PENNSYLVANIA
Downtown Center
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Developing and Implementing a Revolving Loan Fund Program

A local revolving loan fund (RLF) is a tool that allows a lending entity to direct funds to targeted areas or businesses. An RLF is typically used as a gap financing measure with the intent of making loans and then utilizing the interest and principal payments on those loans to replenish the pool of money, allowing for additional loans to be made.

As you begin down the path of development and implementation, please be sure to consider the following as these items will assist in crafting your guidelines and application:

1. **Identify a target market**
    - RLF's typically have limited funds and can be quickly depleted. Identifying a target market helps to direct funds in an impactful and deliberate manner. Target markets may be restricted by parameters set by the source of the funds.
    - Target markets may be a specific program area or type of industry such as:
        i. Main Street or Business Improvement District
        ii. Hospitality Industry
        iii. Non-profits

2. **Sources of Funds**
    - Initial funds may originate from numerous sources including:
        i. Existing RLF's or reserves
        ii. New allocations from local governments
        iii. State or Federal dollars such as DCED or CDBG funds
        iv. Community Development Financial Institutions (CDFIs)
        v. Chambers of Commerce
        vi. Community Foundations

3. **Uses of Funds**
    - Your guidelines should identify the permitted uses for the loan. This will be specific to what the program is trying to achieve. Examples of uses include:
        i. Inventory
        ii. Equipment
        iii. External and internal maintenance/repairs
        iv. Employee expenses
    - Consider establishing minimum and maximum loan amounts

4. **Terms and Conditions**
    - As with the permitted uses, terms and conditions are set by the lending entity
    - Terms are typically between 12 and 60 months
    - Rates on average range from 0% to 12% but are most often set by the source of funds[1]
    - Payment structures vary and should be structured in a way that allows for ease of collection
    - Is this a non-recourse or recourse loan? Guidelines should state if collateral and/or a guarantee is required.

5. **Application**
    - Keep it simple
    - Determine what is required; such items may include:
        - i. Tax returns
        - ii. Business License
        - iii. W-9's
        - iv. Verification that taxes and utilities are current
        - v. Bank statements to demonstrate need
        - vi. Credit check
        - vii. Personal Statement

6. **Capacity to Service Loan**
    - Make sure your organization has the ability to service the loan. Who will be responsible for reviewing applications, underwriting, document execution, collection of payments and initiation of recourse process if necessary?
    - Establish a dedicated loan committee comprised of individuals with lending experience
    - If loan is forgivable, determine if performance or compliance assessment is necessary
    - If loan is to be repaid, create a billing and collection process

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[1] The National Development Council, RLF Webinar, April 2020