

Revolving Loan Funds



Capitalization Source

Revolving loan funds (RLFs) are a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones. RLFs are an access to capital lending tool primarily used for development and expansion of small businesses.

Quality RLFs issue loans at market or otherwise competitive and attractive rates. RLF programs should be built on sound interest rate practice, and should not be perceived as free or easy sources of financing. RLFs must be able to generate enough of an interest rate return to replenish the fund for future loan allocations.

With competitive rates and flexible terms, a RLF provides access to new financing sources for the borrower, while lowering overall risk for participating institutional lenders.

Capitalizing a Revolving Loan Fund

Initial funding, or capitalization, of a RLF usually comes from a combination of public and private sources. Funding acquired for capitalization usually does not need to be paid back, although some sources will require the RLF continue to meet certain criteria in order to retain the capitalization support.

State and local governments often use one or more of the following to capitalize a RLF:

- Direct appropriations from the state or municipality
- Banks and other lending institutions
- Utility companies
- Private foundations

Federal Sources:

- Community Development Block Grants (HUD)
- Community Adjustment and Investment Program (USDA)
- Economic Adjustment Assistance Program (EDA)
- Brownfields Revolving Loan Fund (EPA)



Loan Fund

Model Programs

Regional Growth Capital, Inc. (St. Louis County Economic Council)

This St. Louis-area RLF targets local, expanding small businesses. The fund has a rather unique capitalization source: stock purchases by 28 local and regional banks. The RLF issues 4-8 loans per year. The max loan size is \$500K, with rates 3-4% above floating prime rate.

Business and Commercial Real Estate RLF Programs (Urban Redevelopment Authority of Pittsburgh)

The Pittsburgh-based Urban Redevelopment Authority operates several RLFs, providing loans up to \$5M for terms of 3-25 years. These programs have been capitalized through loan repayments, and state and federal grants, such as CDBG. Loans particularly benefit small businesses (95% of loans) and M/WBE companies (25%).

Oregon Business Development Fund (Business Oregon)

This fund provides fixed-rate financing at a max term of 20 years for a variety of business uses. Borrowers must create or retain jobs to be eligible, and preference is given to rural or small businesses. The fund receives capitalization support from the Oregon lottery.

Loans to Borrowers

Payments to Loan Fund



Borrowers

QUICK FACT

- Interest returns from a \$2M revolving loan fund will support 1.5 full-time staff members.

More Resources at www.cdfa.net

- CDFA Online Resource Database
- CDFA Intro Revolving Loan Fund Course
- CDFA Revolving Loan Fund Reference Guide
- CDFA Federal Financing Clearinghouse
- CDFA Revolving Loan Fund Resource Center