

# Best Practices in Revolving Loan Fund (RLF) Management

## Information about RLFs and Tips to Optimize Your EDD's RLF

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# RLF CoP Objectives

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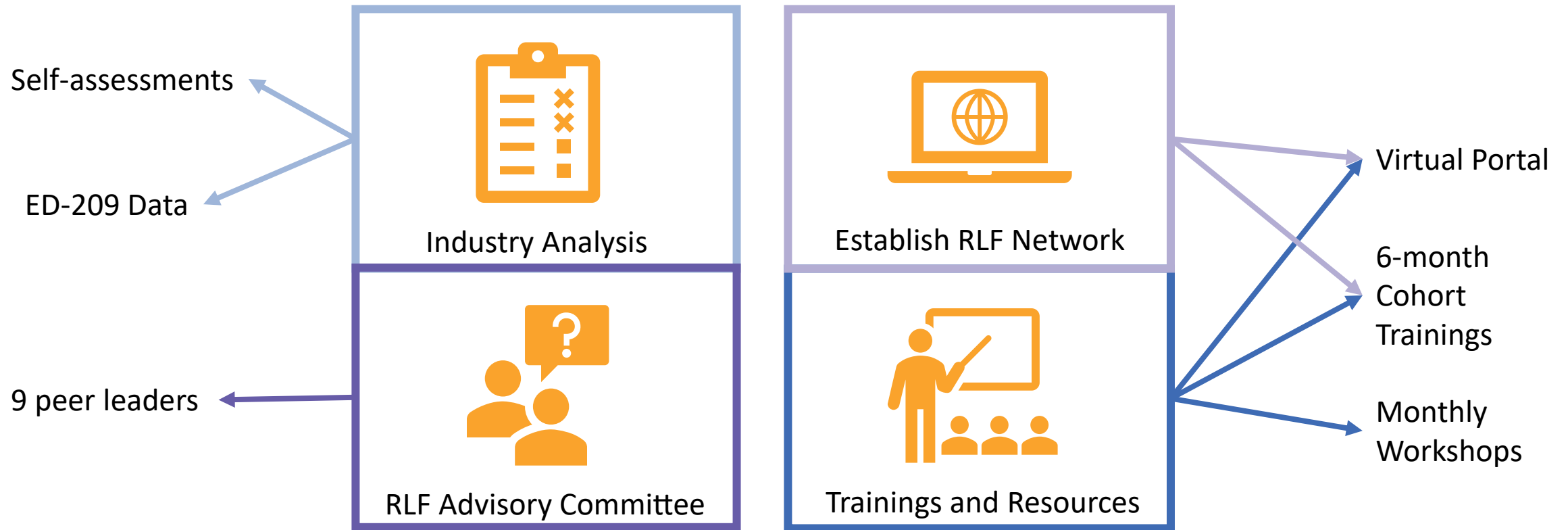
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# RLF CoP Activities



# Mechanics of Portfolio Management



**RLF  
Community  
of Practice**

Join us from 1-2 ET on  
Tuesday, April 22nd

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# Agenda



About Revolving Loan Funds (RLFs)



Defining Your RLF's Mission and Identifying Community Needs



Designing an RLF to Fill Capital Gaps



Admin Plan, Policies, and Procedures



Resources

# Section One:

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# About RLFs

## 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

## RLFs are Financing Tools

- Fill financing gaps
- Recycle dollars
- Keep dollars in the community
- Leverage private sector financing
- Finance smaller, unconventional deals



# Benefits of RLFs

1. Self-replenishing funds
2. For a community institution, RLFs...
  - Provide local control
  - Give EDD's the ability to implement their plans/goals
  - Require less political decision making
3. RLFs improve communities, businesses, and the lives of target-area residents

# Types of RLFs

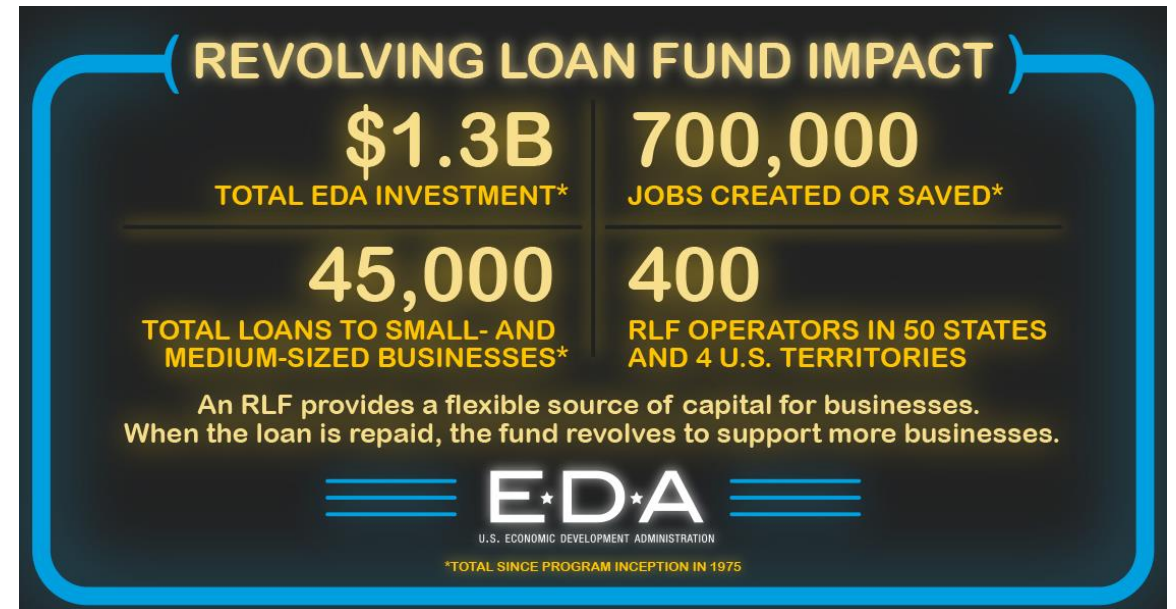
Different sources of funding → different ways to use funds

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

**Main takeaway:** RLFs can manage multiple fund sources to meet community needs.

# EDA RLF Program

- Currently more than 500 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 and retained over 700,000 jobs

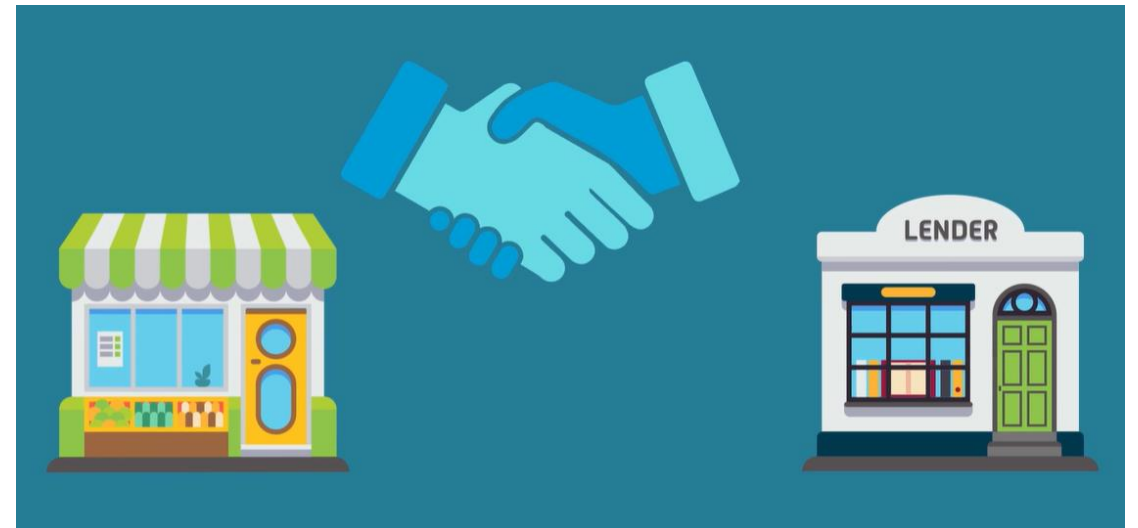


Source: [EDA](#) as of January 22, 2024

# RLF Program Design

## Gap financing for economic development purposes

- RLF Plan establishes lending strategy, targets, and limits
- Where credit is not otherwise available for the activity to be financed
- Leverage requirement (\$2 : \$1)
- Job creation (cost/job target)



# Section Two:

## Defining your RLF's Mission and Identifying Community Needs



# Defining Your RLF's Mission and Identifying Community Needs

- The goal is to **identify the capital barriers to business growth where economic development financing incentives can have the greatest impact**
- Financial incentives are not free, but they are designed to fill gaps and make expansion both possible and affordable



# Defining Your RLF's Mission and Identifying Community Needs

## Identifying Community Needs:

- ☐ DO talk to a variety of people, organizations, and business owners in your region
- ☐ DO talk to nonprofits, business organizations, colleges, local, county, and state governments
- ☐ DO be intentional with equity
- ☐ DON'T just concentrate on the lending partners and where they think the need is



# Defining Your RLF's Mission and Identifying Community Needs

## **Business Retention and Expansion**

- Firms already located in your community that need growth capital to thrive or survive
- Area where communities can have greatest return on their investment of economic development dollars

## **Business Formation/Attraction**

- Start-ups are the hardest to do
  - 10 to 15% of start-up companies survive through Year 5
  - We have the opportunity to provide support that could give them a higher chance of success.
- Most view investment as a grant or seed funds to be realistic
- Could focus on early stage firms after proof of business concept so you have something to evaluate

# Defining Your RLF's Mission and Identifying Community Needs

## Other possible funding sources for businesses:

- SBA Microloan Program and SBA SBIC
- CDBG Funds
- CDFI grants
- FHLB grants
- Local, county, and state governments
- Foundations
- Local venture capital funds
- Angel investors
- Crowdfunding

**These funds can be partnered with you or can be your competitors.**

# Section Three:

At the end of the day, the results of the day's work are shared with the community.

# Designing an RLF to Fill Capital Gaps

## Target Businesses that are not currently served

- Small business vs. Fortune 500 firms
- Micro-business vs small business
- Start-ups vs. emerging vs. existing businesses
- Local businesses vs. attraction strategy
- Industry targeted
  - manufacturing, service, or retail, etc.



# Designing an RLF to Fill Capital Gaps

## **Design financing tools that fill the identified financing gaps**

- Direct loans, loan participations, and guarantees
- 100 percent financing vs. public/private partnerships
- Debt vs. quasi-equity vs. equity
- Permanent financing vs. construction loans

# RLF Design

## Consider Special Emphases/Targets

*Why: eligibility, points, participating jurisdictions, politics, board direction, economic dev goals, etc.*

- Current business growth & expansion
- Women, minority, or other under-served populations
- Specific Industry sectors, counties, census tracts, disaster relief
- Maximum loan-per-job
- Leveraging of other investments

*Targets Only! Don't unduly limit the fund!*

# RLF Design

## Determine Uses for Your Fund within Identified Needs

- Building Acquisition
- Rehab/New Construction
- Working Capital
- Equipment
- Startup (e.g licensing, patents, software development)
- Transition of Ownership
- Housing development?

# RLF Design

## Consider the Terms and Flexibility

- Application Fee
- Closing costs
- Interest rate
- Interest-only payments
- Maximum % of participation
- Loan maximum & minimum
- Expected Equity
- Maximum amortization
- Extensions
- Default

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# RLF Design

## Collateral

### Types you will accept:

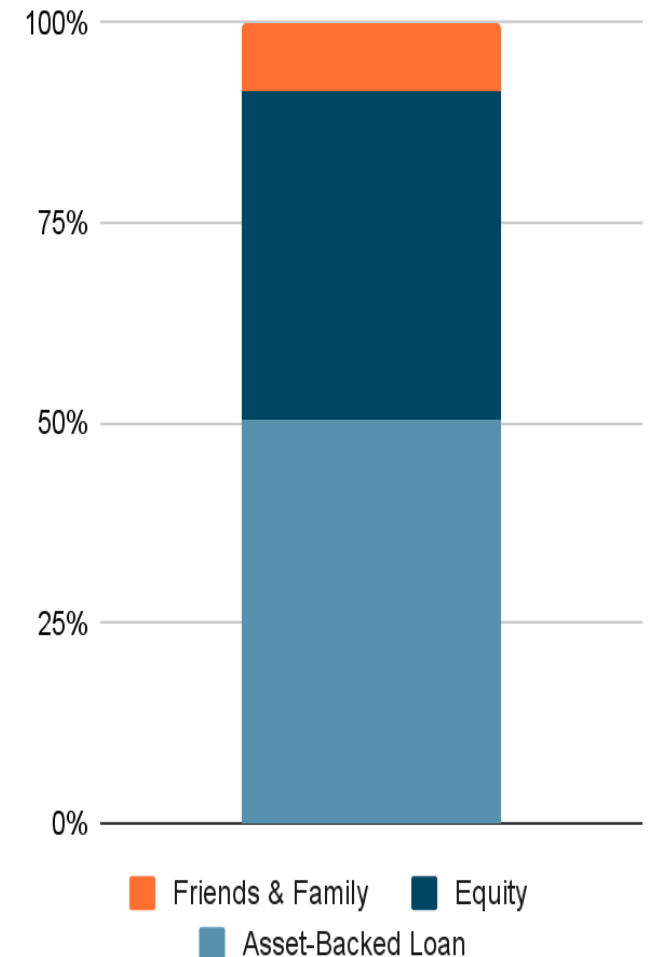
- Real Estate
- Equipment
- Vehicles
- UCC-1
- Securites
- Personal Guarantee
- Key-person life insurance
- Other?

### Position you will accept:

- Try for 1<sup>st</sup>, expect to be subordinate
- Know how to protect your position in your state
- Update your UCCs!
- Release liens as liens are paid
- Partial release

# The “Capital Stack”

- Easiest to visualize with project finance, R/E, one-time transactions, where total costs exceed one capital provider’s capacity - funding sources “stack” up
- Another perspective on the “stack” considers the many funding sources for a typical small business
- **The Bottom Line:** Capital providers sort themselves into risk/reward placements within business capital needs - which is good until gaps are left unmet

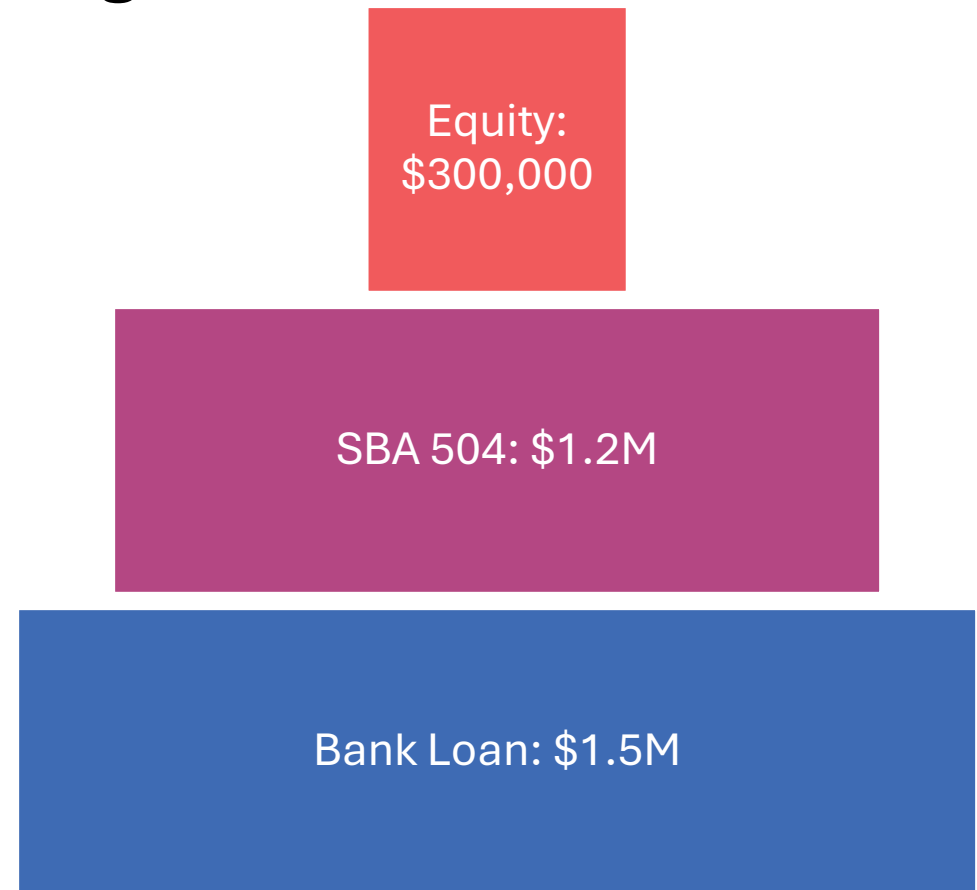


# Grow America Capital Stack Example

**About the challenge:** A business obtained financing to purchase land and construction of a new building. The appraisal listed some of the land as excess which is not allowable under SBA guidelines.

**Why it is important:** The business built a manufacturing facility on the newly purchased land. The facility resulted in job creation in a rural area.

## Original Structure

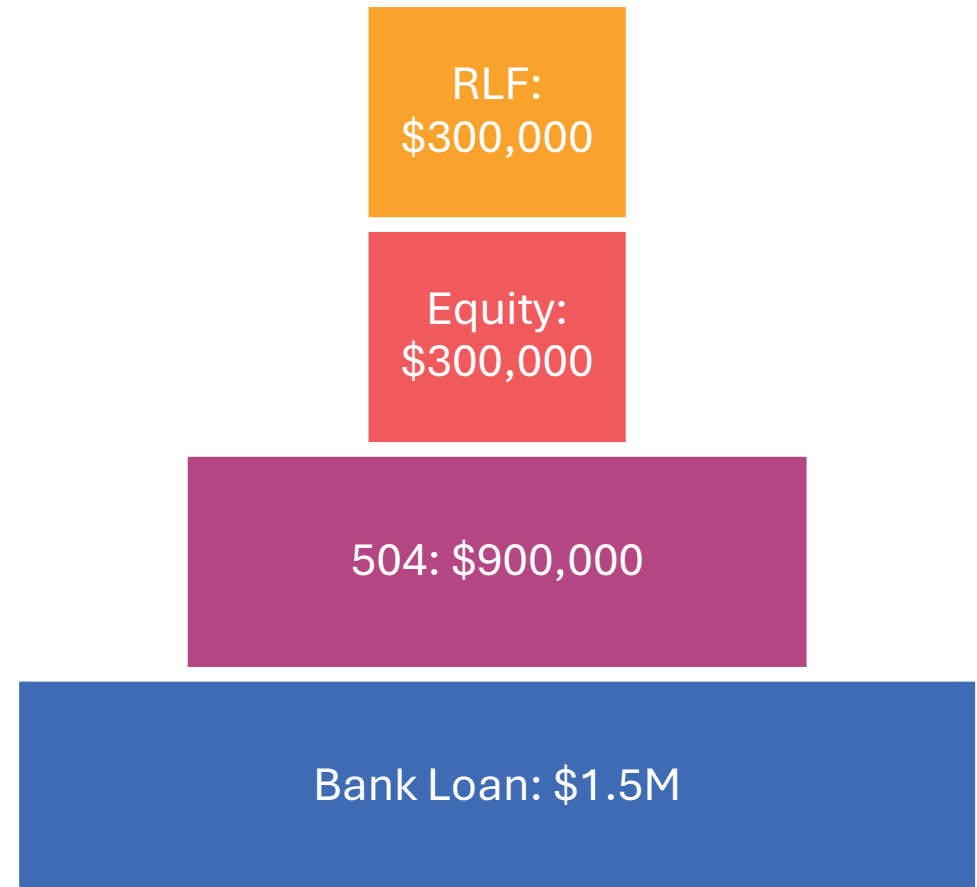


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## **New Structure**



# RLF Operations

- **Loan Committee**
- **Prudent Lending Practices** and local lending laws
- **RLF Income** can subsidize administrative expenses
- **RLF reporting and audit** → risk rating
- **Defederalized Funds** - Release of EDA interest 7 years after final disbursement
  - We'll be discussing defederalized RLF dollars in another session today.

# Section Four:

## Admin Plan, Policies, and Procedures



# Admin Plan/Policies & Procedures

- EDA Admin plan **documents the mission and outlines how the organization will ensure all regulations are adhered to**
- It is more than just copy/paste of the regulations; it has to show how you will operate the fund

# Admin Plan/Policies & Procedures

## Admin plans should include:

- ☐ Organizational mission
- ☐ Goals of the RLF
- ☐ Benefits to private lenders
- ☐ Service area
- ☐ Types of financing available
- ☐ Acceptable loan loss rates
- ☐ Eligible borrowers
- ☐ Types of businesses to be assisted

\*If you are pulling from another lending program's policies and procedures make sure they are not in conflict with EDA regulations



# Admin Plan/Policies & Procedures

## **Admin plans should include:**

- ☐ Eligible uses of proceeds
- ☐ Loan amounts
- ☐ Rate and terms of loans
- ☐ Personal credit evaluation
- ☐ Collateral and personal guarantees
- ☐ Credit policies
- ☐ Equity requirements
- ☐ Application procedures and approval process
- ☐ Loan committee

# Admin Plan/Policies & Procedures

## Admin plans should include:

- ☐ Loan commitments
- ☐ Loan closings and standardized documents
- ☐ Credit and legal files
- ☐ Loan payment books
- ☐ Loan fees
- ☐ Servicing policies and procedures
- ☐ Workouts, foreclosures and liquidation policies and procedures

# Section Five:

## Resources



# Resources

- **Your RLF Administrator!!**
- Prudent Lending Best Practices for Successful RLFs  
<https://www.eda.gov/funding/programs/revolving-loan-fund/guidance>
- **Your RLF Plan** – you put a lot of work into defining how you operate your fund

# Updated Regulations

- The Revolving Loan Fund Standard Terms and Conditions (incorporates the Department of Commerce Standard Terms and Conditions)
  - <https://www.eda.gov/files/tools/grantee-forms/2019-RLF-Standard-Terms-and-Conditions.pdf>
- Code of Federal Regulation (CFR) Title 13 Chapter III Part 307 Subpart B (§CFR 307)
  - <https://ecfr.io/Title-13/pt13.1.307>
- EDA RLF Risk Analysis System
  - <https://www.eda.gov/files/rlf/EDA-RLF-Risk-Analysis-System.pdf>



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# Thank you for attending Best Practices in RLF Management

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