



**Intermediary Lending Pilot (ILP)
Program Announcement
FY 2012**

INTERMEDIARY LENDING PILOT (ILP) PROGRAM

**OFFICE OF FINANCIAL ASSISTANCE (OFA) – MICROENTERPRISE DEVELOPMENT BRANCH
U. S. SMALL BUSINESS ADMINISTRATION**

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I. ILP PROGRAM SUMMARY

Under the Intermediary Lending Pilot (ILP) program, enacted by the Small Business Jobs Act of 2010 (Pub. L. 111-240), SBA makes loans to selected nonprofit intermediaries for the purpose of providing loans to small businesses. Eligible intermediaries, which include private, nonprofit community development corporations, must have at least one year of successful experience making loans to startup, newly established, or growing small businesses. SBA selected 20 ILP Intermediaries in 2011. SBA will use a competitive selection process to select up to an additional 20 ILP Intermediaries to participate in the program and receive ILP Loans of up to \$1 million in fiscal year 2012. ILP Loans have a 20 year term and an interest rate of 1%, with the first payment deferred for two years. SBA collects no fees on the loans and requires no collateral. An ILP Intermediary must use the ILP Loan proceeds to make loans of up to \$200,000 to startup, newly established, or growing small businesses.

The amount currently available for ILP Loans in fiscal year 2012 is \$20,000,000. More information about all aspects of the ILP program is available in the regulations authorizing the ILP program at 13 CFR Part 109, as published in the Federal Register on April 1, 2011 (76 FR 18007), and in the ILP Procedural Guide, available at <http://www.sba.gov/content/intermediary-lending-pilot>.

II. ELIGIBLE APPLICANTS

A. GENERAL

Section 109.100 of the ILP regulations describes the eligibility requirements for ILP Intermediaries. The Act includes an additional requirement that ILP Intermediaries have no more than \$1 million outstanding in direct loans from SBA. These eligibility requirements are described below, along with examples and guidance to assist potential applicants in determining whether they are eligible to apply to become an ILP Intermediary. Please review these requirements carefully.

B. ELIGIBILITY REQUIREMENTS

1. Organization type (13 CFR § 109.100(a))

An ILP Intermediary must be a private, nonprofit entity. Eligible entities include:

- (1) Private, nonprofit community development corporations;*
- (2) Consortiums of private, nonprofit organizations or nonprofit community development corporations; and*
- (3) Agencies of or nonprofit entities established by Native American tribal governments.*

Private, nonprofit entities, other than existing ILP Intermediaries and SBA Microloan Intermediaries that have any outstanding debt to SBA, are eligible to apply to become ILP Intermediaries if they meet the other eligibility requirements described in 13 CFR § 109.100. A private, nonprofit entity is a non-governmental agency or entity that currently has an effective ruling letter from the U.S. Internal Revenue Service granting tax exemption under section 501 of the Internal Revenue Code. Nonprofit entities owned or controlled by a government entity are not eligible.

Examples of eligible organizations include certified nonprofit Community Development Financial Institutions (CDFIs) participating in Treasury's CDFI Fund program, nonprofit Certified Development Companies (CDCs) participating in SBA's 504 lending program, SBA Community Advantage lenders, and federal or state-chartered credit unions. Quasi-governmental nonprofit entities, including organizations established by federal or state statute, are eligible organizations as long as they are not owned or controlled by a government entity.

Intermediaries that participate in either SBA's Microloan program or SBA's ILP program and have any outstanding debt to SBA are not eligible to apply. However, affiliates of such intermediaries are eligible to apply for the ILP program if the affiliate has at least one year of experience making loans to startup, newly established, or growing small businesses. SBA will consider any organization that began eligible activity prior to August 1, 2011 as having the minimum one year of experience.

2. Prior experience (13 CFR § 109.100(b))

An ILP Intermediary must have at least one year of successful experience making and servicing loans to startup, newly established, or growing small businesses.

The applicant must have a minimum of one year of experience making and servicing loans to startup, newly established, or growing small businesses. The applicant must have directly funded the loans and not simply provided referrals to, or guarantees against, loans made by another entity. If an applicant is made up of a consortium of organizations, each member of the consortium must be individually eligible or the entire consortium will be considered not eligible. SBA will consider any organization that began eligible activity prior to August 1, 2011 as having the minimum of one year experience. SBA does not require that the one year of experience be recent experience; however, an applicant's overall lending history will be evaluated during the application selection process, including in particular small business loans made during the last five years.

An applicant organization may use the lending experience of a majority-owned subsidiary organization to meet the 1 year of lending experience required to become an ILP Intermediary. The subsidiary organization may be a non-profit or for-profit organization. An applicant organization may not use the lending experience of a parent

organization or any other affiliated organization in which it does not have a majority ownership.

Applicant organizations may not impute experience from current employees that have lending experience in other organizations in order to meet the experience requirement; the organization itself (or a majority-owned subsidiary) must have at least one year of experience in making and servicing loans to small businesses.

3. Management and Operations (13 CFR § 109.100(c))

(a) An ILP Intermediary must have paid staff with loan making and servicing experience acceptable to SBA.

An organization must have a paid loan making and servicing staff to be eligible to apply to become an ILP Intermediary. Staff from a parent or affiliate organization may satisfy this requirement. SBA will evaluate the staff's experience during the Review Panel process described below.

(b) An ILP Intermediary must have a continuing ability to evaluate, process, close, disburse, service and liquidate small business loans including, but not limited to holding sufficient permanent capital (as determined by SBA) to support lending activities under this program and maintaining satisfactory SBA performance, as determined by SBA in its discretion.

An organization must be able to demonstrate sufficient cash to cover short-term operating expenses and a sufficient cushion of net assets to cover unexpected losses. Additionally, the organization must demonstrate an ability to maintain the minimum 5% loan loss reserve requirement under this program.

Organizations with a Federal financial institution regulator must meet capital requirements for a well-capitalized financial institution. Organizations that are State-regulated must meet their respective state's minimum capital requirements.

(c) An ILP Intermediary must meet and maintain the ethical requirements of 13 CFR 120.140.

SBA regulations require that all participants in SBA programs, including Associates of participants, act ethically and exhibit good character. Associates include: (1) Officers, directors, key employees, or holders of 20 percent or more of the value of the ILP Intermediary or its debt instruments, or an agent involved in the loan process; and (2) Any entity in which one or more of the aforementioned individuals, or a Close Relative of any such individual, owns or controls at least 20 percent. The complete list of ethical requirements may be found at 13 CFR § 120.140. As described further in part V, SBA may perform due diligence on the applicant organization and the Officers,

Associates, and personnel listed in the ILP Program Application for Selection in order to determine whether the applicant meets the ethical requirements.

(d) An ILP Intermediary (and any Affiliates) that participates in other SBA programs must be in compliance with those program requirements.

For applicants that participate in other SBA programs or that have Affiliates that participate in such programs, SBA will determine whether they are in compliance with those program requirements.

(e) An ILP Intermediary must be in good standing with its Federal and/or State regulator, as applicable.

Applicants must disclose in the ILP Program Application for Selection whether they are in good standing with their Federal and/or State regulator. Applicants that are not able to certify that they are in good standing must provide an explanation.

(f) An ILP Intermediary must have the ability to comply with the ILP Program Requirements, including reporting requirements, as such requirements are revised from time to time, and maintain compliance with ILP Program Requirements for as long as the ILP Intermediary participates in the ILP program.

Applicants must disclose in the ILP Program Application for Selection their plans for complying with the loan loss reserve requirement and certain ILP program lending requirements, including relending requirements, the no credit elsewhere requirement for loans to small businesses, and maximum interest rates and fees on loans to small businesses. SBA also will evaluate the applicant's ability to comply with ILP Program Requirements during the Review Panel process described below.

4. Outstanding SBA Debt (15 U.S.C. 636(l)(4)(B))

ILP Intermediaries are not allowed to have more than \$1 million in outstanding direct loans from SBA. Therefore, existing Microloan Intermediaries and ILP Intermediaries with an outstanding loan from SBA are not eligible for additional debt under the ILP program. In addition, an organization with an outstanding disaster loan from SBA is not eligible for a loan under the ILP program if the combined outstanding amount (disaster loan plus ILP Loan) would be greater than \$1 million.

Note: Applicants applying for less than \$1 million in ILP Loan funds may not be scored as highly in the Review Panel process described below as applicants applying for a \$1 million ILP Loan.

III. APPLICATION RECEIPT AND TRACKING

A. DEADLINE FOR RECEIPT OF APPLICATIONS

The deadline for receipt of the ILP Intermediary Application for Selection (SBA Form 2417), including required exhibits, is 5:00 p.m. ET on Friday, May 25, 2012, as stated in a Notice of Funds Availability (NOFA) published in the Federal Register on April 16, 2012 (Volume 77, Number 73, Pages 22625-22626).

B. TIMELY RECEIPT OF APPLICATIONS

In order for an application to be considered, the Branch Chief for the SBA Microenterprise Development Branch, or his or her designees, must receive a complete application by the deadline date and time.

SBA will consider an application to be filed on time if hand delivered or delivered by regular mail, courier, or other express delivery service to SBA Headquarters at the address indicated in the ILP Program Application for Selection. Applications will be considered to be filed on time if delivered to SBA's mailroom on the concourse level, SBA's information/reception desk on the first floor, or to the security desk on the first floor at SBA Headquarters, IF the application is received on or before the deadline date and time. SBA will not consider postmarks or other indications of mailing or filing to be adequate evidence of timely filing.

Due to the required irradiation of regular mail prior to its delivery to Federal offices in the Washington, D.C. area, organizations are encouraged to use a "next day" or "overnight delivery" method to ensure the timely receipt of application materials.

SBA will not return deficient applications or provide feedback on application submissions that are received before the deadline date. Applicants will not receive priority or preference for early application submissions.

IV. INITIAL SCREENING FOR TIMELINESS, COMPLETENESS, AND ELIGIBILITY

A. GENERAL

All applications will be screened. At this stage, SBA staff will review all applications for timely receipt, completeness, and eligibility, but will not review applications for substance or quality. Screening may begin before the application submission deadline on those applications submitted before the deadline, but SBA will take no final action on any application until after the application submission deadline has passed. Applications that are screened out will receive a legal review to confirm the reason for screen out. Applications that are screened out will not be processed further.

B. TIMELINESS

SBA will deem applications received after the date and time set forth in the NOFA to be untimely and SBA will not process such applications.

C. COMPLETENESS (13 CFR § 109.200)

Applications must contain all required exhibits and must be submitted in hardcopy and electronic format, as indicated in the ILP Application for Selection, SBA Form 2417, available at <http://www.sba.gov/content/intermediary-lending-pilot>. Applications that are not materially complete will be screened out.

D. ELIGIBILITY

All applications will be screened to determine whether the applicant meets the ILP program threshold eligibility requirements. Based upon the applicant's answers to each eligibility-related question in the application, SBA will determine if an applicant does not meet one or more of the eligibility requirements. If an applicant does not meet one or more of the eligibility requirements, the application will not continue to the next round in the selection process. For all applicants that pass the initial screening process, the applicants' eligibility will be further evaluated during the Review Panel process described in part V and/or during the due diligence review described in part VI.

V. REVIEW PANEL PROCESS

A. REVIEW PANELS

SBA will convene Review Panels of three reviewers to review, evaluate, and score all ILP program applications that pass the screening process. SBA will convene as many Review Panels of qualified, experienced SBA employees as necessary to handle such applications.

Each Review Panel reviewer will independently read, evaluate, and score each application assigned to his or her Review Panel. After each reviewer has read all the applications assigned to his or her Review Panel and made a preliminary evaluation, each reviewer will arrive at his or her own scores for each application. All three reviewers of an application are not required or expected to arrive at the same score for each evaluation criteria and/or category.

B. SCORING

For each application, reviewers must award points on nine separate criteria in three sections, as set forth below:

<i>Evaluation Criteria</i>	<i>Maximum Points Possible from each Reviewer</i>
Section I: Organization	10
<p>Criterion 1: Strength, depth and experience of applicant’s governing board, committees, and management team</p> <ul style="list-style-type: none"> • Including numbers, years of experience, commitment to applicant, team cohesion 	5
<p>Criterion 2: Strength, depth and experience of applicant’s lending staff</p> <ul style="list-style-type: none"> • Including numbers, years of experience, commitment to applicant 	5
Section II: Lending Plan Narratives	70
<p>Criterion 3: Need and demand for ILP program assistance in the targeted geographic area(s)</p> <ul style="list-style-type: none"> • Including economic characteristics of targeted areas, lack of available credit in targeted areas 	10
<p>Criterion 4: Ability of lending strategy to meet the needs and demands of the targeted geographic area(s)</p> <ul style="list-style-type: none"> • Including types of financing to be offered, stage of business to be financed (start-up, etc.), degree of commitment to underserved areas, size of ILP Loan requested 	10
<p>Criterion 5: Applicant’s prior experience making small business loans of between \$50,000 and \$200,000</p> <ul style="list-style-type: none"> • Including numbers of loans, percentage of overall portfolio, performance of that segment of portfolio, size of outstanding small business loan portfolio, outcome information 	15
<p>Criterion 6: Likelihood of success of applicant’s ILP lending</p>	20

<p>strategy and ability to mitigate risks in ILP portfolio</p> <ul style="list-style-type: none"> • Including underwriting standards, portfolio review and monitoring procedures, technical assistance, loss reserve standards, other resources available to applicant, consistency of ILP lending strategy with prior experience 	
<p>Criterion 7: Ability to comply with ILP program requirements</p> <ul style="list-style-type: none"> • Including ability to commit 100% of ILP Loan within 2 years, ability to meet relending requirements, ability to comply with required reporting, participation in other programs, and ability to maintain compliance with other programs 	15
Section III: Financial Health & Capitalization	20
<p>Criterion 8: Strength of applicant's current financial condition and capitalization</p> <ul style="list-style-type: none"> • Including soundness of current financial statements, sufficient liquidity to meet short-term needs 	10
<p>Criterion 9: Ability of applicant to operate soundly and in an economically viable manner while participating in the ILP program</p> <ul style="list-style-type: none"> • Including ability to cover costs of program and any future losses, availability of unrestricted capital, reliability of sources of capital 	10
TOTAL	100

For each application assigned to a Review Panel, the scores given by each of the reviewers will be added to reach an aggregate score for each section and an aggregate total score (maximum = 300 points).

In the Financial Health and Capitalization section, applications must receive at least 50% of the aggregate available points (maximum = 60; minimum = 30) to continue to the next round of the selection process. All applications must receive at least 50% of the total aggregate available points (maximum = 300; minimum = 150) to continue to the next round in the selection process.

VI. DUE DILIGENCE

SBA will conduct a due diligence review of the highest-scoring applications that score above the minimum required aggregate score (minimum = 150). SBA staff will review a number of areas, including but not limited to the applicant's management and operations qualifications (13 CFR § 109.100(c)), the applicant's performance and compliance in other SBA programs, and the applicant's reputation. SBA may also perform background investigations of individuals and entities identified in the application.

The due diligence review will result in a "qualified," "not qualified," or "qualified with reservations" recommendation. SBA will perform a legal review of all applications receiving a "not qualified" recommendation. Applications that receive a "not qualified" recommendation that is not overturned upon legal review will not advance to the Selection Committee.

VII. SELECTION PROCESS

The ILP Intermediary Selection Committee (Committee) is comprised of designated SBA managers and senior staff. The ILP Selection Committee will receive a list of all applications that received the minimum required score. The list will be arranged in descending order, from highest to lowest total score (maximum 300 points).

In general, the Committee will select the highest scoring applicants for the ILP program that receive a "qualified" or "qualified with reservations" recommendation in the due diligence review. However, the Committee may decide to set aside one or more higher scored applications in favor of an application with a lower score if: 1) the Committee determines that the issues arising from the due diligence process so warrant, or 2) in order to ensure geographic diversity of areas served by ILP Intermediaries.

The Committee is responsible for the final selection of ILP Intermediaries. SBA will send written notification to all selected applicants informing them of their selection and setting forth specific deadlines and general conditions regarding their requirements to complete legal documentation and comply with any additional administrative requirements, as applicable.

SBA also will send written notification to all unsuccessful applicants advising that their applications were not selected. SBA does not anticipate providing debriefing sessions for unsuccessful applicants.

VIII. ILP LOAN CLOSING

Selected applicants must close the ILP Loan within 45 days of the date they receive notification of selection as an ILP Intermediary. The closing of the ILP Loan will be facilitated by the SBA District Office appropriate to the location of the ILP Intermediary. Failure to close the loan within the 45 day period may result in cancellation of the ILP Loan. If this should happen, the ILP Selection Committee may select an additional applicant(s) for participation as an ILP Intermediary(s).

IX. CONFLICT OF INTEREST POLICY

All SBA employees participating in any way in screening, reviewing, evaluating, or selecting applications for designation as an ILP Intermediary are bound by SBA's conflicts of interest regulations (13 CFR Part 105) and the Uniform Standards for Ethical Conduct for Executive Branch employees (5 CFR Part 2635). These rules generally prohibit an employee from taking any official action with regard to any applicant that may have an effect on the employee's personal or financial interests.

SBA employees are obligated to immediately disclose to, and seek advice from, the appropriate SBA ethics official if any application being considered by that employee presents a situation that the employee believes may constitute an actual or potential conflict of interest. An employee also may request to be recused from taking any action with regard to an application when, for whatever reason, the employee believes he or she is unable to be impartial, objective, and fair.