

Racine County Economic Development Corporation: A Leader in Risk Assessment and Mitigation

[Racine County Economic Development Corporation](#) (RCEDC) has long been a leader in risk assessment and mitigation of their EDA revolving loan fund portfolio. Located between Chicago and Milwaukee, the EDC has dealt with the loss of its historically strong regional manufacturing base by effectively assessing and managing risk, and successfully marketing their RLF to attract the best loan applicants.

Risk Assessment Process

The key to Racine’s effective RLF management is their loan portfolio grading scorecard, which the EDC uses to assess the risk of their entire RLF portfolio each year, as well as the risk of individual loan applications and loans already on the books.

Carolyn Engel, Business Finance Manager at [Business Lending Partners](#) (BLP), a division of RCEDC, manages the RLF and helped develop the grading scorecard after consulting with local bankers about how they assessed the risk of their loan portfolios.

Since developing the system it has given them a better understanding of their RLF portfolio overall. The scorecard allows them to see how many dollars are at each level of risk and helps them to keep an eye on businesses that need a little extra help.

“Implementing the grading scale helps with servicing the entire loan portfolio and identifies businesses that are struggling so we can point them to the right resources for technical assistance,” Ms. Engel said.

The scale works like this: the portfolio manager grades each loan recipient on seven different categories and gives the borrower a grade of ‘A’ through ‘E’ – with ‘A’ signifying minimal risk and ‘E’ meaning a probable loss.

Grading Scale	
A	Minimal Risk or Better than average risk
B	Average Risk
C	Acceptable Risk – Monitoring
D	Special Mention and Substandard – Watch List
E	Doubtful (Partial Loss Probable) and Loss

After the initial scoring, the BLP team comes together to agree on a final grade in each of the categories. Then all of the seven final grades are averaged and the company is assigned a final, overall grade for the year.

The seven categories are sales, profitability, operating efficiency, cash flow, liquidity, leverage, and ‘other’. The ‘other’ category includes the company’s servicing of its other debts and the perceived strengths of the management team, as well as any other factors deemed important by the BLP team.

Each loan recipient is evaluated based on its performance over the previous three years so the Racine EDC can gauge trends in the company's risk factors. New loan applicants are similarly evaluated using the grading system, also based on their last three years of business operations. The grading for new applicants is provided as supplemental information to the loan board when making its final decision to approve or deny the loan.

Risk Mitigation Process

EDC uses the scorecard not only to make decisions about which loans to approve, but also to prioritize which existing loans require the most monitoring and technical assistance. Ms. Engel meets with the high-scoring companies (A's and B's) once a year, with 'C' companies a little more frequently, and with the underperforming companies (D's and E's) numerous times – including very shortly after the loan portfolio review.

Ms. Engel has noticed that many 'C' and 'D' grade loan recipients are willing to utilize the resources available to them to try to avoid a default and improve their opportunity for success after being referred to the appropriate technical assistance provider.

She has referred businesses to SBA's SCORE program and Small Business Development Centers to receive technical assistance, and she has also advised numerous companies to consider a new accountant, one that is able to provide more in-depth counseling or one with expertise in their specific industry. She also frequently refers businesses to the [Racine County Workforce Development Center](#), [Gateway Technical College](#) and other organizations that offer seminars on specific topics that may assist struggling businesses.

To view the grading scorecard used by BLP please [click here](#) (PDF). Please visit the [Business Lending Partners](#) or [Racine County EDC](#) web sites for more information, or contact Carolyn Engel at 262-898-7420 or cengel@businesslendingpartners.org.

Marketing Partnerships

BLP receives most of its referrals for RLF loans through private bankers, with the remaining 10 percent coming from other marketing strategies. Ms. Engel markets the RLF by hosting presentations to local bank individually at least once a year and by sending monthly emails to remind them about the financing options available.

Occasionally, [monthly newsletters](#) that focus on the different communities served by Racine EDC are used to highlight the loan rates they offer. Ms. Engel is also working with staff to implement a webinar program for bankers.