 1999), Dallas, TX (June 4, 1999), and Long Beach, CA (April 27-29, 1999). To find out the specific location and time of a regional pre-proposal conference, contact David F. Witschi (202) 482-2659 or John J. McNamee (202) 482-4085.

Initial proposals for funding under this program will be accepted through June 21, 1999. Initial proposals received after 5:00 p.m. EDT in Room 7019, on June 21, 1999, will not be considered for funding. By July 2, 1999, EDA will advise successful proponents to submit full applications (containing complete proposals as part of the application), OMB Control Number 0610-0094. Completed applications must be submitted to EDA by July 16, 1999. EDA will make awards under this RFP no later than September 30, 1999.

**ADDRESSES:** Send initial proposals to John J. McNamee, Director, Research

and National Technical Assistance Division, Economic Development Administration, Room 7019, U.S. Department of Commerce, Washington, DC 20230.

**FOR FURTHER INFORMATION CONTACT:** David F. Witschi, (202) 482-2659 or John J. McNamee (202) 482-4085.

**SUPPLEMENTARY INFORMATION:****I. Introduction****A. Authority**

The Public Works and Economic Development Act of 1965, as amended (Pub. L. 89-136, 42 U.S.C. 3121 *et seq.*), including the comprehensive amendments by the Economic Development Administration Reform Act of 1998 (Pub. L. 105-393) (PWEDA) authorizes EDA to make grants for, among other things, demonstrations of innovative activities or strategic economic development investments (42 U.S.C. 3147). Pub. L. 105-277 makes funds available for this program.

**B. Catalog of Federal Domestic Assistance**

11.303 Economic Development-Technical Assistance Program.

**C. Program Description**

For a description of this program see PWEDA and 13 CFR Chapter III, Part 307 (64 FR 5347).

**II. Area of Special Emphasis**

EDA invites proposals to design, undertake, and evaluate transactions demonstrating securitization of economic development loans in a variety of EDA-funded Revolving Loan Fund (RLF) portfolios. For the purposes of this project, EDA defines securitization transactions to include sales of loans, pledging the future income stream of a loan, and similar secondary market activities. This demonstration program is designed to generate successful transactions that can serve as models for use by federal, state, or nonprofit entities for future transactions. At this time, EDA does not endorse or indicate any preference for any particular securitization technique or method. EDA does recognize, however, in viewing this as a demonstration program, that the cost of completing a transaction may be higher and the return to participating RLFs lower than would eventually be expected once securitization of economic development loans becomes a more established practice.

**A. Background**

Current estimates suggest that there may be as many as several thousand

RLFs involved in economic development lending with total assets of several billion dollars. These RLFs have been created over the past 20 years with funding from a variety of federal, state, and nonprofit sources. EDA alone has capitalized more than 400 RLFs, with nearly \$700 million in assets (See 13 CFR Part 308 (64 FR 5347) for a program description). EDA RLFs are located throughout the country and are managed by states, local units of government, Economic Development Districts and nonprofit organizations engaged in economic development. To date, only a handful of secondary market transactions involving RLF-sourced economic development loans have been undertaken. EDA is interested in expanding the secondary market for economic development loans as a cost-effective and fiscally sound means of leveraging the capital available to RLFs. Until greater experience is gained in making actual transactions, the costs of securitization will remain high and economic development loans will draw little interest from potential investors. This demonstration project will allow EDA and other entities involved in economic development lending to gain experience, expertise and knowledge required to develop securitization standards, guidelines and other requirements necessary to make securitization an effective and fiscally sound strategy for funding economic development. The demonstration program will also stimulate further interest in economic development loan programs by the secondary investment community.

**B. Scope of Work**

The successful applicant(s) will:

(1) Propose an actual securitization transaction that includes loans from an EDA-funded RLF. EDA will not consider proposals limited to feasibility studies or examination of hypothetical transactions. The proposal need not identify specific buyers and sellers, but it should describe how buyers and sellers will be determined.

(2) Make a sincere, good faith effort to complete the proposed transaction.

(3) Include a plan to ensure competitive pricing.

(4) Address the impact the securitization may have on RLF borrowers.

(5) Provide information generated by the transaction to assist EDA and others in their efforts to:

- Identify those characteristics of loans and loan funds that influence the success or failure of securitization efforts.



- Identify the different range of securitization approaches available, as well as their relative benefits, costs and possible markets.

- Develop RLF loan documentation standards as well as standards for critical RLF organizational procedures and practices.

- Identify and quantify the importance of specific factors that contribute to any discount of the loans securitized. These factors may include reduced profitability and increased risk of the loans due to: (a) Economic development lending policies; (b) actual performance characteristics of the RLF loans and borrowers; (c) the quality of documentation, underwriting standards and loan servicing practices of the RLF lender(s); and/or (d) the scarcity of actuarial information on economic development lending.

- Determine if securitization is influencing subsequent loan selection, evaluation, servicing, or other fund management practices. EDA anticipates this will include a program of voluntary follow-on monitoring after the project is completed.

- Address the effect of discounted transactions (especially if repeated) on the ability of the RLF to sustain itself.

While information gathered from each transaction may be different, this information is expected to help other RLFs interested in preparing portfolios for future securitization. The information gathered in the demonstration program is expected to be disseminated by EDA to the broader economic development lending community.

(6) Prepare a final report documenting lessons learned from the securitization that may help future securitization participants.

### C. Additional Requirements

The successful applicant(s) must:

(1) Demonstrate that each participating RLF needs, and can utilize, further capitalization within a reasonable time frame.

(2) Propose securitization methods or techniques that are generally expected to be replicable.

(3) Not use federal funds for loan guarantees or other activities designed to influence market prices by artificially enhancing the credit-worthiness of loans to be sold.

(4) Describe how transaction proceeds will be used and disbursed. In the case of an EDA-funded RLF, any net proceeds of a securitization (after transactions costs are paid) must be applied toward new loans in accordance with the original lending plan of the

RLF or a subsequent plan approved by EDA.

Successful applicant(s) will incorporate one or more of the following features in the proposed securitization(s). (Note: incorporation of all features is not required and, in fact, several of the following are mutually exclusive.) A proposed securitization may:

(1) Be limited to the loans of a single RLF, or be subregional, regional or national in scope.

(2) Involve loans from both urban and rural RLFs; Economic Development District operated RLFs; community based organization RLFs; and RLFs sponsored by other federal, state, and local government agencies. RLFs funded by non-EDA sources are responsible for securing appropriate and timely approvals of their funding agencies before a transaction is completed.

(3) Demonstrate innovative techniques for loan pooling from different RLF portfolios. This is intended to encourage willing and qualified RLFs to participate, regardless of portfolio size.

(4) Be transacted either by public offering or private placement.

(5) Use credit enhancement techniques provided they do not require an additional federal subsidy.

(6) Include rating of issues by recognized rating services.

### D. Costs

Ordinarily, the applicant is expected to provide a 50% nonfederal share of project costs. However, the Assistant Secretary may waive the required 50% matching share of the total project costs, provided the applicant can demonstrate: (1) the project is not feasible without, and the project merits such a waiver, or (2) the project is addressing major causes of distress in the area serviced and requires the unique characteristics of the applicant, which will not participate if it must provide all or part of a 50 percent nonfederal share, or (3) the project is for the benefit of local, state, regional, or national economic development efforts, and will be of no or only incidental benefit to the recipient (See 13 CFR 307.9; 64 FR 5429).

For the purposes of this demonstration project, EDA funds may be used to pay for:

- Professional fees associated with the transaction, including, but not limited to, financial advisors, trustee and legal expenses and for the cost to perform due diligence. In the event a transaction is completed successfully, such costs are expected to be recovered from the transaction proceeds, and may

be retained by the applicant and/or participating RLFs for uses approved by EDA. Such reuse of EDA funds should be described in the proposal (See item C (4) above).

- Organizational and administrative fees and expenses, including direct salaries of applicant staff involved with the securitization.

- Other costs normally eligible under EDA's Technical Assistance Program.

### E. Timing

Each project will begin on the date specified in the grant award, which shall be on or before September 30, 1999. Each securitization transaction must be completed no later than nine months after the date of approval of the grant. A final report and evaluation must be submitted to EDA within 90 days of completion of the securitization transaction.

### F. Briefings and Workshops

Each award includes a requirement that the applicant conduct a total of up to three briefings or training workshops for individuals and organizations interested in the results of this project. Potential applicants should be aware that the completion dates set forth below are for completed transactions and submission of the final written report. Briefings/workshops will take place no later than one year after submission of the final report. Locations and dates of the briefings/workshops are at EDA's discretion. Most likely, this will include one briefing in Washington, DC, with the other briefings/workshops held in conjunction with one or more of EDA's regional conferences.

## III. How to Apply

### A. Eligible Applicants

See EDA's interim final rule at 13 CFR 300.2 (64 FR 5347). Eligible applicants are as follows: areas meeting requirements under 13 CFR 301.2; Economic Development Districts; Indian tribes; consortiums of Indian Tribes; states, cities or other political subdivisions of a state; consortiums of political subdivisions of states; institutions of higher education, consortiums of institutions of higher education; public or private nonprofit organizations or associations acting in cooperation with officials of a political subdivision of a state, for-profit organizations, and private individuals.

A lead applicant may have one or more other eligible applicants as co-applicants. Where appropriate, applicants should identify in advance professional financial and/or legal consultants who will participate in the



project under contract. Such contracts are subject to procurement requirements as set forth in 15 CFR Part 14 (63 FR 47155) or 15 CFR Part 24, as applicable.

#### *B. Proposal Submission Procedures*

Initial proposals submitted by potential applicants should include: (1) a description of how the applicant(s) intend(s) to carry out the scope of work; (2) a proposed budget and accompanying narrative; (3) resumes/qualifications of key staff, and (4) a proposed time line. EDA will not accept proposals submitted by FAX. Proposals received after 5:00 p.m. EDT in Room 7019, on June 21, 1999, at the address provided above, will not be considered.

#### **IV. Selection Process and Evaluation Criteria**

Proposals will receive initial review by EDA to assure that they meet all requirements of this announcement and

requirements under 13 CFR Chapter III (64 FR 5347), including eligibility and relevance to the specified project as described herein. All proposals must:

- (1) Meet EDA's statutory and regulatory requirements;
- (2) Propose an actual securitization; and
- (3) Document a structure that ensures an arms-length transaction between the seller and the purchaser.

EDA will carry out its selection process using the following criteria:

- (1) The quality of a proposal's response to the scope of work proposed; and
- (2) The ability of the prospective applicant to successfully carry out the proposed activities. If an initial proposal is selected, EDA will invite the proponent(s) to submit a full proposal and supply the applicant(s) with an Application for Federal Assistance.

From the full proposals and applications, EDA will select the applicant(s) it deems most qualified and cost-effective. EDA anticipates that more full proposals and applications will be received than will eventually be funded.

#### **V. Additional Information and Requirements**

See 64 FR 9221, Part III for additional information and requirements (available on the internet at <http://www.doc.gov/eda/html/notice.htm>, under the heading "Economic Development Programs-Availability of Funds").

Dated: April 26, 1999.

**Phillip A. Singerman,**

*Assistant Secretary for Economic Development.*

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