A Closer Look: EDA RLF Reporting Requirements Challenges

The U.S. Department of Commerce Economic Development Administration's (EDA) Revolving Loan Fund (RLF) program provides working capital and gap financing for small businesses and entrepreneurs at or below market rates. The RLF program is particularly beneficial to businesses that may not otherwise be able to borrow capital from traditional sources. The EDA RLF program is part of the EDA's Economic Adjustment Assistance (EAA) program. EDA awards grants to local intermediary organizations (RLF operators) which, in turn, disburse money from the RLF to make loans to small businesses and local community organizations and service providers.

Below is a summary of the 56 responses to the following question in the "7 Questions in 7 Minutes" NADO member survey conducted on April 14-21, 2020: *Does your organization operate an EDA Revolving Loan Fund (RLF)? If so, do you find EDA RLF reporting burdensome, and in what ways?*

A majority of respondents (54%) currently operate an EDA RLF; 32% do not currently operate one; 4% reported they had returned their RLF funds back to EDA; and 10% were considering applying to EDA to establish an RLF.

EDA RLF reporting is burdensome: Most respondents said the reporting requirements are very time consuming, taking staff away from administering the RLF program, conducting outreach to community stakeholders, and educating potential loan applicants about the program. One EDD reported that each semi-annual report is at least a six-hour process.

Reporting requirements have become more and more burdensome due to time involved; lack of resources to adequately support "institutional transition" (knowledge of how to complete the reporting and how to evaluate if it has been done correctly); lack of resources to participate in limited RLF training; and indirect losses to income when the RLF has been authorized for use during periods for recovery/resiliency at lower interest rates to speed access to capital but no relief was awarded for subsequent 'increased' administrative costs/percentage of portfolio use.

One respondent stated that reporting is burdensome because the funds are for gap financing to already higher risk businesses and any defaults or loan write-offs are perpetually held against the fund in the EDA risk rating scoring matrix, even when loans have been closed for years or even decades. Some respondents stated that they ultimately decided to close their EDA RLF programs and return the federal funding back to EDA permanently because they were simply too frustrated with the burdensome reporting to continue administering the program.

Administrative costs, including staffing, are calculated based on the loan interest rates: This method is not sufficient to pay for adequate staffing to manage the reporting and perform the underwriting. Therefore, EDDs have to find ways to cover costs creatively to pay for a staff position to manage the RLF.

Requiring a sequestration account be opened if the RLF has excess funds available can be a burden: The cost of the account at the bank can be more than the interest earned so in essence the RLF can lose funds for lending to cover the bank fees.

Lack of flexibility was cited several times: One respondent said that implementing the recent new compliance supplement on an RLF program that is over 25 years old that has gone from a manual to software based internal accounting system is virtually impossible. The RLF program also lacks flexibility in general as long as RLF funding is considered federal funds. EDA RLF defederalization is a needed reform that would help give local communities more flexibility in making decisions about how to meet unique local needs. A respondent said they are concerned about how they can maintain capital with so many anticipated deferred payments because of COVID-19. Another mentioned they have had an RLF in place since 1981, revolving multiple times over the years. The federal guidelines and the reporting requirements have made it quite difficult to lend the funds to those businesses that need it the most.

RLFs turned back to EDA: Some respondents ultimately decided to close their RLF programs and return the funding to EDA permanently. The reasons cited include cumulative reporting from the start of the fund was overly burdensome and required excessive staff time. One reported that businesses were able to get similar rates with local banks, or other federally-funded RLFs such as USDA RD.

EDDs considering applying to become an EDA RLF operator: Five respondents said they are looking into seeking funds to establish an EDA RLF. Two stated they will initiate the application process soon. The others stated that reporting requirements and match requirements will factor into their decision-making.

Click here to learn more about NADO's advocacy efforts on EDA RLF reform. Congress should take action to cut red tape and reduce regulatory burdens associated with the EDA RLF program's reporting requirements within the FY 2021 appropriations bill. Specifically, we encourage Congress to reform the EDA Revolving Loan Fund program's "in perpetuity" reporting requirement, which currently requires EDA RLF grantees to report forever, even on loans that were made decades ago and have been repaid. This is a burdensome and unnecessary provision. Other RLF programs in the federal government do not require this, and even EDA leadership wants to change this provision. However, legislative action is needed to change this requirement.

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The National Association of Development Organizations (NADO) represents the nation's network of Regional Development Organizations (RDOs). For more information please contact Mirielle Burgoyne, Director of Government Relations and Legislative Affairs, at mburgoyne@nado.org or 202-921-4443 or Joe McKinney, Executive Director, at 202-921-4441.