TIPS FROM A LOAN OFFICER
FOR A HIGH VALUE REVOLVING LOAN FUND (RLF)

NADO Research Foundation

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An effective Revolving Loan Fund (RLF) can be an impactful and valuable instrument for Economic Development Districts (EDDs) to support small businesses in their regions. Traditional banking institutions may have rigid or risk-averse requirements concerning past lending history, collateral, or loan amounts that can restrict the ability of entrepreneurs to secure capital investment. EDD RLFs can provide prospective borrowers with more flexible lending agreements that creates opportunity and makes capital more accessible in the region.

Additionally, managing an RLF can give EDDs a more flexible and sustainable funding source for program-specific funding. Tailoring the region's RLF program to better align with the region's Comprehensive Economic Development Strategy (CEDS) gives EDDs another tool in the economic development toolkit. EDDs around the country have successfully multiplied an initial investment into their RLF programs to manage housing development, entrepreneurial support, and targeted community development activities.

Through the EDD Community of Practice, and the RLF Community of Practice (managed by the National Development Council), the NADO Research Foundation sought advice from successful RLF program managers to identify best practices that create high-value, accessible, and responsive RLF programs. The tips below can help strengthen existing RLF management and instill best practices from the country's leading practitioners into local RLFs.

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Economic Development District Community of Practice

RLF Community of Practice

SELF-EVALUATE THE PROGRAM AT EVERY STEP.

Reviewing a program's past record of performance can be a fruitful corrective measure if the RLF has struggled to loan out funds or has made poor investment decisions in the past. Additionally, an annual or bi-annual "deep-dive" review of program's past performance can be a great way to streamline program activities.

Working to understand 'why' the program is not fulfilling goals listed in the RLF plan should be the first corrective step made in getting an RLF back-on-track. For an RLF's first evaluative steps, consider how past investments fit the organization's goals, the EDDs CEDS development priorities, or organizational RLF plan, analyze how marketing and outreach practices have led to failure or success, and how administrative requirements and some internal controls (or lack of) may help or hinder the program's success. To standardize and update your RLF program requirements, ensure that they meet the standards set in EDA's RLF Standard Terms and Conditions. After the self-evaluation is complete, program staff can work with the RLF administrative board members to make corrective policy actions.

CREATE A COMMUNITY MARKETING STRATEGY THAT IS TAILORED TO THE REGION'S NEEDS.

An effective, tailored marketing strategy can help RLF program effectively source interest from the local business community. To start this process, map out specific target audiences that may have been identified in the RLF plan. Are there specific sectors, industries, or demographics that the RLF program is aiming to reach? Are there any specific target geographic areas in the region that can be best served by the RLF program? Does the region's CEDS identify any emerging industries or industries in need of support that the RLF program can make connections with? To answer some of these questions EDDs can use demographic and economic data compared to their existing lending portfolio to get an idea of what populations or industries are being left out of their programming.

From there, EDDs should determine the best way for the RLF program to reach these potential borrowers and direct them to existing RLF program websites, info sheets, and other resources that may help them begin the intake process.

PROVIDE BORROWERS AMPLE OPPORTUNITIES TO MAKE COLLATERALIZATION WORK.

Prospective RLF borrowers may have less traditional forms of collateral that other bank lending programs will not accept or will consider riskier. While RLF program managers should secure the loan against some form of collateral, being appropriately creative about what that collateral is can make the program more accessible to the targeted borrowers.

For better understanding of the limits of EDA's recommended lending practices, review the EDA RLF Prudent Lending Best Practices. For example, borrowers using the RLF program for the first time may have little to no business assets that can be collateralized for the loan. In these cases, personal assets of the borrowers can be utilized to meet collateral requirements. If a less traditional form of collateral can conceivably be reasonably assessed and recovered in case of default, RLF program managers and administrative boards should work with prospective borrowers to make these loans work.

UTILIZE THE EXISTING RESOURCES OF YOUR RLF ADMINISTRATIVE BOARD TO DEVELOP CONNECTIONS.

Each RLF administrative board should aim to have some representation from the region's banking community as well as a representative mix of board members that align with their region's demographics. Making your RLF administrative board representative of the region it serves is a vital aspect of proper RLF management. Has your EDD identified underserved populations through the RLF plan or the region's CEDS that the RLF program can better support or provide outreach to?

If the RLF program finds that their existing outreach efforts or programming are inaccessible to targeted demographics, inviting a member of that community to serve on the RLF administrative board can be a good first step in establishing connections with that community. This strategy can allow the RLF to self-evaluate in a more inclusive and structured manner and ultimately make the program more accessible to the borrowers that need targeted support.

If the program has struggled to make connections or develop relationships with local banking institutions, ask the members of the administrative board to conduct outreach to their peers in the banking community and affirm the value of collaboration with the RLF program. As banking can be a highly relational and peer-to-peer centered industry, having your administrative board members advocate on behalf of the RLF program can potentially secure new interest in the program from institutional banks. With these connections made, referrals from banks can be a valuable source of potential RLF borrowers.

DEVELOP INTERNAL CONTROLS TO ENSURE EACH LOAN HAS APPROPRIATE DOCUMENTATION FROM THE START.

Utilize standardized checklists for applications to ensure a consistent, formalized intake process that collects necessary information from potential borrowers and protects the RLF from incomplete applications or ill-advised loans. Make the standardized checklist publicly available to guarantee that potential borrowers know what information is needed to successfully secure a loan, reduce the administrative burden on program managers, and streamline the application process for borrowers. It is a good practice to develop a checklist or information sheet to help existing borrowers understand annual reporting requirements.

Additionally, ensuring that program information and public facing materials are provided in relevant languages for the lending area population can make programming more accessible to targeted populations identified in the RLF plan or CEDS. Streamlining document submittal processes will allow an RLF program to maintain internal compliance and ensure that annual audits are stress-free and seamless.

USE SMALL BUSINESS DEVELOPMENT CENTERS TO HELP POTENTIAL BORROWERS DEVELOP SOLID BUSINESS PLANS.

The Small Business Administration (SBA) supports Small Business Development Centers (SBDCs), typically housed at local universities, that can provide potential borrowers with the formalized, technical assistance they need to create, improve, or finalize their business plans. If a potential borrower has a good idea for a business but their plan needs fine-tuning to take their business idea to the next level, the SBDC can support that borrower in developing a stronger plan and business model. Directing potential borrowers to the SBDCs saves RLF program managers' time and elicits stronger applications for future investment.

RESOURCES:

National Development Council – RLF Community of Practice	The National Development Council (NDC) is working under a collaborative agreement with the Economic Development Administration to create and manage an RLF Community of Practice that is meant to provide a common space for RLF practitioners to share resources and relevant information.
EDA Revolving Loan Funds Resources	The EDA RLF resource page provides general information, guidance, and EDA-specific requirements for RLFs around the country.
Council of Development Finance Agencies – RLF Resource Center	The CDFA RLF resource page provides general information and guidance for RLF practitioners through the EDA Revolving Loan Fund Best Practices Program.

MICHELLE MAROTZKE

Michelle Marotzke is an Economic Development Professional with the Mid-Minnesota Development Commission (MMDC). With an MBA and over 25 years of work experience in finance, customer service, logistics, and other industries, she is passionate about building relationships and helping people reach their goals. Marotzke and colleague Nate Reuss co-manage the agency's revolving loan fund to ensure that it is leveraged throughout the MMDC region in a responsible and equitable manner. Marotzke has overseen the expansion of the original Legacy RLF into three RLFs operating in the region with a valuation of over $2.2 million dollars.

CHRISTINA SMITH

Christina Smith is the Loan Officer at Greater Eastern Oregon Development Corporation (GEOEDC). Christina started her banking career in 2006 and held various positions within the same institution including teller, mortgage processor, commercial credit analyst, and business loan officer. In 2018, the loan officer at GEODC retired and she applied. The commercial lending world had become very restrictive and she was looking for a less rigid environment where she could see the tangible benefits of her work in the community. GEODC was exactly what she was looking for. GEODC is one of the largest geographical economic development districts in the nation, covering seven rural and frontier counties in Eastern Oregon. The GEODC RLF funds have been revolving since 1982 with the exception of the recent EDA CARES Act RLF that was established in 2020.

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