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INSIGHT

# COVID-19: EDA Revolving Loan Funds for Businesses

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Economic development revolving loan funds (RLFs) use funding from federal grants and other sources to make loans to local businesses and in limited circumstances to communities for infrastructure and development projects. The Economic Adjustment Assistance (EAA) program—administered by the Department of Commerce, Economic Development Administration (EDA)—is a source of RLF funding. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) provided $1.5 billion in supplemental funding for the EAA program, which can be used for RLF grants, among other activities.

RLFs can make loans to targeted types of businesses or areas, such as economically-distressed communities; specific industries, like healthcare or manufacturing; underserved markets; Opportunity Zones; or areas impacted by natural disasters. This Insight describes EDA's RLF program, how it could potentially be used to address COVID-19 pandemic-related business credit needs, and the temporary RLF program changes made in response to "urgent circumstances."

## An Overview of EDA's EAA Program for RLFs

Businesses cannot directly access EDA grants and many other federal economic development grants. Instead, eligible businesses may receive a loan from one of the approximately 400 organizations administering EDA-funded RLFs. These organizations include Regional Development Organizations, local governments, states, non-profit organizations, educational institutions, and Indian Tribes. (Businesses may also receive direct technical assistance through projects funded by EDA grants.)

Federal programs and other funding sources provide grants or loans to RLFs to capitalize the fund and cover administrative expenses (see CRS In Focus IF11449, *Economic Development Revolving Loan Funds (ED-RLFs)* for more detail). RLF borrowers include businesses, units of local government, and non-profit organizations in a targeted lending area or industry. RLFs are "revolved"—meaning future loans can be made when previous borrowers repay principal and interest.

Interest rates may vary by program because the EDA regulations allow RLF administrators to set an interest rate that is "appropriate," as long as it is above one of the two minimum interest rate standards.

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EDA regulations also include requirements related to eligible lending areas, leveraged capital, and other standards.

Researchers and economic development practitioners note that RLF programs generally are not designed to replace conventional lending activity. According to the EDA, RLFs can help businesses fill funding gaps when existing financial products do not entirely meet financing needs. EDA requires RLF administrators to document that loans were made when "credit is not otherwise available on terms and conditions that permit the completion or successful operation of the activity to be financed." Additionally, RLF programs can facilitate economic development, according to the EDA, because the programs can provide capital to businesses and projects that are likely to create or retain jobs and potentially attract additional investment.

The EDA requires an RLF Plan to apply for the program. The RLF Plan defines the program's lending area and demonstrates economic development priorities, operational procedures, financing policies, portfolio standards, and the capacity of the grantee to administer the funds. The EDA requires potential RLF administrators to demonstrate that the RLF will align with economic development goals outlined in a comprehensive economic development strategy (CEDS) or CEDS-equivalent document.

## Could RLFs Help COVID-Impacted Businesses?

According to the EDA, eligible businesses can apply for loans from an RLF for working capital or fixed assets for operating expenses, business growth, job retention, or similar efforts. COVID-19 has reduced economic activity in the near term, and may alter business needs going forward. Economic downturns generally result in reduced availability of conventional credit. Thus, RLFs may be a resource in the aftermath of the pandemic as an option for business credit. RLF loans are frequently paired with technical assistance or coaching services, which could provide additional resources to businesses experiencing COVID-19 impacts.

# EDA's CARES Act Recovery Assistance for RLFs

## Additional Funding

The CARES Act appropriated an additional $1.5 billion to the EDA's Economic Adjustment Assistance (EAA) program. Subsequently, the EDA announced that it would expand funding for economic recovery activities, including support for new and existing RLFs. The EDA invited select current grantees, including existing RLF administrators, to apply for noncompetitive CARES Act Recovery Assistance funding using specific award conditions in order to expedite funding and implementation timelines.

In addition, a portion of the EDA's CARES Act Recovery Assistance funding is to be administered through the EAA program as a competitive grant which could be awarded to establish new RLFs. The EDA posted instructions in a Notice of Funding Opportunity. For more information on the EDA's COVID-19 response, see CRS Insight IN11402, *The Economic Development Administration's Economic Recovery Assistance for COVID-19 Impacted Communities*.

## Temporary Changes to EDA's RLF Requirements

### Administrative Relief Provisions

The EDA has announced it will grant administrative relief provisions to existing grantees that request CARES Act funding for an existing RLF in order to meet "urgent circumstances." According to the

EDA's CARES Act Recovery Assistance guidance, a one-year waiver will be applied to the RLF regulations that:

- Establish a minimum interest rate for RLF loans;
- Require RLF loans to leverage additional capital; and
- Require evidence demonstrating credit is not otherwise available.

Additionally, the EDA has said it will allow existing grantees to seek approval to modify their RLF Plan to gain the following flexibilities:

- Simplified underwriting and loan approval procedures;
- Reduced or eliminated loan application fees;
- Reduced or eliminated borrower equity and collateral requirements;
- Changed maximum or minimum loan amounts; and
- Modified loan terms.

### Monitoring and Evaluation Changes

The EDA uses a Risk Analysis System to monitor and evaluate 15 indicators of RLF performance. The measures include capital, assets, management, earnings, liquidity, and strategic results. In addition to the provisions noted above, the EDA says it will suspend scoring four of the indicators for two rating cycles.

## Additional Resources

For an overview of resources available to COVID-impacted businesses, see CRS Insight IN11301, *Small Businesses and COVID-19: Relief and Assistance Resources*, by Maria Kreiser, and CRS Insight IN11368, *Larger Businesses and COVID-19: Financial Relief and Assistance Resources*, by Julie Jennings and Justin Murray.

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