



Community and Economic Development in North Carolina and Beyond Blog: Small Business Access to Capital (Part IV): Funding Sources to Capitalize Revolving Loan Funds

By CED Program Interns & Students

Article: <https://ced.sog.unc.edu/small-business-access-to-capital-part-iv-funding-sources-to-capitalize-revolving-loan-funds/>

This entry was posted on June 13, 2013 and is filed under Community Development, Development Finance Initiative, Economic Development, Financial Assets, Financing Development



Funding sources to capitalize revolving loan funds is the fourth

topic in a series on tools local governments can use to assist small businesses. As discussed in Part II of this blog post series, local governments across North Carolina are using revolving loan funds to support their small businesses. A difficulty in establishing revolving loan funds is capitalizing them. The federal government currently offers at least five programs to assist local governments and nonprofits capitalize revolving loan funds:

- **U.S. Department of Agriculture's Intermediary Relending Program (IRP)** – Through this program, the USDA provides funding to revolving loan funds with the goal of alleviating poverty and increasing economic activity and employment in rural communities (area with a population less than 25,000). Intermediaries may borrow up to \$2 million under its first application and up to \$1 million at a time thereafter. Aggregate debt is capped at \$15 million. For more information, visit: http://www.rurdev.usda.gov/BCP_irp.html
- **U.S. Department of Agriculture's Business Enterprise Grants (RBEG) Program** – This program provides grants to rural entities or non-profits for a variety of finance and development activities including the capitalization of revolving loan funds that will make loans for startups and working capital. These funds should benefit small and emerging businesses with less than 50 employees and less than \$1 million in projected gross revenues. There is no maximum size of award, but grants commonly range between \$10,000 and \$500,000. For more information, visit: http://www.rurdev.usda.gov/BCP_rbeg.html
- **U.S. Department of Housing and Urban Development** – A common use of CDBG funds is to establish a revolving loan fund. All activities conducted with this RLF must follow the CDBG requirements. Additionally, HUD requires revolving funds to be held in interest bearing accounts. Interest earned on revolving fund balances must be remitted to the U.S. Treasury not less than annually. For more information, visit: http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_16480.pdf
- **U.S. Economic Development Administration** – Offers the Public Works and Economic Adjustment Assistance (EAA) Program in FY 2013 that funds revolving loan fund projects that foster job creation and attract private investment to support development in economically distressed areas of the United States. Average size for EAA award in FY 2012 was \$820,000. Upcoming deadlines for this program are June 13, 2013 and September 13, 2013. To view the funding announcement, please visit www.grants.gov and search for Funding Number



EDAP2013. For more information, visit: <http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=eda-financingopportunities-report.html>

- **U.S. Small Business Administration** – Another federal source is through the U.S. Small Business Administration's Microloan Intermediary program. The SBA defines a microloan as a loan that is \$50,000 or less. Although local governments are not eligible for this program, "quasi-public" nonprofit organizations such as an economic development agency are. This program offers revolving loan funds providing microloans of \$50,000 or less. Through this program, eligible organizations can borrow no more than \$750,000 in their first year of participation and later the amount cannot exceed \$5 million. A microloan is a loan less than \$50,000. For more information, visit: <http://www.sba.gov/category/lender-navigation/working-with-sba/other-partnerships-with-sba/how-do-i-become-microloan-intermediary>

Funding for revolving loan funds is also available from the private sector, in particular foundations. Although foundations have previously supported revolving loan funds through grants, many foundations are starting to shift this support to Program-Related Investments (PRIs). In 2006-2007, 173 foundations across the country invested more than \$734 million in PRIs. Six percent or \$50 million of this funding was used as loans for loan funds. A foundation in North Carolina that is actively making PRIs for revolving loan funds, in particular for Community Development Financial Institutions (CDFIs) is the Mary Reynolds Babcock Foundation in Winston-Salem. For more information, please see Brian Farkas' blog on PRIs.

Jordan Jones, a UNC-Chapel Hill graduate student pursuing a joint master's degree in Public Administration and City and Regional Planning, is a Community Revitalization Fellow at the School of Government.