



Quickly help small businesses and local organizations struggling with cash flow and liquidity issues during the COVID-19 public health crisis

Defederalize EDA Revolving Loan Funds

EDA Revolving Loan Fund program overview

- The Department of Commerce Economic Development Administration's (EDA) Revolving Loan Fund (RLF) program provides working capital and gap financing for small businesses and entrepreneurs at or below market rates. The RLF program is particularly beneficial to businesses that may not otherwise be able to borrow capital from traditional sources.
- The EDA RLF program is part of the EDA's Economic Adjustment Assistance (EAA) program. EDA awards grants to local intermediary organizations (RLF operators) which, in turn, disburse money from the RLF to make loans to small businesses.

How EDA RLFs can be used during an emergency

- Existing RLF operators in communities across the country are already positioned to provide capital to small businesses quickly
- Existing RLF operators can deliver funding to entities that need it fast -- within one to two weeks

Legislative language in COVID-19 funding bill should specify reforms

- Certain aspects of standard EDA RLF protocol can be waived or eliminated in order to quickly provide capital to struggling small businesses that need working capital during this crisis. For example, standard RLF protocol can be adjusted during this crisis to reduce interest rates and eliminate leverage ratio (matching fund) requirements. Adjustments can also be made to reduce administrative burden, which allows RLF operators to provide working capital more quickly. Most importantly, NADO recommends defederalizing the EDA Revolving Loan Fund (RLF) program. This must be done legislatively. NADO encourages members of Congress to take action in the next COVID-19 funding bill

Defederalization of EDA Revolving Loan Funds: release the federal interest in EDA RLFs

eliminate burdensome reporting requirements that might otherwise dissuade local RLF operators from being willing to administer increased funding during this emergency.

- **Congressional action needed: defederalize EDA Revolving Loan Funds** – currently, EDA RLF operators must report on funding received from EDA “in perpetuity,” even on loans they made decades ago. This requirement significantly decreases the efficiency of this program. RLF defederalization must be done legislatively and would reduce the reporting burden by specifying in legislative language that ***the Secretary shall release the Federal Government's interest in connection with a grant after 7 years*** (see legislative language below)
- **How RLF defederalization can help** – RLF defederalization is a legislative reform that would end burdensome and costly reporting requirements placed on local RLF operators. This would enhance the efficiency and effectiveness of the RLF program, which is more important now than ever during the COVID-19 crisis, and would ease an administrative burden that might otherwise dissuade local RLF

operators from being willing to administer increased funding during this emergency. EDA leadership supports this reform, but EDA states in their most recent [regulations promulgated in December 2017](#) that EDA does not have the authority to release its interest in RLF assets. Therefore, in order to resolve this issue, legislative action is needed.

- **Sample legislative language –**

Section 601(d)(2) of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. 3211), is amended,

1) by striking “(2) RELEASE.—” and inserting the following:

(2) RELEASE.—

(A) *In general*

2) and by adding at the end the following:

The Secretary shall release, subject to terms and conditions the Secretary determines appropriate, the Federal Government’s interest in connection with a grant under section 209(d) not less than 7 years after final disbursement of the grant, if—

(i) *the recipient has carried out the terms of the award in a satisfactory manner;*

(ii) *any proceeds realized from the release of the Federal Government’s interest will be used for one or more activities that continue to carry out the economic development purposes of this Act; and*

(iii) *the recipient shall provide adequate assurance to the Secretary that at all times after release of the Federal Government’s interest in connection with the grant, the recipient will be responsible for continued compliance with the requirements of section 602 in the same manner it was responsible prior to release of the Federal Government’s interest, and that the recipient’s failure to comply shall result in the Secretary taking appropriate action, including, but not limited to, rescission of the release and recovery of the Federal share of the grant.*

Other EDA RLF modifications that can help during an emergency

- **Reduce interest rates to 0%:** specify in legislation that *local RLF operators shall have the discretion to reduce interest rates*
- **Reduce or eliminate leverage ratios:** specify in legislation that *local RLF operators shall have the discretion to establish or eliminate leverage ratios*
- **Make loans forgivable:** specify in legislation that *local RLF operators shall have the discretion to make forgivable loans*, and that loan forgivability will not affect RLF operators’ EDA risk rating