



FEMA

# Special Community Disaster Loan Program Delivery Guidelines

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# Public Assistance Program

## Mission

The mission of the Public Assistance Program is to assist communities in recovering from the devastating effects of disasters by providing technical assistance and financial grants in an efficient, effective, consistent and customer-friendly manner. We will accomplish the mission by having experienced, trained, knowledgeable and friendly staff; well-documented, easy-to-understand and accessible policies and procedures; timely and transparent decision-making; and a strong partnership with the states. We will continuously seek and identify opportunities to improve program delivery.

Title 44 of the Code of Federal Regulations 206.371, *Loan Program*, describes the parameters the federal government must remain within to provide Special Community Disaster Loans (CDL). In summary, these parameters state that:

1. The Associate Director (i.e., Assistant Administrator) may make a Special Community Disaster Loan to any local government which has suffered a substantial loss of tax or other revenues as a result of a major disaster and which demonstrates a need for Federal financial assistance in order to provide essential services;
2. The amount of the loan is based upon need, not to exceed 25 percent of the operating budget of the local government for the fiscal year in which the disaster occurred (fiscal year being the local government's fiscal year);
3. The interest rate is the rate for five year maturities as determined by the Secretary of the Treasury in effect on the date that the Promissory Note is executed. If an applicant can demonstrate unusual circumstances involving financial hardship, the Associate Director (i.e., the Assistant Administrator) may approve a rate equal to the five year maturity rate plus 1 per centum, adjusted to the nearest 1/8<sup>th</sup> percent, and further reduced by one-half ;
4. The Associate Director (i.e., the Assistant Administrator) may approve a loan in either the fiscal year in which the disaster occurred or the fiscal year immediately following that year;
5. The term of the loan is 5 years, unless otherwise extended by the Associate Director (i.e., Assistant Administrator);
6. The local government may only use the loan funds to assist in providing essential services. Loan funds may not be used to finance capital improvements nor the repair or restoration of damaged facilities, nor as the non-federal share of any Federal program;

In accordance with the intent of these parameters, we have developed a *Loan Request* procedure. This procedure outlined below will support these requirements by identifying Federal and applicant responsibilities, eligibility criteria, and defining the loan application process.

#### **A. Responsibilities**

In accordance with Title 44 of the Code of Federal Regulations 206.372, *Responsibilities*:

1. The local government (applicant) shall submit a ***Loan Request*** that includes the financial information required by FEMA in specified format (see Attachment 1), as well as a completed ***Applicant Package*** (see Attachment 2, Parts 1 through 6). The applicant must comply with the assurances contained within each submission;

the terms and condition of the Promissory Note and all applicable regulations associated with Special Community Disaster Loans (206.370 through 206.377).

2. The local government (applicant) shall submit with a signed cover letter detailing the request (See Attachment 3) the ***Loan Request*** and the ***Applicant Package*** to the Governors Authorized Representative (GAR).
3. The GAR shall certify that the local government can legally assume the proposed indebtedness (and that proceeds will be used and accounted for in compliance with the FEMA-State Agreement) and will submit this information with a signed cover letter detailing the certification to the FEMA Regional Office (see Attachment 4).
4. The Regional Director (or designee) shall review each loan request to ensure that it contains the required information and submit with a signed cover letter detailing recommended actions (see Attachment 5) to the Associate Director (i.e., Assistant Administrator).
5. The Associate Director (i.e., Assistant Administrator) or designee shall approve or disapprove each loan request, sign Promissory Notes for approved loan requests, and submit with a signed cover letter detailing recommended actions (see Attachment 6) to the FEMA Chief Financial Officer (CFO). *\*Note, Loan Requests reaching this stage should arrive ready for approval.*
6. The FEMA CFO shall establish and maintain a financial account for each outstanding loan and plan to disburse funds against the Promissory Note (see Loan Maintenance Guidelines for further detail on loan disbursement requirements)

## **B. Eligibility Criteria**

Loan eligibility is based on the financial condition of the local government and a review of the financial information and supporting documentation accompanying the ***Loan Request***. Furthermore:

1. The local government must be located within a major disaster area.
2. The local government must not be prohibited from incurring the indebtedness resulting from a Federal loan.
3. To determine eligibility, FEMA will consider the following:
  - loss of tax and other revenues as a result of a disaster
  - a demonstrated need for financial assistance in order to perform essential government functions
  - the maintenance of an annual operating budget
  - the local government's responsibility to provide essential services

4. FEMA will utilize the fiscal year of the disaster or the succeeding fiscal year as the base period for determining whether a local government has or may suffer a substantial loss of revenue.
5. To be eligible, the local government must show the following:
  - that it may or has suffered a substantial loss of tax or other revenue as a result of a disaster that includes the following factors:
    - whether the disaster caused a large enough reduction in cash receipts from normal revenue sources, excluding borrowing, which affects significantly and adversely the level and/or categories of essential services provided prior to the disaster.
    - whether the disaster caused a revenue loss of over 5 percent of total estimated revenue for the fiscal year in which the disaster occurred or the succeeding fiscal year.
  - that it has a demonstrated need for financial assistance as a result of a disaster that includes the following factors:
    - whether there are sufficient funds to meet current fiscal year operating requirements.
    - whether there is availability of cash or other liquid assets from the prior fiscal year.
    - the current financial condition considering projected expenditures for government services and availability of other financial resources.
    - the local government's ability to obtain financial assistance or needed revenue from the State and other Federal agencies for direct expenditures.
    - the local government's debt ratio.
    - the displacement of revenue-producing business due to property destruction.
    - the local government's necessity to reduce or eliminate essential services.
    - the local government's danger of municipal insolvency.

### C. Loan Application

1. The local government must prepare and submit a ***Loan Request*** (see Attachment 1) and an ***Applicant Package*** (see Attachment 1 and Attachment 2, Parts 1 through 6) for a Special Community Disaster Loan through the GAR. The loan must be justified on the basis of need and shall be based on the actual and projected expenses for the fiscal year in which the disaster occurred and for the three (3) succeeding fiscal years.
2. The applicant is not required to first seek credit elsewhere.

3. The State will exercise administrative authority over the local government's application.
4. The State's will review the ***Loan Request*** and ***Applicant Package*** for accuracy. This review must include a determination that the local government is legally qualified (under State law) to assume the proposed debt.
5. The GAR can request that the Regional Director waive the State review if an applicant is not subject to State administrative authority and the State cannot legally participate in the loan process.

#### **D. Financial Requirements**

##### **Loan Requests**

1. The ***Loan Request*** (see Attachment 1) must be developed from financial information contained in the local government's annual operating budget.
  - The Operating Budget is that document approved by an appropriating body, which contains an estimate of proposed expenditures, other than capital outlays for fixed assets for a stated period of time and the proposed means of financing those expenditures.
  - Operating Budget increases due to an increased level of municipal services not rendered at the time of the disaster or not directly related to the disaster may not be included
2. The ***Loan Request*** must include a Summary of Revenue Loss and un-reimbursed disaster-related expenses (UDRE).
  - The applicant must provide information concerning its method of tax assessment including assessment dates and the dates that payments are due.
  - Un-reimbursed disaster-related expenses of a municipal operating character should be estimated.
3. The ***Loan Request*** must include a Statement of the applicant's operating results – cash position.
4. The ***Loan Request*** must include copies of the local government's financial reports (Revenue and Expense Balance Sheet) for three (3) fiscal years immediately prior to the fiscal year of the disaster unless impracticable.
5. The ***Loan Request*** must include a copy of the local government's most recent financial statement unless impracticable.

6. Each fund (i.e., General Fund, etc.) included in the Annual Operating Budget must be identified for the CDL Financial Analyst for purposes of evaluation.
7. The ***Loan Request*** must include a copy of the pertinent State statutes, ordinances, or regulations which prescribe the local government's system of budgeting, accounting and financial reporting, including a description of each fund account.
8. Requirements may be waived by the Associate Director (i.e. Assistant Administrator) upon request of the applicant upon finding that the effects of the disaster prevent the applicant from fulfilling the requirement.

### **Applicant Packages**

1. The ***Promissory Note*** (see Attachment 2, Part 1) must be completed and signed by an Attesting Official and the Executive Official responsible for borrowing the funds. Should the State be required to co-sign the note, an Attesting Official and State Official must sign the note under Part II. The Applicant must complete Part III of the Promissory Note identifying the schedule of loan increments. The Applicant must indicate whom the loan funds will be delivered to in the "Pay to the Order of" section.

*\*Note: All parts of the Promissory Note must be completed except the 1) interest rate 2) loan number and 3) Typed Name and Title of Authorizing Official and Signature. These areas will be completed by a FEMA Official upon loan acceptance..*

2. A ***Collateral Security*** (see Attachment 2, Part 2) must be secured for those applicants for whom the state cannot co-sign the Promissory Note. It must be 1) acceptable to the Assistant Administrator 2) pledged in the form of a resolution by the local governing body identifying the collateral security and 3) equal the principal amount of the loan.

*\*Note: An example of acceptable Collateral Security is a pledge of future revenues.*

3. A ***Direct Deposit Form*** (see Attachment 2, Part 3) must be completed for funds to be transferred upon approval per the Promissory Note schedule. Section 1 must be completed by the Applicant. Section 2 will be completed by FEMA upon loan approval. Section 3 must be completed the Financial Institution.
4. A ***Certification Regarding Federal Lobbying*** Form (see Attachment 2, Part 4) must be read and signed by applicant.
5. A ***Contact Information*** Form (see Attachment 2, Part 5) must be completed by the applicant. Contacts designated on this form will be the only individuals who may receive information or request alterations to the disbursement schedule on the Promissory Note.

6. A *Certificate of Eligibility* Form (see Attachment 2, Part 6) must be completed satisfactorily for applicant to be eligible for a loan. This form provides assurances requested by the Associate Director (i.e., the Assistant Administrator) regarding the stipulations placed upon the applicant in order to receive a loan.

All Parts of Attachment 2 must be completed as directed and submitted as the **Applicant Package** along with the *Loan Request*.

#### **E. Approving Loan Amounts**

The Associate Director (i.e., Assistant Administrator) or designee will approve the loan based on the applicant meeting the criteria.

Should an applicant be disapproved, in whole or in part, a revised application (in specified format) may be submitted within sixty (60) days of the date of the disapproval.

The amount of the loan will not exceed the lesser of:

- a. the amount of projected revenue loss plus the projected un-reimbursed disaster-related expenses of a municipal operating character for the fiscal year of the disaster and the three (3) subsequent fiscal years, or
- b. twenty-five (25) percent of the local government's annual operating budget for the fiscal year of the disaster.

#### **F. Disaster Finance Center (DFC)**

Upon loan approval by the Associate Director (i.e., Assistant Administrator), the approved *Loan Request* and *Applicant Package* (with the interest rate associated with the loan on the day of approval entered and the Assistant Administrator's signature entered on the Promissory Note) should be forwarded to the FEMA Chief Financial Officer (CFO) with a signed cover letter detailing recommended actions. The CFO will direct the Disaster Finance Center (DFC) to disburse funds as scheduled unless otherwise instructed. The DFC will provide to the loan recipient any pertinent information pertaining to the draw down process (i.e., Smartlink). On a monthly basis, the DFC will provide the CDL Coordinator a Disbursement Schedule Report indicating the date of each of the applicants upcoming scheduled disbursements. The DFC will also provide an Actual Disbursement Report reflecting the actual dollar value of the disbursements made to the applicants during that month. The CDL Coordinator will notify DFC of any adjustments to be made to the loan disbursements.

DFC will monitor compliance with the Credit Reform Act, including reviewing applicant's annual financial reports, if necessary, to determine whether the subsidy appears to require adjustment, and if so, by how much. The CDL Coordinator will provide DFC with access to applicant files containing the most recent financial statements, as well as expedite the collection of financial data, as needed and requested by DFC.

## **G. Staffing Plan**

The CDL program will be maintained by a full-time, FEMA employed CDL Coordinator, who will provide the day to day monitoring and oversight of the application process and CDL financial analysts who will be engaged as-needed to assist with the development of and loan applications. The CDL Coordinator will work closely with the GAR to identify potential applicants and deploy financial analysts to assist these potential applicants through the application process (i.e., help them develop the application for submittal to the GAR by the applicant).

### *CDL Coordinator*

The CDL Coordinator will oversee the overall administration of the CDL Program, ensuring that the applicants are complying with the Program requirements. This individual will also perform the administrative functions including communicating with the applicants and State, recording maintenance and retentions, and processing the disbursements and annual certifications (as described in the Maintenance Guidelines).

### *CDL Financial Analyst*

A CDL Financial Analyst will be employed, as needed, to assist in the development of loan applications and perform eligibility reviews. The CDL Financial Analyst should have prior accounting or finance experience with, preferably, prior experience calculating the CDL application. The CDL Financial Analyst will be engaged on an as needed basis to calculate the applicant's maximum loan amount.

### *DFC Counterpart*

A DFC CDL counterpart will work closely with the CDL Coordinator to ensure approved loans are placed into the FEMA finance System per DFC guidelines and ensure funding is available to loan recipient per the Promissory Note schedule.

## **H. Initial Deployment Plan**

1. Upon request by State and funding approval, CDL Coordinator will deploy to Joint Field Office to provide GAR and potential applicants' education on program requirements.
2. Working with the GAR, CDL Coordinator will develop strategy for determining eligibility for each potential applicant.
3. Once strategy is determined, CDL Coordinator will deploy financial analyst to applicants to make eligibility determinations, write Loan Request for Applicant signature, and develop case files.

4. At regular intervals, to ensure the timely delivery of loan funds, CDL Coordinator will collect completed packages for delivery to the GAR for forwarding to Regional Director.

## **I. Tools Needed To Initial Deployment Plan**

To execute this delivery plan, several tools are required. These tools include the following:

1. Working with the GAR, CDL Coordinator acquires list of potential applicants.
2. Financial Analyst should bring with them:
  - Attachment 1 as a guide to assist the applicant in developing their ***Loan Request***.
  - Attachment 2 to be completed for the applicant by the financial analyst ready for signatures
  - A ***One Pager*** providing an overview of the CDL Program and its requirements (see Attachment 7)

In field, the financial analyst will develop and maintain:

1. ***Applicant Packages***.
2. Applicant Files with Applicant's contact info, CDL application(s), and Promissory Note with disbursement schedule.
3. A schedule of meetings and correspondence with applicants.

Attachments:

Attachment 1 – Loan Request

Attachment 2, Part 1 – Promissory Note

Attachment 2, Part 2 – Collateral Security Form

Attachment 2, Part 3 – Direct Deposit Form

Attachment 2, Part 4 – Certification Regarding Federal Lobbying Form

Attachment 2, Part 5 – Contact Information Form

Attachment 2, Part 6 – Certificate of Eligibility

Attachment 3 – Approval Request Letter from Applicant to GAR

Attachment 4 – Approval Request Letter from GAR to RD

Attachment 5 – Approval Request Letter from RD to Assistant Administrator

Attachment 6 – Approval Letter from Assistant Administrator to CFO