

# The Basics of Revolving Loan Funds



= A self-replenishing pool of money utilizing interest and principal payments from old loans to issue new loans ...

A simple example of a revolving loan fund for an individual small business owner is a line of credit they may receive from a bank - it is replenished as the borrower pays back any money drawn down.

A line of credit from a bank is intended to pay for short term working capital needs for a business subject to seasonal sales.

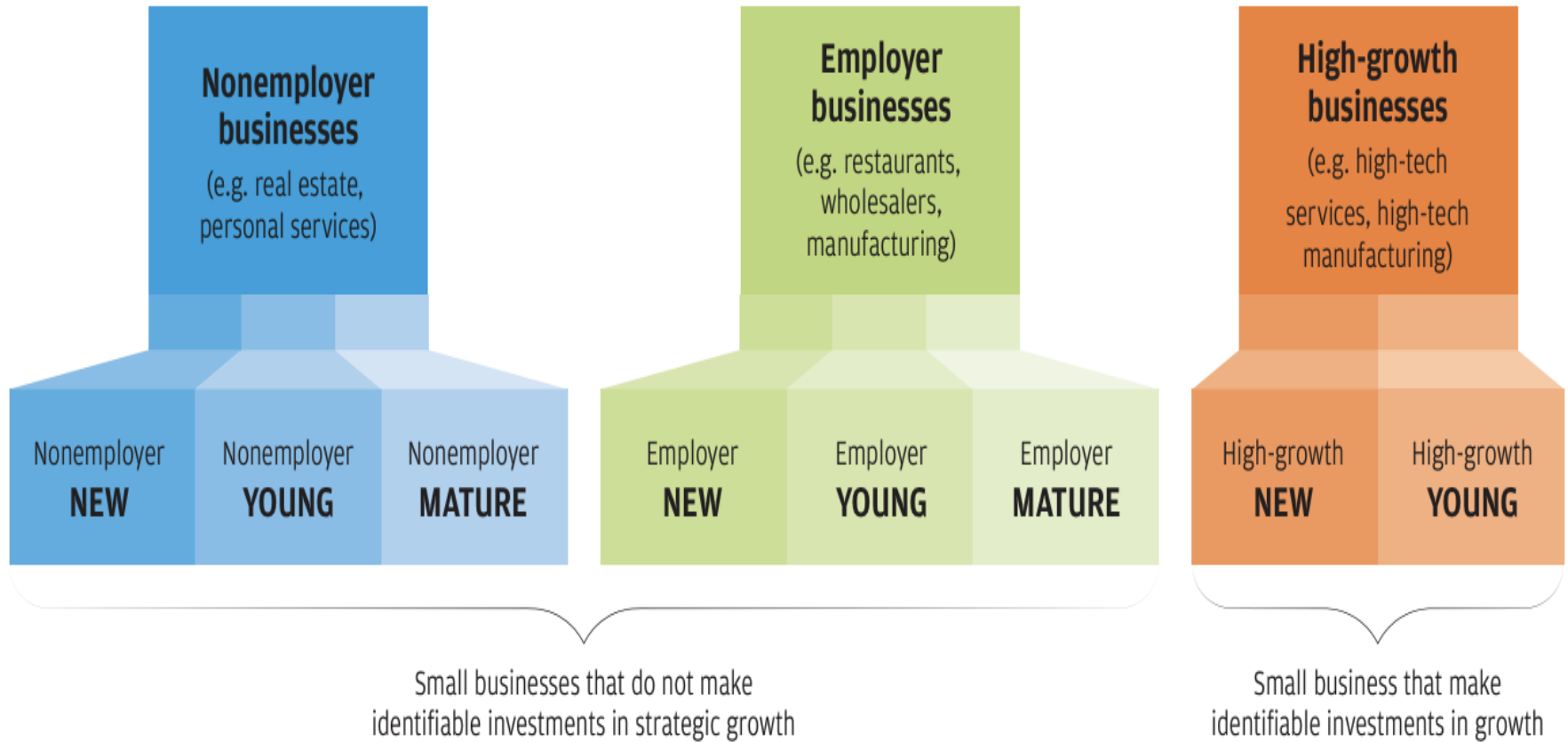
## 30 Million Small Businesses



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

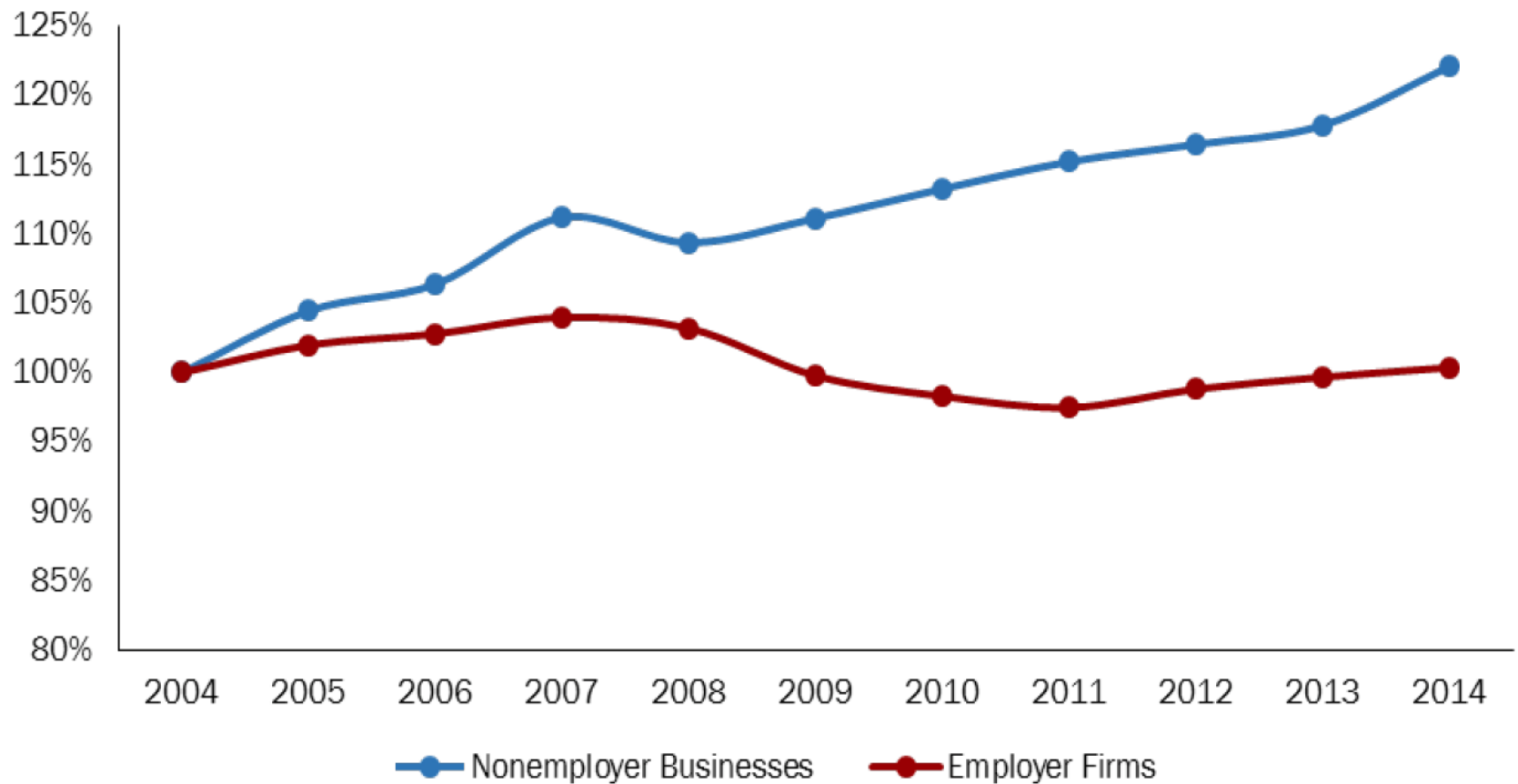
Note: This analysis is based on the work of Mercedes Delgado and Karen G. Mills, "A New Categorization of the U.S. Economy: The Role of Supply Chain Industries in Performance," presented at the Industry Studies Association, Minneapolis, MN, May 2016. <http://www.hbs.edu/faculty/Pages/item.aspx?num=51675>

Figure 1: Key Small Business Segments



Source: JPMorgan Chase Institute

## 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.*

**64% of employer firms faced financial challenges in the prior 12 months. More than two-thirds addressed these challenges by using the owners' personal funds.**

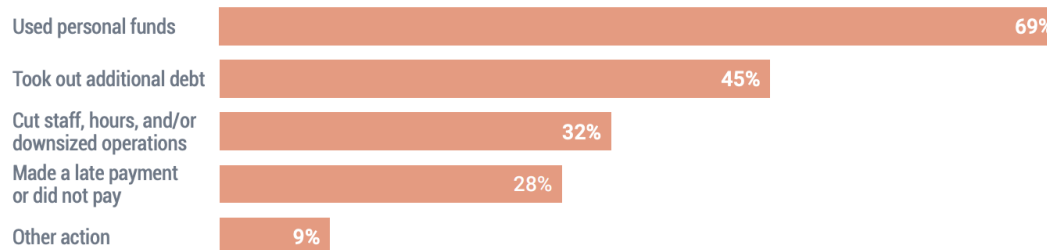
**FINANCIAL CHALLENGES,<sup>1</sup> Prior 12 Months<sup>2</sup>**  
 (% of employer firms)

N=6,490



**ACTIONS TAKEN TO ADDRESS FINANCIAL CHALLENGES,<sup>1</sup> Prior 12 Months<sup>2</sup>**  
 (% of employer firms with financial challenges)

N=3,990



1 Respondents could select multiple options.  
 2 Approximately the second half of 2017 through the second half of 2018.

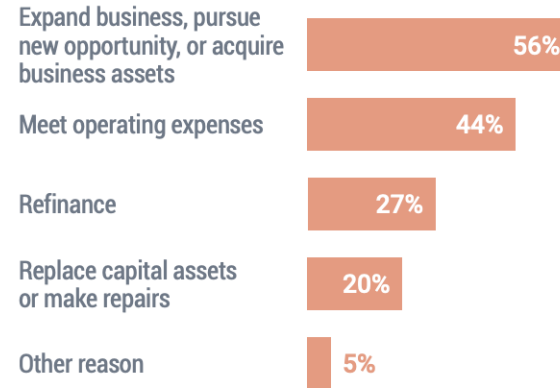
# The 2018 survey finds that **43%** of employer firms applied for financing in the prior 12 months.

## SHARE THAT APPLIED FOR FINANCING,<sup>1</sup> Prior 12 Months<sup>2</sup> (% of employer firms)



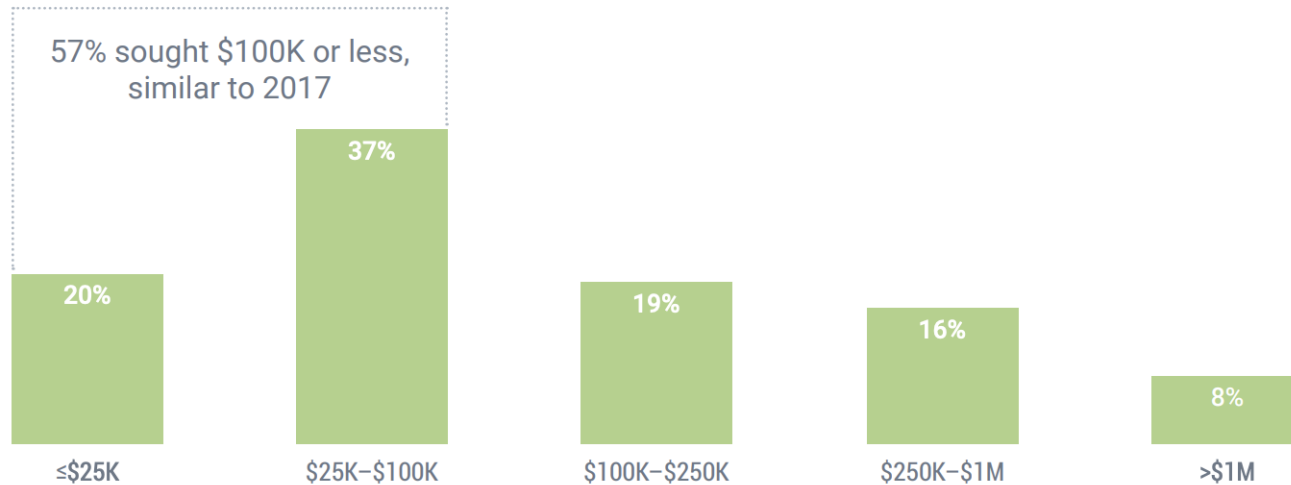
## REASONS FOR APPLYING<sup>3</sup> (% of applicants)

N=2,952



## TOTAL AMOUNT OF FINANCING SOUGHT<sup>4</sup> (% of applicants)

N=2,899

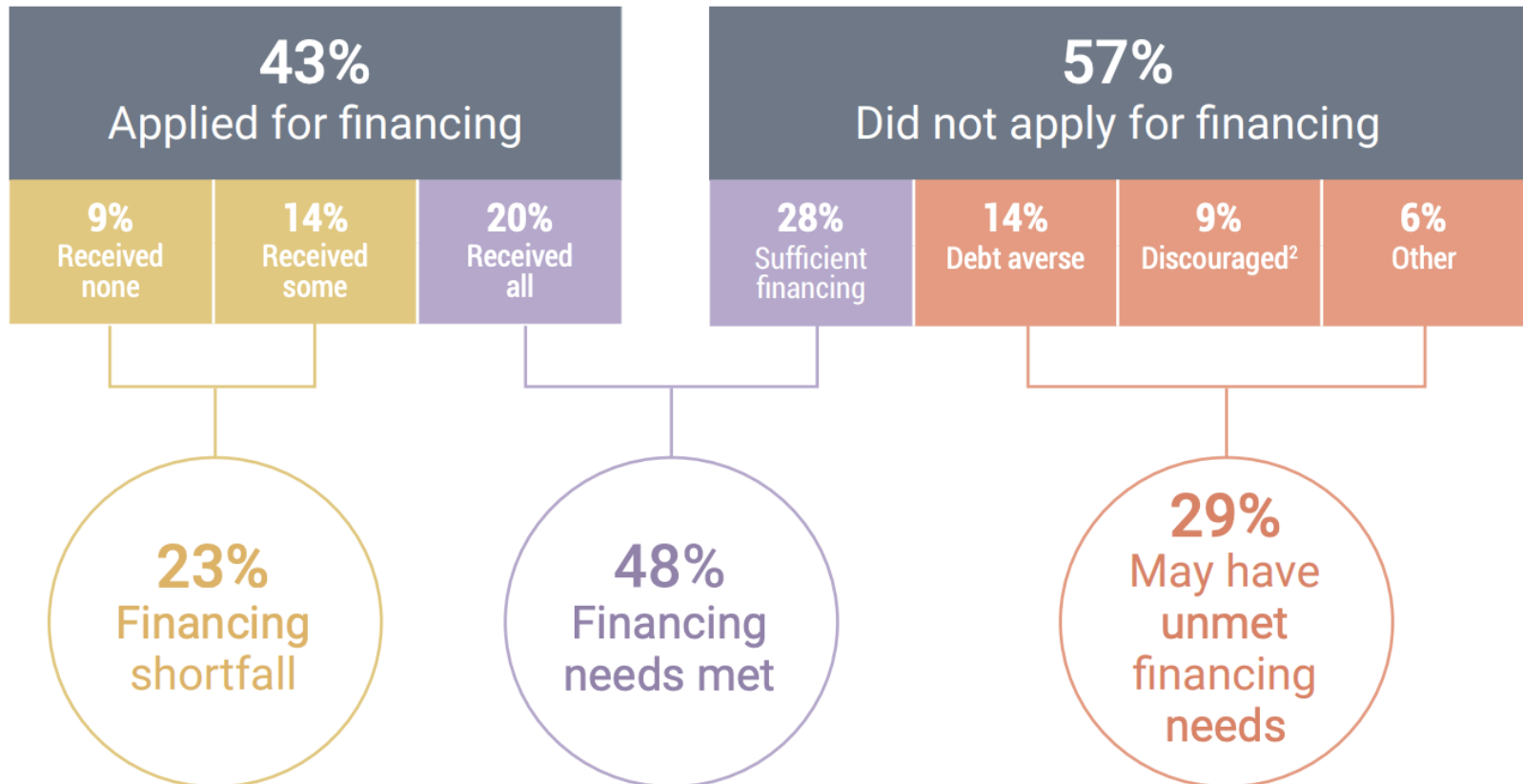




To gauge funding success and shortfalls, we combine applicants' financing outcomes and nonapplicants' reasons for not applying. There are two types of firms that had their funding needs met:

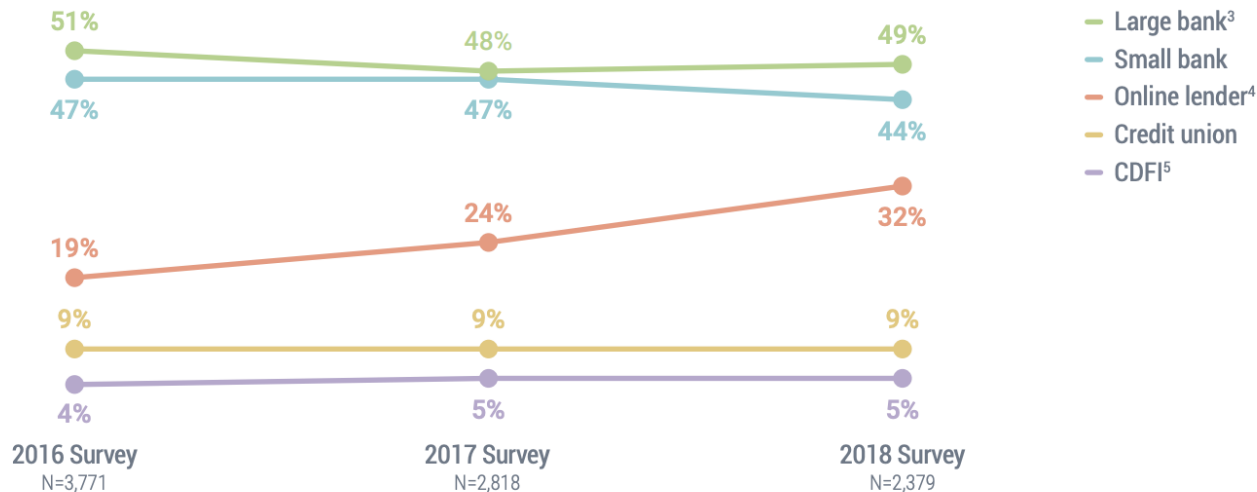
- 1) Applicant firms that received the full amount of financing sought; and
- 2) Nonapplicant firms that did not apply for financing because they already had sufficient financing.

The remaining firms may or may not have unmet funding needs. When applicant firms did not obtain the full amount of funding sought, we consider them to have a financing shortfall. When nonapplicant firms did not report they had sufficient financing, we consider them to have potentially unmet funding needs.



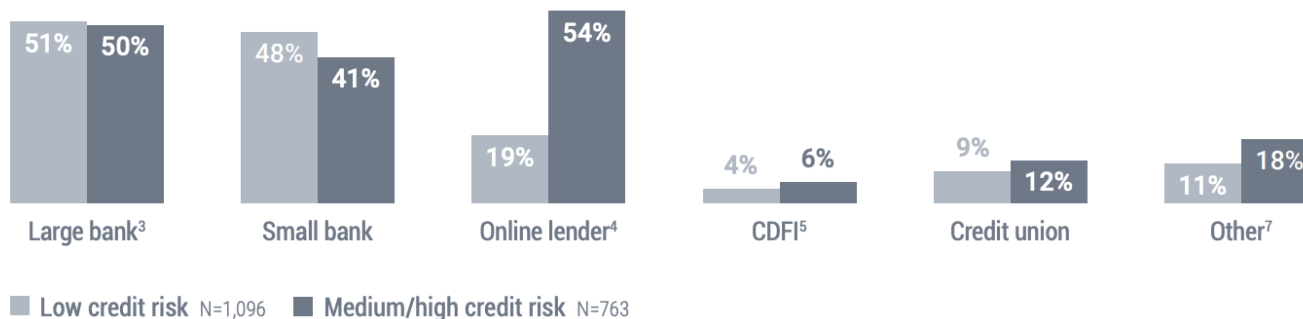
# The share of applicants who sought loans, lines of credit, or cash advances from online lenders has grown markedly.

**CREDIT SOURCES APPLIED TO<sup>1,2</sup>** (% of loan/line of credit and cash advance applicants)

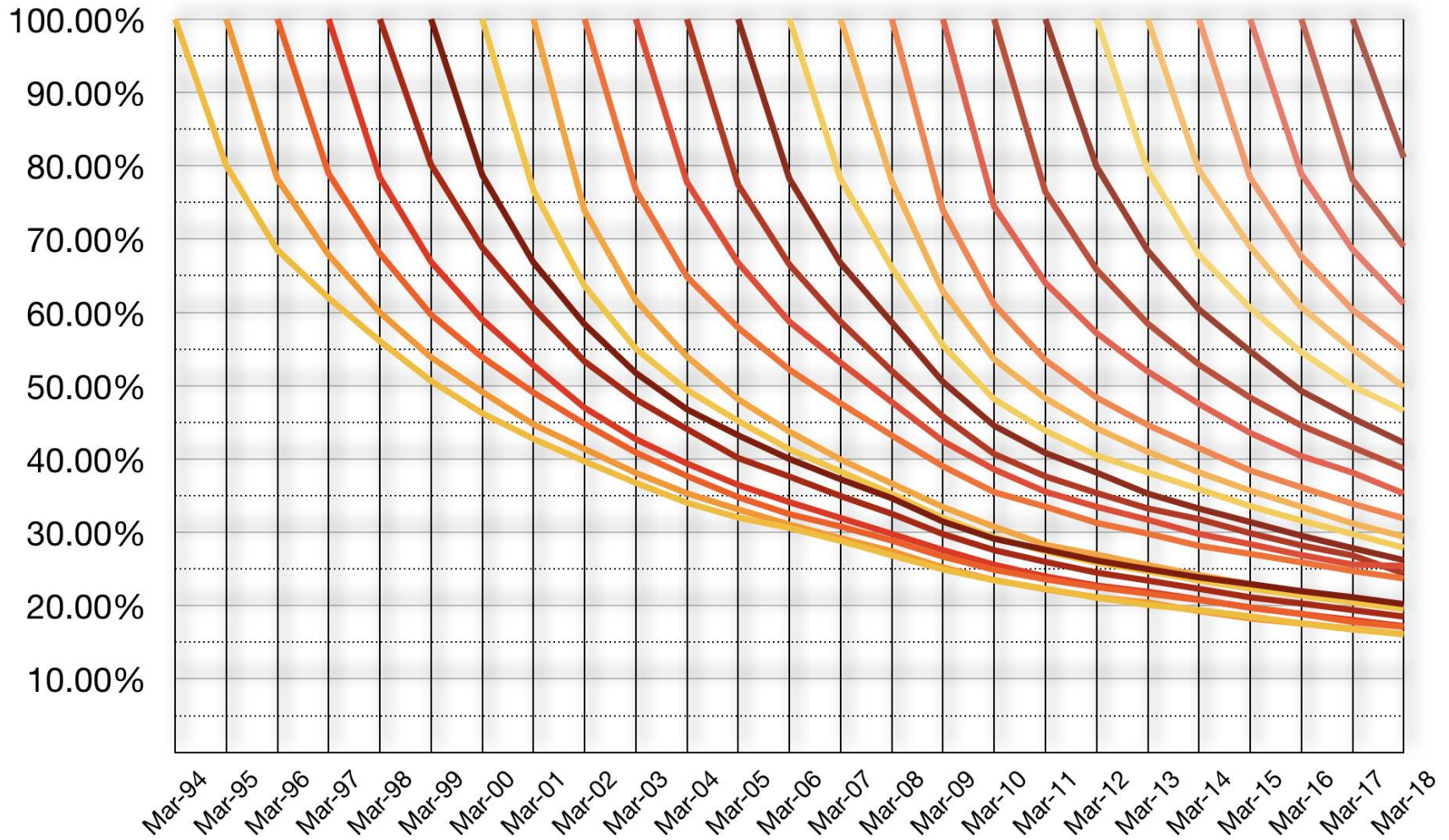


# Medium/high credit risk applicants were more likely than low credit risk applicants to apply to online lenders.

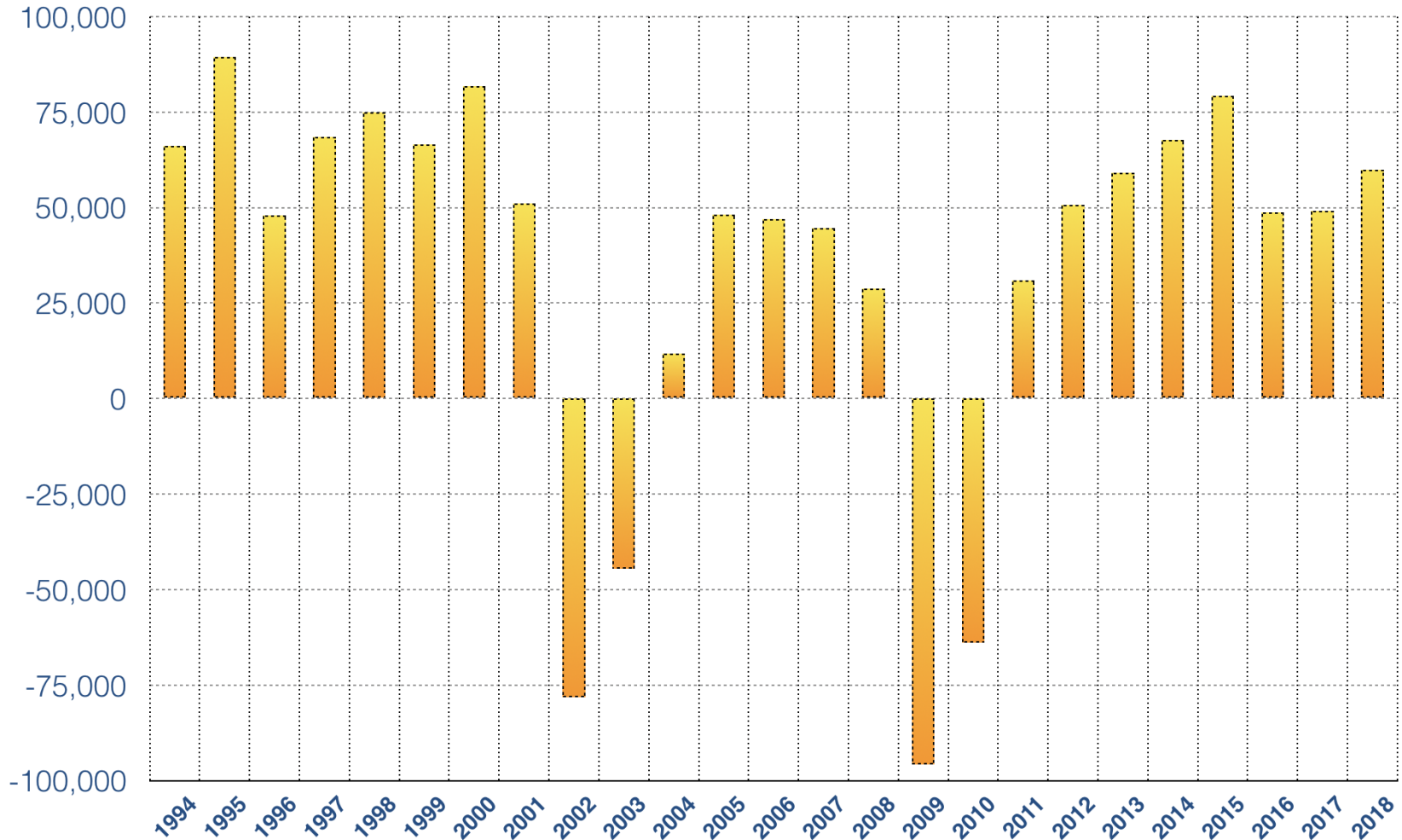
**CREDIT SOURCES APPLIED TO BY CREDIT RISK OF FIRM<sup>1,6</sup>** (% of loan/line of credit and cash advance applicants)



# Survival Rates (%) of NEW Small Businesses (with employees) in Colorado Each Year: 1994 to 2018

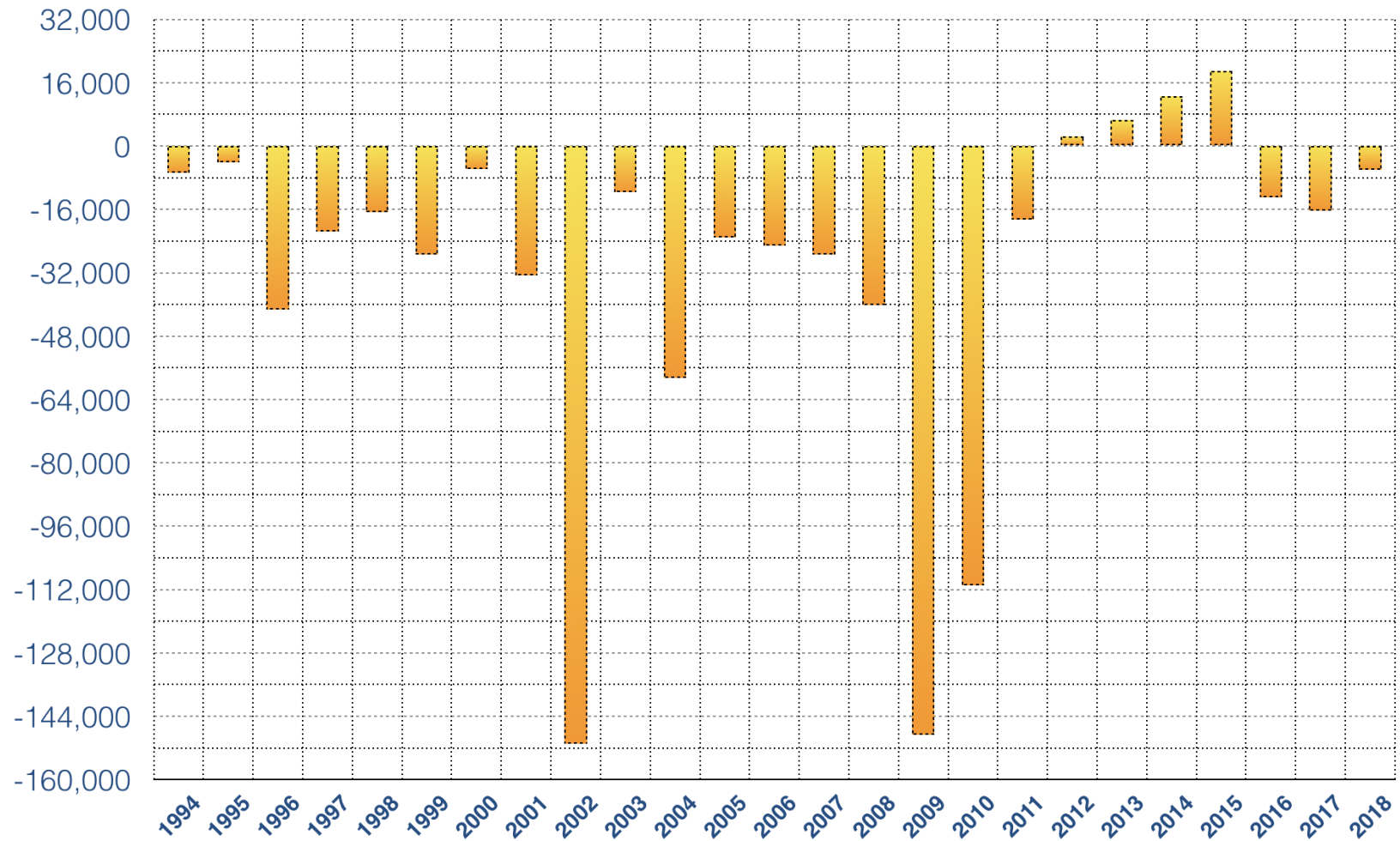


# Net Private Sector Job Gains / Losses in Colorado - 1994 to 2018



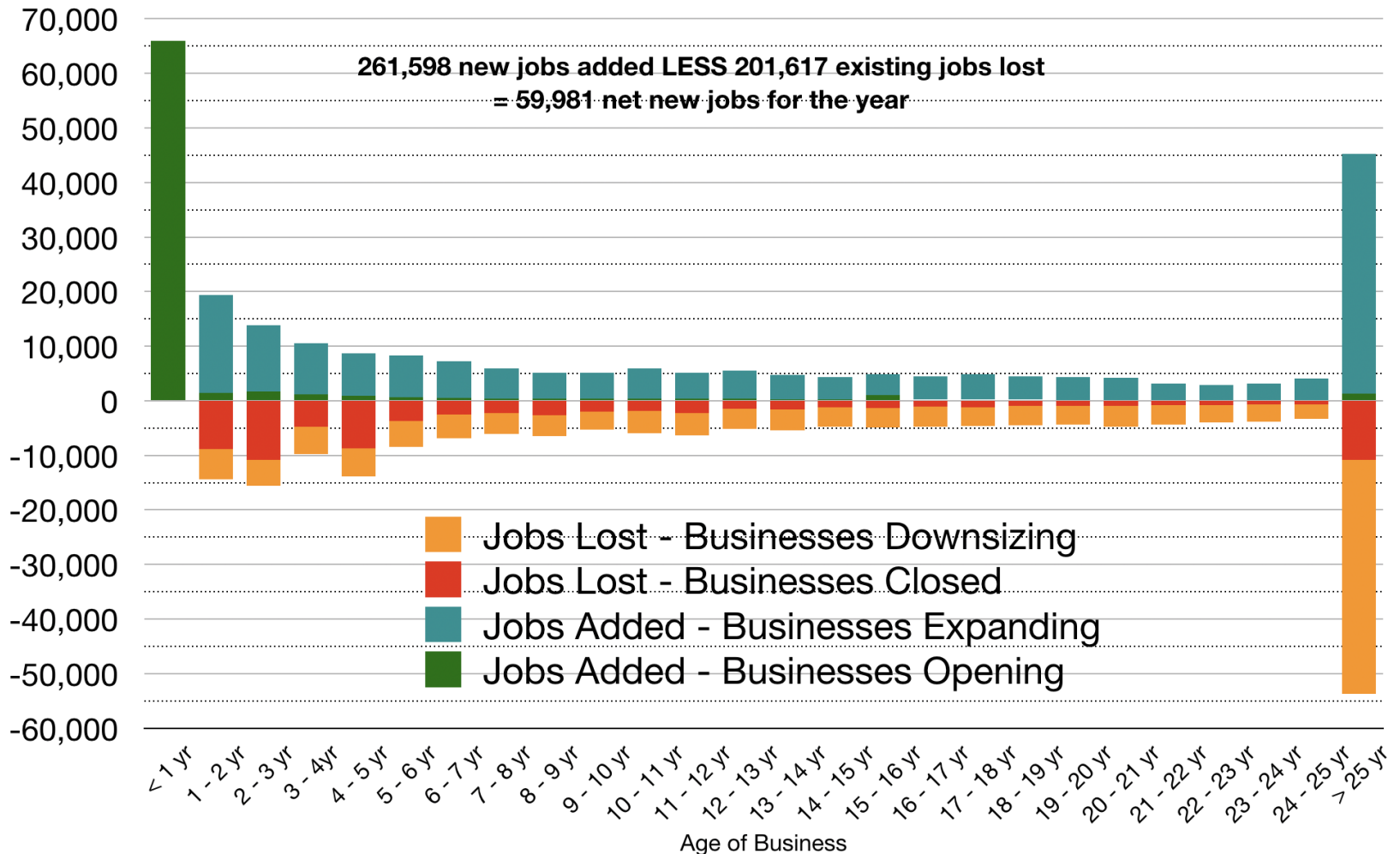
Source: Bureau of Labor Statistics

# Net Private Sector Jobs in Colorado if NO new small business had created jobs - 1994 to 2018



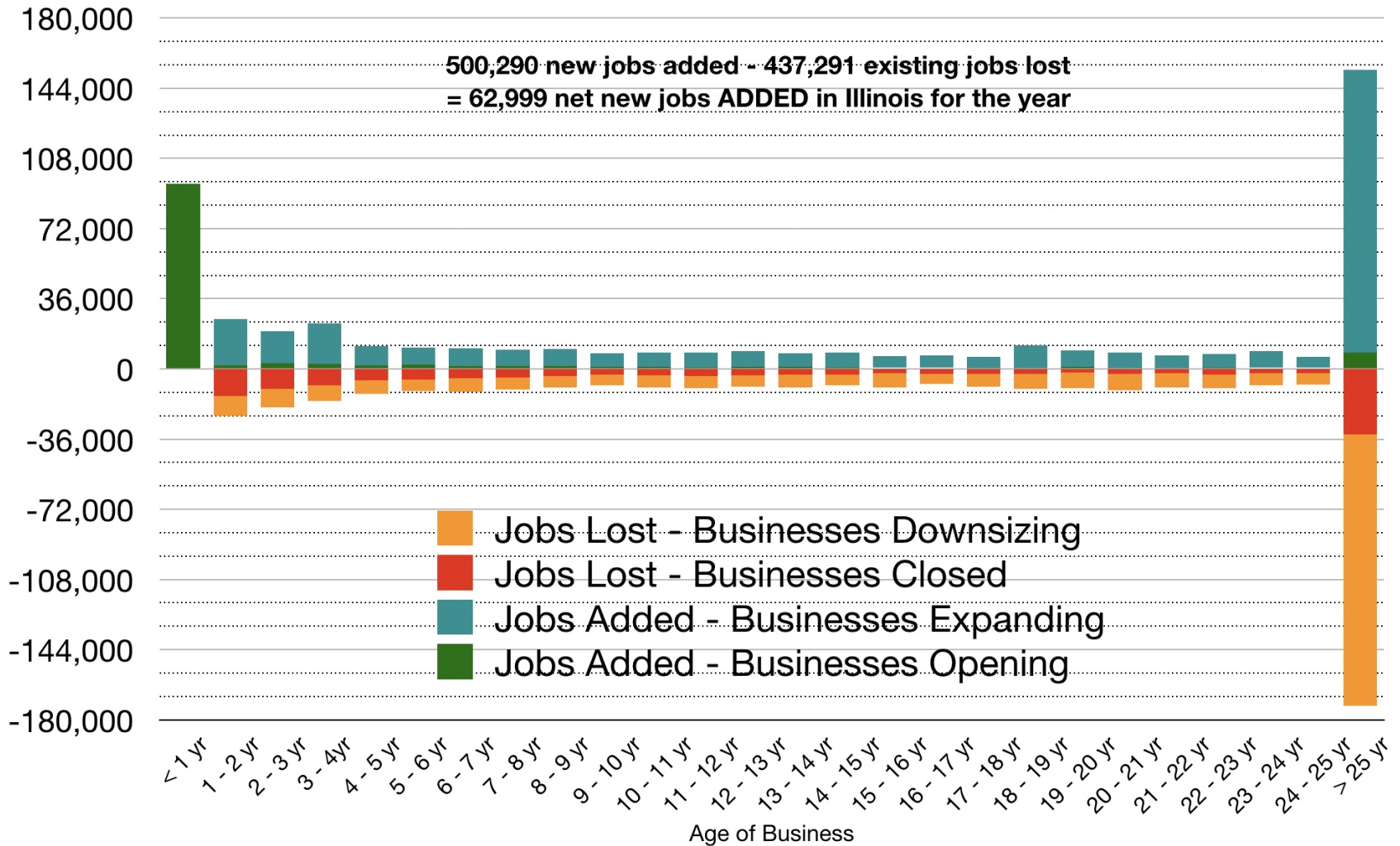
Source: Bureau of Labor Statistics

# Total Jobs ADDED and LOST in COLORADO for the Twelve Months ended March 2018, by AGE of Business



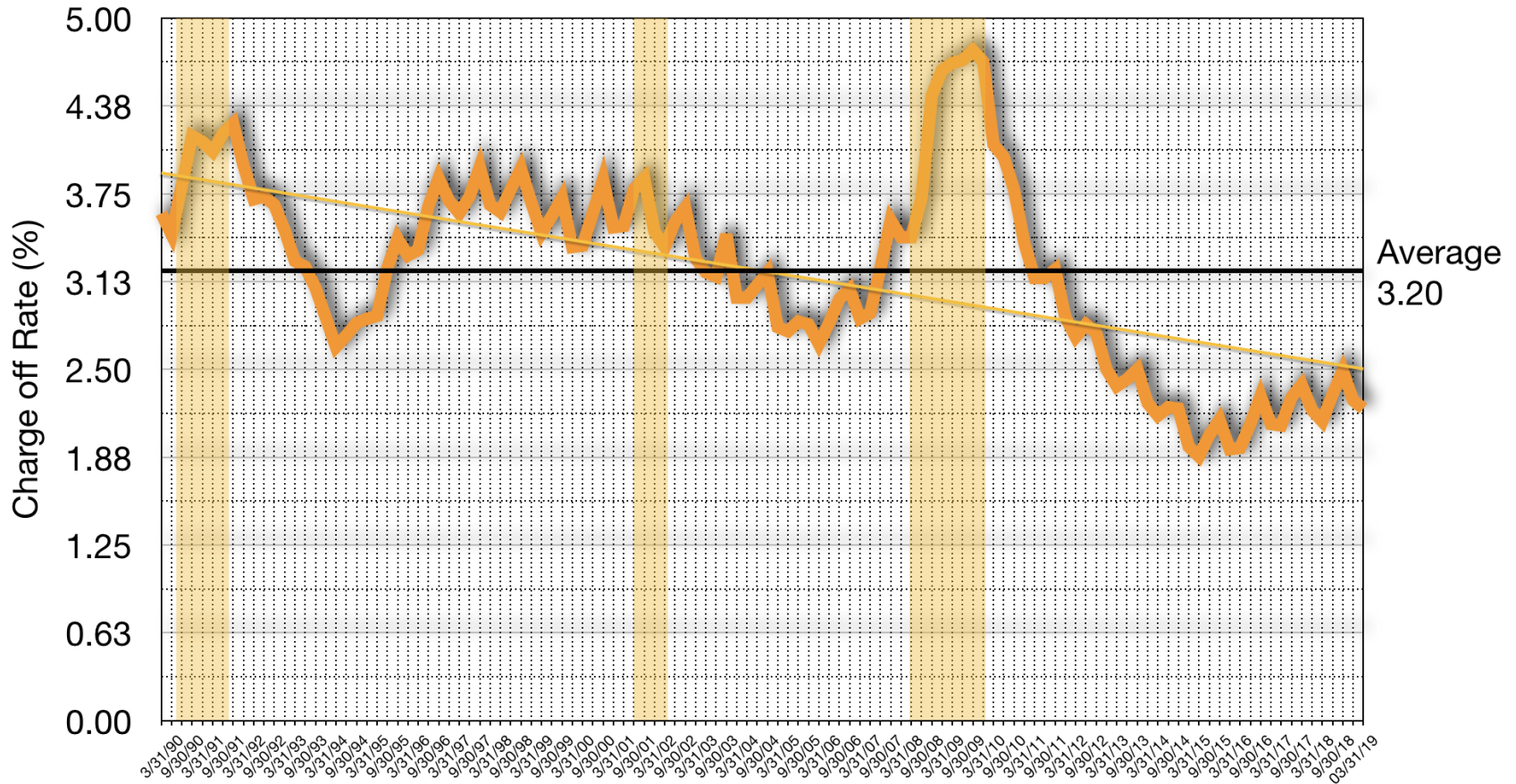
Source: Bureau of Labor Statistics

# Total Jobs ADDED and LOST in ILLINOIS for the Twelve Months ended March 2018, by AGE of Business



Source: Bureau of Labor Statistics

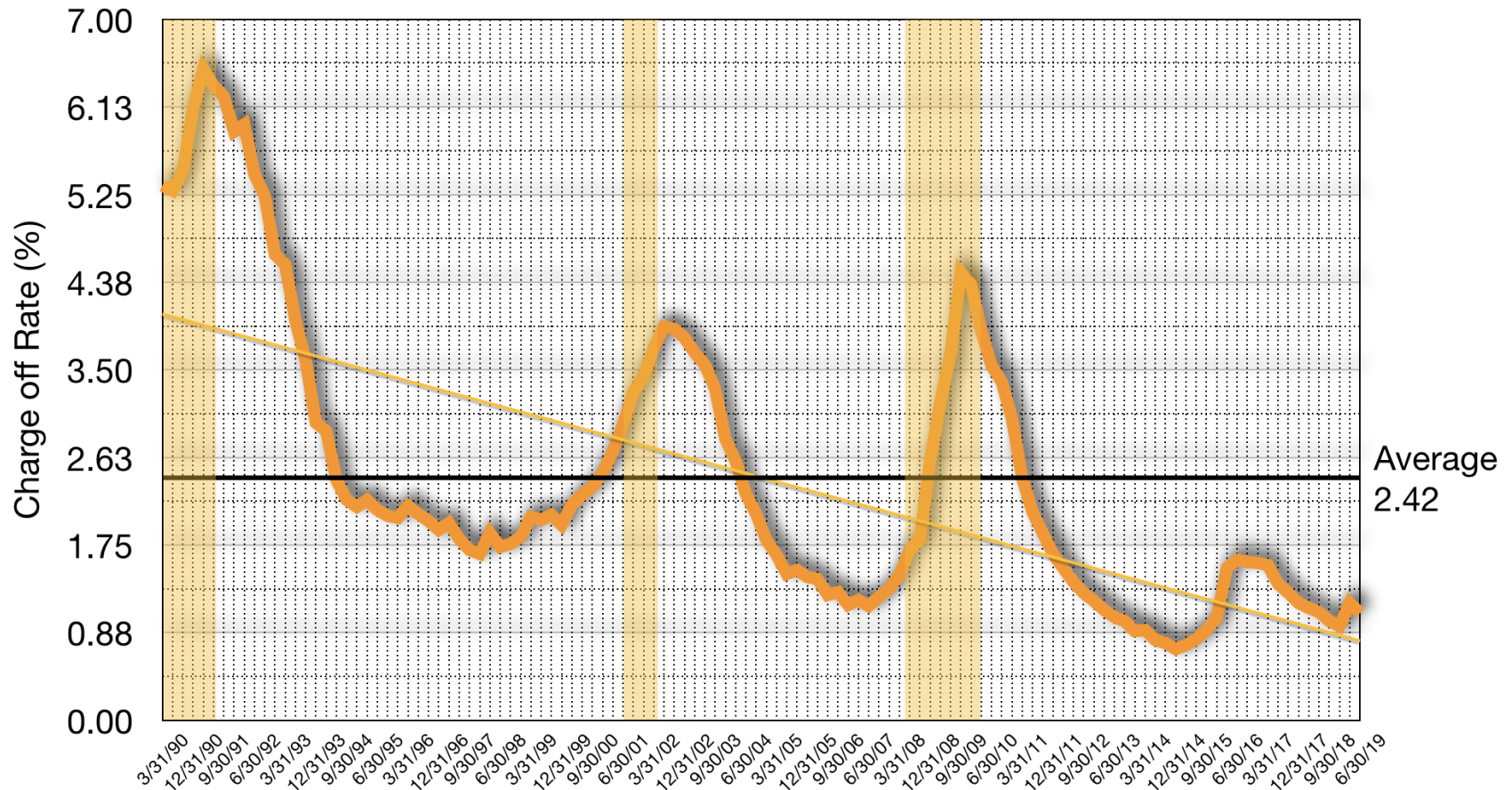
# Consumer Loans + Consumer Credit Card DELINQUENCY Rates at Commercial Banks (not seasonally adjusted)



Source: Board of Governors of the Federal Reserve System

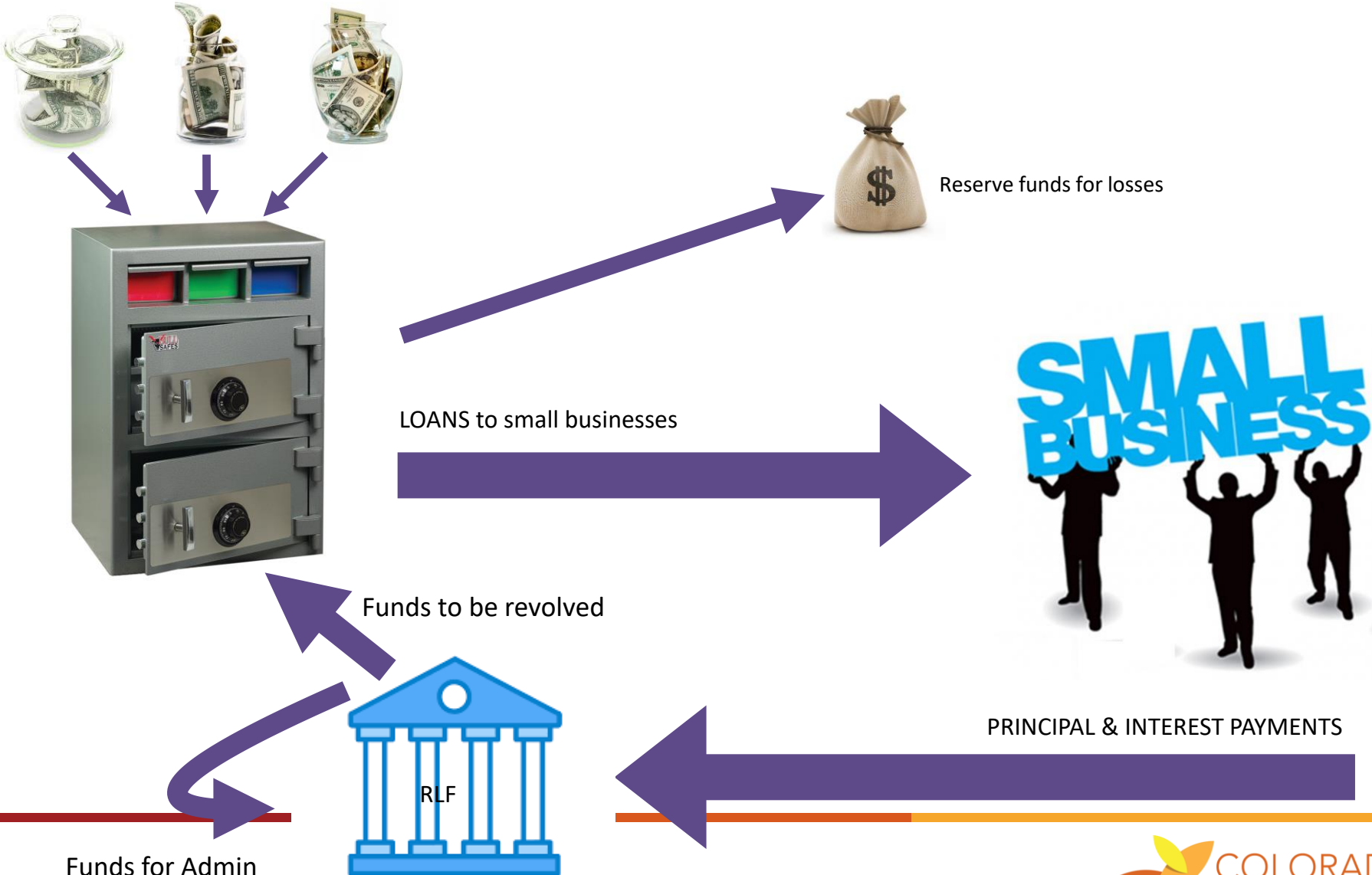


# Commercial and Industrial (C&I) Loan DELINQUENCY Rates for Commercial Banks (not seasonally adjusted)



Source: Board of Governors of the Federal Reserve System

# How does a Revolving Loan Fund (RLF) Work?



How self-replenishing the fund will be, depends on how much the seed funds “cost” the RLF.

Funds can be provided via:

- Grants
- Low interest loans (like program related investments or impact investments)
- Lines of credit
- Other sources

# What does a Revolving Loan Fund 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



# How much should you lend out your revolving loan funds for?

*(According to the FDIC quarterly report issued 09/05/19, the net interest margin for banks remains steady at 3.39%)*

- How much did the funds cost?
- How much does it cost you to operate and administer the fund?
- How much do you anticipate losing from the fund each year?

# Why does your Revolving Loan Fund Exist?

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



A photograph of two men in a workshop or office setting. The man on the left is wearing a grey and maroon zip-up jacket and dark jeans. The man on the right is wearing a grey t-shirt, dark pants, a blue and red baseball cap, and glasses. They are both smiling and looking at a small object held by the man on the right. In the background, there are workbenches, a computer monitor, and a poster on the wall. In the foreground, there is a large roll of material on a table with some printed items.

# QUESTIONS?

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