Mendocino County
Economic Impacts and Considerations for EDFC
August 2020

Economic Forensics and Analytics, Inc.
Petaluma, CA
eyler@econforensics.com

Contents

Executive Summary

This study looks at EDFC, a local small-business and micro-loan lender in Mendocino County. The study was commissioned by the County of Mendocino to estimate EDFC's economic impacts from its lending on business revenues, jobs and state and local tax revenues. When EDFC lends money in Mendocino County, it has larger economic impacts than those on the borrowing business. The broader impacts are typified by the business revenues; as borrowers receive money and pay for equipment and infrastructure, Mendocino County businesses otherwise generate more revenues and in turn there are ripple effects on other businesses and also on state and local tax revenues. Jobs created or retained at the business are the primary impacts on jobs due to the smaller sizes of the loans. The County of Mendocino can see the multiplier as an algorithm on their funding for EDFC, where the minimum economic impact is grant funding times the multiplier in any given year. The following table shows those multipliers from fiscal-year 2014-15 to 2019-20 (the most recent fiscal year ended June 30, 2020).

Summary of Estimated Economic Impacts, Including State and Local Tax Revenues Generated

Fiscal-Year End	Initial Lending	Indirect	Induced	Total	Lending Multiplier	Jobs Created	Jobs Retained
2015	$393,000	$99,300	$123,500	$615,900	1.57		19
2016	$749,100	$214,200	$123,900	$1,087,200	1.45	29	18
2017	$168,700	$69,700	$77,500	$315,900	1.87	11	12
2018 and 2019	$515,400	$88,200	$109,100	$712,700	1.38	21	11
2020	$660,800	$250,700	$225,800	$1,137,300	1.72	15	55

Multiplier: For every dollar lent, the multiplier is total spending created in Mendocino County

EFDC is a community development financial institution (CDFI) and receives funds for operations and loans from multiple sources, serving Mendocino County primarily and also providing loans to Lake County businesses. It operates a revolving loan fund (RLF), where interest payments from loans provide the basis of new loans; federal and state-level loans, grants and programs help provide additional funding for loan-loss reserves, technical assistance for borrowers once money is lent, operations, and a broader array of loans available facilitated by EDFC. The availability of this array of funds for EDFC to use is driven by the maintenance of its CDFI status. The connection to Lake County's economic development organizations and loans made there are important in maintaining that status, as EDFC serves a regional set of borrowers per its mission.

The potential economic impacts of such lending can be reduced over time by poor lending practices and subsequent, unexpected levels of loan default. EDFC, based on its underwriting and practices with borrowers, is engaged in best practices when lending and monitoring loans provided to expect and minimize loan default. Documents provided by EDFC and their recent financial statements provide evidence their practices are in place and working. There are three critical factors for lender best practices to minimize the risk of loan default, all of which EDFC is following:

- Screening process aims to minimize the risk of lending to a borrower likely to default;

- Post-loan monitoring practices minimize the risk of having the loan default unexpectedly using multiple steps of indicators and also interventions to reduce risk to the organization; and
- Board of Directors/Assigned Ad-Hoc Committee act as oversight and filtering on loan decisions, not involving the CEO/ED position in the organization.

COVID-19 is likely to create economic challenges for all lenders, including CDFIs. Retail, health and education, hotels, and bars and restaurants have been hit especially hard, though as of August 2020, the effects are fading slowly. For EDFC and its lending future, the number of small businesses that survive as potential borrowers in the current marketplace but also new, **start-up** businesses may find a tricky economic environment in the coming years, based on recent forecasts of the American economic rebound suggesting no full economic recovery until after 2023. The Mendocino County economy was growing slowly, with jobs and incomes rising from 2015 to 2020, which is the period used to consider EDFC's lending impacts.

Comparison organizations are summarized, a mix of very similar organizations to EDFC (3CORE in Butte County and Arcata EDC in Humboldt County) to ones with more focal markets and missions (Opening Doors in Sacramento County and Women's Economic Ventures in Santa Barbara County). In all cases, the lending practices of these comparison organizations are all similar to EDFC and all have a common core mission of community enhancement through lending. One concern the County of Mendocino may have is rising competition from similar funds, such as Arcata EDC, coming in and reducing the demand for EDFC financing. Arcata EDC has no active loans in Mendocino County as of August 2020 and is partnering with EDFC otherwise when opportunities are available.

Lending challenges are mitigated in their potential effects on lenders through strong lending practices in determining new borrowers and monitoring current loans. EDFC has all the pieces in place to continue following best practices. EDFC's flow of funds statements and balance sheet details cause no sense of alarm, especially with a large amount of cash on hand. EDFC is well-capitalized, as its net asset ratio has increased since 2018. A growing net asset ratio is typically a key indicator of organizational strength in lending, similar to a new worth ratio in banking.

1. Introduction

Economic Development Finance Corporation (EFDC) in Mendocino County provides small businesses loans. EFDC is a community development financial institution (CDFI) and receives funds for operations and loans from multiple sources. EFDC funding includes County of Mendocino grant funding and makes loans in both Mendocino and Lake counties. This report was commissioned by the County of Mendocino.

This study provides an overview and economic impact analysis of loans made from fiscal years 2014-15 to 2019-20 and also EDFC's general practices in lending. The economic impact estimates depend on the type of business that borrows money and the subsequent uses of borrowing on beginning or expanding a business. EDFC lending practices are similar at their core to any lender, but the loans are generally riskier. Not all of these loans are relatively riskier; the cost of compliance and underwriting is relatively large for a classic bank or credit union to originate and potentially hold such loans for the amount of potential income versus the risk. Hence, organizations like EFDC provide niche lending in a market that otherwise would not exist. Selected organizations that fill similar needs in other counties and regions are shown for comparison, chosen after discussing with EDFC staff, similar organizations and also advocacy groups for such lending. Regardless of structure or market, the core concerns and types of businesses helped are similar.

This study has the following sections. Section 2 is an overview of EDFC's structure and lending considers loans made since 2015, as well as an overview of its financial statements from 2015 to 2019. Section 3 considers how EDFC screens potential borrowers. EDFC's status as a CDFI provides opportunities to access additional funding for loan-loss reserves, assuming loans made are funded using strong underwriting and risk identification. Section 4 provides some simple comparisons to other organizations. These comparisons are to similar, CDFI organizations making small-business, microloans. Recommended comparisons include Arcata Economic Development Corporation (Arcata EDC), which is a CDFI that operates in Mendocino County historically. Section 5 show the estimated economic and fiscal impact of loans made, including estimated state and local tax revenue, jobs supported (including the jobs the borrower identifies as retained or created), and estimated business revenue. These estimates show the power of such lending on multiple businesses in Mendocino County, and also how many people are affected in terms of jobs created and retained. Section 6 concludes the study.

2. Overview of EDFC, Structure and Loan Programs

This section shows the basic structure of EDFC, its organization and leadership, and a summary of its financial statements. EFDC manages a revolving loan fund (RLF) and covers Mendocino and Lake Counties in terms of a potential borrower pool. The economic impact analysis is for Mendocino County loans only.

Organizational Structure

As with any other lender or non-profit organization, EDFC defines its everyday business in a mission statement, and also where it aspires to be as an organization in a vision statement. Notice that both Lake and Mendocino counties are mentioned in the mission statement. The vision statement is really about lifting up the communities served through increasing economic opportunities.[1]

- **Mission**: Connecting money and ideas with entrepreneurs and creating sustainable prosperity in Lake & Mendocino Counties.
- **Vision**: We envision a vibrant local economy providing abundant opportunity and rewarding quality of life to the communities we serve and future generations.

EDFC has a board of directors and is a 501(c)3. Figure 1 shows EDFC's organizational structure; a logical set-up in terms of organizational structure for a CDFI operating revolving loan funds or RLFs. A revolving loan fund (RLF) is primarily used for development and expansion of small businesses, utilizing interest and principal payments by borrowers on current loans to issue new ones.

Figure 1: EDFC Organizational Structure, 2020

Source: EDFC Staff

EDFC's structure is typical of a small RLF lender. An administrative lead position (Executive Director) is different from the position(s) that generate recommendations for lending decisions. A board of directors provides oversight and is in place. An ad-hoc committee of EDFC's board of directors makes decisions on recommended loans and approves the loans; if loans exceed $50,000, the full board is asked to provide an approval decision. Like other lenders, conflicts of interest in these decisions are critical to avoid at all times, and EDFC policies and practices keep the board from having such concerns. Their board meets regularly (monthly), and board members individually have term limits. This is standard practice in non-profit board membership.

---

[1] See EDFC's website at: https://www.edfc.org/

Recent Loans by EDFC: 2015 to 2020 Year to Date (August 2020)

EDFC provides loans for specific purposes, as stated in its program documents:

- To acquire, construct, convert, enlarge or repair a business or business facility, particularly when jobs will be created or retained, including but not restricted to the following types of employers;
    - Transportation services;
    - Hotels, motels, convention centers;
    - Pollution control and abatement;
    - Education institutions; and
    - Aquaculture-based rural small business.
- To purchase or develop land (easements, rights of way, buildings, facilities, leases, materials);
    - May include feasibility studies and some fees;
- To purchase equipment, machinery or supplies, or make leasehold improvements;
- To provide start-up costs and working capital.[2]

Loans made are meant to be directly connected to job retention and creation and the support of a legitimate business in Mendocino County or Lake County, and not act as subordinate debt or personal loans for business owners' personal use. A focused set of lending targets also helps facilitate efficient processing and approvals. Figure 2 summarizes recent lending activity by EDFC, for loans provided from July 2014 to June 30, 2020. The total amount lent out is approximately $2,486,900 since 2015 in Mendocino County. Approximately another $494,645 has been lent out in Lake County as of August 2020. Figure 2's data are the basis of the economic impact estimates later in this report.

Figure 2: EDFC Loans Made, 2015-2020 (Year to Date), Current Dollars, Mendocino County Borrowers

Industry	2015	2016	2017	2018	2019	2020
Commercial Building						$256,250
Commercial Screen Printing		$8,000				
Construction Services	$15,000					$173,250
Construction/ Woodworking		$150,000				
Logistics			$50,000			
Events/Lodging/Tourism		$89,200				
Farming Machinery Manufacturing - Innovative alt energy					$30,750	
Food/ Grocery	$150,000	$50,000				$31,700
Health Care	$28,000					
Hotel, Motel & Tourism	$150,000					
Manufacturing		$350,000				
Nutritional supplement manufacturer and sales				$11,458		
Restaurant		$101,895	$100,000		$255,000	$199,561
Personal Services			$18,700			
Technology Services						
Wine growing & Brokerage	$50,000				$218,178	
Annual Totals	**$393,000**	**$749,095**	**$168,700**	**$11,458**	**$503,928**	**$660,761**

Source: EDFC Staff

Note: Between 20015 and 2020 Year to Date, EDFC made loans in Lake County of $494,645

[2] Ibid.

For EDFC, some loans are facilitated by EDFC from a funding source. The US Department of Agriculture (USDA) has been a major funding source for loans made by EDFC. There are two major programs in EDFC for USDA loans, specific to rural development: Intermediary Relending Program (IRP) and Rural Microentrepreneur Assistance Program (RMAP). These loans require allowance for loan loss (ALL) of 5 percent and 6 percent respectively and that allowances be held at that level based on the total loans made in these programs. Terms on these loans are 25 years for the IRP and 30 years for the RMAP program. These loan funds are critical to supporting local economic development using federal loans.

Financial Statement Summaries

Like other lenders, EFDC has a balance sheet that is connected to its flow of funds (profit and loss or sources and uses) statement through revenues made from lending. Loans are the basis of interest income for any lender. We consider the types of businesses that borrow and are in EDFC's portfolio, including loan losses, in a later subsection.

Lenders generally have the following structure to their revenues and expenses, and ultimately additions and losses to net assets.

- Interest income from lending;
    - Less cost of funds;
    - **Net interest margin (NIM) as an analog to gross profit;**
    - There may be other income sources; for EDFC, this would be any additional sources of funds derived from grant activity or other funding provided;
- Operating expenses, including staff salaries and benefits;
- Allowance for Loan Losses (ALL), which is an accumulated expense (connected to the balance sheet, more below), based generally on riskiness in the lending portfolio;
- Net Income is the difference between:
    - NIM + Other revenues;
    - Operating Expenses + Allowance for Loan Loss
    - Net assets are the difference value between total assets and total liabilities and where net income accumulates as part of the RLF function.

Rising net assets provide more "capitalization" if loans start to go bad faster than expected, a risk buffer for the organization to remain solvent. For EFDC, loans are assets but there are no deposits that act as liabilities as with banks or credit unions. Loanable funds for EDFC come from a mix of grants, originated loans (including loans that originate from an outside source such as US Department of Agriculture or USDA) and accumulated interest income (RLF) used as loanable funds after budgeted expenses of running the organization. As those revenues are converted to assets (loans), loans then generate revenues from interest payments.

Let's now consider EDFC's financial outcomes since 2015. Funding sources pay for operating expenses and loan-loss reserves (LLR). Figure 3 provides a summary of EDFC's flow of funds since fiscal year 2014-15 to 2019-20.

Figure 3: Summary of Flow of Funds Statements, Revenues and Expenses, EDFC, Fiscal Years 2014-15 to 2019-20, Current Dollars

Revenues		**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
	Grants	$34,069	$18,517	($57,370)	$355,000	$478,249	$612,953
	Local Government Support	$41,496	$39,500	$48,483	$48,500	$87,483	$66,500
	Loan Interest Income	$71,718	$96,722	$137,068	$125,038	$94,847	$80,301
	Loan Package Revenue	$8,510	$27,766	$12,692	$4,602	$7,118	$26,617
	Technical Assistance Funding			$75,600	$28,306	$12,608	$23,583
	Reserve Loan Income			$14,218	$4,025	$458	$1,478
	Other Income	$3,190	$2,080	$13,780	$31,395	$33,329	$6,590
Total Revenues		$158,984	$158,983	$184,585	$244,471	$596,866	$714,092
Expenses							
	Operational Expenses	$127,470	$145,394	$204,892	$190,227	$211,068	$244,284
	Interest Expense	$17,328	$17,224	$22,361	$35,566	$26,512	$27,803
	Loan Expenses	$4,113	$8,421	$371	$3,158	$4,486	$15,501
	Loan Reserve Expense			$14,218	$15,670	$458	$(122)
	Charge Off of Bad Loan			$9,302	$75,252	$89,794	$114,362
	Other Expenses	$134	$115	$75	$191	$101	$99
Total Expenses		$149,045	$171,154	$251,219	$320,064	$332,419	$401,927
Net Income		**$9,938**	**$13,431**	**($6,748)**	**$276,802**	**$381,673**	**$416,095**

Sources: EDFC Staff and EFA

The reduced value overall loans when some fail spreads losses over time as loan-loss reserves grow with the loan portfolio size and if the lender re-assesses loan risk overall. By “allowing” for loan loss (building up the LLR), a loan that defaults may already be counted as an “expense” due to LLR levels matching or being larger than the actual loan losses. Prudent lenders add and adjust loan-loss reserves regularly basis as a percentage of overall loans made or if risky conditions warrant higher LLR levels for the current volume of loans. EDFC’s status as a CDFI provides funding opportunities to add to LLR levels without using current cash reserves. This is a critical benefit of CDFI status.

Balance Sheet Sources and uses of funds

The key for any lender is minimizing loan loss and the organization paying its bills. Problems in the lending portfolio, due to risky loans provided that begin to default or fail due to lack of payback, can reduce consistent, annual funding from outside sources and also interest income as a revolving loan fund, undermining the organization’s ability to pay its expenses.

As a non-profit organization, net profits (if any) are meant to be reinvested in loans. Let’s now look at the balance sheet of EDFC to understand the dynamics there. Lenders, regardless of size and scope, have similar balance sheets that connect back to flow of funds through both loan-loss reserves and net income, which are naturally connected. Figure 4 shows the balance-sheet components for EDFC since fiscal year 2014-15.

Figure 4: Balance Sheet Summary, EDFC, Fiscal Years 2014-15 to 2019-20, Current Dollars

		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Assets							
	Cash Balances	$757,271	$796,172	$501,298	$1,431,620	$1,854,560	$1,693,157
	Accounts Receivable	$42,150	$61,312	$30,000	$21,360	$40,242	$ 27,248
	Loans Outstanding	$1,248,891	$1,857,607	$2,091,258	$1,480,210	$1,310,103	$1,853,097
	Fixed Assets	$4,125	$-	$5,625	$600	$650	$ 48
Total Assets		**$2,052,437**	**$2,715,091**	**$2,628,181**	**$2,933,791**	**$3,205,555**	**$3,573,550**
Liabilities and Equity							
	Accounts Payable	$2,364	$1,078	$-	$5,140	$1,794	$ 4,126
	Interest Liabilities	$8,751	$45,478	$10,395	$22,536	$11,476	$ 11,475
	Deferred Revenues	$19,404	$-				
	Other Current Liabilities	$3,128	$(35,950)	$17,160	$22,061	$29,927	$ 21,922
	Notes Payable	$1,688,037	$2,351,784	$2,297,999	$2,441,546	$2,327,273	$2,284,846
Totals Liabilities		$1,721,684	$2,362,390	$2,325,554	$2,491,283	$2,370,470	$2,322,369
	Fund Balance	$676,141	$676,141	$676,141	$625,287	$625,286	$ 625,287
	Retained Earnings	$(354,876)	$(345,790)	$(366,765)	$(459,581)	$(171,873)	$ 209,799
	Net Income	**$9,938**	**$13,431**	**($6,748)**	**$276,802**	**$381,673**	**$416,095**
Total Net Assets		$331,204	$343,782	$316,846	$474,839	$848,151	$1,276,241
Total Liabilities and Equity		**$2,052,437**	**$2,715,091**	**$2,628,181**	**$2,933,791**	**$3,205,555**	**$3,573,550**
Net Asset Ratio (Net Assets/Total Assets)		**16.1%**	**12.7%**	**11.5%**	**15.1%**	**26.1%**	**35.0%**

Sources: EDFC Staff and EFA

Summary

Notice in Figure 4 the growth of the net asset ratio. In lending, the growth of this ratio is a critical factor to how regulators would look at the “capitalization” of the financial institution. For EDFC, the growth of this ratio suggests rising strength versus current and coming risk. In this way, investments made in EDFC are rising in safety. EDFC’s flow of funds statements and balance sheet details cause no sense of alarm, especially with a large amount of cash on hand. COVID-19 is likely to create challenges for all lenders, including CDFIs. Such challenges are mitigated in their potential effects on lenders through strong lending practices in determining new borrowers and monitoring current loans.

3. EDFC Lending Practices and Policies

Lenders have strong business-loan portfolios for three major reasons:

- Good screening mechanisms before loans are provided;
- A strong economy in the lender's market, which provides business borrowers with revenues to make interest and principal payments on time and provide a minimization of other risks once the loan is provided; and
- Interest rates on loans remain larger than the cost of operating the organization at least, including loan loss reserves/expenses.

The second reason is driven generally by how local economic development and the macroeconomy provide incentives for regional growth where the lender's market has its focus; the third reason is in slightly more control of the lender, determining risk-adjusted returns on loans and also costs for the lender. The more risky the loan portfolio becomes, the more at-risk the interest income is to the lender, thus the smaller the realized interest income may be. As of July 2020, EDFC charges between 6 and 12 percent interest on the loans made, depending on the borrower's assessed riskiness.

The first reason is critical to the lender's success. In economics, lenders face "adverse selection" or risks associated with lending that comes from problems in loan screening to determine whether the borrower will default on the loan once the money is borrowed. While the lender could choose to not provide a loan to a potential borrower determined by the screening process to be "bad" with respect to risk, lenders may also lend when the screening mechanism suggests a borrower is "good", and later the borrower may still default. This inability to see the future perfectly is one of the main reasons interest rates exists on loans and why lenders do not provide as much debt as the market may demand to reduce assets at risk, given the uncertainty. Such "credit rationing" is at the heart of lending markets.

Best practices in lending are to gain access to as much information as possible that signals borrower riskiness in not paying back the loan's principal and interest. Asking for collateral assets also helps reduce potential risk of default to lenders. EDFC's procedures begin with a pre-application, an initial screening tool that concerns borrower income and credit worthiness. Assuming the potential borrower is deemed worthy of additional due diligence, the next stage is "intake", where all documentation begins to flow to EDFC. Underwriting processes then assess the entire loan package, which is assembled in partnership between the borrower and EDFC staff.

There may be technical assistance needed to help the borrower develop some of the documents discussed below. EDFC did not perform technical assistance initially, and relied on other entities in Mendocino and Lake counties for that service. USDA grants now help fund such assistance for EDFC.

Like any other lending environment, borrowers in these specialized markets should not see EDFC loans as quasi-grants: borrower needs to think payback first and foremost. Part of that is a financial plan to understand what opportunities and challenges may come from borrowing, and paying the loan back.

Most CDFI organizations provide services to help borrowers focus on loan payback and any concerns on growth of their business through coaching or advising, such technical assistance is provided by EDFC. Some of the education is fundamental and based on accounting: how a budget guides the planning. Some of it is compliance when a business faced regulatory hurdles to jump in terms of city and county and state government interactions as needed. For example, restaurants provide many ways in which planning may run into institutional roadblocks based on a need for both city and county organizations to provide safety or other regulatory needs to a business. Organizations such as SCORE or SBDC may also provide that function as economic development partners.[3]

Assessing borrower riskiness

EDFC's process follows lending best practices in this study's opinion. The loan package contents and collateral required to access EFDC lending depend on if the borrower is new or current, new borrowers face more questions and collateral requirements. The information gathered by the **new** borrower, from documents provided by EDFC in July 2020 and attached to this study, is as follows:

- New borrower applies for loan;
    - Resume of current, key personnel;
    - Tax returns for last three years, six months of bank statements and credit report (current debt levels);
    - A business plan with financial projections;
    - Copies of all business licenses and corporate filings (LLC with California Secretary of State, e.g.), or a plan to get the licenses and filings;
    - List of start-up expenses and sources of collateral; and
    - Any other documentation that shows potential to pay back loan.
- Current borrowers considering adding debt provide:
    - Any new equity partner's (with more than 20 percent equity); and
    - The business' tax records and financial statements (including accounts receivable and payable aging reports) to the list above without start-up expenses or additional documentation.

Once the documents are gathered, an underwriting process begins. As in any other lender, the underwriting process is meant identify factors that would increase risk to the point where the expected interest rate on the loan fell below what EDFC could otherwise do with the money (provide to another borrower, hold in an interest-bearing account as examples) as opportunity costs for funding the loan. Specific criteria are summarized as follows, per classic criteria for loan underwriting[4]:

- **Capital**: 25 percent or more in available cash;
- **Cash flow**: financial projections have cash flow equal to 1.25 times the loan amount per year;

[3] Find out more about SCORE and SBDC at these links.
[4] These categories come directly from EDFC staff and their lending practices. See the Appendix for more details.

- **Credit Report**: Underwriting looks at credit reports for any previous defaults, high credit card balances, and other threats to paying EDFC's loan back;
- **Collateral**: based on loan size;
  - EDFC allows real property, salable equipment or inventory or furniture or fixtures, personal assets that have a market value, or financial assets that are checked for value annually;
- **Conditions of the business**: the business must have a viable market/product/service;
  - The business must also not have regulatory concerns that can stop or reduce revenue from coming to the business, including:
    - Environmental;
    - Legal; and
    - Social-policy related (especially now with COVID-19)

Assuming the borrower's application provides reasons to fund the loan in sum, the next stage is completing the loan documents and signing the loan agreements. Once funded, the loan is monitored based on any deviation from the loan agreement, specifically timely payments.

The EDFC board of directors is provided a monthly report of loan activity and any problematic loans. Individual borrowers are asked annually to provide jobs created or retained; if there are any delinquent payments, EDFC reacts at 15-, 30-, 60-, 90-, and 120-day intervals as needed. This follows standard practice in monitoring loans when interest and principal payments fail to arrive after their due dates. Delinquency levels are key data for the EDFC Board as a way of monitoring overall fund risk.

In the case of a loan that fails, foreclosure on assets provided as collateral and attempts to collect the debt otherwise from the borrower's additional assets begin. In 2019, EDFC started to use the state of California's iBank program, and uses this program by enrolling all loans unless there is a property lien on the borrower's collateral.[5] EDFC's RLF focuses on infrastructure loans qualifies EDFC for this program. The importance of their CDFI status is critical here, as being a CDFI provided annual grants to use as funding for LLR; EDFC receives two grants annually for augment reserves. Without these funds, CDFI would need to finance any loan losses from cash and other grant funding; the CDFI annual funding provides a buffer between loan losses (which are typical in these types of loans) and reserves to make new loans.[6]

[5] See https://ibank.ca.gov/ for more on the California's IBank program.

[6] At one time, EDFC also used the CalCAP program (see https://www.treasurer.ca.gov/cpcfa/calcap/sb/summary.asp) to provide more funding for loan loss reserves, but no longer uses this program due to fees and compliance costs.

Summary: How does EDFC's process follow best practices?

EDFC, based on the attached documents and processes describe above, is engaged in best practices when lending and monitoring loans provided. There are three critical factors for lender best practices to minimize the risk of loan default:

- Screening process aims to minimize the risk of lending to a borrower likely to default;
- Post-loan monitoring practices minimize the risk of having the loan default unexpectedly using multiple steps of indicators and also interventions to reduce risk to the organization; and
- Board of Directors/Assigned Ad-Hoc Committee act as oversight and filtering on loan decisions, not involving the CEO/ED position in the organization.

In this study, EDFC has all the pieces in place to continue following best practices. The County of Mendocino should not be concerned that the operational flow of lending decisions is at odds with how any other entity may lend out in a risky loan market. In a later section of this study, we provide some comparisons to other, regional organizations with similar RLFs and markets to EDFC to provide more information.[7] One of the critical factors for any lender to find strong borrowers in its market is the stability of that marketplace and the economy overall.

COVID-19, which continues to have detrimental effects on California's economy. Lending in 2020 (and perhaps 2021) may come with larger risks than individual borrower creditworthiness. The next section provides a brief overview of recent data on the Mendocino County economy, with some comparisons to other counties as needed. While this report is means to assess the effects of EDFC loans on Mendocino County's economy, loans and connections to Lake County are critical to EDFC maintaining its CDFI status and also remaining regional in its scope of loans and investments for the sake of market diversity.

3. Brief Overview of Mendocino County economy entering 2020

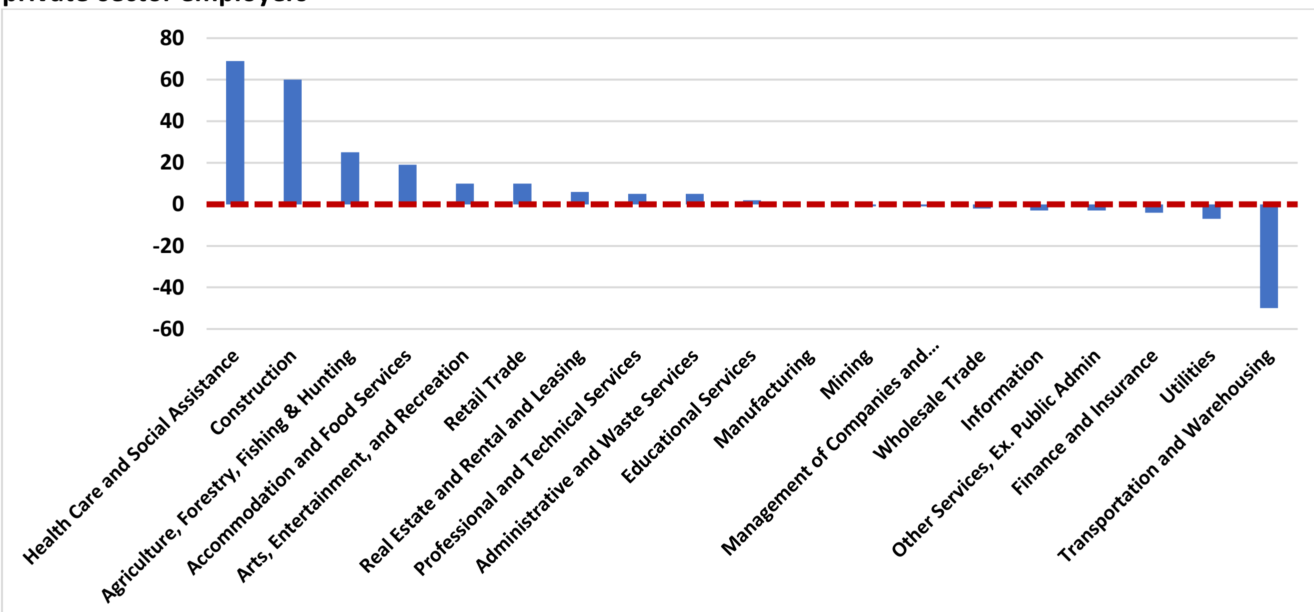
This section of the study describes the Mendocino County economy in six different indicators. These indicators are a mix of household and business data points that help understand the county economy and its strengths and challenges leading up to 2020. Those six indicators include:

- Number of Businesses by Industry and growth from 2015 to 2019;
- Employment by Industry and Growth of Jobs from 2015 to 2019, including farm employment;
- Personal Income per Capita and Median Household Income from 2015 to 2018;
- Taxable sales data by major retail categories from 2015 Q4 to 2019 Q4;
- Changes in median home prices in current dollars since July 2018 annually to July 2020; and
- Initial Claims for Unemployment Insurance by Industry by Month, January 2020 to July 2020.

[7] See Julapa and Lemieux (2016) for more on best practices and community banks. Also see Levine, et al (2020), "Communication within Banking Organizations and Small Business Lending", on best practices for internal communications in a lending organization and supporting small business lending.

Each of these indicators as a different angle on Mendocino County, its residents and the county business environment. Because of COVID-19, all lenders are facing more trying conditions in terms of providing more capital and also watching for more payment delinquency and potential loan defaults. Mendocino County's economy has a history of links to agriculture and natural resources. There is also a large tourism element based on Mendocino County's coastline and interior areas attracting visitors from all over the world. The Great Recession (2008 to 2010) shifted the county economy to a slowly-recovering economy through the 2010s. Employer growth has been primarily in health care, construction and farming/forestry, with smaller gains in retail, hotel, bars and restaurants, and other entertainment. Self-employed businesses have seen growth in manufacturing, likely in a mix of legal cannabis businesses, brewery, and other types of manufacturing. Wholesale and logistics have also grown as self-employed drivers and small storage businesses have increased due to internet sales.

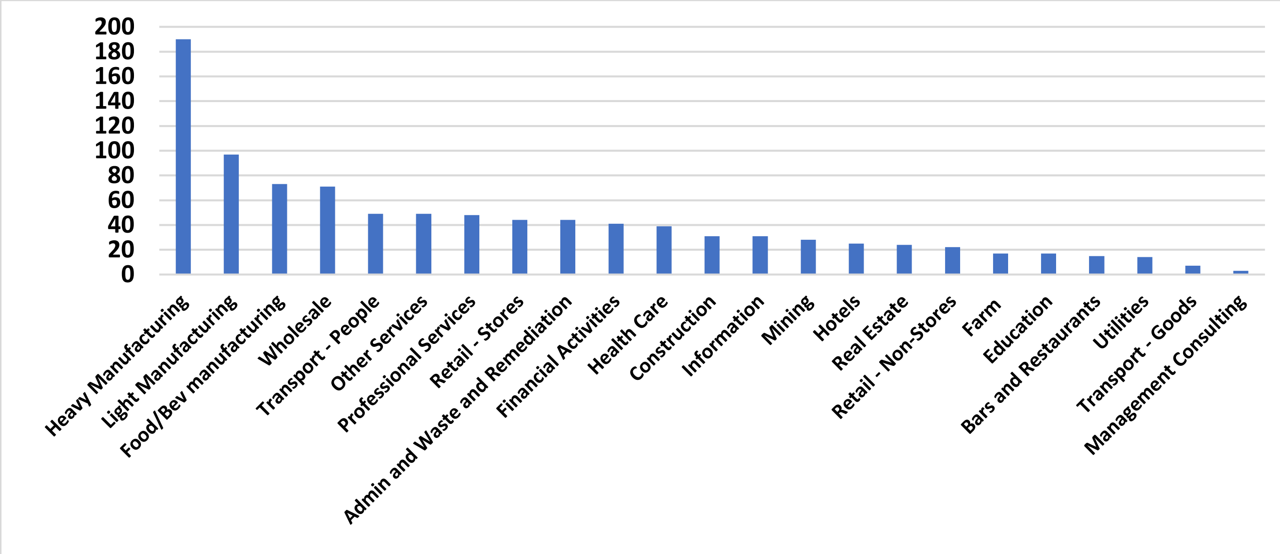
Figure 5: Payroll Employer Growth, 2015 Q4 to 2019 Q4 (the latest data), Mendocino County, +154 new private-sector employers



Sources: California EDD, QCEW, does not Include Self-Employed Businesses

The growth of self-employed business in Mendocino County provides another layer of information by industry. Larger employers are hiring as a reaction to new opportunities and a growing, regional economy (and also slow hiring down when the regional economy does not provide as much opportunity), and smaller businesses follow suit to fill in regional gaps. Figure 6 contrasts Figure 5 with a look at how self-employed businesses have grown by industry since 2015 in Mendocino County.

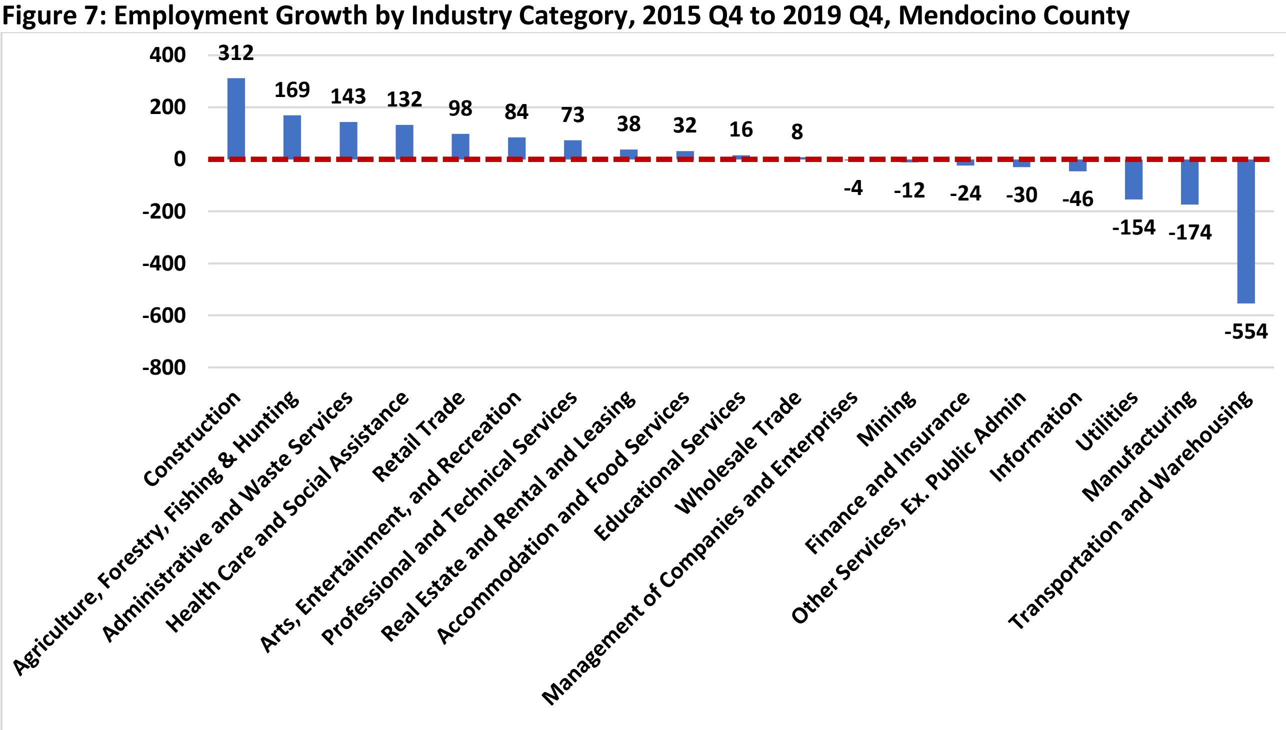
Figure 6: Estimated Growth of Self-Employed Businesses, 2015 to 2019, Mendocino County, +979 businesses



Sources: EMSI (www.economicmodeling.com) and EFA

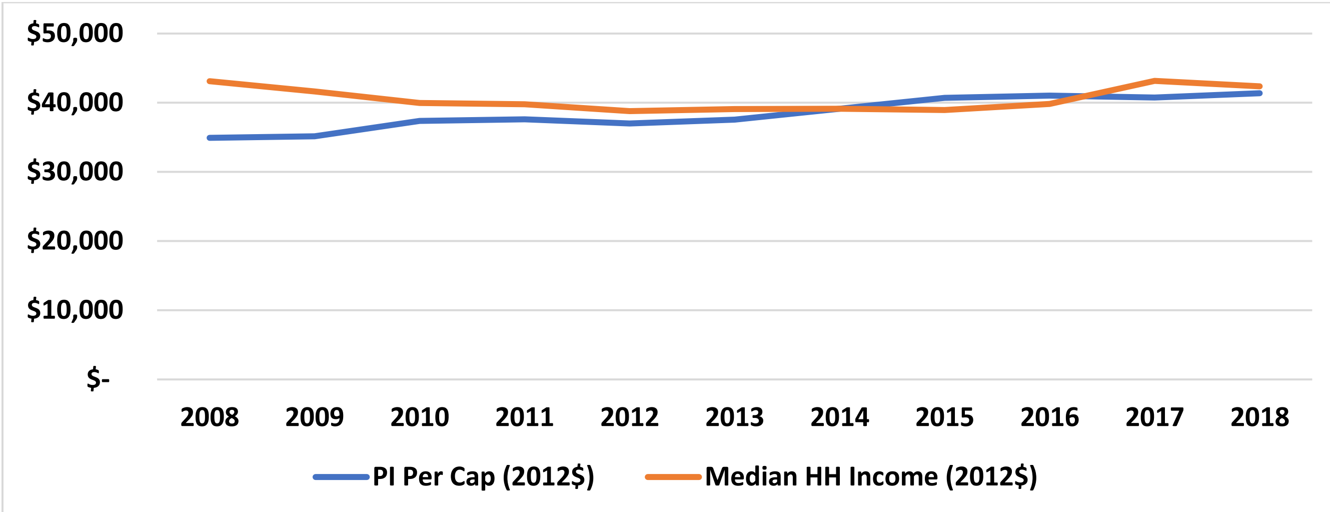
In contrast to the number of new employers in Mendocino County, the number of new employees is a critical factor for EDFC's mission of supporting both new business formation and also the retention and creation of employment opportunities. Notice that Mendocino County saw some contraction in manufacturing and logistics (transportation and warehousing). Figures 7 and 8 show recent changes in both employment and personal incomes.

Figure 7: Employment Growth by Industry Category, 2015 Q4 to 2019 Q4, Mendocino County



Source: California EDD, QCEW, does not Include Self-Employed Businesses

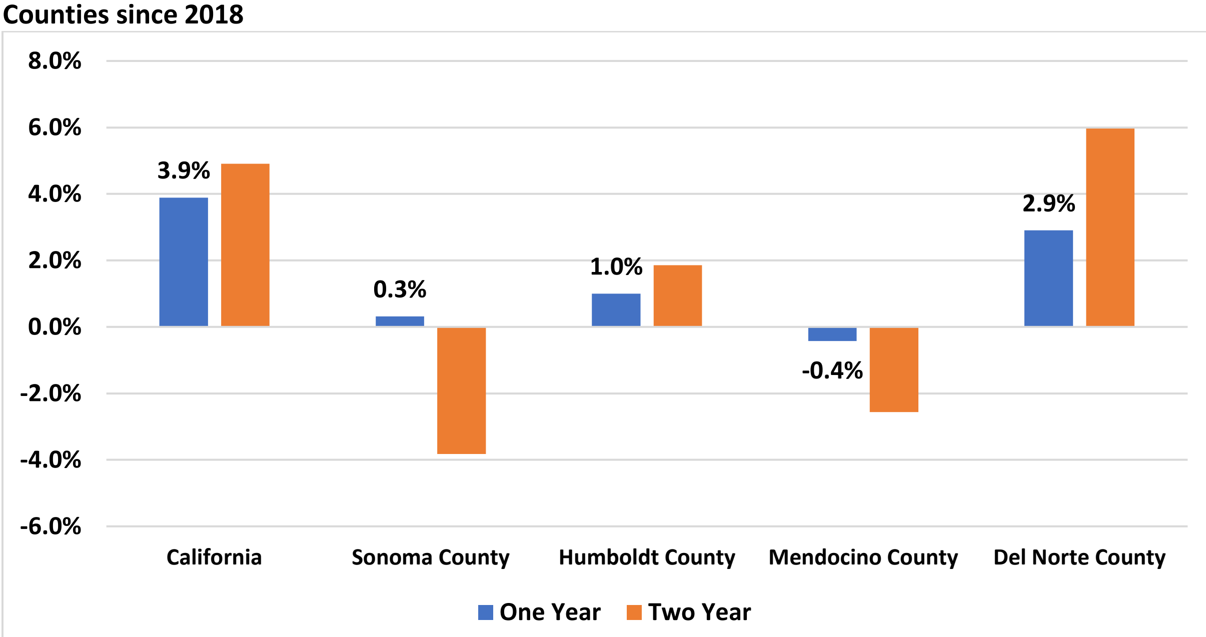
Figure 8: Personal Income Per Capita Growth and Medium Household Income, 2015 to 2018 (the latest data available), Mendocino County



Sources: Bureau of Economic Analysis, Census Bureau, California Department of Finance, and EFA

Housing price changes indicate shifts in both the local consumer confidence in buying goods and services and also a change in population, but for a general housing problem (such as the Great Recession of 2008-10). Mendocino County has seen relatively slow housing price growth since 2010, suggesting a slow-moving economy with a population that has struggled to maintain personal or household income levels; Figure 9 corroborates that observation, showing percentage changes in median home prices since July 2018 (the two-year percentage change) to show annual changes (since July 2019).

Figure 9: Percentage Changes in Housing Prices, Compared to July 2020, Mendocino and Selected Counties since 2018



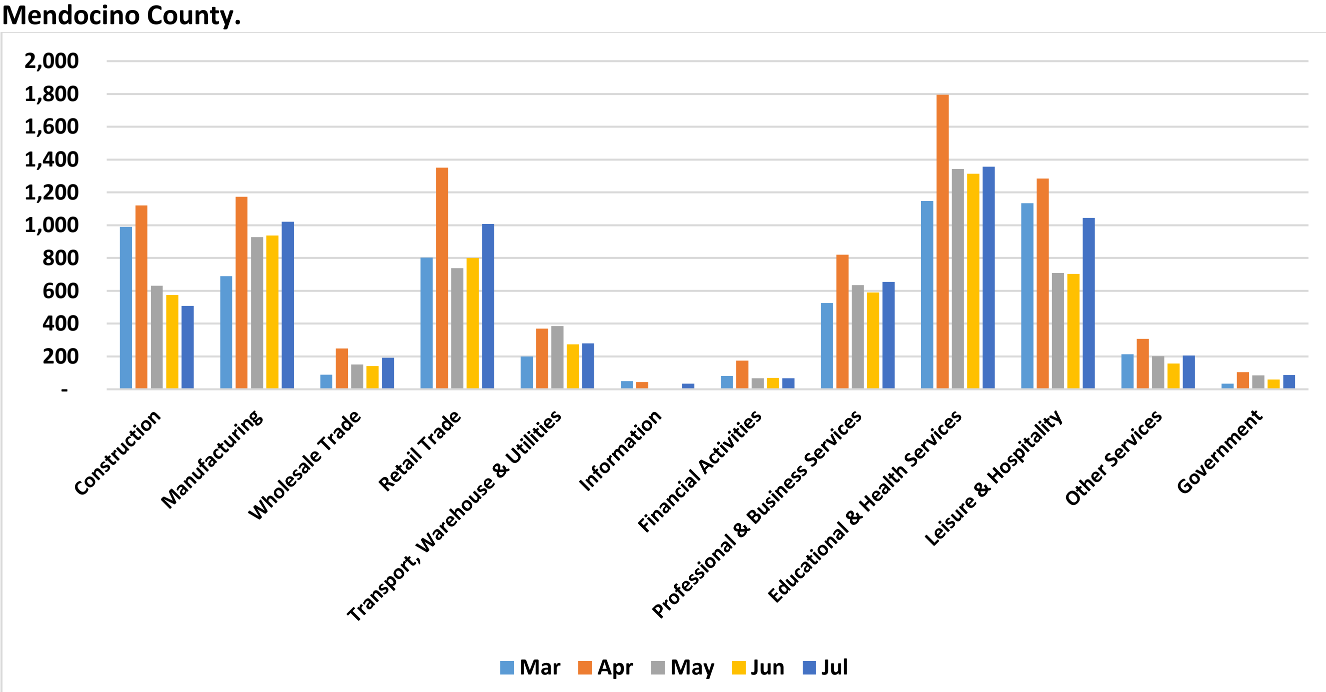
Sources: Zillow™ Research and EFA

COVID-19 and Rising Risk

For all lenders, the economic effects of COVID-19 on the global economy has produced concerns about loan delinquency and potential default. Job losses in specific industries have been toward service industries, including restaurant and specialty retail, putting taxable sales projections at threat, but also personal incomes for local residents.

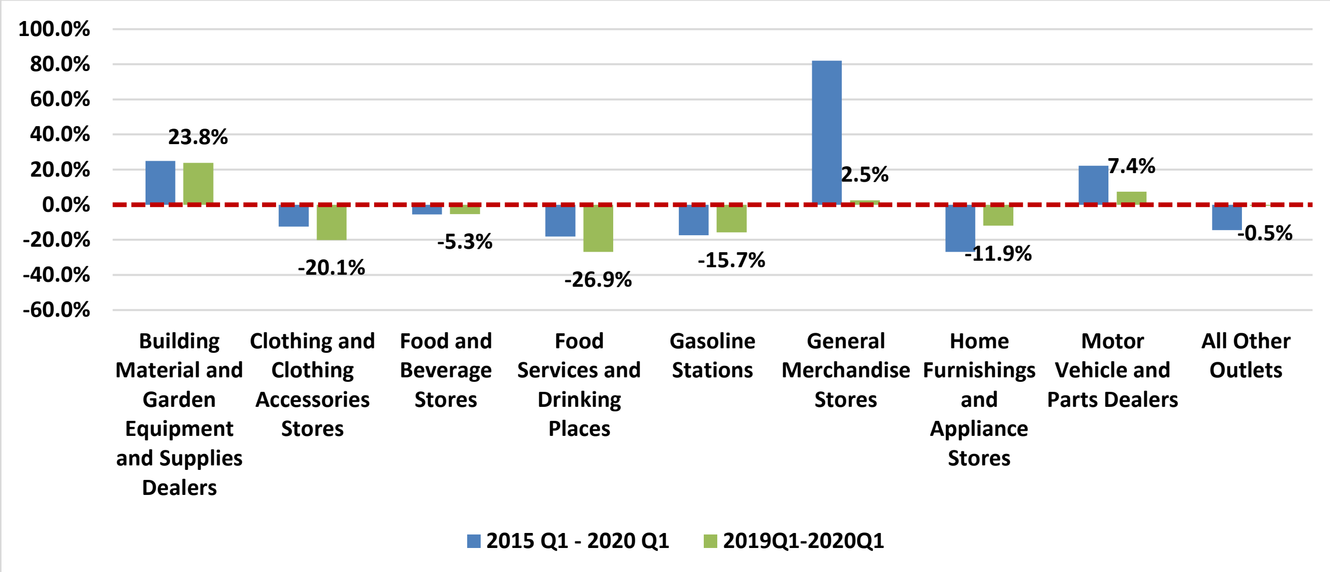
Figure 10 shows initial claims for unemployment by industry by month as the initial stages of the COVID-19 crisis created job losses and a national recession. Notice job losses are more acute in professional services, education and health services, leisure and hospitality (bars, restaurants, and hotels as a mix). Taxable sales data provide some mixed signals about the number of new businesses, as increasing sales can be both a mix of new businesses (rising capacity to make taxable sales locally, as with Costco coming to Ukiah) and also rising personal and household incomes that allow for more taxable sales overall. Conversely, a reduction in taxable sales can represent lost businesses and an opportunity to refill lost capacity, or waning consumer demand. Generally, because households intend to consumer consistently, a loss of taxable sales is more indicative of finding sources of goods and services outside the area, both residents driving to other places to shop or reduced tourism. Figure 11 shows the preliminary effects of COVID-19 on taxable sales in 2020 Quarter 1 as compared to the previous year; 2020 Quarter 2 data are likely much worse, and 2020 Quarter 3 should be much better.

Figure 10: Initial Claims for Unemployment Insurance, By Industry by Month, March 2020 to July 2020, Mendocino County.



Source: California EDD and EFA

Figure 11: Percent Change in Taxable Sales (by retail and restaurant category), 2015 Q1 to 2020 Q1



Source: California Department of Tax and Fee Administration and EFA

As of August 2020, Opportunity Insights at Harvard University estimates that Mendocino County has seen 26.1 percent of its businesses with 25 people or less close their doors that were open in January 2020 (see www.tracktheeconomy.org for data from Harvard University on small business closures estimated on a monthly basis by county including Mendocino County); this compares to Sonoma County at 24.3 percent closed, Lake County at 16.8 percent closed, and the state of California on average at 24.7 percent. These data suggest there may be a rising market for EDFC funds to re-start, start or expand a business once recovery has more obvious momentum.

Summary

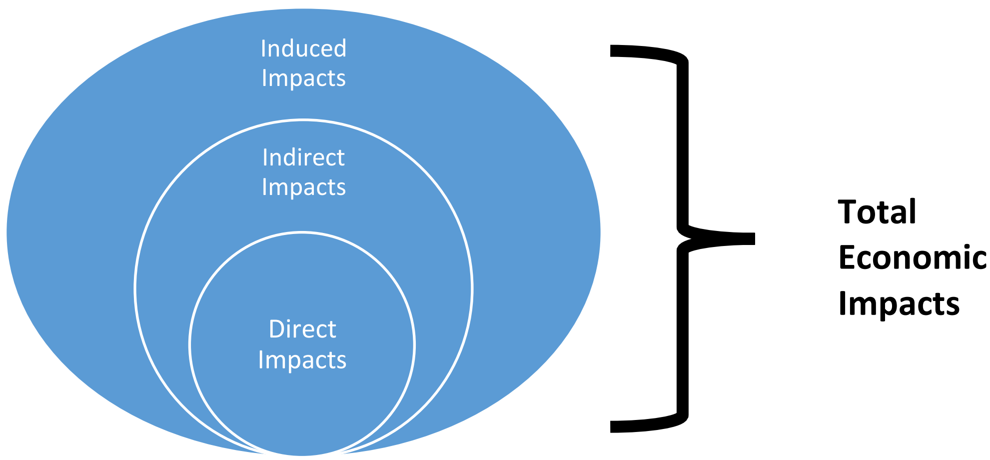
Retail, health and education, hotels, and bars and restaurants have been hit especially hard, though as of August 2020, the effects are fading slowly. For EDFC and its lending future, the number of small businesses that survive as potential borrowers in the current market place but also new, **start-up** businesses may find a tricky economic environment to 2023, based on recent forecasts of the American economic rebound (see the Philadelphia Federal Reserve Branch's Survey of Professional Forecasters for its August 2020 forecast of the American economy, suggesting no full rebound until after 2023).

COVID-19 and its effects on the economy, through social policy's reaction to reduce healthcare system pressures and save lives, may continue to act as a drag on business formation, employment growth and lending market opportunities for EDFC for the next few years. While business conditions remain problematic, it is important for EDFC to continue its use of best practices in lending and also monitoring its current portfolio and borrowers as a way to maintain liquidity and be ready to take advantage of potential opportunities. As with other lenders, EDFC should consider proactively increasing its allowance for loan loss and increase its monitoring and engagement with borrowers until the Mendocino County and California economies begin to show overt economic recovery indications.

4. Economic and Fiscal Impacts: Estimates for Mendocino County

In this section we see how lending by EDFC helps achieve its mission of broader community support. Figure 12 shows the multiplier effect of these loans in theory. Economic impacts come in three “flavors” starting with the same way ripples come from throwing a rock into a still pond; the rock is the lending made by EDFC, say to a new restaurant, that ripples out into the broader economy as **direct** effects. **Indirect** effects come from spending on vendors from that new borrowing. For example, purchases of new equipment or equipment maintenance or linens or tables provide demand to local businesses not there previously without EDFC’s funding.

Figure 12: Economic Impacts



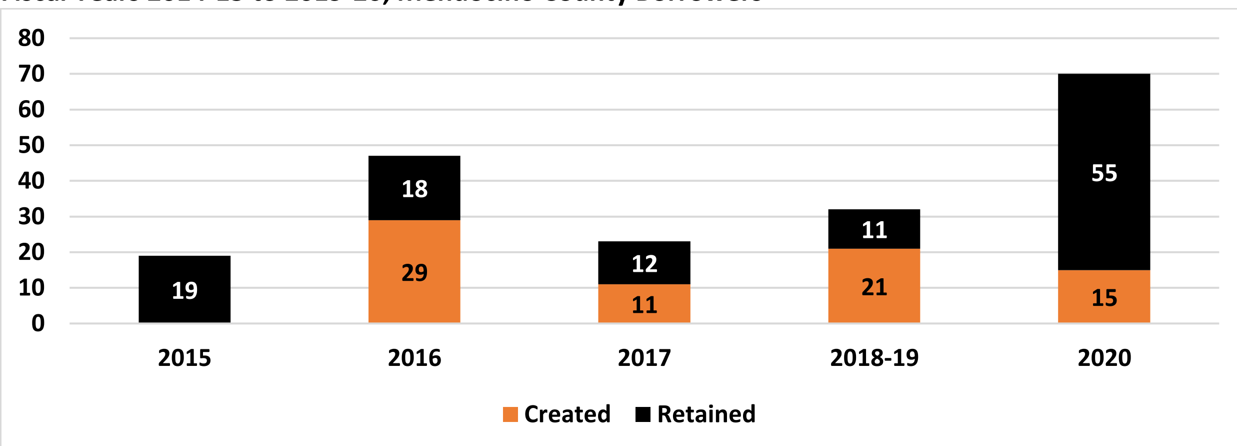
The indirect spending fuels **induced** effects, including vendor employees spending their wages on groceries, medical visits, restaurant meals, and various other industries that have little to no connection at all with the original business that borrowed from EDFC. That is just the spending. Once the business receives the EDFC funds and their business generates more revenue (and hires or retains workers), more spending takes place to maintain the business, and the effects are ongoing and annual as long as the business exists. The jobs are this retained and potentially grow as the borrowing business grows.

The specific economic impacts from EDFC loans depend on how the loans are spent. The purchase of equipment for a manufacturing business may have a larger effect than the purchase of linens because the income per worker for the equipment business is larger than the linen vendor. These effects are more subtle than the hiring of new workers.

The hiring of more workers is an obvious way of creating economic impacts, as people are paid immediately from the lending and spend some portion of that payment. The revenue that may derived from such an employment expansion, based on the borrower’s industry also implies the potential revenue to come from more workers. The indirect and induced impacts flow from the borrowing becoming spending.

Figure 2 summarizes EDFC's lending portfolio since 2015, by year and by industry category. The 2018 and 2019 data have been combined as only one loan per category was provided by EDFC in 2018. Figure 13 shows the job retention or creation by year. Jobs retained may not be as important on the surface as jobs created; in cases where jobs were retained, one may consider these jobs not being lost as an alternative and thus these loans preserve the capacity of the economy in terms of that business. Job creation is economic expansion for Mendocino County. Using Figure 2's data as the "direct" economic impacts by industry, the broader effects begin with jobs supported (created and retained). As part of EDFC's loan report process, they have the number of jobs created or retained by the loans they make. Figure 13 shows these data by year; fiscal years 2017-18 and 2018-19 are combined in the figures below as there was only one loan made in 2017-18.

Figure 13: Jobs Created or Retained by EDFC Loan, Number of Full-Time Equivalent (FTE) Workers, Fiscal Years 2014-15 to 2019-20, Mendocino County Borrowers



Sources: EDFC and EFA

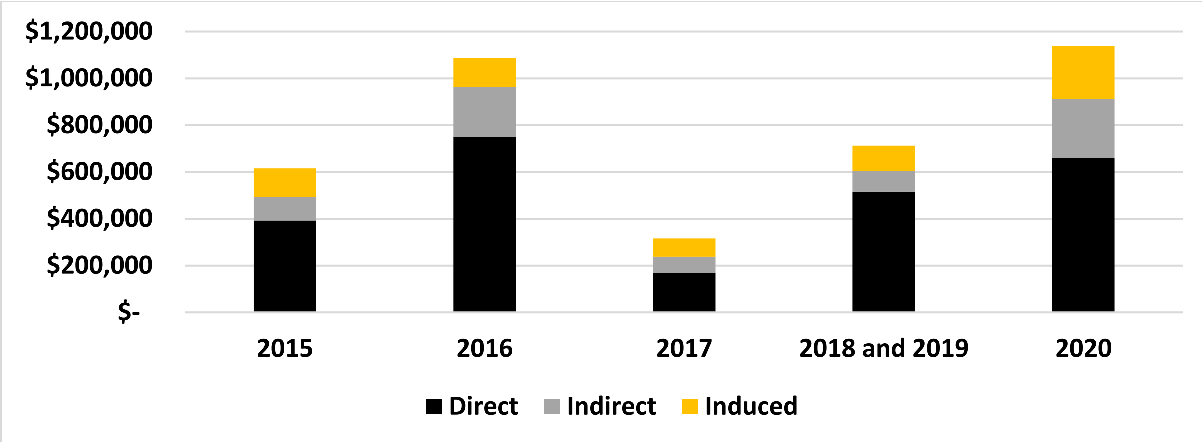
Note: Loans made to Lake County retained 15 jobs and created 8 jobs from 2015 to 2020 Year to Date

From Figure 2's data and the jobs created and retained shown in Figure 13, Figures 14 to 16 show the economic impacts on Mendocino County by year based on the borrower's industry. For example, when a loan is made to a construction business, spending from the loan creates business revenues for their vendors, supports jobs at the construction business **and** vendors, and also generates state and local tax revenues. The business revenues begin the ripple effect in dollars, as depicted in Figure 12 through:

- Business revenues generated annually;
- Total full-time equivalent workers supported (including those created or retained by the borrower); and
- State and local taxes generated annually.

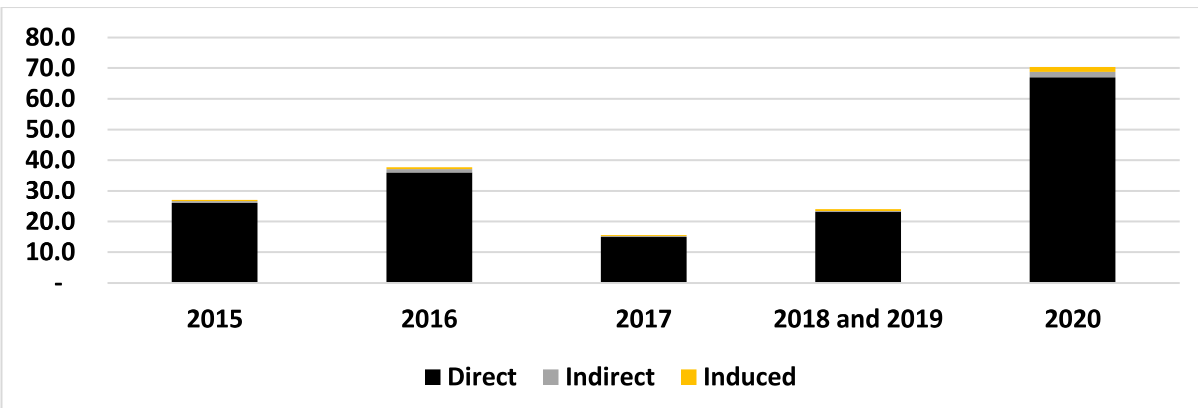
While providing economic impact data on each loan may be tempting, like other lenders it is the portfolio choices as a whole that truly showcase the power of the lender in supporting economic and community development. The breadth of borrower industry is generally toward services businesses, but there are also some goods-producing business in this mix as well.

Figure 14: Business Revenue Impacts from EDFC Lending in Mendocino County, 2014-15 Fiscal Year to 2019-20 Fiscal Year, Average Multiplier Effect = 1.56



Note: the direct impacts are the annual lending and borrower spending that begin the economic impacts.

Figure 15: Jobs Supported by EDFC Lending in Mendocino County, 2014-15 Fiscal Year to 2019-20 Fiscal Year, Includes Created and Retained and Additional Through Economic Impacts



Fiscal Impacts

When loans are made by EDFC in Mendocino County, the spending and subsequent economic impacts on local businesses and employees becomes more local tax revenue for incorporated cities and the county overall.   The categories of tax impacts include:

- Income taxes, both personal and corporate
- Property taxes, both residential and commercial;
- Sales taxes (including transient occupancy taxes);
- Fees and other payments to local governments; and
- Other taxes, such as capital gains.

Figure 16 shows the estimated on an annual basis for the state and local taxes. Most of the taxes in Figure 16 have a local connection; employment and personal income taxes are state-level taxes that indirectly affect Mendocino County through funding in subsequent fiscal years.

Figure 16: State and Local Tax Revenues Generated by EDFC Lending, 2015-2020 Year to Date, Current Dollars

Tax Category	2015	2016	2017	2018-19	2020
Employment Taxes	$700	$400	$600	$400	$600
Sales Taxes	12,600	8,900	10,600	31,000	10,600
Property Taxes - Commercial	10,600	7,500	9,000	26,200	9,000
Property Taxes - Residential	200	100	200	200	200
Personal Income	6,100	3,300	5,700	4,800	6,300
Other Taxes and Fees	2,500	1,600	2,100	4,900	1,800
Total State and Local taxes	**$32,700**	**$21,800**	**$28,200**	**$67,500**	**$28,500**

The economic impacts touch a large number of other industries. The precise set of businesses in Mendocino County affected depend on the borrower's industry and their vendor relationships, and those vendor's vendors, and so on. Also, as employees spend their wages, an array of retail and personal services and restaurants and entertainment businesses generate revenue.

Summary of Economic and Fiscal impacts

When EDFC lends money in Mendocino County, it has larger economic impacts than those on the borrowing business. The broader impacts are typified by the business revenues; as borrowers receive money and pay for equipment and infrastructure, Mendocino County businesses otherwise generate more revenues and in turn there are ripple effects on other businesses and also on state and local tax revenues. Jobs created or retained at the business are the primary impacts on jobs due to the smaller sizes of the loans.

What is not reflected here are the economic impacts of the borrowing businesses' ongoing revenues and thus subsequent economic impacts on Mendocino County. As an algorithm, if in each year after borrowing EDFC funds, the same set of borrowing businesses made some multiple of the initial borrowing level, the data in Figures 14 to 16 can help estimate the ongoing effects. For example, in 2019-20, the lending level was $660,761 in Mendocino County (see Figure 2). If the businesses supported by these loans made the same amount in revenue each year, the impacts would be the same each year on other businesses affected by the borrower remaining as a going concern (an additional $476,500 for other businesses in Mendocino County not there but for the original EDFC loan).

5. Comparisons of EDFC to Similar Organizations in Northern California

CDFI overview: why do these exist and what are the major objectives

EDFC is a community development financial institution (CDFI). CDFIs are non-depository, financial institutions providing disadvantaged people and communities with lending, business assistance, and an array of other services. CDFI loans fill a gap (literally providing "gap financing" in many cases) in markets otherwise left behind by community and larger banks and credit unions. Most small credit unions do not have business loans as part of their portfolio; community (or national) banks do not have the profit incentives to take on smaller, risky loans for small amounts of principal, where the underwriting costs of such loans provides a disincentive to lend in the same markets and ways EDFC does.

EDFC operates in Mendocino and Lake counties is a community development loan fund (CDLF) under the CDFI designation. The inclusion of Lake County, based on its economic situation, provides EDFC with breadth in terms of lending markets and also qualifications as a CDFI. It is critical that CDFI status be maintained to access funding only available to CDFIs from the federal government and other sources; the partnership with Lake County EDC is key to EDFC's regional coverage in the market and providing funding where none exists currently with respect to its broader mission. As we have seen above, the ability to gain access to funds that help if a loan goes bad is critical to EDFC's solvency and its ability to continue lending from other resources.

Comparisons are difficult as CDFIs generally have distinct roles they play in their communities. Based on **Arcata Economic Development Corporation** (Arcata EDC) history and adjacency in Mendocino County, they are included here. After a discussion with EDFC staff and considering their structure versus other CDFIs and microenterprise lenders in California, EFA considered suggestions from the California Association for Microenterprise Opportunity (CAMEO) and provide basic background and data on the following organizations beyond Arcata EDC[8]:

- **WEV - Santa Barbara;**
- **Opening Doors - Sacramento; and**
- **3Core – Chico.**

CAMEO suggested these organizations based on market area and connections to rural areas (even for Sacramento, rural areas are close to the urban center; we see how Opening Doors provides support for those communities below). For the County of Mendocino, these comparisons show how EDFC's work and practices are similar to these organizations because they all face similar opportunities and challenges. We start with the CAMEO recommendations and then look at Arcata EDC.

---

[8] Please see CAMEO's website for more on that organization, as staff at EDFC have used CAMEO as a vendor to expand their in-house underwriting competencies in 2018: https://cameonetwork.org/

Women's Economic Ventures (WEV) - Santa Barbara, CA

Like EDFC, WEV is has a loan programs focused on diversifying and expanding the local economy and create new jobs by providing loans to small businesses. WEV targets to low- and moderate-income men and women, minorities and others who have been traditionally underserved by lenders.

WEV is a certified Community Development Financial Institution (CDFI), an SBA Microlender, and an Equal Opportunity Provider. As a result of COVID-19, they have expanded their loan options to include a "COVID-19" Restart Loan; they have a "re-start" loan as part of their everyday work. The main difference between this loan package and the standard "start-up" package is that the business is existing and has been unable to continue or had business disruption specific to COVID-19 (the potential borrower must demonstrate the funding is connected to solving a problem created by social policies concerning COVID-19). Loans are generally repaid in 60 months, and payment terms seem to be very flexible if borrowers experience cashflow problems.

WEV also provides a "basic expansion" loan, similar to EDFCs loans that are meant to expand a current business versus start a new venture.[9] Like EDFC, WEFV's core lending options are a start-up loan or an expansion loan. The range of borrowing is between $1,000 to $25,000 (start-up) and $1,000 to $150,000, and include SBA microloans. Criteria to qualify for loans include:

- Business must be open or eligible to open under the most current government orders;
- No credit problems for the past twelve months, meaning no tax liens or foreclosures/bankruptcies;
- Credit score good and financials otherwise show solvency;
- Applicant(s) must own and control at least 51% of the business;
- All owners of 20% or more of the business must provide personal guaranty;
- Have a business plan with a financial projection; and
- Funds must be used for costs associated with re-opening/re-establishing business.

Opening Doors - Sacramento, CA

Opening Doors focuses its efforts on empowering immigrants and refugees as well as under-served communities in the greater Sacramento area. Their loan program is known as "small business investment" by name versus a revolving loan fund. While their focus is not on economic development per se, loans have similar criteria to EDFC and other CDFIs.[10] Smaller loans are the focus of lending activity and Opening Doors originates loans for the Small Business Administration (SBA) to provide "micro-business" loans between $1,000 and $50,000.

Opening Doors' mission is to empower refugees, immigrants, human trafficking survivors, and underserved Sacramento area residents to achieve self-sufficiency by accessing opportunities to

[9] See https://www.wevonline.org/loans-2/faqs/ for more.
[10] See https://openingdoorsinc.org/our-programs/economic-prosperity-programs/small-business-investment/ for more.

mainstream economic and social systems. Opening Door's borrowers are different than EDFC's foci with a refugee and immigrant focused market, but the loan practices are similar. Opening Doors asks that:

- Credit reports are provided as they are key piece of information given the personal nature of these loans;
- Other criteria include:
    - Relevant experience in the business to be started;
    - A verifiable source of income outside of the start-up business;
    - Other assets owned that may help the start-up business if available; and
    - Cash is available to invest in the start-up business.

Opening Doors also provides training and coaching assistance. They seem to start with the premise that the potential business owner is very new to having their own business and needs support throughout the application process and also once the loan is funded. Opening Doors suggests they have lent out more than $3.5 million since 2004 and have a 98 percent success rate on loans. This success rate is a key similarity to EDFC in that loan defaults are rare due to Opening Doors' focus on the financial progression of the borrower and interacting to help the borrower make their business better.

3CORE - Chico, CA

Like EDFC, 3CORE's marketplace is primarily rural and agriculturally-based. Their mission is more like a vision statement, but their intent is similar to EDFC in that 3CORE's loan fund is for general economic development. Their mission is: to cultivate healthy businesses, because people matter. They are a combination of economic development agency and rural development lender.

Much like EDFC in Mendocino County, 3CORE's focus is on "working capital", which can take on multiple forms. This includes expanding a business through a similar loan to a line of credit. The loan can be for specific machine or "capital equipment" purchases; loan amounts range between $25,000 and $250,000. 3CORE has over $3.5 million in loans outstanding, most of which are facilitating loans (US Department of Agriculture loans, for example) like EDFC, acting as the loan originator for loans that are sourced from federal agencies.

3CORE has a loan application checklist with similar items to EDFC, including key items such as:

- Projections for the next two (2) years for income by month;
- Assumptions for these projections;
- Tax returns for the last three years;
- Any and all current financial statements for the last three years (assumes a current business); and
- Corporate organization documents (Secretary of State letter and shareholder agreements).

A business plan is needed for start-up businesses, and some leeway is provided for new businesses in terms of additional financial information. Personal budgets and financial statements are needed for the owners, including federal tax returns for three years. This practice is good to see there has been consistent, legitimate income over the last three years and that the borrower is in good standing with the Internal Revenue Service (IRS). In the case of a sole-proprietor application, the personal financial statements are critical in underwriting and making the final loan decisions.

3CORE, based on its economic development goals, are current providing COVID-19 recovery loans. Due to its location, there was an expansion of lending for people and businesses that lost incomes and assets as a result of the 2018 fires in Butte County. These loans are called "Small Business Disaster Interruption" loans originating for SBA through the Economic Injury Disaster Loans (EIDL) program.[11]

Arcata EDC - Eureka, CA

EDFC is not the only CDFI lender in Mendocino County historically. Arcata EDC has a history of small business loans in six Northern California counties, including Mendocino County. Arcata EDC reports, since 1984, it has provided $3,681,244 in loans in Mendocino County and $1,132,000 in loans for businesses in Lake County.[12] Arcata EDC (Arcata EDC) is located in Eureka, CA. Arcata EDC provides loans as part of general, economic-development support services. Arcata EDC has loan funds similar to EDFC, where the focus of the lending is to provide funds for business purchase or expansion, or "micro-loans", or start-up loans (if the business is not existing). According to EDFC staff, they are currently working on a partnership loan with Arcata EDC due to the loan's size.

For Arcata EDC's primary loan portfolio, basic loan criteria are similar to EDFC and include:

- Commercial loans can finance up to 90% of the overall project cost, including:
    - Business acquisition, inventory, equipment, working capital, and/or commercial real estate;
- Loan amounts range from $10,000 to $250,000. If the loan is for more than $250,000, participation from a third-party lender (bank or seller, for example) is allowable (such as the current, evolving partnership loan with EDFC);
- Loan term varies with purpose of the loan.
    - For example, if borrowing mostly to purchase real estate, a 20-year term may be appropriate.[13]

Arcata EDC Start-Up/Micro Loans are for expansion, inventory, equipment or leasehold improvements. Arcata EDC also acts as an originator of SBA 504 loans for commercial real estate purchases, including tenant improvements. These loans are made with a bank or credit union as a loan partner, with only 10 percent down on the loan.

---

[11] See https://3coreedc.org/loan-program/ for more on 3CORE's programs.

[12] See https://www.aedc1.org/business-lending for more on Arcata EDC's loans. Superior Economic Development Corporation in Redding, CA overlaps with Arcata EDC's service area and also provides loans in Trinity and Siskiyou counties in California. Please see http://www.scedd.org/soar for Superior's "SOAR" loan program details.

[13] See https://www.aedc1.org/what-we-finance.

Arcata EDC loans have a classic loan-approval process, much like the one described above for EDFC. One practice Arcata EDC has is to provide a template for financial information about the business or prospective business, as it is connected to Arcata EDC's system such that loan decisions can be made from the same set of information for each. The information asked for is detailed and a lot for many businesses; as suggested above, such a process is meant to reduce unexpected loan losses by screening well before the funding decision. Arcata EDC also includes a questionnaire on any environmental concerns, specific to the business involved or the property to be acquired as a part of the loan. This expands Arcata EDC's screening process as to not have an environmental concern slow down cash flow to the borrower and reduce the probability of timely loan payments.

Summary on Comparison Organizations

As discussed above, EDFC is well-capitalized and has a large amount of loanable funds available with a very small history of troubled loans. The basic idea for all the comparison organizations is that they provide loans in markets that otherwise would not have lending available. The array of comparisons here shows very similar organizations (3CORE and Arcata EDC) to EDFC in Mendocino County to ones with more focal markets (Opening Doors and WEV). Because of the inherent riskiness in the loans provided, and these lenders do not hold deposits like a credit union or can raise capital like a corporate bank, funding is needed to build up loan loss reserves and provide services to borrowers.

One concern the County of Mendocino may have is rising competition from similar funds, such as Arcata EDC, coming in and reducing the demand for EDFC financing. Arcata EDC has no active loans in Mendocino County at this time and is partnering with EDFC otherwise.

6. Conclusions

When EDFC lends money in Mendocino County, it has larger economic impacts than those on the borrowing business. The initial impacts are typified by the borrowing business' spending of the loan provided; as borrowers receive money and pay for equipment and infrastructure, Mendocino County businesses otherwise generate more revenues and in turn there are ripple effects on other businesses and also on state and local tax revenues. Jobs created or retained at the business are the primary impacts on jobs due to the smaller sizes of the loans. The County of Mendocino can see the multiplier as an algorithm on their funding for EDFC, where the minimum economic impact is grant funding times the multiplier in any given year.

Figure 17: Summary of Estimated Economic Impacts

Fiscal-Year End	Initial Lending	Indirect	Induced	Total	Lending Multiplier	Jobs Created	Jobs Retained
2015	$393,000	$99,300	$123,500	$615,900	1.57		19
2016	$749,100	$214,200	$123,900	$1,087,200	1.45	29	18
2017	$168,700	$69,700	$77,500	$315,900	1.87	11	12
2018 and 2019	$515,400	$88,200	$109,100	$712,700	1.38	21	11
2020	$660,800	$250,700	$225,800	$1,137,300	1.72	15	55

Multiplier: For every dollar lent, the multiplier is total spending created in Mendocino County

The availability of an array of funds for EDFC to use is driven by the maintenance of its CDFI status. The connection to Lake County and loans made there assists in maintain that status, as EDFC serves a regional set of borrowers per its mission. EDFC, based on its underwriting and practices with borrowers, is engaged in best practices when lending and monitoring loans provided.

COVID-19 is likely to create regional economic challenges for all lenders, including CDFIs. For EDFC and its lending future, the number of small businesses that survive as potential borrowers in the current market place but also new, **start-up** businesses may find a tricky economic environment to 2023, based on recent forecasts of the American economic rebound suggesting no full economic recovery until after 2023.

Looking at similar organizations (3CORE in Butte County and Arcata EDC in Humboldt County) to ones with more focal markets and missions (Opening Doors in Sacramento County and Women's Economic Ventures in Santa Barbara County) suggest EDFC is following a common set of practices. Lending challenges are mitigated in their potential effects on lenders through strong lending practices in determining new borrowers and monitoring current loans. EDFC has all the pieces in place to continue following best practices. EDFC's flow of funds statements and balance sheet details cause no sense of alarm, especially with a large amount of cash on hand. EDFC is well-capitalized, as its net asset ratio has increased since 2018 during a time that its portfolio of loans continued to grow.

References

Bureau of Economic Analysis (2020) "Local Area Personal Income", Accessed at https://www.bea.gov/data/income-saving/personal-income-county-metro-and-other-areas

California Department of Finance (2020) "Estimates: Demographics", Accessed at http://www.dof.ca.gov/Forecasting/Demographics/Estimates/

California Department of Tax and Fee Administration (2020) "Taxable Sales", Accessed at https://www.cdtfa.ca.gov/dataportal/catalog.htm?category=Taxable%20Sales%20in%20California

California EDD (2020) "Industry Employment", Accessed at https://www.labormarketinfo.edd.ca.gov/data/employment-by-industry.html

California EDD (2020) "Quarterly Census of Employment and Wages", Accessed at https://www.labormarketinfo.edd.ca.gov/data/Quarterly_Census_of_Employment_and_Wages.html

Census Bureau (2020) "American Community Survey", Accessed at http://data.census.gov

Economic Modeling (EMSI) (2020) "Self-Employed Businesses", Accessed through paid account at www.economicmodeling.com.

Jagtiani, Julapa and Catherine Lemieux (2016) "Small Business Lending: Challenges and Opportunities for Community Banks", *Working Papers, Philadelphia Federal Reserve*, No. wp16-08, Accessed at https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2016/wp16-08.pdf?la=en

Levine, Ross and Chen Lin, Qilin Peng, Wensi Xie (2020) "Communication within Banking Organizations and Small Business Lending", *The Review of Financial Studies*, forthcoming.

SCORE Organization: http://www.score.org

Small Business Development Center (SBDC): https://americassbdc.org/

State of California iBank: https://ibank.ca.gov

State of California Treasurer CalCAP program: https://www.treasurer.ca.gov/cpcfa/calcap/sb/summary.asp

Zillow™ Research (2020) "Housing Data", Accessed at https://www.zillow.com/research/data/

EDFC staff provided financial statements and lending data summaries (did not shar any borrower details due to confidentiality) to use in estimating the economic impacts. They also provided their borrower handbook and their lending practices. Please see www.edfc.org for more.

Appendix

These figures provide more details as to EDFC's lending practices. These are all classic ways to categorizing lending and providing a way for a potential borrower to find what loan program works best for them most quickly. These templates were provided by EDFC staff

	Credit-Builder	**Small MicroLoan**	**Large MicroLoan**	**Small Business Loan**
Maximum Loan Amount	**up to $10,000**	**$10,001 - $25,000**	**$25,001 - $50,000**	**$50,001 - $250,000**
Maximum Term	**3 years**	**5 years**	**8 years**	**10 years**
Interest Rates	**9-12%**	**8-10%**	**7-9.5%**	**6-8.5%**
Purpose of the Loan	All EDFC loans must be used for investment in the operations of the business and for business assets. Acceptable Loan Purposes include: Working Capital, Business Equipment, Marketing, Startup Expenses, Leasehold Improvements, and facility purchase. None of the loan proceeds should be used to pay for personal assets or personal liabilities.			

Cash Capacity Requirements				
Debt Service Coverage Ratio	1.1	1.1	1.25	1.25
Total Debt-to-Income Ratio	Startup Max DTI : 45%	Startup Max DTI : 45%	Startup Max DTI : 45%	Startup Max DTI : 40%
	Existing Max DTI : 50%	Existing Max DTI : 50%	Existing Max DTI : 50%	Existing Max DTI: 45%
Insufficient Funds	1 in last six months	1 in last 12 months	1 in last 12 months	No insufficient funds
Income Capacity for a Start-Up < 6 months	Applicant(s) must have an alternate source of income and show the capacity required to cover loan payment and any fixed expenses on the startup business.			

Credit Requirements				
FICO Score	<500	550+	600+	650+
***Length of Credit History**	Minimum 6 months of established credit.	Minimum one year of established credit.	Minimum 3 years credit history.	Minimum 5 years credit history
***Non-Medical Collections**	Must be over 1 year old	No outstanding collections	No collections in last 3 years	No history of collections.
***Write-Off's**	No write-offs within the past 6 months.	No write-offs within the past 2 years.	No Write-Off's.	No Write-Off's.
Bankruptcy	No bankruptcy or foreclosure in last year	No bankruptcy or foreclosure in last 2 years	No bankruptcy or foreclosure in last 5 years	No bankruptcies or foreclosures
***Repossession**	No repossessions in last 2 years.	No repossessions in last 5 years.	No Repossessions in last 5 years.	No Repossessions.
***Slow Pay**	Maximum of 2 in last 6 months	May show maximum 1 in last 6 months	No slow pay.	No slow pay.
***Civil Judgments, Federal/State Tax Liens**	Civil judgements and Federal or State Tax liens are not allowed.			
Credit History	Experience with comparable level of credit	Experience with comparable level of credit	Experience with comparable level of credit	Experience with comparable level of credit
***Child Support**	If slow pay, proof must be provided showing the account to be current.		No slow pay in child support.	No slow pay in child support.

Collateral Requirements				
Collateral/Value	Not required	50% collateral or 80% Loan Guarantee	70% collateral or 80% loan guarantee	100% collateral or 20% with an 80% Loan Guarantee
UCC Filing	Not required	Required for all loans	Required for all loans	Required for all loans

Capital Requirements			
Equity Investment	Formal legal formation of business, informal business plan, relevant experience and equity investment of minimum 10%.	Formal legal formation of business, informal business plan, relevant experience and equity investment of minimum 15%.	Formal legal formation of business, formal business plan, relevant experience and equity investment of minimum 20%.

Character Requirements				
Technical Assistance	Required	Required if more than 50% of loan is for working capital or loan is under 100% collateralized	Required if more than 50% of loan is for working capital or loan is under 100% collateralized	Required for start-up businesses, or businesses less than 3 years old.
Criminal History	No criminal activity of any kind in last 2 years. No history of felony charges or convictions, sex offenses, theft, fraud, or embezzlement.	No criminal activity of any kind in last 5 years. No history of felony charges or convictions, sex offenses, theft, fraud, or embezzlement.	No criminal activity of any kind in last 10 years. No history of felony charges or convictions, sex offenses, theft, fraud, or embezzlement.	No criminal history except for minor traffic infractions
Experience	Must have demonstrated capacity to carry out intended work, and must have any licenses required.	Must have demonstrated capacity to carry out intended work, and must have any licenses required.	Must have a minimum of 2 years of experience in field of business, all required licenses AND experience in business management. (Participation in a minimum of 10 hours of TA can meet the business management requirement.)	Must have at least 3 years of experience in field of business, all required licenses AND experience in business management. (Participation in a minimum of 10 hours of TA can meet the business management requirement.)