



Redwood Region
Economic Development
Commission

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November 30, 2009

Dawn Elsbree
Coordinator
Headwaters Fund
520 E Street
Eureka, CA 95501



Dear Dawn:

I am writing this letter to follow up on our conversation regarding the Headwaters Fund Forestry Loan Program.

As I stated in our meeting, I think that the concept is an interesting one and I can see how RREDC and the Small Business Development Center, as partners, could design and implement the program.

As we discussed, the typical loan would be on the order of \$20,000 to \$30,000 in size. These loans would be to fund Timber Harvest Plans or Non-Industrial Timber Management Plans or other forest land improvements. Depending on the specific item being funded, the term of the loans could be as short as 36 months to as long as 120 months.

As you know, we currently participate with the HWF in providing loans to small businesses. This program is structured so that RREDC is able to charge the borrower a 1.5% loan fee and then is able to keep 40% of the loan interest stream. This has been a mutually advantageous relationship, resulting in a reasonable revenue stream for both parties.

However, inasmuch as the typical loan in the Forestry Loan Program would be smaller and with a shorter duration than the HWF revolving loans, I do not believe that using a similar compensation scheme would be viable. Assuming we make a \$20,000 loan with an 8% interest rate, a 50% interest split with the HWF, and fully amortized over 36 months, RREDC would only realize approximately \$980 in revenue in the first year, \$423 in the second, and \$151 in the third. This is the "worst-case" scenario as revenue would increase if the loan was interest only until completion of the harvest, longer in term, or for a greater amount.

Because there is a fair amount of uncertainty at this point around the size, type, and number of potential loans, I propose a one year pilot period where all loan revenue is kept by RREDC, with any principal payments returned to the Headwaters Fund. At the end of the pilot period, RREDC and the HWF can meet to discuss if and how to continue the program.

Please let me know if you have any questions, I'd be happy to meet with the HWF Board to discuss this further.

Sincerely,

Gregg Foster
Executive Director

MEMBER AGENCIES

cc: Michael Kraft, NCSBRC
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