

RLFs and EDDs

Common Challenges and Solutions



**RLF
Community
of Practice**

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Agenda



About Revolving Loan Funds (RLFs)



About the RLF Community of Practice (CoP)



Common Challenges with RLFs



Discussion on Creative Solutions on how to use RLF Dollars



EDDs & RLFs



Q&A

About RLFs - General

What is an RLF?

Revolving Loan Funds (RLFs) are pools of capital that are lent out to small businesses to spur economic development.

As principal and interest are repaid the pool replenishes and funds can be lent out again.



About RLFs - General

How do RLFs work?

1. Government agencies provide a grant or a loan to capitalize the fund and cover administrative expenses.
2. The repayment of principal, interest payments, and fees replenish RLFs so that future loans can be made to eligible borrowers, and the loan fund can eventually be sustained or “revolved” without subsidy.

About RLFs - Types of RLFs

Different sources of funding → different ways to use funds

| Funding Source | Ways to use RLFs |
|----------------|--|
| ARC | Region-specific small business loans for job growth |
| CDBG/ HUD | Single family home rehab |
| EDA | Lending to small businesses for economic development ← |
| EPA | Environmental clean up programs, Brownfields, etc. |
| Local | Façade programs, corridor specific programs, etc. |
| USDA | Creating/maintaining rural job |

About RLFs – EDA's RLF Program

- EDA's Economic Adjustment Assistance (EAA) program grants awards to establish RLFs.
- The purpose of the EAA RLF grant is to **provide capital as gap financing that enables small businesses to grow and lead to more and better job opportunities for local communities.**

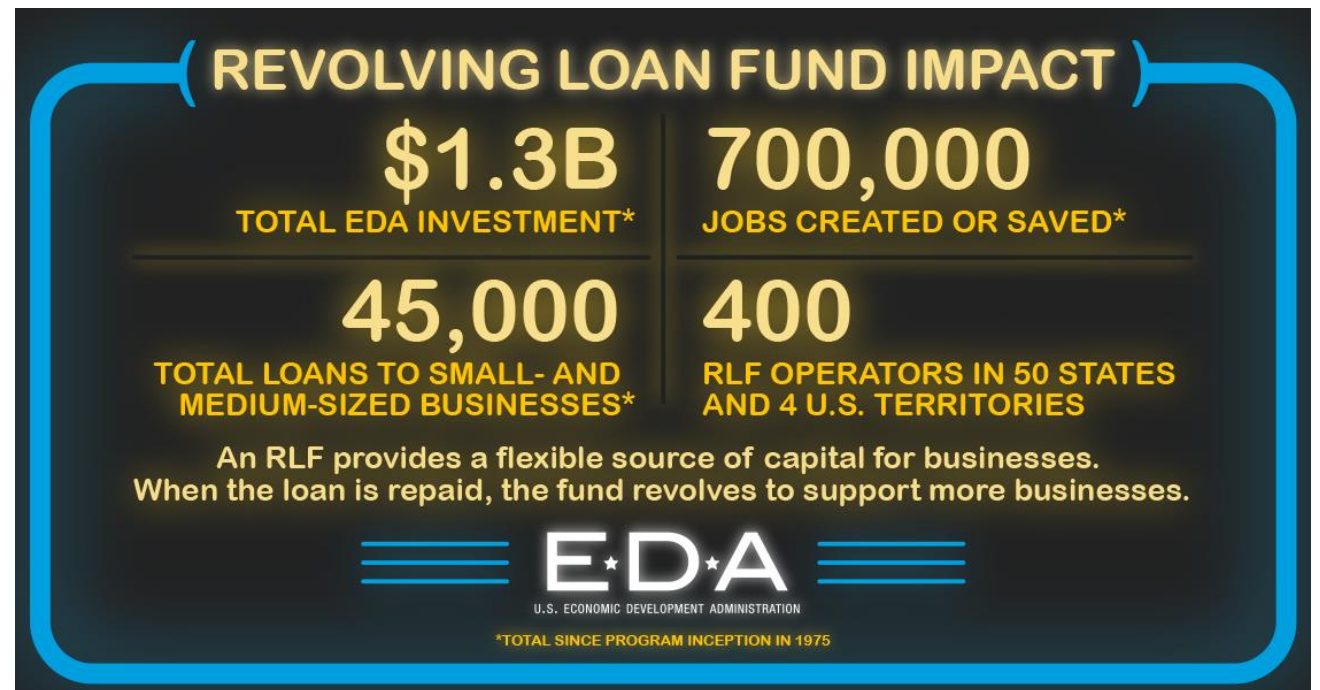


About RLFs – EDA's RLF Program

- Who can apply for an EDA RLF Grant:
 - State, County, City or other political sub-division of a state
 - Indian Tribes
 - EDA-approved district organization (EDD)
 - Institution of higher education
 - Public or private non-profits
- Each RLF should have its own lending strategy based on local community needs

About RLFs – EDA’s RLF Program

- Currently more than 400 active RLFs across the country
- Grant awards range from \$500,000-\$2,000,000
- At last update, EDA RLFs have **deployed over 45,000 loans** and **created or retained over 700,000 jobs**



Source: [EDA](#) as of January 22, 2024

Why an RLF Community of Practice?

“The Revolving Loan Fund program is one of EDA’s oldest and most successful initiatives. **The RLF Community of Practice will enhance the ability of our network of RLF operators to efficiently direct federal funds to communities most in need.**”

- Alejandra Y. Castillo, Assistant Secretary of Commerce for Economic Development. Quote from [EDA blog post](#) on November 16, 2022.

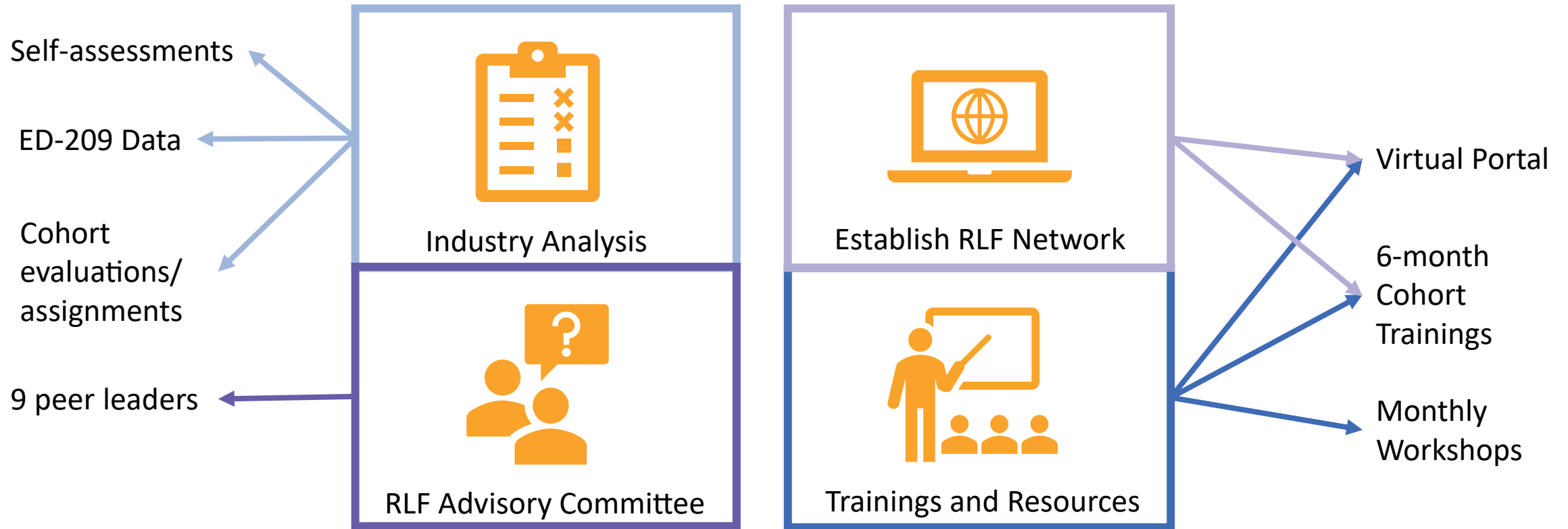
RLF CoP Objectives

Increase the capacity of RLFs to meet the needs of their local economic development strategies.

1. Increase organizational capacity.
2. Increase the volume of loans and loan capital.
3. Establish a peer-to-peer group of RLFs to collaborate on needs, strategies, capacities, and program impact.
4. Increase understanding of broader economic development strategies through training and curriculum.



RLF CoP Activities



RLF CoP – Stay Up To Date!



Virtual Portal



Weekly Emails



Recordings of Past Workshops

ED-209 Reporting Tips



**RLF
Community
of Practice**

Join us from 2-3 ET on
Wednesday, Nov. 13th

Scan this QR code to register for the event.



About the Nowak Metro Finance Lab

- Founded in 2018 by Bruce Katz and Jeremy Nowak.
- Sits within the Lindy Institute for Urban Innovation at Drexel University.
- **“Metro Finance”** represents a new way of governing and financing cities. Increasingly, government, business, civic, philanthropic, university, and community networks, rather than the public sector alone, are collaborating to forge solutions that are holistic, integrated and multidisciplinary and raise, pool, and deploy capital from an array of local, national, and even global sources.
- Workstreams that focus on Innovation Districts, Public Procurement, Innovative Finance, Housing, Federal and Industrial Investment, and Small Business.
- Role in EDA RLF Cohort is to, support Grow America in program analysis, develop a profile of RLF industry and provide “macro” views on economic development topics.

Introducing the Innovative Finance Playbook for Capital Entrepreneurs

BY BRUCE KATZ, ROSS BAIRD, MAEGAN MOORE AND IAN O'GRADY - NOVEMBER 16, 2022

NEWSLETTER

Join us, Wednesday, December 7 at 1pm ET, for the Innovative Finance Playbook

LEVERAGING SSBCI 2.0: REMAKING AMERICA'S SMALL BUSINESS CAPITAL LANDSCAPE

A NOWAK METRO FINANCE LAB PARTNERSHIP WITH THE EWING MARION KAUFFMAN FOUNDATION AND THE INITIATIVE FOR INCLUSIVE ENTREPRENEURSHIP (IIE)



Photo by Ted Eytan

SSBCI INVESTMENT TRACKING



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Disclaimer: This map is not a comprehensive or authoritative listing of all SSBCI loans and investments. Many jurisdictions and their partners may not release information about SSBCI loans and investments, and many publicly announced deals may be omitted.

VIEW HERE



RLF
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of Practice

About the RLF CoP Self-Assessment

- The self-assessment has been completed by all three cohorts.
- It covers multiple sections to **evaluate organizations' challenges and strengths**. The sections are Organizational Capacity and Capabilities, Loan Portfolio Summary, Lending and Loan Operations, Loan Products, Systems And Technology, and Social Impact.
- **GOALS:**
 1. Provide important data for EDA and other organizations to help them better understand the needs and challenges of RLFs.
 2. Help the RLF CoP identify relevant curriculum for the Cohort trainings and monthly webinars.

About EDDs in RLF CoP Cohorts 1-3

ORG PROFILE



- **Representation in CoP:** 40%
- **Years in operation**
 - *AVG:* 48.8 years
 - *MED:* 50.5 years
- **Years managing a RLF**
 - *AVG:* 27.6 years
 - *MED:* 33.5 years
- **Annual organizational budget**
 - *AVG:* \$5.2 million
 - *MED:* \$2.3 million

OPERATIONS



- **Full time employees (FTEs)**
 - *AVG:* 22.6 FTEs
 - *MED:* 15 FTEs
- **RLF applications received (rounded)**
 - *AVG:* 8 applications
 - *MED:* 5 applications
- **RLF loans made (rounded)**
 - *AVG:* 5 loans
 - *MED:* 3 loans

PORTFOLIO



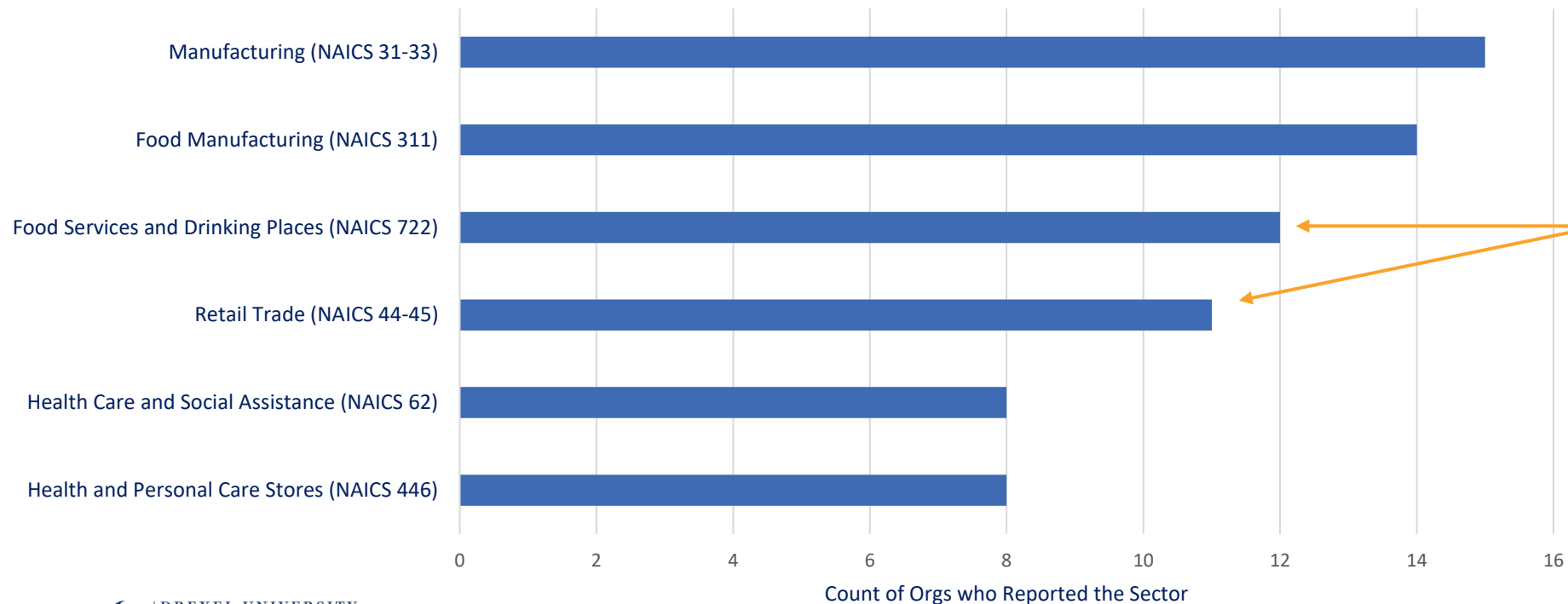
- **Total loan volume**
 - *AVG:* \$821,814
 - *MED:* \$247,500
- **Available lending capital**
 - *AVG:* \$1,596,357
 - *MED:* \$786,381
- **Loan portfolio in default***
 - *AVG:* 6.4%
 - *MED:* 3.7%
- **Loan amt. per transaction (rounded)**
 - *AVG:* \$164,363
 - *MED:* \$82,500

Common Challenges - EDDs

| <u>CoP self-assessment question</u> | <u>Leading response</u> | <u>Leading response percentage</u> |
|---|---|------------------------------------|
| What are some of the primary factors that have influenced these changes? Please select all that apply. (#30) | “Staff changes” | 60% |
| What factors do you believe contribute most to the success of your organization? (#33) | “Staff knowledge and expertise” | 55% |
| Is there anything that you would like your organization to improve upon with regards to its current products or services? (#37) | “Marketing to a larger variety of businesses” | 67.5% |
| In your opinion, what are the biggest challenges facing EDA funded RLFs as a whole today? (#38) | “Competition with other lenders; market visibility; operations and scalability” | 27.5%; 20%; 17.5% |
| In your opinion, what are the biggest challenges facing your specific RLF today? (#39) | “Market visibility; competition from other lenders; operations and scalability” | 20%; 20%; 20% |
| What are your top goals and priorities for your lending activity? (#50) | “Grow overall lending activity” | 72.5% |

Common Challenges – Industries

Top 6 Sectors Organizations Believe to Have the **Most Opportunity** for Growth for Lending Activity



*These sectors were also noted as among the **most difficult** sectors to underwrite.**

**reflects cohort 2*

Self-Assessment Analysis – Next Steps

- **Practitioner Feedback:** Information gathered from the CoP sheds light on challenges and opportunities for the RLF industry.
- **Product Innovation:** We will work to catalog unique and effective approaches in lending to innovative sectors and catalog innovative structures (dealmaking).
- **Understanding the Industry:** Using a mixed-methods approach, we will work to characterize the industry (key sectors, demography etc.)

Creative Solutions

01

Market differentiation

Across all three CoP cohorts, “market visibility” and “grow overall lending activity” were top responses.

02

Succession planning

In the self-assessment, staffing was both named as a key challenge and a critical factor of organizational strength.

03

Operational slog

Early results indicate that most RLF operators rate “borrower responsiveness” and “technical assistance” as key pain points.

Common Challenges



Potential Solutions

01

Revise product list

- Defederalized RLF funds
- Partner with CDFIs
- Target new industries and build competitive advantage

02

Proactively build pipeline

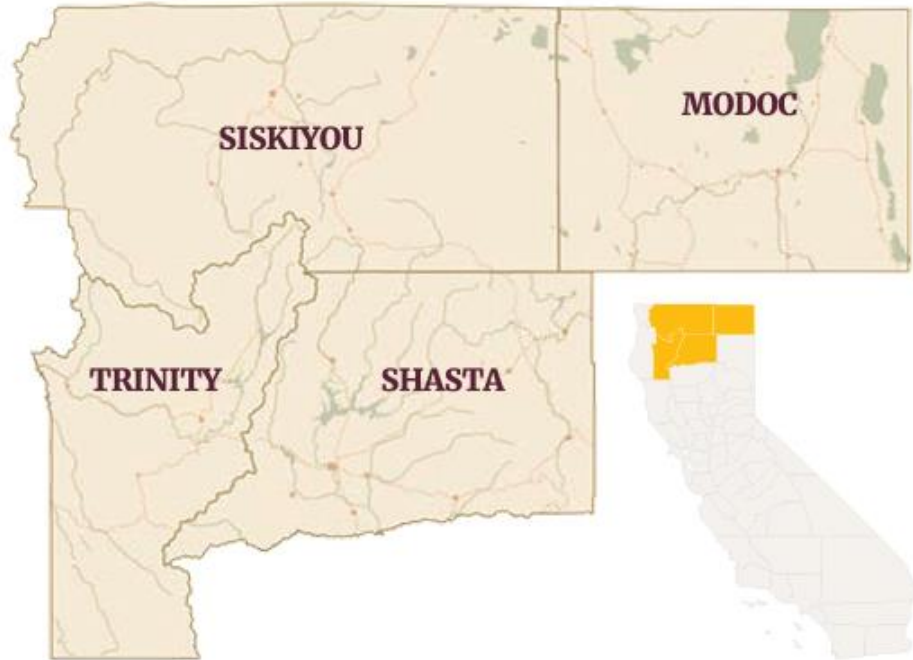
- Mimic housing industry with learning fellowships to recruit new talent
- Strengthen from within

03

Remap client pathways

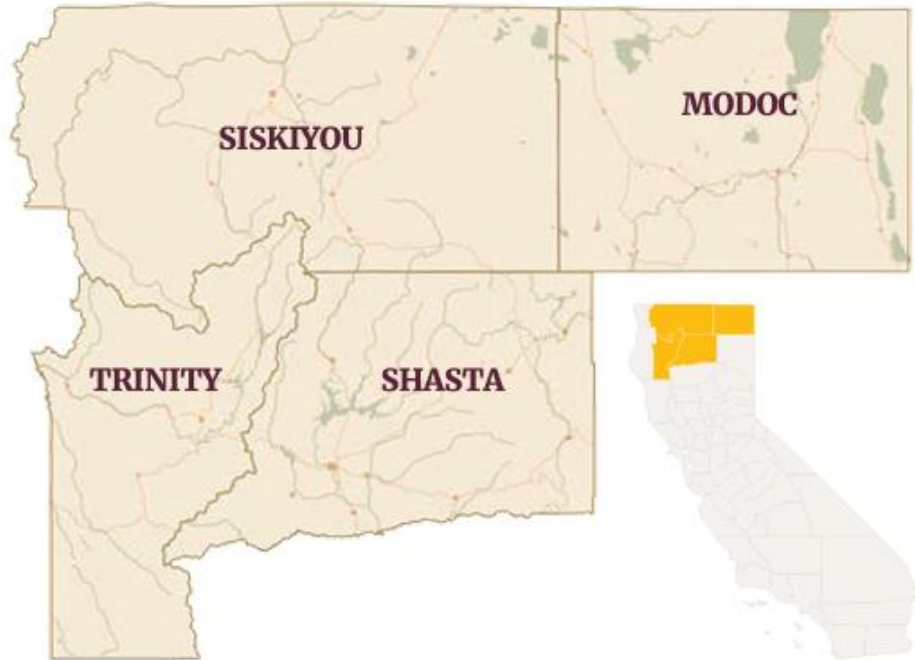
- Invest in process mapping and improvement before new SaaS
- Consider adding TA services with partner

EDDs and RLFs



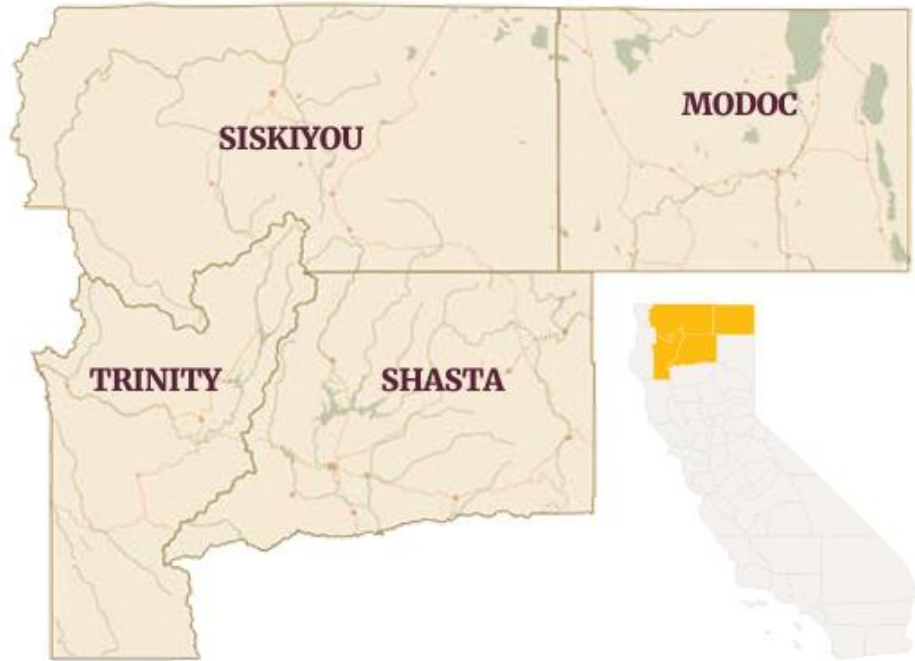
- 4 Counties – 42nd largest state
- 250,600 people
- 72% of population is in Redding
- 59% live within 1 Mile of Interstate 5

EDDs and RLFs



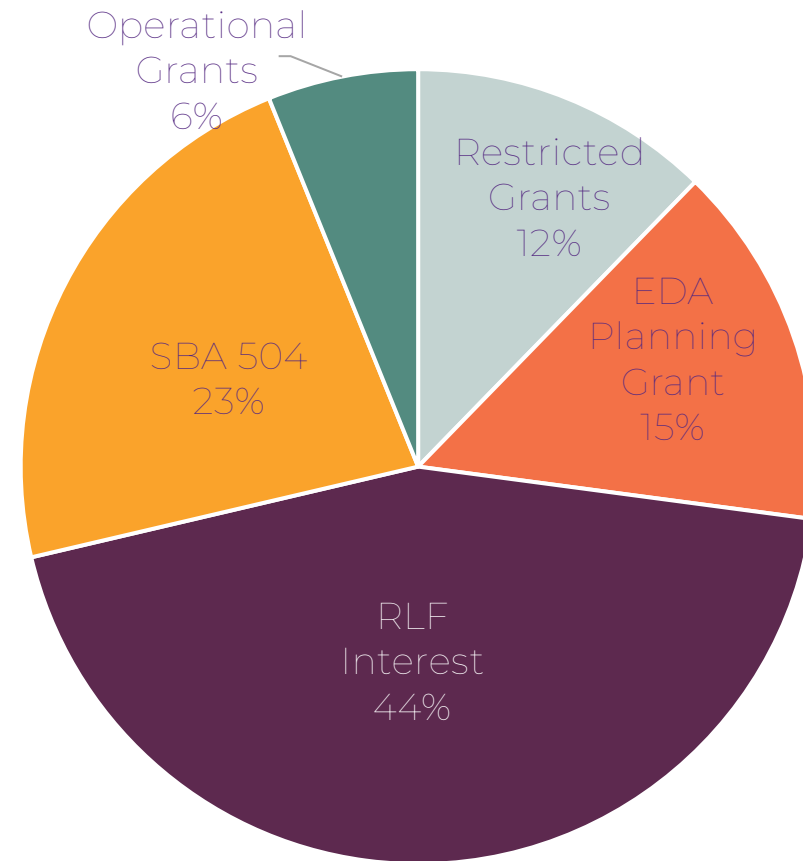
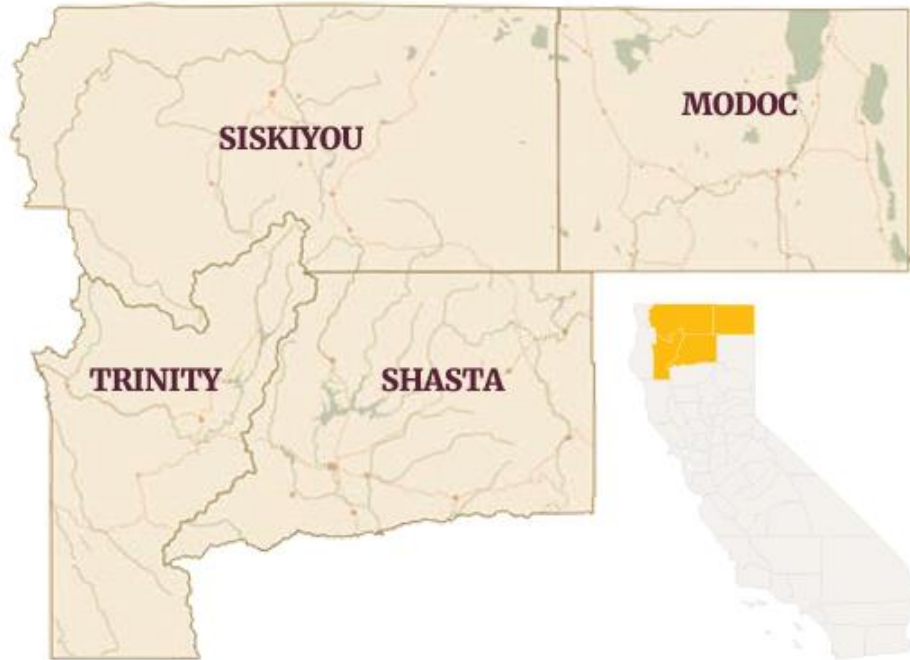
- EDA Economic Development District
- \$8 million RLF portfolio
- SBA Certified Development Company
- \$27 million 504 portfolio

EDDs and RLFs



- 2 Community Banks
- 4 Regional Banks
- 3 National Banks
- Rural Lending Desert

EDDs and RLFs



EDDs and RLFs - Benefits



Access to
Capital for Small
Businesses

Leverage
Additional
Funds

Focus on Local
Administration

Self-Sustaining
Loan Funds

Support
Underserved
Communities

Job Creation &
Retention

Long Term
Outlook

EDDs and RLFs - Benefits



Why Communities Invest in Economic Development



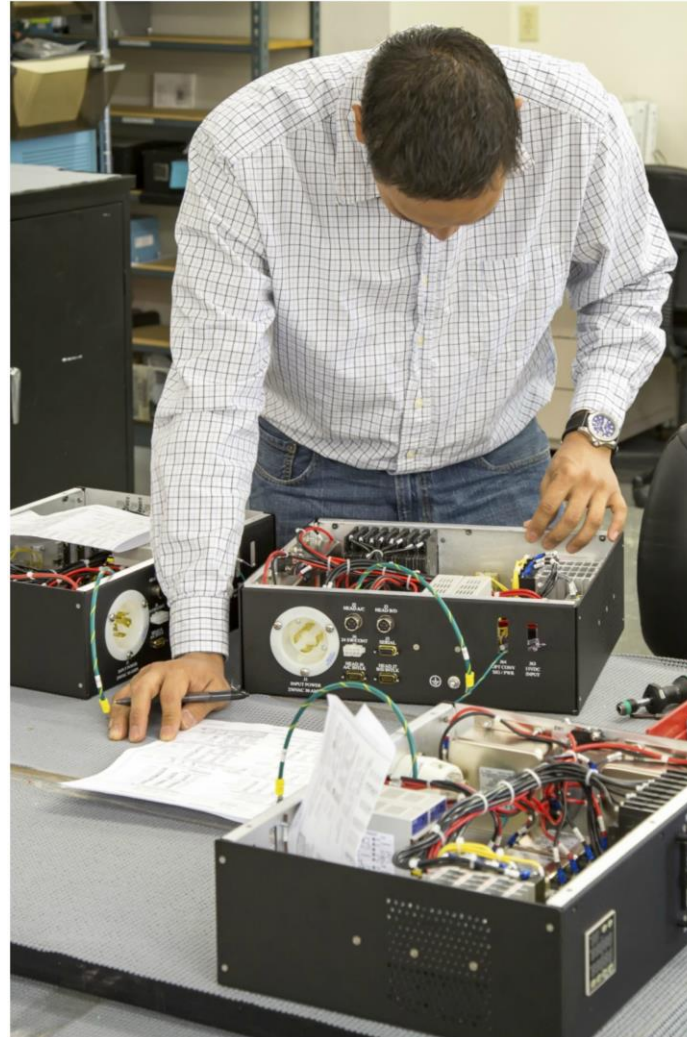
EDDs and RLFs - Overcoming Obstacles



- Marketing
- Staff Turnover
- Operations
- Scalability
- Loan Deployment



EDDs and RLFs – Success Story



EDDs and RLFs – Impact



Revolving Loan Funds

- \$31 million in RLF loans made
- \$55 million private capital leveraged
- 464 loans made
- 3,500 jobs impacted

SBA 504 Loan Program

- \$78 million in SBA 504 loans made
- \$90 million private capital leveraged
- 116 SBA 504 loans made
- 1,200 jobs impacted



EDDs and RLFs – 5 Takeaway Tips



Know what you're doing



You're helping others



Find your niche



You only need 5 referral partners



Have good back-end support

Thank you!
Questions?



**RLF
Community
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