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IN FOCUS

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Economic Development Revolving Loan Funds (ED-RLFs)

Revolving loan funds (RLFs) are financial instruments frequently used to finance water, wastewater, infrastructure, brownfields redevelopment, disaster recovery, and community development activities. RLFs can also be used for economic development purposes. Federally funded economic development RLFs (ED-RLFs) are one of many tools that public agencies and nonprofit organizations may use to make loans to finance small business growth, deploy capital to underserved markets, and incentivize development activity. The main advantage of using an RLF is that the RLF can be configured in a way to be "self-replenishing," thereby reducing the need for annual appropriations or federal credit subsidies. This In Focus provides an overview of how ED-RLFs work, a summary of federal support for ED-RLFs, and a brief review of current issues.

How Does an ED-RLF Work?

Initial funding for the capital base and administrative expenses of an RLF may come from a variety of sources, including government agencies, foundations, or private financial markets. Federal programs may support ED-RLFs by providing grants or loans to capitalize the fund. For instance, the U.S. Economic Development Administration (EDA) and the Appalachian Regional Commission award grants through existing programs with specific guidelines for the use of funds as ED-RLFs. The U.S. Department of Agriculture (USDA) uses both grant and loan authorities to support ED-RLFs. RLF borrowers typically include for-profit businesses, nonprofit organizations, and government entities. The repayment of principal, interest, and fees can replenish RLFs so that future loans can be made to eligible borrowers and the loan fund can eventually be sustained or "revolved" without the need for continuing subsidies.

ED-RLFs are often designed to target businesses in specific industries, geographic areas, or distressed communities, or to target the unmet needs of borrowers for products and services such as microloans or gap financing. USDA funding, for example, may be used for targeted lending activities (e.g., for microloans) or for specific types of rural borrowers (e.g., to local utility organizations). ED-RLFs may also be used to finance development initiatives, such as infrastructure and revitalization projects sponsored by local government or other entities.

Many ED-RLFs report that they create some form of direct or indirect economic benefit to the region served. Directly, the ED-RLFs may increase the number of jobs created or retained, businesses expanded, or business startups created. Indirectly, ED-RLFs that finance public infrastructure or community development projects facilitate growth by supporting entrepreneurs, encouraging investment, and improving the conditions that expand facilities or amenities. The purpose of ED-RLFs typically is to supplement—not supplant—conventional lending activity where business and development credit needs are not fully addressed. ED-RLF programs can provide credit to businesses and markets that may be underserved by commercial lenders, including small or nontraditional businesses as well as businesses owned by socially or economically disadvantaged individuals. Participating in an ED-RLF program may help small or new businesses build credit and receive additional services, like technical assistance or business coaching. Some ED-RLFs serve businesses that need gap financing or microloans that may be otherwise unavailable from traditional lenders.

Issues and Considerations Related to RLFs

There are limitations and challenges associated with the creation, expansion, and maintenance of RLFs. When capitalized by grants or low-cost loans, ED-RLFs may receive lower financial returns in exchange for social or economic development outcomes. ED-RLF administrators must balance the overall demand for services, limited administrative resources, and the need to meet social or development goals while also assessing and managing risk. Loan losses are a risk to ED-RLFs and may decrease the capital base over time. Interest rates and fees have to be sufficient to cover potential loan losses, expenses, and inflation. Additionally, ED-RLFs that receive federal support may face constraints related to program regulations, including thresholds for interest rates, loan disbursements, and other requirements.

Federally supported ED-RLFs may need to raise additional capital from other government and private sources to sustain their programs or to meet nonfederal cost share requirements. High-performing ED-RLFs may need additional funds to recapitalize the fund when an ED-RLF has an active base of borrowers. The demand for ED-RLF loans can be episodic and depend on economic factors that are outside the control of ED-RLF administrators at the local, state, and regional level. Additionally, a 2026 evaluation of EDA's RLF program noted that new financial products have created more options for business loans in recent years, which could mean that ED-RLFs may face competition for borrowers.

Both borrowers and institutional intermediaries may need technical assistance to establish an RLF and to ensure the fund becomes sustainable. Thus, loans from an ED-RLF might need to be paired with technical assistance to borrowers (often at an additional cost to the funder, lender, or borrower) to facilitate businesses' financial sustainability and to protect against loan defaults.

Federal Programs That Assist ED-RLFs

Table 1 provides a summary of selected federal programs that support ED-RLFs. The terms, eligibility requirements,

and other conditions of federally supported ED-RLFs vary based on the agency's program objectives, regulations, and statutory requirements. For instance, some ED-RLFs are administered by the federal agency directly; others are administered by an intermediary such as a local government, Indian tribe, nonprofit, utility, university, or economic development agency, including economic development districts and councils of governments. The ED-RLFs described in **Table 1** often complement other forms of business capital provided by financial institutions, the Small Business Administration, and Department of the Treasury programs, such as the State Small Business Credit Initiative (SSBCI) program and the Community Development Financial Institutions (CDFI) Fund's Financial Assistance awards program. These loan, loan guarantee, and other programs offer assistance to businesses—usually through intermediaries such as community banks, CDFIs, and state economic development agencies and not included in this summary. For more information, see CRS In Focus IF12449, *Connecting Constituents with Federal Assistance for Businesses*.

Table 1. Summary of Selected Federal Programs That Support the Creation and Operation of Economic Development Revolving Loan Funds (ED-RLFs)

Administering Federal Agency/Authorizing Statute	Program	Brief Description
Appalachian Regional Commission (ARC) (40 U.S.C. §14101 et seq.)	Access to Capital	ARC provides grants to eligible recipients, which include states, local development districts, and other nonprofit multicounty organizations to operate a lending program to support the creation and retention of private-sector jobs. Eligible borrowers include private, for-profit firms that do business within the Appalachian Region and government entities. Loans using ARC RLF sources may not be made in ARC-designated attainment counties. Access to Capital projects are typically funded by ARC's Area Development, Partnerships for Opportunity and Workforce and Economic Revitalization Initiative, and Appalachian Regional Initiative for Stronger Economies grant programs.
Small Business Administration (SBA) (15 U.S.C. §636(m))	Microloan Program	In the Microloan program, the SBA makes a loan at a low interest rate to Microloan Intermediaries, which are typically community development nonprofit organizations. The Intermediaries use funds from the SBA loan, along with a required nonfederal, nonborrowed match of at least 15% of the SBA amount, to capitalize their Microloan revolving fund. Intermediaries use their revolving fund to make Microloans of up to $50,000 to small businesses. The program also includes a business training component for borrowers, for which Intermediaries might receive grant funding from the SBA.
U.S. Department of Agriculture (USDA), Rural Business-Cooperative Service (RBCS) (7 U.S.C. §930 et seq.)	Rural Economic Development Grant Program (REDG RLF)	USDA provides REDG grants to qualified intermediaries for the purpose of establishing an RLF. Intermediaries may include local utility organizations. Grants require a 20% match with nonfederal funds from an intermediary. The ultimate recipients repay the intermediary directly. The program serves rural areas with populations of 50,000 or fewer. Loans made from the RLF to the ultimate recipient may cover up to 80% of the project's cost.
USDA RBCS (7 U.S.C. §1936b)	Intermediary Relending Program (IRP RLF)	The IRP provides low-interest loans at 1% to intermediaries that re-lend to businesses to improve economic conditions and create jobs in rural communities. Ultimate recipients may be individuals, public or private organizations, or other legal entities in rural areas. Funds loaned to the ultimate recipient by an intermediary must not exceed 75% of the cost of the ultimate recipient's project.
USDA RBCS Consolidated Farm and Rural Development Act, Section 310B (7 U.S.C. §1932)	Rural Business Development Grants (RBDG RLF)	The RBDG is designed to provide technical assistance and training for small rural businesses (i.e., businesses with fewer than 50 new workers and less than $1 million in gross revenue). Capitalization of RLFs is one of several categories of eligible activities that may be funded by the program. RBDG funds must be used for projects that benefit rural areas or towns with populations of 50,000 or fewer.
USDA RBCS Consolidated Farm and Rural Development Act, Section 379E (7 U.S.C. §2008s)	Rural Microentrepreneur Assistance Program (RMAP)	The RMAP provides loans and grants to Microenterprise Development Organizations (MDOs) to help launch and grow microenterprises and provide training and technical assistance to microloan borrowers and microentrepreneurs. The program's loan element provides loans of $50,000 to $500,000 for establishing a microloan RLF, managed by the MDO. MDOs may make microloans for qualified business activities and expenses. This program serves rural areas with populations of 50,000 or fewer.
U.S. Department of Commerce, Economic Development Administration (EDA) (42 U.S.C. §3149)	Economic Adjustment Assistance (EAA RLF)	EAA grant funds can be used to establish an RLF to make loans to businesses that cannot obtain traditional bank financing and to governmental entities for public infrastructure. The loans enable small businesses to expand and create and maintain jobs. EAA RLF loan programs must leverage private investment, such as capital invested by the borrower or others or financing or loans from other sources.
U.S. Department of Housing and Urban Development (42 U.S.C. §5301 et seq.)	Community Development Block Grants (CDBG)	CDBG funding may be used for grants or loans, including ED-RLFs. The award process is established by each state and entitlement community. Administration of ED-RLF funds must be consistent with rules governing the federal CDBG program, including the ability to meet one of HUD's National Objectives, and the grantee's Consolidated Plan.

Source: Compiled by CRS based on information from agencies, including program regulations.

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