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ECONOMIC DEVELOPMENT ADMINISTRATION

Lower Chattahoochee Regional Development Center Has Mismanaged Its Revolving Loan Fund

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Office of Audits, Atlanta Regional Office

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EXECUTIVE SUMMARY

In 1995 the Economic Development Administration awarded a revolving loan fund (RLF) grant to the Lower Chattahoochee Regional Development Center in Columbus, Georgia. The grant was for $500,000 in federal funds and required a cash match of $166,667 from the Center, for a total RLF capitalization of $666,667. The grant was to provide federal assistance for the recovery from Tropical Storm Alberto in 5 flood-distressed Georgia counties and 12 municipalities located within those counties.

The audit was prompted by an EDA request that we review the August 1999 performance audit of the Center conducted by the Georgia Department of Community Affairs. The state audit revealed significant audit findings that our audit developed in more detail.

Our audit revealed that the Center has mismanaged the RLF and made inappropriate loans of $620,000. The Center's management of the RLF has been marked by pervasive problems, poor business judgment, and inappropriate loans. Our specific findings are as follows:

- As of December 31, 1999, the Center had awarded six RLF loans totaling over $718,000. One ineligible loan, for $200,000, was made primarily to refinance a prior debt of $159,826, and involved a conflict of interest. Two additional loans, totaling $220,000, also involved conflicts of interest. In addition, one loan, for $200,000, was made without adequate documentation to justify the loan decision. Three of the loans, totaling $420,000, were either in default or seriously delinquent (see page 3).

- The Center failed to meet $54,268 of its matching share for the RLF grant (see page 7).

- The Center's RLF loan files did not contain numerous required documents (see page 9).

- The Center could not provide documentation to demonstrate that it had fully marketed the RLF program (see page 10).

The Center did not concur with our findings. The Center submitted additional documentation to support its limited marketing efforts for the RLF program. The Center submitted a series of statements that generally described it as acting prudently in managing the RLF and stating that it should be allowed to continue to do so. The Center's statements were not supported by additional documentation to convince us to change our findings and recommendation. Therefore, we have changed our findings only to give credit for a limited marketing effort and have not changed our recommendation.

We believe that it is not in the best interest of the Department or the taxpayers to allow the Center to continue operating the RLF fund. We recommend that EDA's Atlanta Regional Director immediately terminate the RLF grant for cause and require the Center to refund $575,247, which represents the total RLF grant and computed interest.

INTRODUCTION

In August 1995, the Economic Development Administration awarded a revolving loan fund grant (RLF) to the Lower Chattahoochee Regional Development Center in Columbus, Georgia. The grant (No. 04-19-69022) was for $500,000 in federal funds with a local matching share requirement of $166,667, for a total RLF capitalization of $666,667. The grant was funded under Title IX of the Public Works and Economic Development Act of 1965, as amended. The purpose of the RLF was to provide federal assistance to help restore economic viability and recovery from Tropical Storm Alberto in 5 flood-distressed Georgia counties and 12 municipalities within those counties. The eligible counties were Clay, Quitman, Randolph, Stewart, and Talbot.

The Center was established pursuant to the Georgia State Planning Act of 1989, and succeeded the former Lower Chattahoochee Area Planning and Development Commission. The Center's objectives are to develop, promote, and assist in establishing coordinated and comprehensive planning in the region consistent with Georgia's planning guidelines; to provide member local governments on both an individual and regional basis with professional technical assistance to improve local government service programs; to provide professional technical assistance with the development, collection, compliance, and maintenance of a local and/or regional geographic information base and network; to function as an Economic Development District as designated by the U.S. Department of Commerce; and to function as the region's designated Area Agency on Aging.

Under Georgia law, membership in the Center is required for each municipality and county in the region. The Center's membership consists of 8 counties and 19 municipalities in the Lower Chattahoochee Region of Georgia. The eight counties in this region are Chattahoochee, Clay, Harris, Muscogee, Quitman, Randolph, Stewart, and Talbot.

PURPOSE AND SCOPE

The audit was prompted by an EDA request that we review the August 1999 performance audit of the Center conducted by the Georgia Department of Community Affairs. The purpose of our audit was to determine (1) the financial condition of the EDA Title IX revolving loan fund; (2) the Center's compliance with laws, regulations, EDA guidelines, the terms and conditions of the grant agreement, and the provisions of its RLF Plan; and (3) whether EDA RLF program objectives are being achieved. The state audit revealed serious audit findings relating to the revolving loan fund that we developed in more detail.

The audit was performed from January to February 2000 and covered the period from August 1995 to December 1999. We interviewed Center officials and loan recipients; reviewed Certified Public Accountants (CPA) annual audit reports of the Center; and reviewed Center, EDA, and borrower records as appropriate.

We examined the Center's most recent CPA organization-wide audit report for fiscal year 1999, which disclosed no material internal control weaknesses. However, we did not rely on the CPA's internal control review, but instead determined that we could better satisfy our audit objectives through detailed substantive testing of the EDA grant. As discussed later in this report, internal controls over the revolving loan fund were inadequate and failed to prevent inappropriate uses of the fund.

We did not rely on computer processed data as a basis for our audit findings and recommendations. Consequently, we did not conduct tests of either the reliability of the data or the controls over the computer-based system that produced the data.

We also evaluated the center's compliance with laws and regulations applicable to the award. We identified EDA's *Economic Adjustment Program Revolving Loan Fund Administrative Manual,* OMB Circular A-87, Title 15 Code of Federal Regulation Part 24, and the terms and conditions of the grant as the applicable federal requirements. We found that the center did not comply with certain conditions of the award. The noncompliance instances are deemed material and are detailed in the "Findings and Recommendations" section of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the grantee had not complied with applicable laws and regulations in all material respects.

We conducted our audit in accordance with generally accepted government auditing standards and performed the audit under authority of the Inspector General Act of 1978, as amended, and the Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

THE CENTER MISMANAGED THE REVOLVING LOAN FUND AND MADE INAPPROPRIATE LOANS TOTALING $620,000

We found that the Center failed to manage the revolving loan fund in a prudent manner as required by EDA's *Economic Adjustment Program, Revolving Loan Fund Grants Standard Terms and Conditions* ("Standard Terms and Conditions") and EDA's *Economic Adjustment Program, Revolving Loan Fund Administrative Manual* ("Administrative Manual"). This mismanagement is evidenced by the fact that every loan in the portfolio suffered from significant problems, as shown in the table below. In particular, one ineligible loan was made to refinance a borrower's existing debt; three loans involved prohibited conflicts of interest; each loan in the portfolio suffered from a lack of required documentation, and three of the six loans were either in default or seriously delinquent. In addition, the Center failed to meet matching share requirements and failed to adequately market the RLF program as required.

Status of RLF Loans
As of December 31, 1999

Borrower	Loan Amount	Principal Balance	Loan Status	Problems
Haughton Company	$200,000	$192,500	Default	Refinancing and Conflict of Interest
Settles Precision Mfg.	200,000	192,348	Default	Inadequate Documentation
Deerpoint Development	200,000	156,332	Current	Conflict of Interest
Bullington, Inc.	52,767	50,176	Current	Inadequate Documentation
D&J Plastics	45,417	39,088	Current	Inadequate Documentation
Simply Southern	20,000	16,713	Delinquent	Conflict of Interest
Total	**$718,184**	**$647,157**		

I. The Center Made an Ineligible Loan to Refinance A Borrower's Existing Debt

In March 1996, the Center made an ineligible loan for $200,000 to the Haughton Company primarily to refinance the borrower's existing debt. Section IV.C.3.e. of the Administrative Manual and Part I, Section D, of the Center's *Revolving Loan Fund Strategy and Operational Procedures* ("Operating Plan") both prohibit RLF loans to refinance existing debt, with limited exceptions. The loan file included contradictory memoranda regarding the purpose of the loan. However, the file did not contain a loan write-up documenting sound economic justification for the loan. Further, it is clear that the RLF borrower received a lower interest rate and lower monthly payments than the existing private loan offered, and had an existing debt extinguished using a majority of the RLF loan proceeds.

First, the Center paid $159,826 of the $200,000 RLF loan directly to the bank holding the borrower's existing loan to pay off that loan. In addition, the Center's Economic Development Director wrote a memorandum to the file dated April 15, 1996, in which he stated that all parties involved at the loan closing, including himself, agreed that the RLF loan was made to allow the refinancing of the existing bank loan. The Center could not provide the loan write-up used for presentation to the loan review committee, or any documentation to support a sound economic justification for making the loan. Finally, in a December 9, 1996 letter, the president of the bank that held the private loan stated his understanding that the purpose of the RLF loan had been to pay off the bank's loan and to provide the borrower with additional working capital, a lower interest rate and lower monthly payments, and that these were the intentions of the Center, the bank, and the borrower.

The Center's Executive Director attempted to justify the refinancing of the bank loan by stating that, at closing, the bank demanded that the borrower's bank loan be paid first; he also stated that the purpose of the RLF loan was not to pay off existing debt or to provide a lower interest rate. In addition, the Economic Development Director's April 15, 1996 memorandum stated that the purpose of the RLF loan was not to replace private capital or to lower the cost of financing to the borrower, and that the loan would not have been approved except for severe economic conditions. These statements appear to be an attempt to justify the loan through the exception in the Administrative Manual that allows refinancing of existing debt when there is sound economic justification and the grant recipient sufficiently documents in the loan write-up that the RLF is not replacing private capital solely for the purpose of reducing the risk of loss to an existing lender or to lower the cost of financing to the borrower. However, absent the requisite documentation to support a sound economic justification for making the loan, it appears that the RLF loan primarily served to refinance the borrower's existing bank loan, in violation of the Administrative Manual and the Center's Operating Plan. This conclusion is further supported by the discussion of a prohibited conflict of interest below.

II. The Center Made Three Loans Despite Prohibited Conflicts of Interest

Three of the Center's loans, including the ineligible loan to the Haughton Company discussed above, were made despite the existence of apparent conflicts of interests. Both Section D.16 of EDA's Standards Terms and Conditions and the Center's Operating Plan prohibit certain conflicts of interest.

A. $200,000 Loan Involved a Conflict of Interest

The loan to the Haughton Company involved a prohibited conflict of interest. Section D.16.b. of EDA's Standard Terms and Conditions provides that no member of the Recipient's Board of Directors or other approving Board, or person related to the Board member by blood, marriage, law, or business arrangement shall receive any benefits resulting from the use of loan or grant funds, unless the benefit is disclosed to the Recipient on the public record, and the Recipient makes a written determination that the benefit is not so substantial as to affect the integrity of the Recipient's decision process and of the services of the Board member. Additionally, Part II, Section E., of the Center's Operating Plan prohibits a consultant, officer or any person serving in a similar capacity with any participating public agency, who has exercised any functions or responsibilities with respect to any RLF activities, from receiving a benefit from local RLF activities. The Operating Plan also prohibits persons from benefitting from an RLF project if they are in a position to participate in a decision-making process or gain inside information regarding RLF proposed activities.

The president of the bank that received $159,826 directly from the Center to pay off the Haughton Company's existing bank loan also served on the Center's RLF loan review committee. Minutes of the loan review committee indicate that the president resigned from the committee because of a personal conflict of interest on this loan. However, the bank president was reappointed to the loan review committee just three days after the Haughton loan was approved. In addition, the bank president clearly had direct involvement in the decision to make the Haughton loan. According to a February 14, 1996 memorandum by the Center's Executive Director, the bank president met with the Center's Economic Development Director prior to the March 1996 loan closing and discussed the RLF loan. According to the Economic Development Director, both he and the bank president agreed that the Haughton loan was "strong" and a "no-lose situation" for both the bank and the RLF. Also, the bank president wrote a December 9, 1996, letter to the borrower regarding the loan, in which he discussed the purpose of the RLF loan.

By meeting with the Center's Economic Development Director to discuss and recommend the RLF loan to the Haughton Company, the bank president clearly participated in the RLF decision-making process, in violation of the Center's Operating Plan. Further, because the bank president served on the Center's loan review committee immediately prior to the approval of the Haughton loan and was reappointed to the committee just three days later, a reasonable person could be led to believe that he was in a position to gain inside information regarding the proposed RLF loan to the Haughton Company and/or to influence the provision of a such a loan, also in violation of the Center's Operating Plan. Given that the bank received a direct payment of RLF funds at closing, Center officials should have given more consideration to the appearance of a prohibited conflict of interest that the Haughton loan might create. Under the circumstances, the Center's failure to make a written determination that any benefit to the bank president was not so substantial as to affect the integrity of the Center's decision-making process violated EDA's Standard Terms and Conditions.

B. $200,000 Loan Involved a Conflict of Interest

In August 1996, the Center made a $200,000 RLF loan to Deerpoint Development Company of Randolph County that involved a prohibited conflict of interest. Part II, Section E., of the Center's Operating Plan prohibits any person who is an elected or appointed official, officer or person serving in a similar capacity with any participating public agency, who exercises or has exercised any functions or responsibilities with respect to any RLF activities, from benefitting from local RLF activities. The Center's Operating Plan also prohibits any person who is in a position to gain inside information regarding RLF proposed activities from benefitting from an RLF project.

Here, the RLF received matching funds of $50,000 from the Randolph County Development Authority. The president of the borrower entity was also a member of the Development Authority Board, which recommended and approved the provision of funds from Randolph County to the RLF intended as matching share. By serving on the Board of a participating public agency that provided matching funds for his loan, the president of Deerpoint Development Company was in a position to gain inside information regarding RLF proposed activities.

The Center's Executive Director stated that the conflict of interest issue was discussed before the loan was made and that the loan review committee, including the Center's attorney, agreed that there was no conflict of interest in making the loan. The president of Deerpoint stated that he abstained from voting on the provision of the Development Authority matching funds for his loan. However, this attempt to avoid a conflict of interest does not change the appearance of a prohibited conflict created by providing a loan to a company whose president served on the board of the county development authority that recommended and approved matching funds.

C. $20,000 Loan Involved a Conflict of Interest

In March 1996, the Center made a $20,000 RLF loan to Simply Southern of Stewart County, which violated the conflict of interest provisions of the Center's Operating Plan. Matching funds of $5,000 for the loan were provided by the Stewart County Development Authority. Part II, Section E., of the Center's Operating Plan prohibits an employee of a participating public agency who exercises any functions or responsibilities with respect to any RLF activities from benefitting from local RLF activities. The Operating Plan also prohibits any person who is in a position to gain inside information regarding RLF proposed activities from benefitting from an RLF project.

First, one partner in the borrower entity was an authorized county representative who served as the witness for the loan agreement between the county and the Center; she also signed the county development authority check that was intended to serve as matching share for the RLF loan for which she was the borrower. By participating in the provision of the county's matching funds for her loan, and witnessing the loan agreement between the county and the Center, the borrower exercised RLF functions and also benefitted from the local RLF activities, in violation of the conflict of interest prohibitions in the Center's Operating Plan.

In addition, this partner was also a clerk for the Stewart County Commissioner, who served on the Center's board of directors and the RLF loan review committee. Because the borrower had an independent employment relationship with the County Commissioner who served on the loan review committee, the borrower arguably was in a position to gain inside information regarding the RLF's proposed activities, in violation of the Operating Plan's conflict of interest prohibition. The Center's Executive Director stated that the issue of a potential conflict of interest was discussed before the loan was made, and that the loan review committee, including the Center's attorney, agreed that there was no conflict of interest in making the loan to Simply Southern. Despite their agreement on this point, the loan to Simply Southern appears to be clearly in violation of the Operating Plan's conflict of interest provisions.

III. The Center Failed to Meet $54,268 of Matching Share

The Center failed to meet the requirement that it match the RLF with $166,667 in local funds. As shown below, the Center claimed $273,474 in matching share funds; however, only $112,399 of the claimed funds are eligible matching funds, resulting in a shortfall of $54,268. The Center's loan obligations to Randolph and Stewart Counties do not qualify as eligible matching share for the RLF. The Center was obligated to repay the loans to the counties; therefore, it did not have the required control of the funds.

EDA's Administrative Manual, Section V. B. requires that, upon repayment, the nonfederal share funds are to be treated the same as EDA funds; repayments of principal must be placed in the RLF for relending, and interest payments must be used either for relending or for eligible RLF administrative costs. Further, the Manual requires that the nonfederal matching share must be available when needed for lending and must be under the control of the grant recipient (or its designee) for the duration of the RLF.

Matching Share Analysis

Matching Source	Amount Claimed	Amount Eligible
Randolph County	$100,000	$ 0
Stewart County	55,000	0
The Center	108,841	108,841
The Center	9,633	3,558 *
Total	$273,474	$112,399
Matching Share Requirement		(166,667)
Difference		$ (54,268)

*The Center claimed administrative expenses of $20,000 but was only entitled to $13,925 based on program income for the appropriate period, an excess claim of $6,075. The Center redeposited $9,633, which was $3,558 above the required redeposit of $6,075.

The Center obtained two loans from the Randolph County Development Authority totaling $100,000. The Center then incorrectly claimed these loan obligations as matching share funds. One loan obligation of $50,000 was incorrectly claimed as match for the $200,000 RLF loan to Deerpoint Development Company. The other loan obligation of $50,000 was incorrectly claimed as match for the $200,000 RLF loan to Settles Precision Manufacturing. The Center was obligated to repay these loans to the development authority; therefore, the Center did not have the required control over the funds and the loans did not qualify as eligible matching share. The Center was required by the loan agreement to use the loan proceeds to make additional RLF loans which were restricted to borrowers from Randolph County. The Center later made two RLF loans to borrowers from Randolph County.

The Center obtained two loans from the Stewart County Development Authority totaling $55,000. The Center then incorrectly claimed these loan obligations as matching share funds. One loan obligation of $50,000 was used to match the $200,000 RLF loan to the Haughton Company. The other loan obligation for $5,000 was used to match the $20,000 RLF loan to Simply Southern. The Center was required to repay these loan obligations to the development authority; therefore, the Center did not have the required control over the funds and the loans did not qualify as eligible matching share. The Center was required to use the loan proceeds to make additional RLF loans which were restricted to borrowers from Stewart County. The Center later made two RLF loans to borrowers from Stewart County.

After the Center's CPA informed the Center's management that the loan obligations to the counties could not be considered as matching share funds, the Center borrowed $108,841 from the Randolph County Development Authority. The Center is repaying this loan from the Center's general funds and not RLF funds. Therefore, the entire proceeds of $108,841 are eligible to be claimed as matching funds. The Center appropriately used $53,591 of the loan proceeds to fund an RLF loan to Bullington, Incorporated. The balance of $55,250 was used to replace and pay off the remaining balance of the $100,000 loan obligation to Randolph County Development Authority.

The Center's loan obligations to Randolph and Stewart Counties were required by the loan agreements to be paid back to the counties; therefore, the counties maintained control of the funds. The Center's Executive Director stated that the counties were to create a special account for the loan repayments which would then be used for relending of new matching loans from the counties. The Center did not provide any documentation to support this claim, and even if it had, this procedure still would not have met the matching share requirement that the Center must be in control of the funds.

The Center's Executive Director stated that once the problem with the county loan obligations was discovered, the Center took action to gain full control of the funds. However, the action did not replace the entire required match of $166,667. The Executive Director stated that the Center's former Economic Development Director supposedly had an agreement with EDA about the source of the matching funds and how it would be handled within the counties. EDA officials stated, however, that no special permission was given to the Center regarding the county matching funds.

Finally, the Center withdrew $20,000 from the RLF to cover its administrative costs for fiscal year 1999. The Center then redeposited $9,633 of the administrative funds back into the RLF and claimed that amount as matching share for the $45,417 RLF loan to D&J Plastics. Only $13,925 of the $20,000 qualified as administrative expenses. The balance, $6,075 should have been redeposited into the RLF. Therefore, of the $9,633 claimed as matching share, only the amount exceeding the $6,075, or $3,558, qualifies as eligible matching funds.

IV. Other Problems

A. $200,000 Loan Decision and Loan Files Lacked Adequate Documentation

In April 1997, the Center made a $200,000 RLF loan to Settles Precision Manufacturing that was not supported by appropriate documentation. Specifically, the loan file lacked documents that were both required and essential to making an informed loan award decision. The missing documents included the loan application, the loan write-up for presentation to the loan committee, the credit report, and business plans. As discussed in Section IV.C., this loan was also in default and had an outstanding balance at December 31, 1999, of $192,348.

In addition to the lack of documentation to support the Settles loan, our review of the Center's RLF loan files revealed that numerous documents that were required and essential for prudent loan portfolio management were missing from the remaining loan files. The Center's Executive Director put memorandums in the RLF loan files stating that although documentation was missing, the required loan procedures were followed. However, such statements do not represent adequate support to show that all required loan procedures were followed. As shown in the following table, the Center was lacking required documentation for all six loans made. None of the six loan files contained loan write-ups for presentation to the loan review committee, credit reports, or environmental reviews. Five loan files were missing applicant business plans; three loan files were missing bank turndown letters, and two loan files did not even contain a loan application.

EDA's Administrative Manual, Section IX. A.3., requires the grantee to certify that the standard RLF loan documents necessary for lending are in place. In addition, the Center's Operating Plan, Part II Section B., lists specific loan procedures that should have been documented in the RLF loan files for each loan, including those in the table on page 10.

The Center's Executive Director agreed that many of the documents required for the RLF program were missing. He stated that documents have been missing since the Center's Economic Development Director resigned. He added that the Economic Development Office handling the RLF program relocated and after the move documents were missing. The former Economic Director stated in a letter to the Center that to the best of his knowledge, all documentation for the RLF program was completed as required and maintained at the Center at the time he resigned. Regardless of the explanation for the missing documents, the Center failed in its responsibility for making sure that program documentation was secured and accounted for during the duration of the RLF grant.

Schedule of Missing Documentation

Missing Documents	Number of Loans
Loan Write-up	6
Environmental Review	6
Credit Report	6
Business Plan	5
Bank Letter	3
Loan Application	2

B. Revolving Loan Fund Program Was Not Fully Marketed

The Center could not provide documentation to support the full marketing of the RLF program. The Center's Operating Plan, Section F.2., requires the Center to implement a marketing strategy including the following actions:

a) The development of an easy to understand brochure discussing the program attributes and requirements to be widely disseminated through banks and other lending institutions, chamber of commerce, city and county governments, CPA firms, and other sources.

b) The distribution of the above mentioned brochures to all local chapters of the NAACP and minority civic clubs in order to accommodate the minority population in the area.

c) The advertisement of workshops and other public meetings (through local newspaper articles and ads, radio, flyers and public notices in governmental buildings) to be held within the region on a periodic basis, with special attention to ensure that the RLF will be used to directly support and encourage minority business development.

The Center provided documentation to show that it conducted three meetings to market the RLF program. However, no other evidence was provided, such as newspaper or radio ads, to show the program was fully marketed.

The Center's Executive Director presented a list of 51 potential RLF loan applicants that consisted of individuals who, according to the Executive Director, had made contact with Center officials. However, the list did not reveal the date of the contact, the Center official making the contact, or the type of contact made.

In addition, we conducted interviews with four local county minorities, three black males and one black female, three of whom were potential RLF loan applicants. Only one individual, the Stewart County NAACP Representative, stated he had heard of the RLF program from marketing actions by the Center; however, he also served on the Center's board of directors and RLF loan review committee. The other three individuals, the Randolph County NAACP Representative and two minority business owners, stated that they did not receive any marketing information about the RLF program from the Center, had not attended or heard of any town hall meetings, and had not read about the RLF program in their local newspapers. They found out about the RLF program from friends and county officials. It should be noted that, beyond the provisions of the Center's own Plan, Section D.09 of EDA's Standard Terms and Conditions requires the recipient to market the RLF program to prospective minority and women borrowers.

C. Three of the Six Loans Were In Default or Seriously Delinquent

Half of the Center's loan portfolio was in default or seriously delinquent within two years of the making of each loan, serving as additional evidence of the Center's lack of appropriate management.

With respect to the ineligible loan made to the Haughton Company, the borrower failed to make any loan payments to the Center, defaulted on the loan in June 1996 just three months after the closing, and subsequently declared bankruptcy. Further, there was no documentation to demonstrate any collection efforts on the part of the Center from May 1996 to February 1997. The Center's Executive Director stated that the Center incurred constant delays in the collection process. As of December 31, 1999, the Center had collected only a net balance of $7,500. Although the Center's attorney was attempting to recover additional collateral, the balance of $192,500 remained outstanding.

In addition, the loan to Settles Precision Manufacturing was in default at the time of our review. Although the borrower made loan payments from November 1997 to September 1998, soon thereafter the loan went into default, and foreclosure proceedings were initiated. According to the Center's records, the loan was over 18 months past due as of December 31, 1999. There was no evidence in the loan files that documented any contact with the borrower at the time the loan first went into delinquency. The Center's Executive Director stated that the Center was working with the Randolph County Development Authority to collect on this loan. The outstanding balance at the time of our review was $192,348.

Finally, the Center's March 1996 loan to Simply Southern was seriously delinquent. According to the Center's Executive Director, the business suffered setbacks that affected the loan payments after March 1998. However, there was no documentation in the loan file showing Center contact with the borrower until December 1998, nine months later. In March 1999, the Center amended the loan agreement, adding more than eight years to the loan repayment schedule and lowering the amount of loan payments. The borrower made only three more loan payments over a seven-month period that totaled $450, including interest. The loan had an outstanding principal balance of $16,713 as of December 31, 1999.

V. Conclusion

In conclusion, we found that the Center failed to manage the EDA revolving loan fund in a prudent manner and to act diligently to protect the interest of the RLF as required. The Center's mismanagement is evidenced by the following: the Center made an ineligible RLF loan to refinance a prior bank loan; three of the six RLF loans made by the Center, representing over 62 percent of the total principal balance outstanding, were either in default or seriously delinquent; the Center made three RLF loans, including the refinancing loan, despite prohibited conflicts of interest; and essential documentation was missing from the RLF loan files. Further, the Center failed to fully market the RLF program and failed to meet its matching share requirement.

Under the circumstances, we believe that EDA should immediately terminate the grant and recover the government's share of the RLF's assets. Section C.11 of EDA's Standard Terms and Conditions provides that EDA may suspend or terminate any grant based on failure to comply with the RLF Plan and terms and conditions of the grant. As discussed above, the Center failed to operate the RLF in accordance with the grant terms and conditions.

Further, EDA's Administrative Manual, Section XIV, states that in case of termination, EDA has the responsibility, on behalf of the Federal Government, to recover its fair share of the value of the RLF assets consisting of cash, receivables, personal and real property, and notes or other financial instruments developed through use of the funds. According to the Manual, EDA's fair share is the amount computed by applying the percentage of EDA participation in the total capitalization of the RLF to the current fair market value of the assets thereof. In addition, the Manual states that EDA has the right to compensation, over and above its share of the current fair market value of the assets, when it is determined that the value of such assets has been reduced by the improper/illegal use of grant funds.

We computed the recovery amount according to the Administrative Manual's formula described above. We determined that EDA's share of the RLF assets excluding inappropriate loans was $146,713. We then added the principal balance of the inappropriate loans discussed in Findings I, II, and IV which totaled $557,893. This resulted in a total recovery amount of $704,606. However, this total included the recovery of nonfederal funds. Therefore, we computed a maximum recovery of $575,247 based on the EDA award of $500,000 and EDA's share of total interest income. See Appendix I for detailed computation.

Grantee Response

The Center's response generally consisted of unsupported conclusory statements. Center officials stated that the Center acted in a prudent fashion in managing the RLF program and that every negative point in the draft report was a personal opinion. Center officials stated that the loan refinancing was justified, no loans were made involving a conflict of interest, the matching share requirement was met, and that the Center met its goals and those of the Department of Commerce. Center officials also stated that the RLF program has not been 100 percent successful, but that the Center continues to

utilize the funds in the target areas. The response stated that RLF loans should not be disqualified simply because they are delinquent and terminating the RLF grant would do harm to the region. Finally, the response stated that the best evidence is presented by the number of jobs created and the relative health of the program today.

Center officials submitted documentation to show that the Center conducted three meetings to market the RLF program. The officials also provided a letter from the Center's independent auditor stating that all required documentation was on hand when he performed his audits, that the RDC fully met its match obligation, and that he found no evidence of a conflict of interest.

The Center's complete response, excluding attachments, is included as Appendix II.

OIG Comments

We accept the documentation submitted by Center officials to show that the Center conducted three meetings to market the RLF program. We do not accept the Center officials' conclusory statements or the independent auditor's statements as persuasive evidence to change our finding or recommendation. Therefore, we have changed our finding only to reflect the documentation submitted for the limited marketing effort. We have not changed our recommendation.

VI. Recommendation

We recommend that the EDA's Atlanta Regional Director immediately terminate the RLF grant and require the Center to refund $575,247, which represents the total RLF grant and computed interest.

VII. Funds to Be Put to Better Use

By implementing our recommendations, $575,247 in federal funds would be put to better use.

3-21-01

E. Jerry McMahan
Acting Regional Inspector General
for Audits

Date

Appendix I
Page 1 of 2

Computation of Recovery of Federal Government's Share of RLF Assets

Recovery Computed per the RLF Administrative Manual (see page 13)			
Fair market value of RLF assets 12-31-99:			
Cash in bank		$ 51,024	
Accrued interest receivable (1)		50,720	
Loans receivable - current and no conflict of interest			
- Bullington, Inc.	$ 50,176		
- D&J Plastics	39,088	89,264	
Total Fair market value		$ 191,008	
EDA's share (2)		76.81 %	
Recovery amount before inappropriate loans			$ 146,713
Inappropriate loans of $620,000: (3)			
Finding I. $200,000 Haughton Company - principal balance		$ 192,500	
II.B. $200,000 Deerpoint Development - " "		156,332	
II.C. $20,000 Simply Southern - " "		16,713	
IV.A. $200,000 Settles Precision - " "		192,348	557,893
Total Recovery Per Administrative Manual			$ 704,606
Limitation of Recovery Amount - Computed			
Amount of EDA award		$ 500,000	
EDA's share of interest income, $97,965 (2) @ 76.81 %		75,247	
Total Recovery as Computed			$ 575,247

Notes to Computation

1. Computed by OIG since the Center had not appropriately recognized accrued interest.

2. EDA's share is computed as follows:

RLF Capitalization 12-31-99		
Cash in bank	$ 51,024	
Accrued interest receivable	50,720	
Loans receivable	647,157	
RLF capitalization at 12-31-99		$ 748,901
Less Interest Income - previously realized	$ 47,245	
- accrued	50,720	(97,965)
RLF Capitalization excluding interest		$ 650,936
EDA award $500,000 / $650,936 = EDA's share	76.81 %	

3. These loans are treated separately in the computation. The Center had not written these loans off the books at 12-31-99; however, the three loans from Findings I, II.C., and IV.A. are of little or no value, and the loan from Finding II.B., although current, involved a conflict of interest and should be recovered.

Lower Chattahoochee
REGIONAL DEVELOPMENT CENTER

1428 SECOND AVENUE COLUMBUS, GEORGIA 31902-1908 P.O. BOX 1908 (706) 649-7468 FAX (706) 649-1218

February 12, 2001

Mr. Bedwell, Jr.
Regional Inspector General for Audits
U.S. Department of Commerce
401 West Peachtree Street, N.W. Suite 2742
Atlanta, Georgia 30308

Dear Mr. Bedwell:

As Executive Director of the Lower Chattahoochee Regional Development Center I can assure you despite missing programmatic documentation that we did in fact market the EDA RLF program to all parts of the five county community, that based on available local legal opinions we acted prudently to assure that no conflict of interest did occur, that Lower Chattahoochee Regional Development Center corrected the match for the program after our original match plan was not followed, and that key programmatic documentation was originally in place.

Sincerely,

Ron Starnes
Executive Director

Lower Chattahoochee Regional Development Center Response on Findings

HAUGHTON COMPANY LOAN REFINANCING ISSUE:

The Report states that files included contradictory memoranda regarding the loan purpose that files did not document the "sound economic justification" for the loan, and that it appears to be for refinancing the debt.

The fact that this loan was partially refinanced is not disputed. Although the initial plan was not to refinance this loan. Prevailing economic problems in Stewart County and problems with the companion SBA loan to Haughton Company and existing bank loan would have prevented the borrower from being able to make the high payments to the bank, and without the combination of refinancing debt plus the SBA loan injection, thus the overall economic plan would not have been possible. In short, the overall objective of creation of new jobs would not occur. The data on the economic justification was reported to the Center Executive Director, who was not at the Haughton loan closing, by the Economic Development Director. The Executive Director prepared a memo that the Report mentions memo discussing the economic justification for a partial refinancing, but the Report dismisses this memo as an "attempt to justify " the refinancing. The memo not only attempts to justify, but does justify the exception as required in the regulations. The memo is indeed a part of the loan write-up. Further financing from the bank was not available to the borrowers. One purpose of the RLF was also to provide "gap financing" for eligible borrowers. This definitely qualifies as a classic example of gap financing.

A secondary justification given for partial refinancing by the Center Economic Development Director was that this would also improve the RDC RLF collateral position on the loan.

Without the refinancing of part (This was not a total refinancing. The Report does not even mention the fact that at the same time of this loan, there was an SBA loan to the Haughtons that was directly connected to the same expansion project.) of the Borrower's debt, the Center would be faced with the prospect of making a loan without proper collateral. The partial refinancing caused the Bank to release needed collateral that was then available to the RLF Program. This financing procedure is called prudent lending practice and is used daily in the banking industry.

The Report discusses the letter from the Bank President stating that in his opinion the loan was for re-financing. The Lower Chattahoochee Regional Development Center initially did not intend the Haughton loan as one for partial refinancing. The holding up of the SBA loan by the bank unless the RLF loan was refinanced changed the situation on day of loan closing.

The Report auditor suggested that the RLF interest rate was below bank interest rates which showed that the purpose of Center RLF loans was for refinancing. In truth all EDA RLF interest rates were lower than bank rates. In actuality only one of nine Center RLF loans have been made, but only one was waived for partial refinancing and that one for an acceptable economic justification. We do not allow a waiver for refinancing except for exceptional justifications. We considered the Haughton loan was considered such a justification.

Conflict of Interest Issue:

The Report mentions the existence of "apparent conflicts of interest" in making such loans.

Haughton Loan

The first paragraph states numerous examples where regulations prohibit members of Recipient Boards from receiving "any benefits from use of loan grant funds." The report then states that the Bank President "received $159,826 directly from the Center." In actuality the check was to the Haughtons and the Bank. The first check on the loan had to be voided and reissued to incorporate the re-financing. The subject Bank President resigned from the Loan Review Committee upon finding that we were considering a loan to Haughton to avoid potential conflicts. He was not a member of the committee when the loan was reviewed and approved, and in fact never ever attended any meetings of the Lower Chattahoochee Regional Development Center Loan Review Committee at anytime. How can this be considered a conflict of interest? The Report points out that the banker was reappointed to the committee after the loan was approved, but this was done by the Economic Development Director without the approval of the banker because EDA desires a banker on the committee and this is the only banker who had earlier agreed to serve. The Report cites serving as a listed member of the Loan Review Committee as evidence that the Bank President had inside information and influenced the lending decision, even though he never attended a meeting of the committee and never influenced the lending decision on that committee.

Finally the Report presents as "damaging evidence" the fact that the Executive Director and the Banker met a month before closing of the loan. The Executive Director did not meet with the Banker, but the Economic Development Director did meet with the Bank President of Farmers State Bank, the referenced lender in the Haughton Loan. It is inconceivable that the RDC Economic Development Director/Loan Review Officer would not have discussions with the First State Bank President/Loan Officer most familiar with the existing loan. The Bank

President is the officer who dealt with the loan. There is no evidence or indication that the Bank President received any benefits whatsoever from this transaction. The listing of regulations are not applicable here. No personal benefit was obtained by anyone, nor did the Report provide any evidence that benefits were received. Any rural bank yearly receives thousands of payments on loans that were negotiated by the Bank President. To attribute any loan payment as a personal benefit to the President is not only ludicrous, but shows a total lack of understanding of the world of rural finance. Additionally, the Bank is annually audited by the FDIC and Georgia Department of Banking and Finance, and a significant portion of their time is spent looking for conflicts of interest. They were aware of the Bank President's association with the RDC loan and found no conflict whatsoever.

The Bank President never attended meetings of the loan review committee, thus could not have participated on any of the committee meetings on the Haughton or any other proposed loan. There is no evidence that he did, or the Report would have produced said evidence. A conflict of interest can arise when the lending decision is affected by one of the decision makers. This was not possible in this case. The only full-time practicing attorney in Stewart County determined that this was not a conflict of interest and closed the loan. Farmers State Bank also is the only bank in the county.

The presenting of the above "facts" as evidence of a conflict of interest not only miss the mark of proof, but serve to obscurate the real life circumstances. The referenced Bank President did not participate in the loan evaluation process as a member of the loan review committee and did not receive any benefits on the Haughton loan. The Report sums the auditor's position on Page 6 by stating, not that there exists evidence of a conflict, not that there actually was a conflict, but that the RDC did not write a memo to the effect that there was no benefit to the

Bank President. On the contrary, it would appear that proof of a conflict is necessary, and no such proof was offered by the Report because no proof exists.

Deerpoint Development Loan:

The Report is alleging that an individual gained benefits from a loan being made, and through his position on the Loan Committee and a local Development Authority, had undue private information.

It is true that the individual above had information on the EDA revolving loan fund, but this is true because he attended public meetings, all area bankers received personal visits and received RLF marketing data on the program which was available to the entire five-county area. He did not have "inside" information which was not available to the entire target area.

The person on the Randolph County Development Authority who received a gap financing loan from EDA RLF did was not present and not participate in the Randolph County Development Authority on participation for match of the EDA loan. The Randolph County Attorney and the EDA RLF Attorney jointly did not consider this a Conflict of Interest. Also, the Randolph County Development Authority Chairman who participated in the decision also did not vote, but actually opposed the project for primary loan financing of the motel project by his bank because he felt it a poor risk thus forcing primary bank financing from Colonial Bank in Eufaula, Alabama. Once again, a conflict of interest is only created when an individual affects the lending decision in a positive way or receives benefits. Neither of the persons (the Banker was present in the Randolph County meeting/neither were members or present for the Lower Chattahoochee Regional Development Center Loan Review Committee meeting and participated in the loan decision. Neither individual affected the decision. Once again, there can be no conflict of interest without evidence that an individual affected the lending decision. The Randolph County

Development Authority and the Lower Chattahoochee Regional Development Center used prudent business practices by having potential conflicts of interest reviewed by each agencies attorneys, the only two full-time practicing attorneys in Randolph County. No conflicts of interest were determined.

Simply Southern Loan:

The Report alleges that there was a conflict of interest here because one partner of the loan recipient was also a clerk in the County Commission office and was a signor of a check for the local match used in the RLF loan, and signed as a witness, an agreement between the County Development Authority and the RDC.

Once again, the Report demonstrates the auditor's lack of experience in working in the rural target area. At the time of this loan, a sole Commissioner governed Stewart County, population 5,000. The County Commissioner also served as the Chairman of the County's Development Authority. The referenced individual was a clerk in the County Commissioner's office. As such, she assisted in posting the accounting records for the county and all related authorities such as the Development Authority and the Water Authority. In her duties, she received check vouchers from the County Commissioner and prepared the checks for payment. She also signed the checks, but two signatures were required before checks were valid. This is a standard accounting procedure. The check in question was from the Development Authority to the RLF program for local match on the Simply Southern loan. The County Commissioner also signed the check. The clerk witnessed the County Commissioner's signature on the local match agreement. It so happens that she was the only Notary Public in the Court House and the County Commissioner did not see any harm in her witnessing his signature. It is a stretch of imagination

to construe the only Notary Public available witnessing a signature on a match agreement as a conflict of interest on a lending decision for which she had no control over lending decisions.

Here again the Stewart County Commissioner did not vote on the proposed Simply Southern loan nor comment on it at the Lower Chattahoochee Regional Development Center Board meeting when the decision was made to approve the loan. The RDC obtained a legal opinion by the only practicing full-time attorney in Stewart County. The attorney ruled that there was no conflict of interest. This appeared to be prudent lending procedure.

Failure To Meet Matching Requirements

As stated earlier, the target area is a collection of autonomous rural communities, founded on agriculture. As such, each community is fiercely independent, and also self-interested. There was never a way to get local communities to contribute money to this project without assurances that the money would be ultimately reinvested in the local community. The original plan was for a county related agency to put up the local share for a loan out its local development fund and as the loan was repaid, the local portion would be reused for additional qualifying loans in that county. There is nothing in the regulations that prohibit this plan. Unfortunately, the lawyers and local officials along with the Economic Development Director for the Center changed the nature of the transactions in some cases so that the Borrower actually had two notes instead of one. The borrower made the RLF fund note payments on a note equal to grant funds, and made payments to the local development authority on the note for the local share. When this was highlighted by the Center's independent auditor, the Center obtained written agreements from the local development authorities that the local portion of payments would be deposited into separate bank accounts in the RLF name. This would leave the money under RLF control, as required in the regulations. However, one local development authority

failed to follow the agreement, so the Center borrowed $108,841 and placed that amount into the RLF fund. The Board acted responsibly to correct the match situation. This is acknowledged in the Report. The balance of the required matching fund was transferred to the RLF fund from the Center's General Fund. This was shown to the Report auditor by the independent auditor and is reflected in the Center's annual financial statements. All the required local match is in fact in place.

Other Problems

A. Missing Documentation

The Report presents a table showing various loan documents that are claimed to be missing from the RLF files.

The Center's Economic Development Director resigned his position [redacted] Immediately afterwards, it was noticed that numerous programmatic documents were missing from the RLF files plus a majority of all EDA project files. Every effort was made by the Center to recover as many of the programmatic documents as possible, and the Executive Director recorded in memorandum form as many of the pertinent details of known actions as possible. Unfortunately, the Center is in the same position as if the building had burned to the ground in that it is impossible to go back in time and recover all of the documents after they are gone. The Center's independent auditor reviewed all of the loan files each year and witnessed the existence of all necessary documentation. The Center has Board members and employees who read many of the documents. Center attorneys prepared many of the documents. [redacted] the financial records [redacted] are intact and in good order. The Report dismisses all of this by assuming that if the program documents are not present

now, they never existed. The Report auditor spoke directly with the Center's independent auditor about the missing documentation, but has chosen to imply the independent auditor is lying about the issue. The Center believes that The Office of Inspector General is not prepared to so judge our auditor, attorney, staff and Board members (all of whom are local elected officials). We feel that these respected individuals provide enough assurance that the missing programmatic documents did indeed exist at one time. EDA staff also annually monitor the EDA program, but no problems of missing documents was ever listed in monitoring visits. The fact that records were taken or destroyed is not within the Center's control [redacted]

Although we agree that we are missing extensive programmatic documentation, many records substantiate that some records listed as missing were in place. The Report indicates that no loan write-ups were in place, but in fact loan write-ups were in place for each loan. The auditor must be using different standards of work write-ups than we do, because most of these were not missing.

The Report indicates that all environmental reviews were not present. Environmental reviews on the subject sites and or buildings are available. In the Bullington, Inc. and Deerpoint Development projects, Environmental Reviews were developed by U.S.D.A. Rural Development RBEG project on the joint sites in coordination with Georgia DOT for accel-decel lanes on the U.S. 82 sites. A limited environmental study was done on the Simply Southern project which actually only occupied a downtown store building on Lumpkin Square for a florist/gift shop. The Settles Ground Support building/site was environmentally reviewed for a U.S.D.A. Rural

Development loan, the D and J Plastics, Inc. site received environmental review clearance for its building site for the USDA Rural Development RBEG project. The Pittman Built, LLC project site received environmental review clearances from U.S.D.A. Rural Development for its RBEG project plus the site was reviewed earlier by U.S.D.C., EDA for construction of the Cuthbert-Randolph County Industrial Park. The Circle One Global, Inc. project site received EDA environmental review and clearances for the Public Works project to build the industrial park and the building received environmental clearances from U.S.D.A. Rural Development for an RBEG project and Georgia Department of Community Affairs for a REBA project. Rolin, Inc. received limited environmental reviews in its business occupancy of an existing vacant store building in downtown Richland. All sites and existing buildings each received environmental reviews.

Credit reports were ordered on some of our projects by us, with limited results but we also reviewed available reports from banks and other sources on companion loans. Our evolving experience showed that a more reliable tool was credit reputation of the business if local, but we also acquired credit references in their community for out-side the community locations as well as site visits to operations re-locating to the area.

All businesses had a Business Plan. Some were prepared by the Small Business Development Center, but others were prepared/assisted by the primary lenders who also are required to have a business plan. The business plans met our specifications and those of primary lenders, but we do not know what specifications the Report auditor used. We don't maintain the national franchise business plan in our office (Day's Inn/Huddle House), but they were obviously available and have established records of success. All had turn down letters initially and/or memoranda back-up of bank turndowns.

Loans in Default

By nature, loans made through any Economic Development RLF program are high risk. Eighty percent of business start-ups are no longer in business after five years according to U.S. Department of Commerce. If they were low risk and profitable loans, local banks would make the loans. It is inevitable that some loans will become delinquent and some borrowers will be in default. Both occurrences are totally outside a lender's control, and do not in any way constitute evidence that there was a "lack of appropriate management." There are nine EDA RLF loans which have been made on this program. Of these, six are current in payments (66.7 percent) and there are 150 employees still employed as a result of the EDA RLF. The Executive Director has assumed direct management of the EDA RLF and all five of the EDA RLF loans he generated are current in repayment.

The Report mentions no documentation of collection efforts on the Haughton loan between May 1996 and February 1997, but during that time the Center's attorney was directing the collection efforts during a period of litigation and eventually foreclosure (both on EDA RLF and SBA loan). In addition, the Center Executive Director was in constant contact with the local bank president who was involved in joint collateral for both loans collection efforts involving the Haughton enterprise.

The C.A. Williams/Settles Ground Support loan was in default and proper foreclosure proceedings were in process. That is what prudent lenders do in situations such as this. Similar to the Haughton loan, the Center is trying to work with the prime lender, in this case the Randolph County Development Authority, to assure optimum collection of the loan that is collateralized, and the Report did not allege that the Program would realize a loss. An employee buy-out

arrangement maintained the initial 45 employees created by the loan and are still working there. The RDC attorney is still in the process of collecting [redacted]

Simply Southern was unable to make the business venture succeed when the primary floral designer/manager [redacted] Once again, prudent lending practices dictate reasonable refinancing to lower payment amounts in an attempt to collect the loan without foreclosure. In this case, the individual borrowers are attempting to make payments out of other sources of employment as the business is closed. [redacted] will assure complete collection of all loan funds principal and interest.

Perhaps the EDA Auditor is unaware that the Center's Board is comprised of local government officials who live in the area communities and who are vitally aware of the economic situation of each local business. The Executive Director was and continues to be in constant contact with these officials, monitoring the Borrowers' situation. The Report seems to imply that a file full of telephone messages, or memorandums detailing informal discussions with local officials and bankers would have magically transformed the Borrowers' business into overnight successes. In fact, the Center has done everything in its power to collect the original note, and barring that, to pursue its collateral position through its attorneys. No further efforts can be expected, nor are they required by EDA regulations. Of the nine EDA RLF loans made, six of the loans are current and the others are in collection phase. There are specific collection opportunities in each of the three problem loans. [redacted]

Revolving Loan Fund Inadequately Marketed

It is acknowledged that much of the programmatic documentation is missing marketing on this project. The Report auditor writes that the list of 51 potential EDA loan interviewees listed in the records was not appropriate because it did not reveal the date of contact, the Center official making the contact, or the type of contact made. The Report auditor did not ask for such information, most of which was available from the individual meeting memos since the Executive Director assumed full control over the program.

The Report auditor conducted telephone interviews with four local county minorities, three black males and one black female. Three of the interviewers were potential loan applicants. The Stewart County NAACP Chairman and President of Operation MEN, the only minority agency serving all five target counties through the operation of JTPA programs, was well aware of EDA RLF marketing programs and assisted in marketing the EDA RLF to the area. He was also Chairman of the RDC EDA RLF loan review committee for two years. Over the past few years 60 percent of the loan review committee has been minority which coincides with the fact that 60 percent of the five county target counties have 60 percent minority population.

It may be true that the other minority representatives interviewed did not specifically receive "RLF marketing data from the center, had not attended or heard of any town hall meetings, or read about the program in their local newspapers. "We did in fact meet with each of the individuals after they were referred to us by local friends/officials within their community who were aware of the program. On the Quitman County interview, our Economic Development Director specifically met with her to discuss EDA RLF opportunities. She did not have sufficient job creation for the loan amount needed and we recommended an SBA low doc loan. She acquired such funding for start-up of a laundry in Georgetown. Later she was referred back to us

from local county sources when she needed to expand into dry cleaning services. After our review she still did not qualify for the EDA RLF for job creation purposes, but since the first meetings we had acquired the first Mini-Enterprise RLF in Georgia for the 4-county Clay, Quitman, Randolph, and Stewart County area and were able to assist the two minority female business owners to acquire a $10,000 loan for needed dry cleaning equipment.

The second minority business owner in Talbot County had a memorial monument business and he was referred to us by Talbot County minority friends who were aware of our program from marketing efforts. Our Economic Development Director met with him, explained to him the EDA RLF and that he would not be eligible for it since he wanted $200,000, but would have no job creation. He called the Executive Director two weeks ago, referred by minority friends in the City of Woodland. He remembered our Economic Development Director talking to him previously and being not able to loan him funds, but not the EDA RLF program per se. The Center Executive Director had to explain the program again and told him why the same $200,000 he wanted before with no job creation would not qualify.

The third interviewee from Randolph County was referred to us for possible EDA RLF funding by minority friends from Cuthbert that were generally familiar with the program from marketing efforts. The Executive Director personally met with him and explained the EDA RLF and determined that his project did not meet the EDA RLF requirements due to job creation per $5,000 loan nor the Mini-Enterprise loan program due to amount of loan needed. We were able to acquire support of the 4-county Council of Governments, Inc. which sponsored an RBEG RLF application for this project the Lower Chattahoochee Regional Development Center wrote. We consider this a part of marketing, although we are more interested in assisting the area applicants

for meeting their overall economic needs versus only sticking with EDA RLF as the only tool available.

The Report auditor suggested that when we determined in the interview that the EDA RLF application doesn't meet requirements the proper procedure in our rural area is for us to have a pre-application on the EDA RLF fully completed by the applicant and then deny the application for funding as a good training experience for small, emerging minority businesses. Our Board has emphatically refused to prolong such a bureaucratic process and create distrust locally for the program and extra work for applicants in such cases.

The fact that 51 applicants (more applicants since the report) were assisted on referrals to the EDA RLF is an obvious indication of the fact that the program has been marketed effectively despite lack of documentation on specific programmatic reports/documentation.

The EDA RLF experience within this five-county population with an average of 5,000 persons per county, the largest city being 3,750 residents, and a low-income (35% of residents are at poverty level income), with 60 percent minority population indicated a need for a small cap loan with easier job creation regulations. This was created by Lower Chattahoochee Regional Development Center. Last year the four-county Southern Lower Chattahoochee Council of Governments, Inc. with Lower Chattahoochee Regional Development Center application preparation/administration received $99,999 for Georgia's first Mini Enterprise RLF. Seven loans were approved with those funds and 57 % were made to minority borrowers/88 percent to female borrowers. This emphasizes the concern for helping the overall program and small businesses by Lower Chattahoochee RDC.

Our Board of Directors, most of whom are elected officials, know their local communities and area economic development needs. They significantly enhance the EDA RLF

marketing program to all segments of the community. We know that effective marketing has taken place in our target area, but that special assistance is required to the small businesses that are most in need for residents with low education attainment.

Also we think responses might have been better to avoid miss-communications with face-to-face interviews rather than telephone interviews. Actions which occurred 2-6 years in arrears are often not remembered well, particularly if they did not achieve the desired results. Also most of those interviewed often remember only the loan, not what loan program it was.

CONCLUSION

The Center maintains that it acted in a prudent fashion in managing the RLF fund by including banking experts on its Loan Review Committee, hiring attorneys within each local community to prepare loan documents, perfect Center collateral positions, and handle collections, and through continual Executive Director level monitoring of the RLF Loan activity.

The only refinancing was not a total refinancing, but a partial refinancing, allowed under EDA guidelines, to coincide with additional funds to allow the borrower's project to proceed. Local bank financing was unavailable, and the Center would have had no first lien collateral without the partial refinancing.

There were no conflicts of interest in any area of the RLF lending process. No related parties took part in any final loan decision. All of the only three full-time practicing attorneys of the Southern four counties reviewed the loan documents and determined no conflicts of interest.

The Center met all local match requirements from its General Fund as evidenced in its annual financial statements.

The RLF activity undertaken by the center has not experienced one-hundred percent success. We feel certain that no other RLF program in the rural South has achieved a perfect

record either. Obviously SBA also must have made a mistake on the Haughton loan if we did. However, the Center did the best possible job in attempting to achieve the stated Program Purpose and we feel that the number of jobs directly created by this program accomplished the goals of the Center and the Department of Commerce, and the Center continues to properly utilize these funds to stimulate employment in the target areas. Disqualification of loans simply because some of them being delinquent goes far outside the guidelines of any regulations. The EDA RLF is still an invaluable economic development tool. Terminating the grant for any reason would now do more harm to this region than the storm which prompted the grant program.

Based upon the content of the Report, there is absolutely no justification for termination of the grant. Every negative point in the Report is a personal opinion.

Were mistakes made? Certainly they were. This was a new program, targeting unhealthy economic situations in an overall long-term economically depressed area. One has only to read the enacting legislation and the original grant documents to understand that the entire program was based on helping businesses that presented too great a risk for financial institutions. The best evidence is presented by the number of jobs created by the program and the relative health of the program today.