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ILLINOIS

Administration

January 21, 2026

Hanna Henscheid, Community Development Representative  
US Department of Housing & Urban Development  
Chicago Regional Office  
77 West Jackson Boulevard  
Chicago, IL 60604

Dear Ms. Henscheid,

The City of Rock Island is an entitlement community that has been operating a portfolio of different CDBG-funded programs since 1974. Among these are businesses assistance programs intended to retain and expand employment opportunities for low- and moderate-income residents. I am writing to you today regarding one of those programs and a concern that it may not be in compliance with applicable Federal regulations.

The Commercial Industrial Revolving Loan Fund (CIRLF) Program provides low-interest loans to businesses. Since it was first established in 1984, the CIRLF Program has been overseen by a CIRLF Committee with authority delegated to it by the City Council. That authority includes the approving, denying, managing, and collecting upon loans issued by the Program. The membership consists of five people: a representative from a local lending institution, a Rock Island CEO or CPA member, a Rock Island business owner, a citizen with a background in finance, and a member of the City Council. The four members who are not City Council members serve three-year terms. The City Council member serves a two-year term. All members are appointed by the Mayor with the consent of the City Council.

When deciding whether or not to issue a loan, applications go through a two-part review process. The first part is an eligibility test to confirm that employment opportunities for low- and moderate-income people will be retained or expanded. More often than not, the business is located in a Census Tract with more than 20% of people living at or below poverty which is sufficient to deem the application eligible using an area benefit justification. The second part is traditional financial underwriting. This is done by a third-party lending institution. Applicants often seek a loan to fill a financing gap, but they



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may also seek a loan for an entire undertaking or for working capital. Given that the loan funds can be used for a broad range of purposes, the CIRLF Committee must weigh the merits of each request on a case by case basis.

In the years following the Farm Crisis of the 1980s, the CIRLF Program was very popular. Throughout the 1990s and 2000s, many successful loans were made to businesses of all kinds and all sizes. In the early 2010s, however, staffing changes significantly reduced institutional knowledge of the CIRLF Program. Rapid turnover of staff in the years that followed further disrupted its administration. In the late 2010s, HUD monitored the Program and requested improvements to its operations. Staff thereafter pursued such improvements. Throughout that same period, the market offered borrowers particularly agreeable terms on loans and various forms of financing. The CIRLF Program, in light of that, was not as attractive as it had been in previous decades. The interest rate was not competitive. The maximum amount one could borrow not attractive. Moreover, the COVID-19 global pandemic depressed business activity for several years. These factors together meant that the Program was largely inactive and the CIRLF Committee rarely met.

In the last few years, however, interest in the CIRLF Program has begun to return. Over the course of 2023 and 2024, the CIRLF Committee began meeting more regularly to consider updates to the Program that would make it more attractive to potential borrowers. Many different ideas were debated. Ultimately, the Committee recommended an increase in the total loan amount, a decrease in the minimum interest rate, and a change allowing job retention (not just job creation) as a justification for issuance of a loan. The City Council approved those changes in late 2024. In February 2025, the CIRLF Committee approved a new loan for the first time since 2018. The changes to the program seemed to have made a positive difference.

In late 2025, staff were contacted by a local catering business about their existing CIRLF loan originally awarded in 2016. The business was interested in extending its loan, which was nearly paid off, to cover a set of unexpected capital expenses. The business explained that they had recently developed a new event venue in a rural area of Rock Island County. Installation of a sprinkler system had proven more expensive than anticipated but they had managed to cover that expense. Unfortunately, the business thereafter discovered that an elevator and HVAC units at their main facility had become damaged and required replacement. The commercial kitchen at their primary venue used by the



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catering business for all their events is located on the second floor of that building. Without the elevator in working order, the entire business operation could not function. The HVAC units were necessary for the primary venue to host events. The business, having already utilized its available credit on the other event venue, said that an extension to their existing loan was the most accessible and readily available option for them.

Staff evaluated the request to extend the existing loan. Extending the loan would not violate the Program requirement that borrowers only have one active loan at a time. The borrower had reliably made payments over the life of the loan and was not asking for any change in the interest rate, set at 4%. The business employs over 90 people in a low-income Census Tract. Underwriting by a third-party lending institution indicated that there was not significant credit risk. The business operator, who had previously served on the CIRLF Committee, resigned from their position prior to submitting their application for the extension. The business operator is a member of the City Council, but the Council is not involved in loan decisions. Moreover, the operator technically does not have an ownership stake in the business. Taken altogether, staff recommended that the Committee award the loan extension and the Committee ultimately did so in December 2025.

In the weeks that have followed the issuance of that loan, there have been continuing concerns raised regarding real or perceived conflicts of interest. Staff take those concerns seriously and have undertaken a review of the loan approval process. Local ordinances and Illinois statute would not consider the issuance of this loan a conflict of interest. The same may not be true with Federal regulations. The two issues which may mean that the loan was issued in a manner that did not comply with CFR 570.611 are as follows.

1. The business operator resigned from the CIRLF Committee less than one year before their loan request was considered.
2. The business operator does not have an ownership stake in the business, but their spouse does. That means the spouse of a local elected official stands to benefit from a CDBG-assisted activity.

Staff acknowledge that the Program being underutilized for so long may have resulted in a lack of familiarity with applicable regulations. There was a pre-existing loan issued to the business operator prior to them becoming a local elected official. A wholly new loan was not being issued, only an extension to the existing one. Better terms were not being sought. Taken together with the resignation from the CIRLF Committee and not having a



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direct ownership stake in the business, staff believed that there was no conflict of interest. Staff are now are concerned that may not be the case and should have submitted a written request for a review and possible exemption. That request should have clearly identified the two issues above. In turn, issuance of the loan should have been postponed until HUD decided whether or not to grant that request. That having not been done and the loan having been issued, staff are now requesting guidance.

Does HUD believe that the program is out of compliance with the applicable Federal regulations? If so, what are the recommended corrective actions the City should take? The City respectfully requests a review by HUD's legal team to answer these questions and provide direction. Staff offer these potential actions for consideration.

- The loan approval process does not explicitly include a review by the City Attorney for potential conflicts of interest. Adding this to the Program's policies and procedures should reduce the likelihood of this happening again.
- A definitive prohibition on local elected officials receiving both new loans and extensions or modifications to existing loans should be added to the Program's policies and procedures. This should reduce any uncertainty about the regulations.
- Membership composition of the CIRLF Committee as well as its role and responsibilities should be re-evaluated. It may be the case that responsibility for loan approvals should be transferred to the City Council.

As always, the City takes its responsibilities as a CDBG entitlement community very seriously. The funding is critical to the continued existence of a wide range of programs that benefit our low- and moderate-income residents. The City remains committed to regulatory compliance, responsible use of Federal dollars, and maintaining a high-performing portfolio of activities. Thank you.

Sincerely,

Todd Thompson, City Manager  
City of Rock Island