



Community and Economic Development in North Carolina and Beyond Blog: Revolving Loan Funds Give Small Business Owners a Big Boost in Rural Regions

By CED Program Interns & Students

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Kendra Jensen is a UNC-Chapel Hill graduate student pursuing a master's degree in Public Administration. She is currently working with the Kerr-Tar Council of Governments through the Carolina Economic Revitalization Corps (CERC).

For the owners of E-Clips Barber and Beauty Center in Henderson, North Carolina, the Revolving Loan Fund offered by the **Kerr-Tar Council of Governments** was critical in bridging the financing gap experienced by many small business owners. The business opened in 2005 and now employs an average of six to eight staff members. Owners Erik and Jasmine Cheek have expanded their brand beyond the typical barber shop. Master Barber Erik Cheek engages in competitive barbering, recently created an instructional DVD, writes an educational blog, and is well known for giving back to the citizens of **Vance County**. According to the owners, access to the revolving loan fund opened doors that would have otherwise been unavailable during the start-up of their business. Mr. Cheek was recently recognized by the Vance County Economic Development Commission for his professionalism and contributions to the community.

A Revolving Loan Fund (RLF) is a source of capital that uses loan repayments to fund new loans. Typically, RLFs assist in closing the financing gap, which exists when a small business owner is unable to meet conventional financing requirements.

The Kerr-Tar Council of Regional Governments operates two Revolving Loan Funds. The first program was created in 1988 and funded with a grant from the US Economic Development Administration (EDA) and an appropriation from the North Carolina General Assembly. The loan targets small businesses unable to secure funding through standard financing options and makes loans ranging from \$25,000 to \$200,000. For many small business owners, including the owners of E-Clips Barber and Beauty Center, RLFs are key to the creation, expansion and success of small business operations. Over the years, the fund has financed a number of projects including restaurants, retail stores and professional service providers.

The Microenterprise Revolving Loan Program (MRLP), which was established in 1996, is the second loan program managed by the Kerr-Tar COG. Unlike the first fund, the MRLP targets businesses of five or fewer employees and 60% of the employees must come from low-moderate income families. The MRLP was created through a grant from the North Carolina Department of Commerce, Division of Community Assistance. The fund, which is comprised of Community Development Block Grant (CDBG) funds, offers loans ranging from \$5,000 to \$25,000. The MRLP recently funded a day care center and a digitized publishing and advertising business.

Combined, the two programs have created or retained 1,100 jobs, assisted over 60 businesses and leveraged nearly \$9.5 million in private investment in the Kerr-Tar Region. The benefits of the RLFs are widespread and positively impact even the most distressed areas of the five-county region. In addition to the E-Clips Barber and Beauty Center loan in Vance County, the Kerr-Tar COG recently funded the expansion of an existing hardware store in **Warren County**. Both Vance and Warren are designated Tier 1 Counties.

Investment in small business and job creation as a beneficial economic development tool is a longstanding goal in the Kerr-Tar COG. COG representatives provide business plan and professional assistance to applicants to create strong application packages. Loan proposals are carefully reviewed and recommended to a Loan Review Committee to ensure reliable participants and to avoid erosion of the capital base.

The COG is considering a new RLF focused on front-end research or venture capital-type financing investments. Such an investment would assist small business owners during the proof of concept and evaluation phases of new product development. The innovative RLF would assist in closing the financing gap, critical to the start-up phases and would serve



as an inventive alternative for small businesses in the region.

In areas such as Vance and Warren Counties, which are experiencing a decrease in employment and large industry investment, RLFs offer an alternative to motivated small business owners, similar to the owners of E-Clips Barber and Beauty Center. The possibility of a new RLF fund in the Kerr-Tar region offers an innovative funding source for local entrepreneurs.