



Revolving Loan Funds: A Basic Overview

A Revolving Loan Fund (RLF) serves as a gap financing measure used for the development and expansion of small businesses, micro enterprises, and other initiatives. It's a self-replenishing pool of money that utilizes interest and principal payments on past loans to issue new ones, providing access to a flexible source of capital that can be used in combination with more conventional sources. Often, an RLF will act as a bridge between the amount the borrower can obtain on the private market and the amount needed to start or sustain a business.



Typical Uses:

- Operating Capital
- Acquisition of Land/Buildings
- New Construction
- Facade/Building Renovation
- Landscaping
- Property Improvements
- Inventory
- Machinery/Equipment
- Other



Loan Characteristics:

A loan can range from several months (working capital) to several years (real estate purchase), ranging from \$1,000 to \$50,000. Typically, RLFs issue loans at market or competitive and attractive rates with flexible terms, providing new financing sources for borrowers and lowering risk for institutional lenders.



Capitalizing RLFs:

Initial funding of an RLF usually comes from a combination of public and private sources. Funding for capitalization is generally the equivalent of a grant - it does not need to be paid back. Local and private funding often maintain greater flexibility, in terms of lending.

State and federal government has several sources of capitalization. Communities may apply for funding from the U.S. Department of Agriculture (via the Rural Economic and Community Development Administration), Housing and Urban Development (via Community Development Block Grants), and the Department of Commerce (via the Economic Development Administration).

Here are some basic steps + tips for starting an RLF:

- 1) Research existing RLFs and compile samples of application forms, program guidelines, and other materials.
- 2) Invite lenders and potential borrowers to participate in the design process.
- 3) Establish the purpose of the RLF which should include a needs assessment.
- 4) Set the eligibility requirements for borrowers.
- 5) Determine the allowed uses of funds, as well as prohibited uses. Determine if there might be other special conditions, such as required participation in trainings or events.
- 6) Set a minimum and maximum amount for the loans. Ensure the amount is impactful.
- 7) Decide if the loans must be matched by existing equity or other sources of funds.
- 8) Determine the length of the loan term, which may vary based on the usage of the loan.
- 9) Establish an application fee, origination fee, and policies regarding closing costs. Define the default and delinquency terms.
- 10) Decide if the interest rate will be variable or fixed and whether the rate will vary based on the proposed project.
- 11) Develop the loan application form. Create a short pre-application form or checklist to help borrowers determine if they are eligible.
- 12) Set up a committee to review loan applications.
- 13) Determine the administrative duties and staffing needs associated with the program.
- 14) Promote the RLF and capitalize with funds from grants and individual donations.
- 15) Provide loans and technical assistance to borrowers.



Administration

- A **Loan Review Committee** or board of directors takes responsibility for reviewing loan proposals, designating of an administrative entity (public, nonprofit, or private), and contracting a local bank for the loan fund's portfolio management responsibilities. The committee or board is usually a combination of legal, private lending, business, community development, and local government professionals.
- **Marketing** the RLF is a critical component of operating a successful program. Generic marketing, such as newspaper advertisements, can create an initial onslaught of interest and applications. However, direct leads will also be important. Enlist the aid of connections at local banks, speak to local business and industry groups, update your website with application materials, and share success stories of businesses assisted.
- **Ongoing Monitoring and Servicing** of the loan remains critical. Payment monitoring should be routine and followed on a weekly basis. Identifying a troubled loan before it becomes past due will increase the opportunity to begin remediation, whether in the form of additional assistance or increased monitoring.

Reporting Outcomes and Impacts

- As a public investment instrument, RLFs are expected to result in public goods - namely projects contributing to economic growth and community revitalization. Borrowers, therefore, must address performance measures established by loan administrator, such as the number and type of jobs created or retained, increase in tax revenue, private funding relative to public investment, and benefits to low-to-moderate income persons (if applicable, using CDBG funding).