

The Basics of Revolving Loan Funds

by Mike O'Donnell
Colorado Lending Source

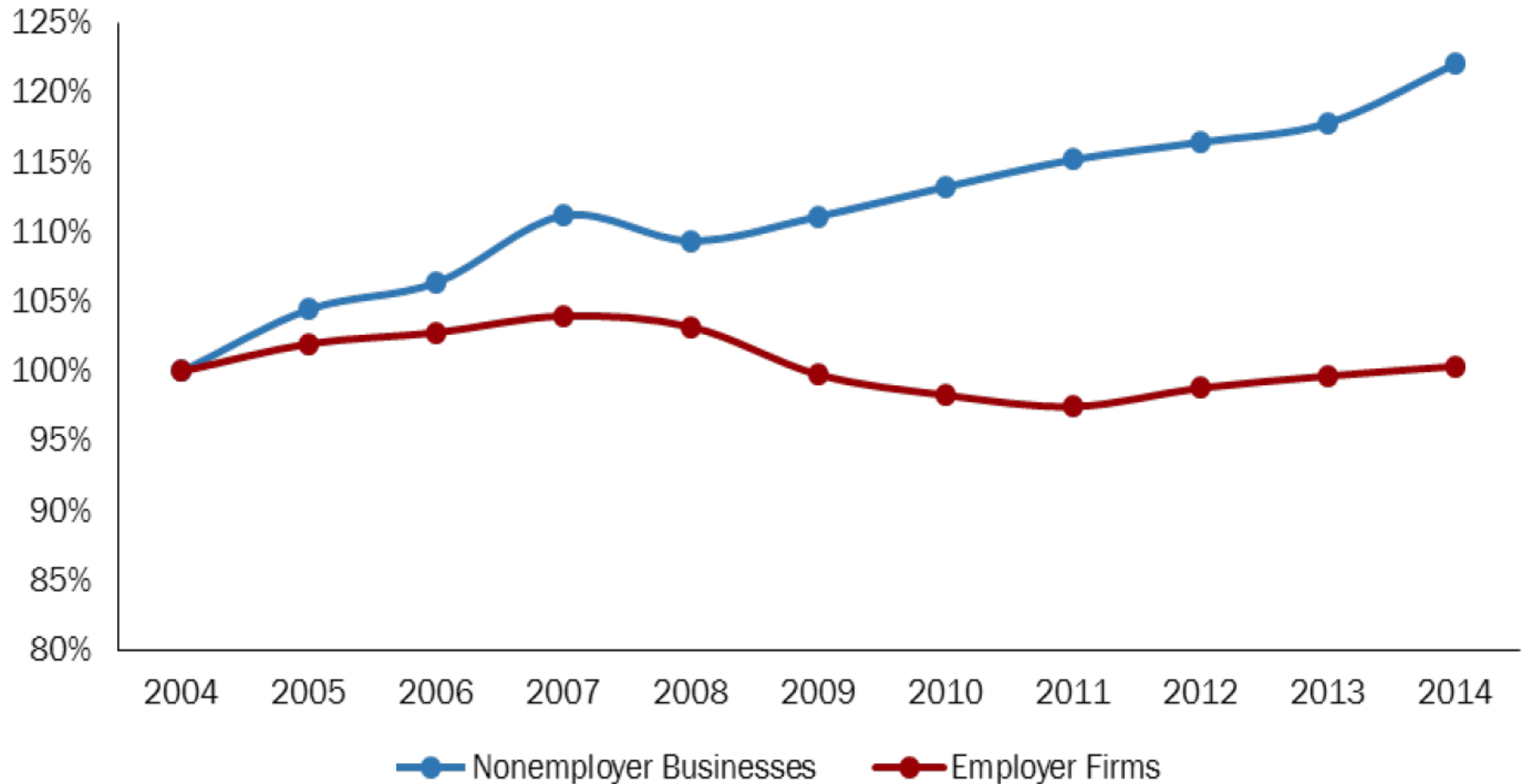
30 Million Small Businesses



Source: Author's analysis and data from the U.S. Census Bureau.

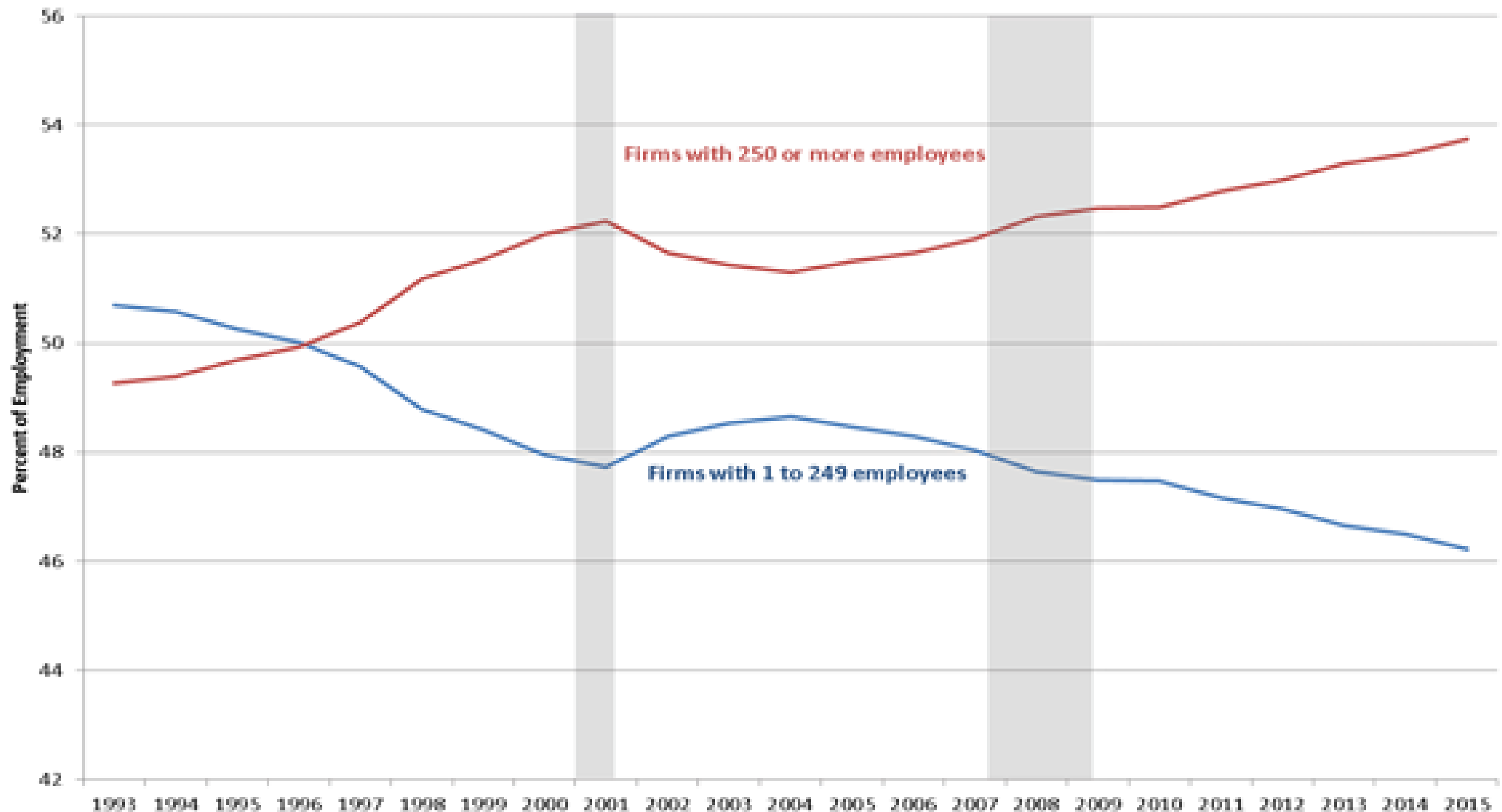
Note: This analysis is based on the work of Mercedes Delgado and Karen G. Mills, "A New Categorization of the U.S. Economy: The Role of Supply Chain Industries in Performance," presented at the Industry Studies Association, Minneapolis, MN, May 2016. <http://www.hbs.edu/faculty/Pages/item.aspx?num=51675>

Growth Rates of Non-Employer and Employer Firms (2004-2014, Indexed to 2004)



Note: Author's calculations of U.S. Census Bureau Business Dynamics Statistics data.

Chart 7. Percent distribution of private sector employment by size of firm, 1993-2015



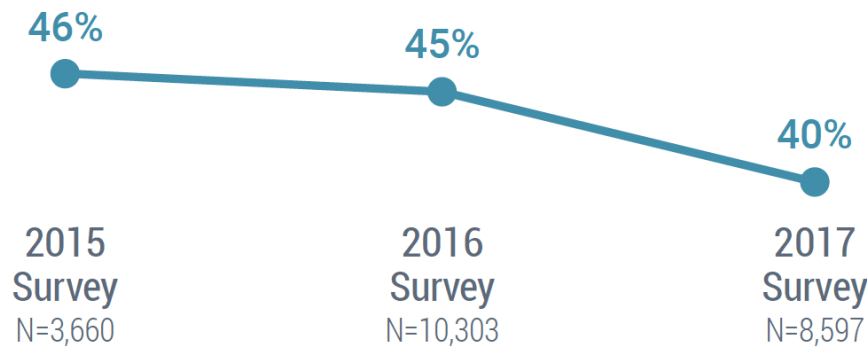
Source: U.S. Bureau of Labor Statistics

The share of firms that applied for financing declined in the 2017 survey, relative to prior surveys.

Source: Small Business Credit Survey, Federal Reserve, 2017

SHARE THAT APPLIED FOR FINANCING,¹

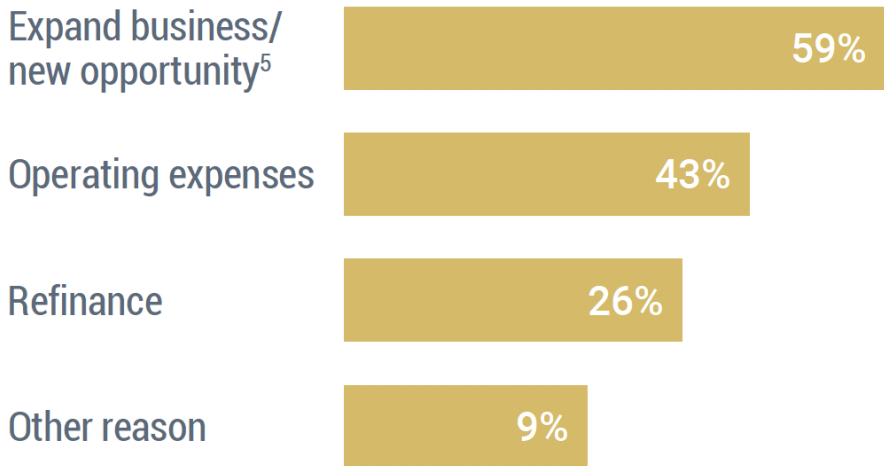
Prior 12 Months² (% of employer firms)



REASONS FOR APPLYING^{3,4}

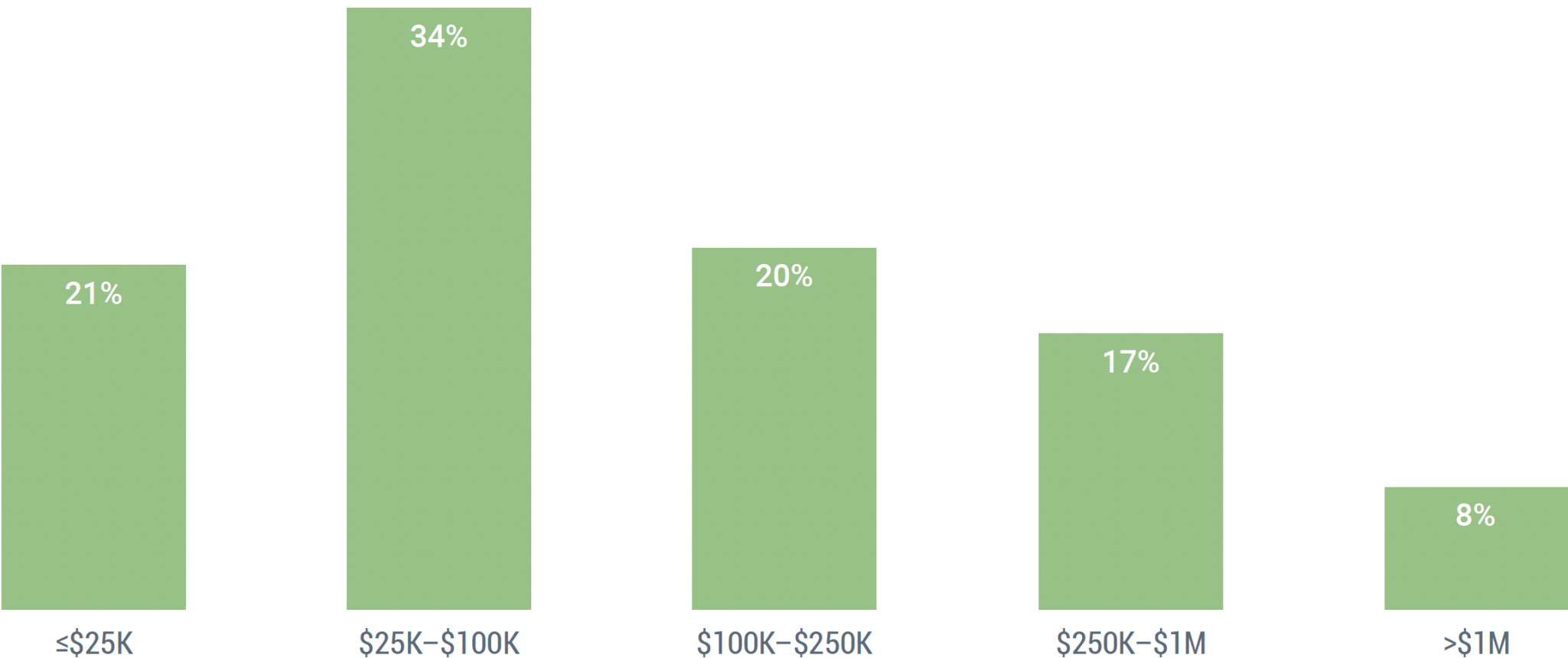
(% of applicants)

N = 3,514



TOTAL AMOUNT OF FINANCING SOUGHT (% of applicants)

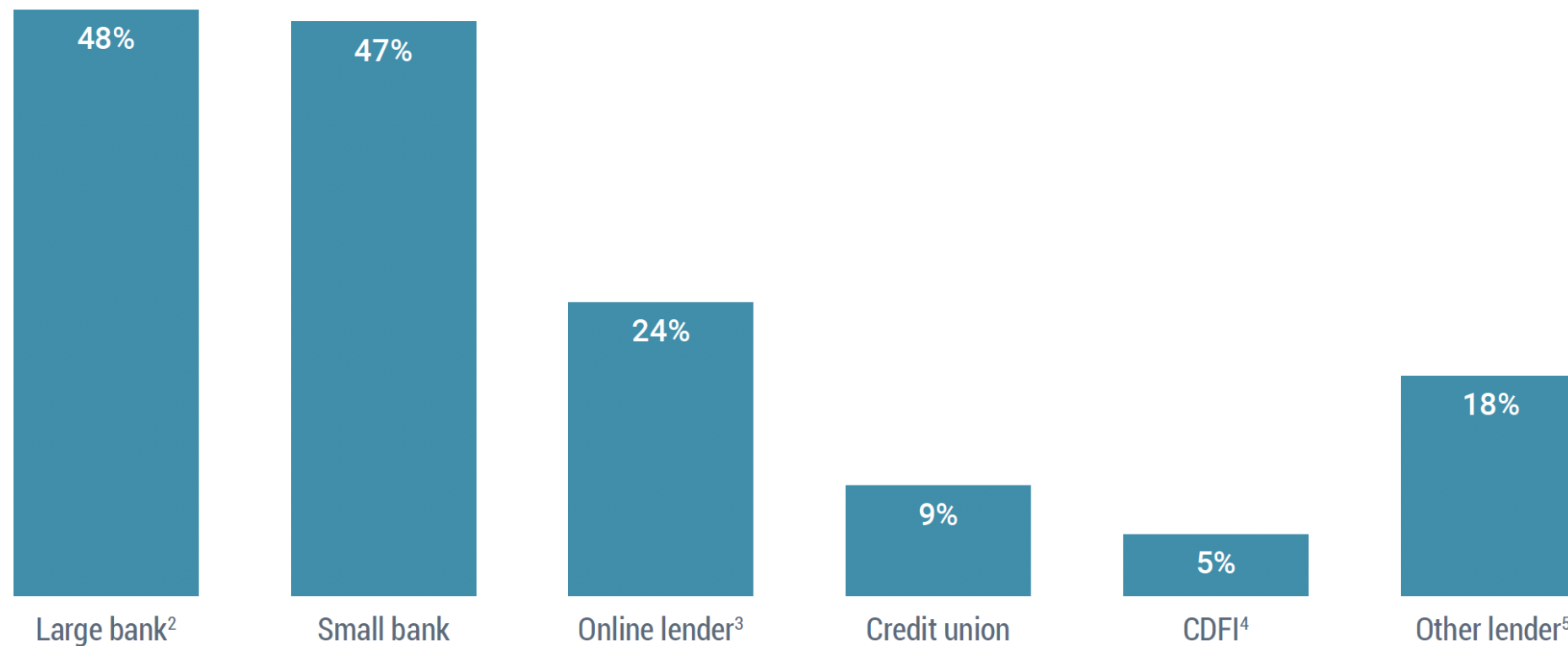
N = 3,434



Banks are the most common source that small firms apply to for credit.

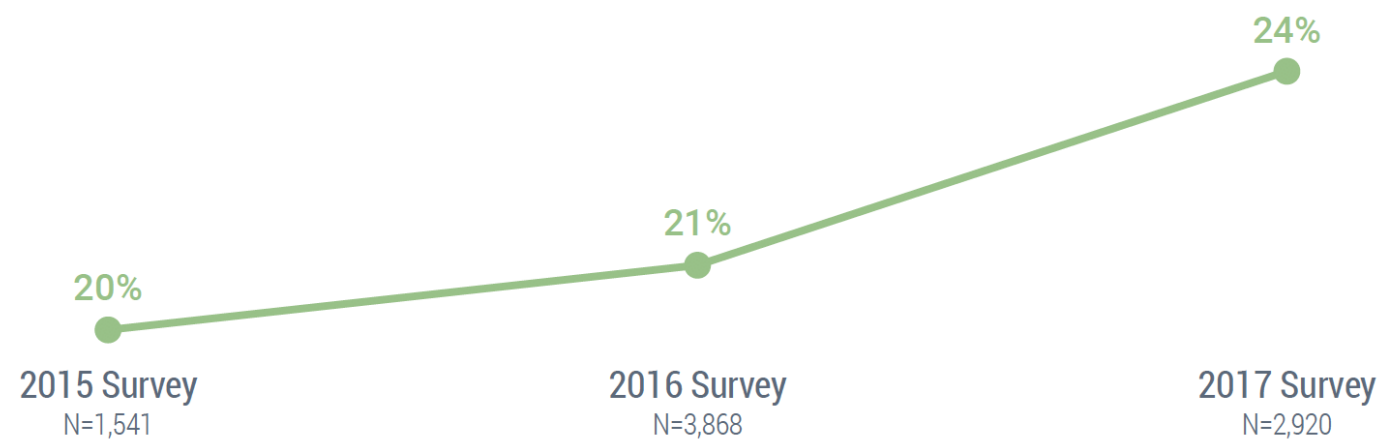
CREDIT SOURCES APPLIED TO¹ (% of loan/line of credit and cash advance applicants)

N=2,818



The share of applicants who seek loans, lines of credit, or cash advances from online lenders has grown over time.

BORROWERS WHO APPLIED TO ONLINE LENDERS^{3,6} (% of loan/line of credit and cash advance applicants)

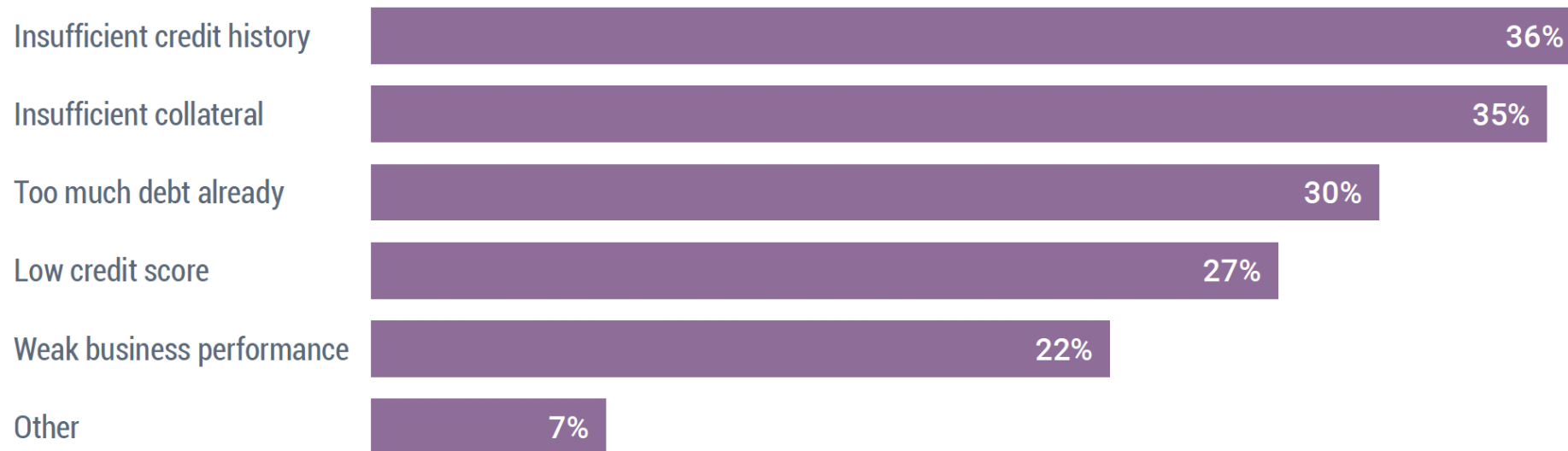


23% of applicants did not obtain any financing.

54% of applicants had a financing shortfall, meaning they obtained less than the amount for which they applied.

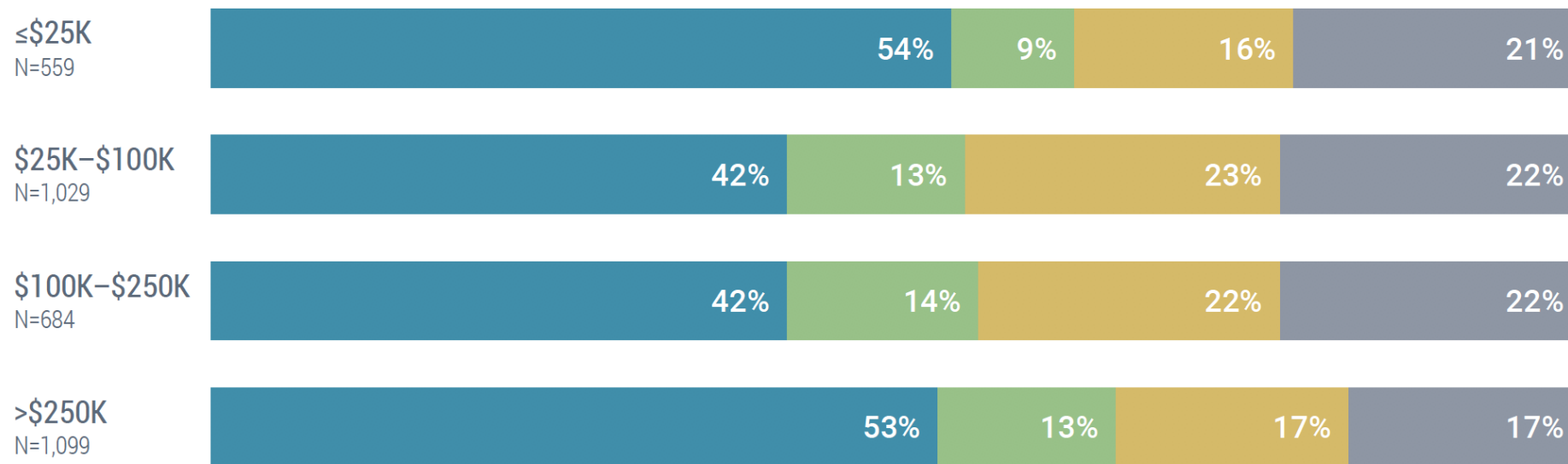
REASONS FOR CREDIT DENIAL¹ (% of applicants with financing shortfall)

N=832



Funding gaps were most acute for firms seeking \$25K-\$250K.

FINANCING RECEIVED BY AMOUNT SOUGHT (% of applicants)

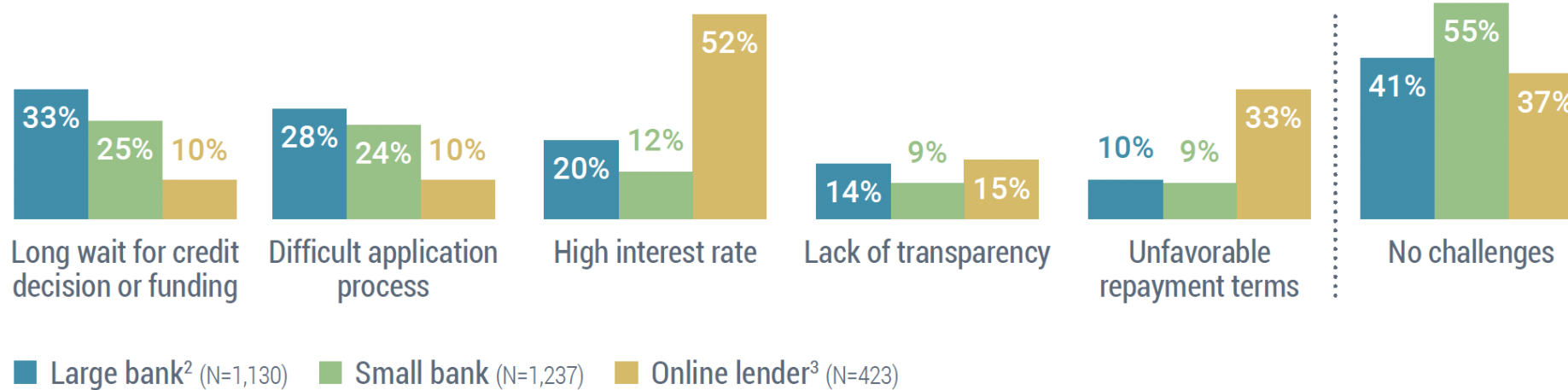


■ All (100%) ■ Most (51%-99%) ■ Some (1%-50%) ■ None (0%)

Bank applicants were most dissatisfied with wait times for credit decisions. Online lender applicants were most dissatisfied with high interest rates.

CHALLENGES WITH LENDERS,¹ *Select Lenders*

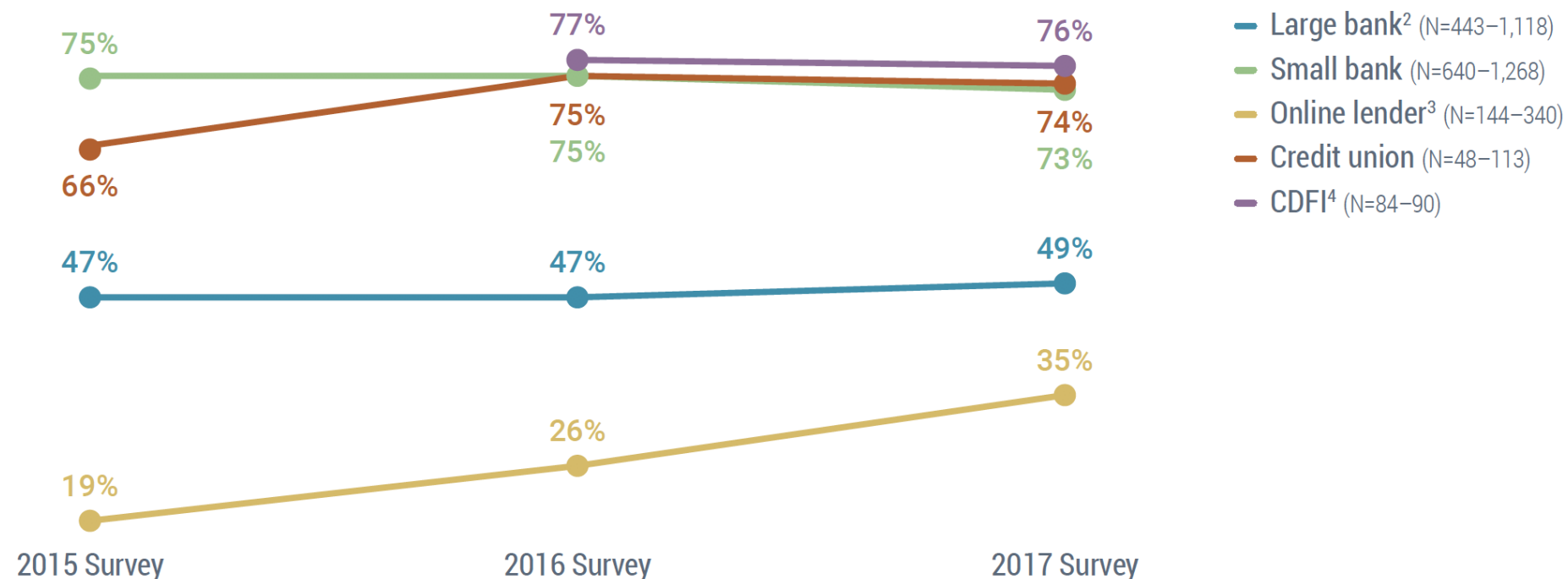
(% of loan/line of credit and cash advance applicants)



Borrower satisfaction is consistently highest with CDFIs, credit unions, and small banks, but satisfaction with online lenders has increased.

NET LENDER SATISFACTION OVER TIME⁵

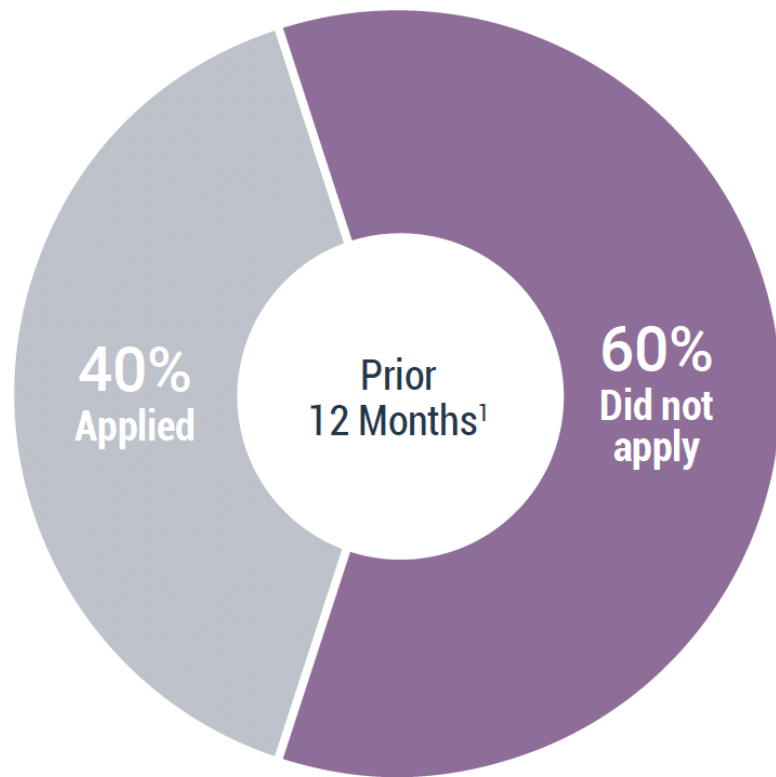
(% satisfied minus % dissatisfied, among loan/line of credit and cash advance applicants approved for at least some financing)



DEMAND FOR FINANCING

(% of employer firms)

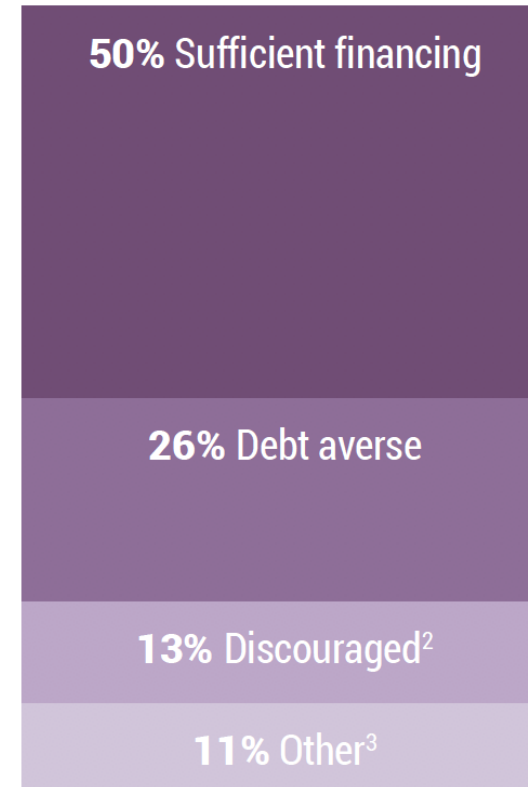
N = 8,169



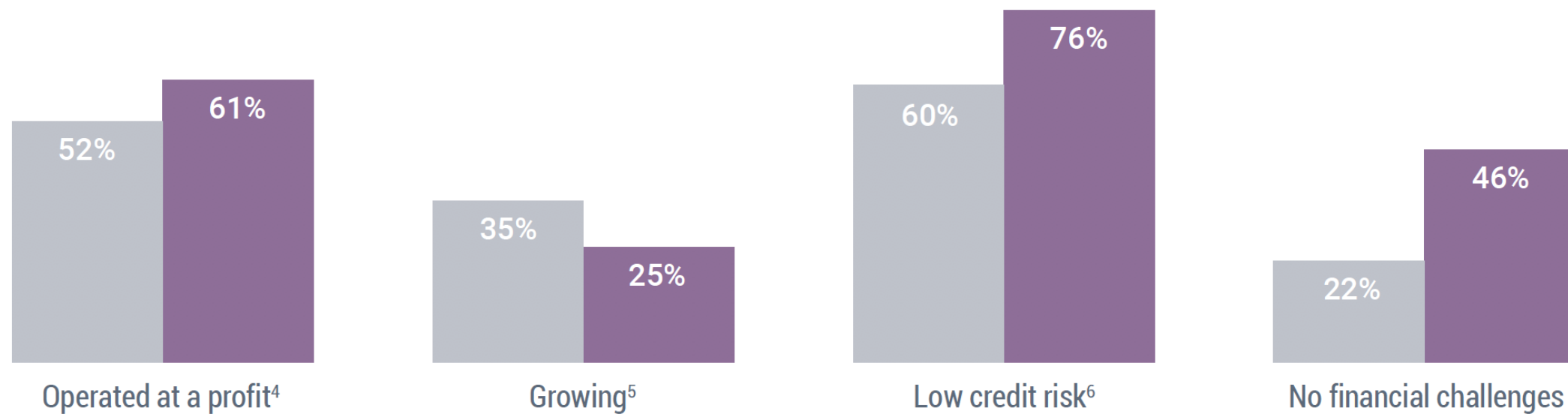
TOP REASON FOR NOT APPLYING

(% of nonapplicants)

N = 4,495

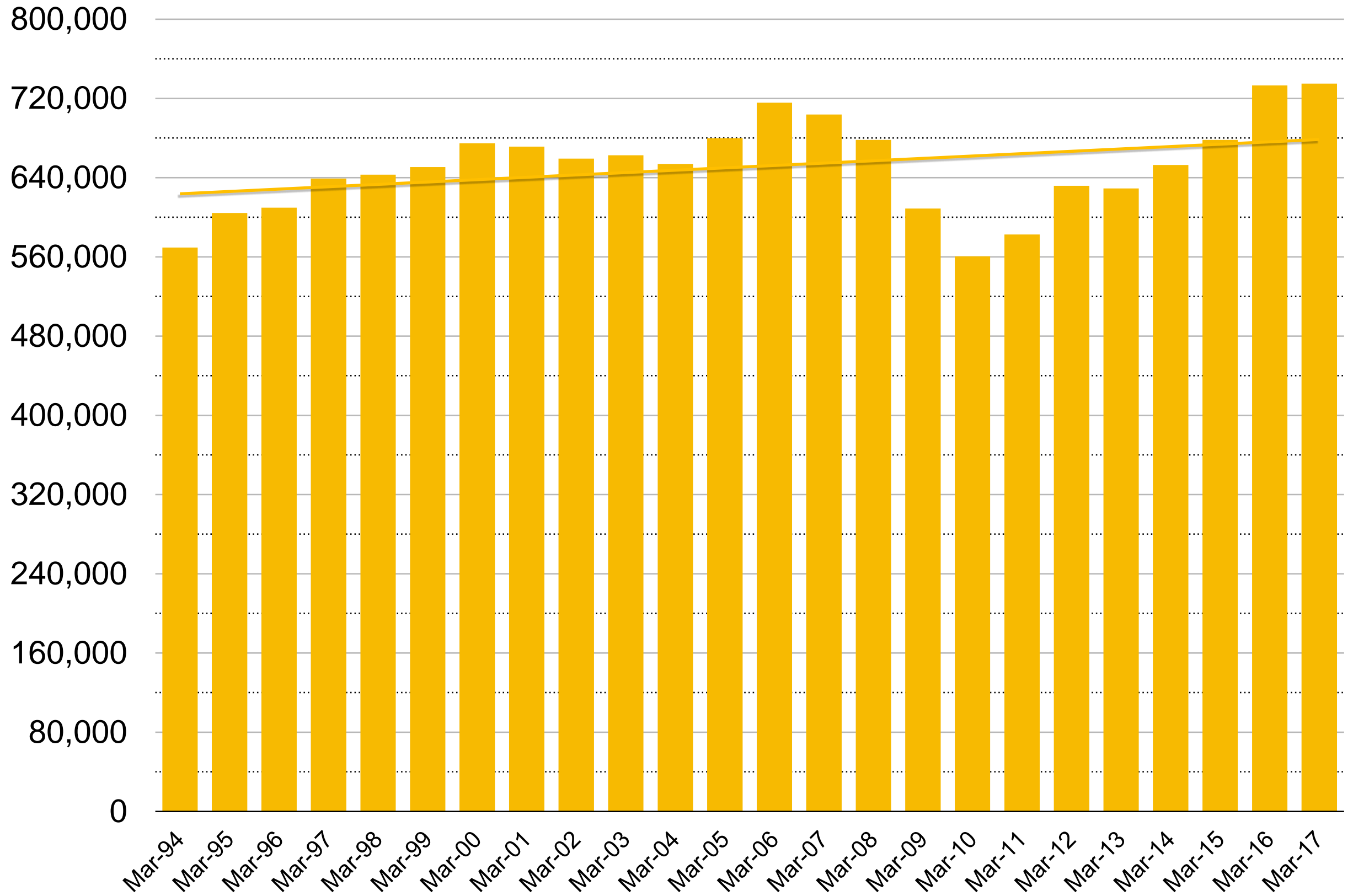


PERFORMANCE OF APPLICANTS AND NONAPPLICANTS (% of employer firms)



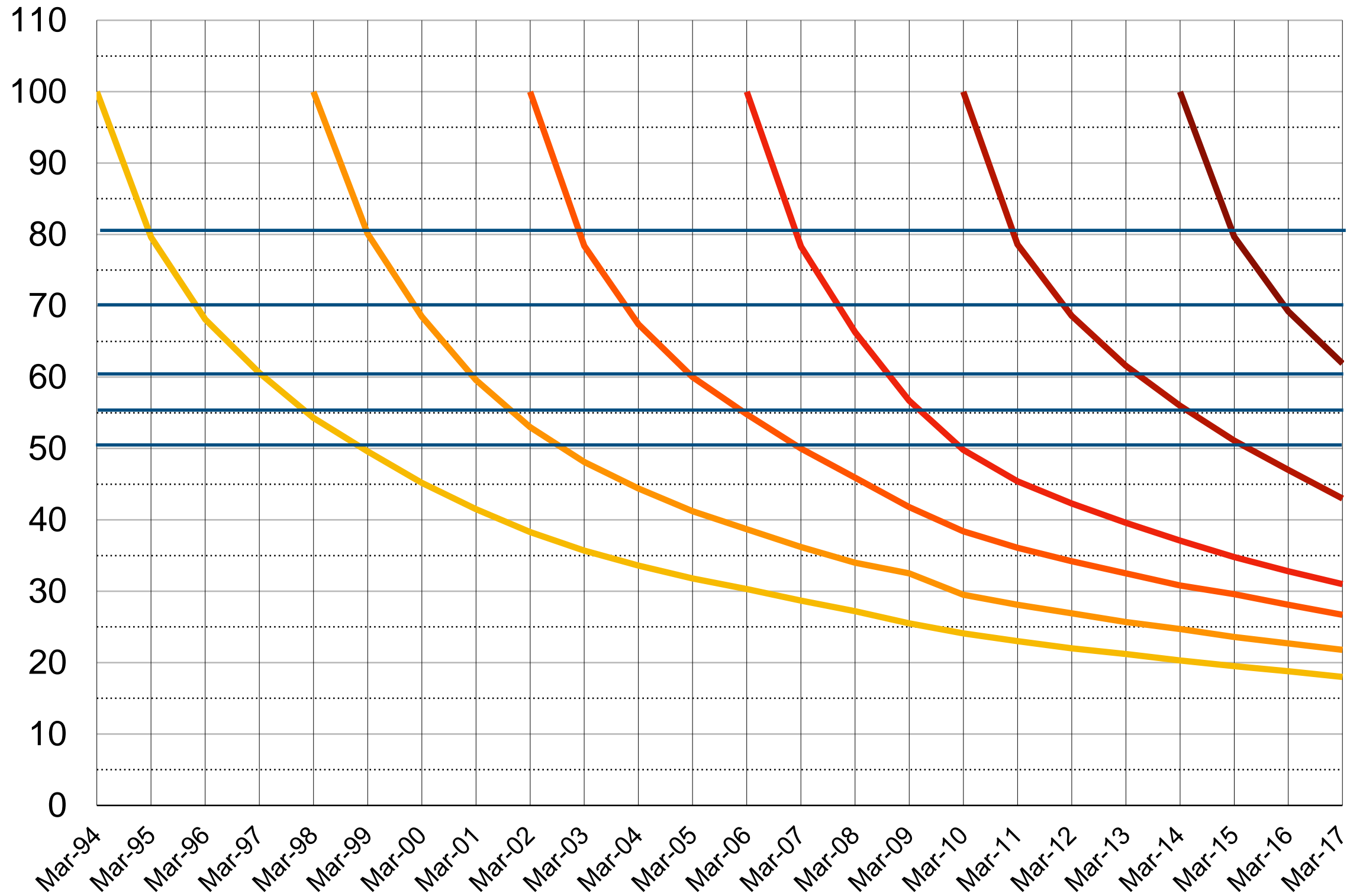
■ Applicants (N⁷=2,575-3,526) ■ Nonapplicants (N⁷=2,774-4,571)

NEW Small Business Employer Startups (# US)

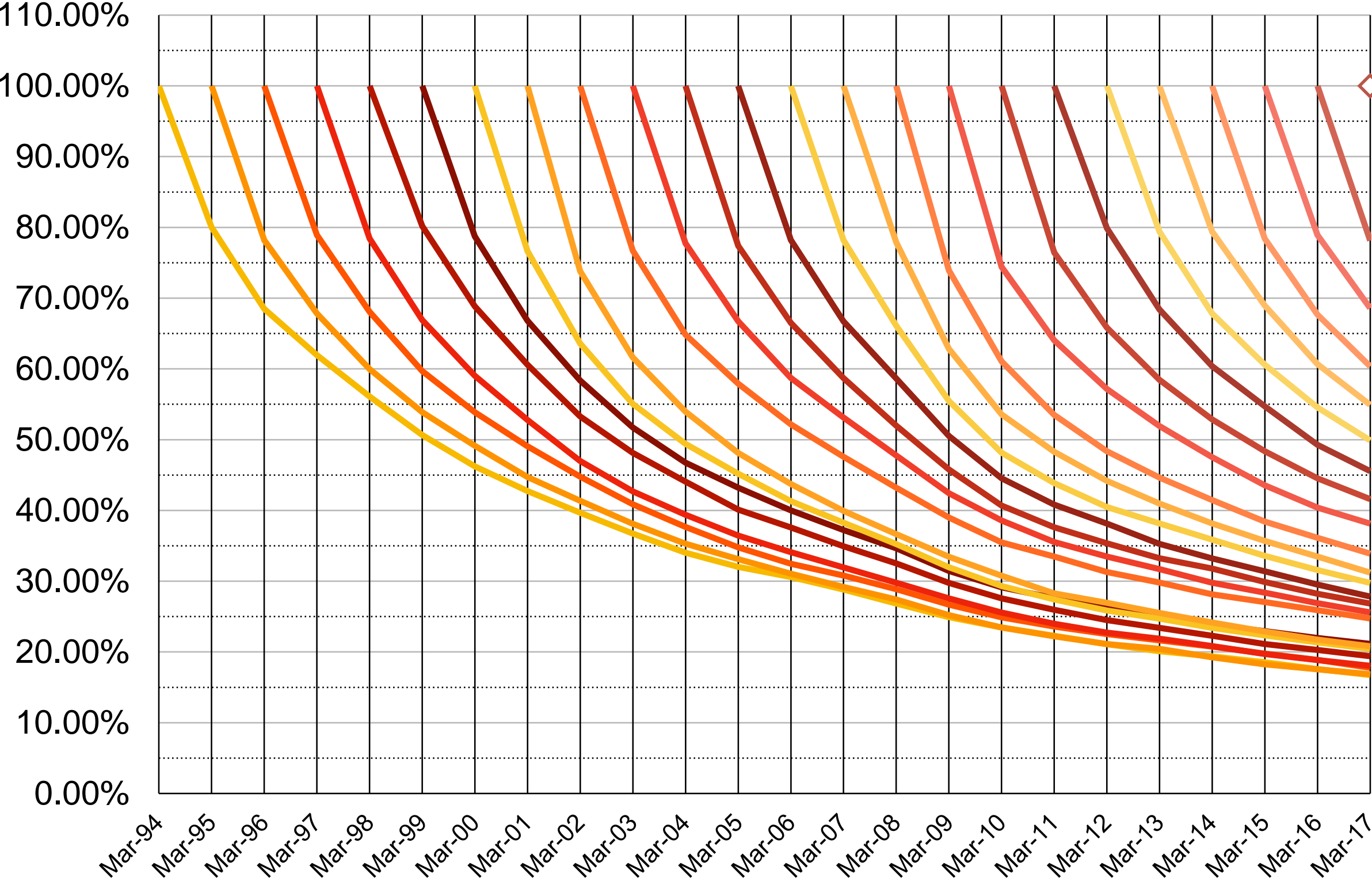


Source: Bureau of Labor Statistics

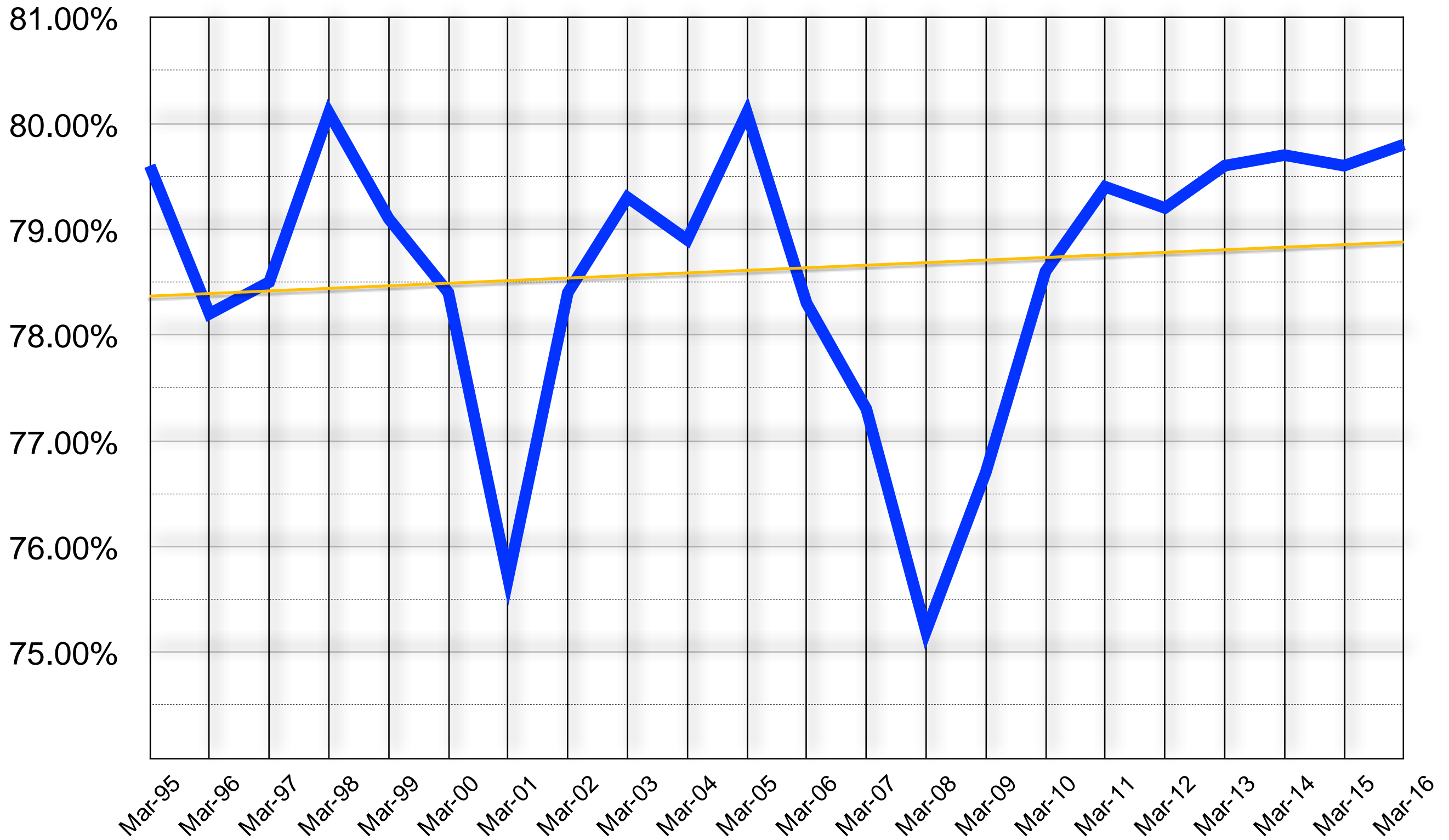
Survival Rate of Small Business Startups (%) in US by Year of Startup



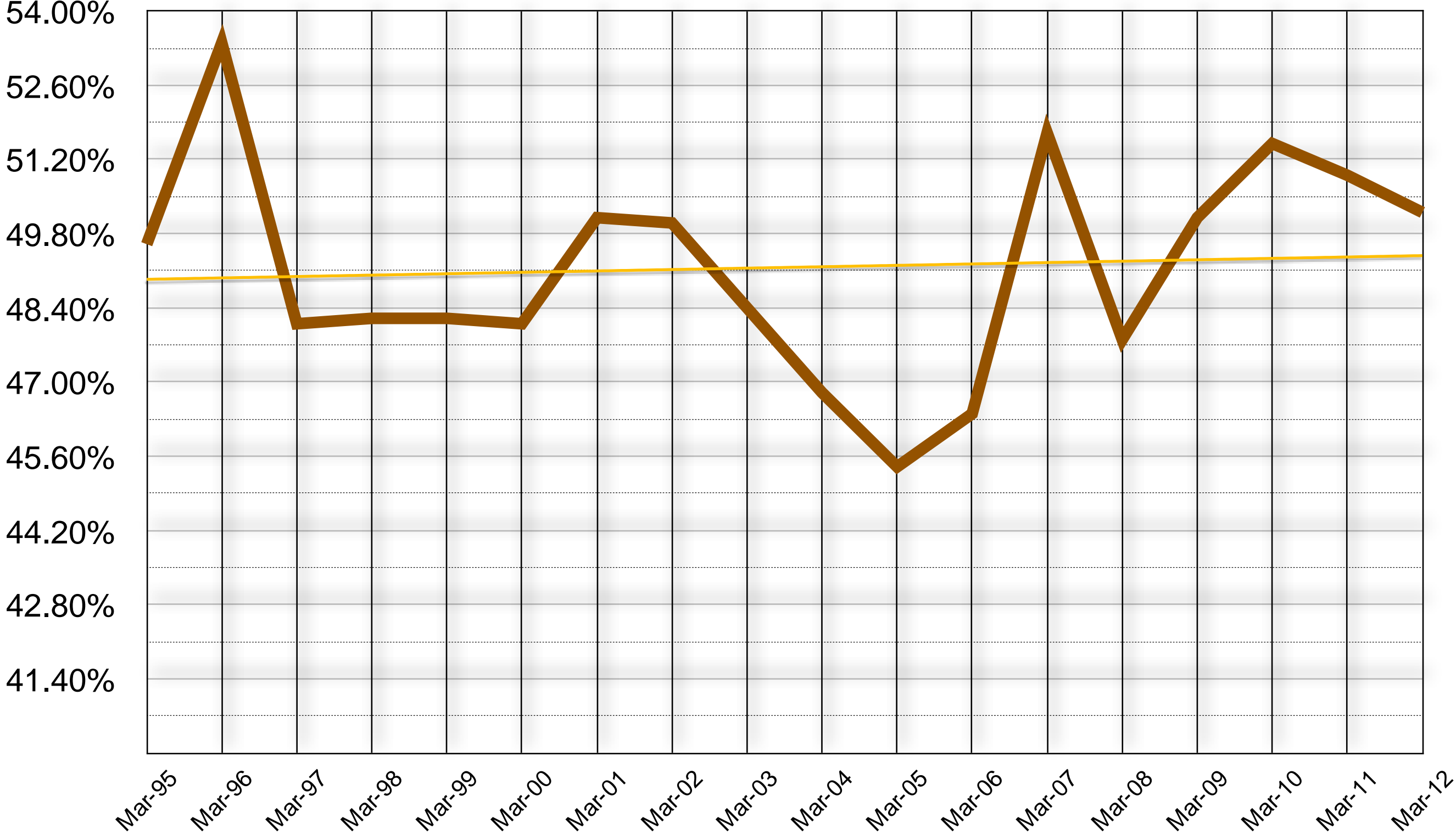
Survival Rate of Small Business Startups (%) in Colorado by Year of Startup



Percentage of US Small Business with employees STILL in Business at the end of Year ONE (by year of startup)

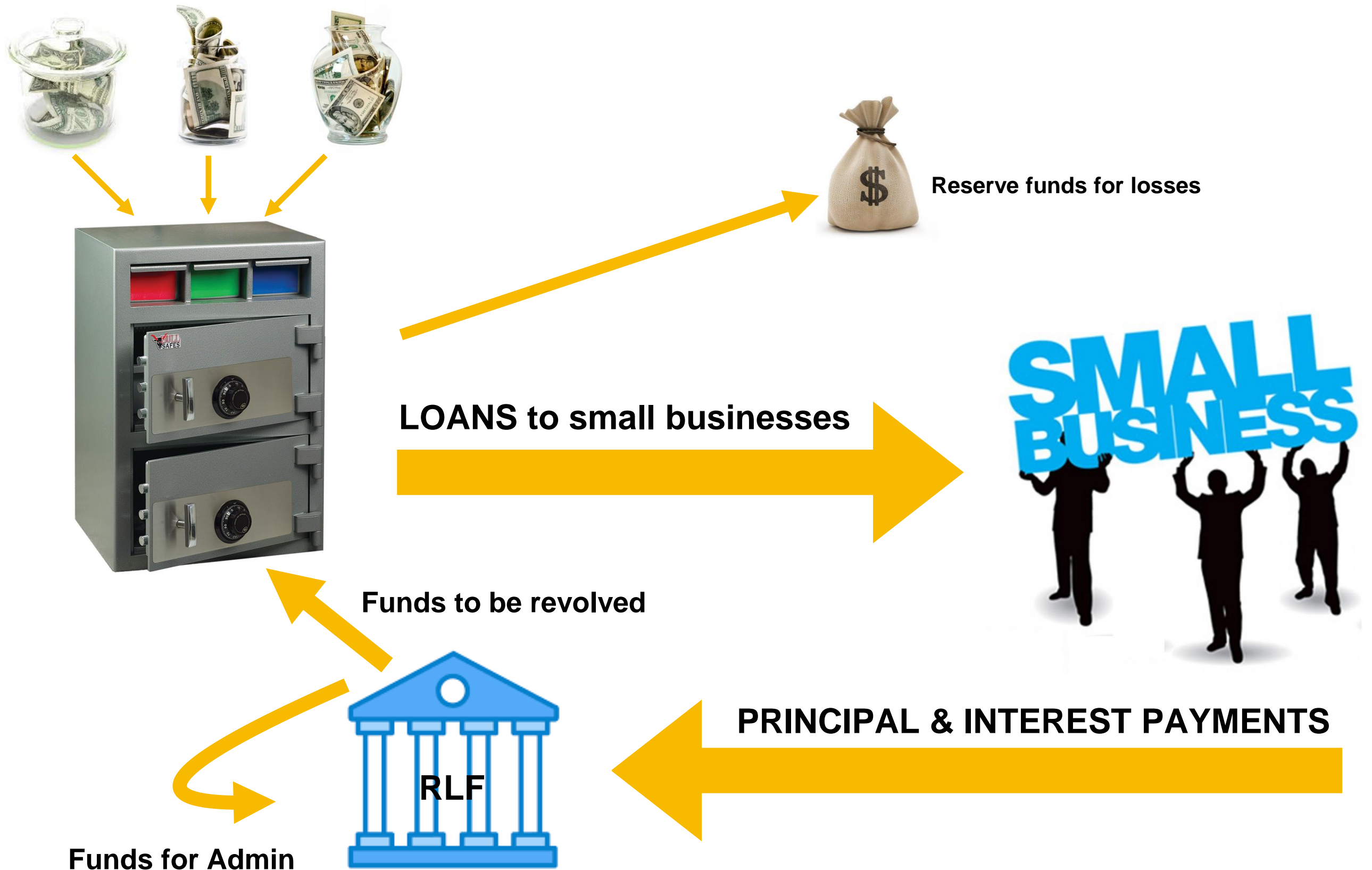


Percentage of US Small Business with employees STILL in Business at the end of Year FIVE (by year of startup)



Source: Bureau of Labor Statistics

How does a Revolving Loan Fund (RLF) Work?



What does a Revolving Loan Fund (RLF) Need?

- FUNDS to lend out
- A REASON to lend the funds
- Someone (one or more) to market the program, manage applications, prepare credit write-ups, facilitate approvals, coordinate fundings, receive payments, do servicing actions, and, most likely, liquidate loans
- A credit policy / servicing policy / liquidation policy to guide the RLF



Why does your Revolving Loan Fund (RLF) Exist?

What is your mission?
What is your vision?
What are your values?

