

# ECONOMIC OPPORTUNITY STUDIES

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## What Is a Revolving Loan Fund? *And, Why Is the Weatherization Program Mentioning It?*

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**A Revolving Loan Fund (RLF) is a source of money dedicated to lending for a specific goal or specific borrower groups. When loans for projects are repaid, the money is returned to the RLF and new projects for similar purposes are funded, “revolving” from one borrower back to the fund and on to the next. This is in contrast to commercial lending to a defined project; those lenders may shrink or eliminate the pool for lending as repayments are made. The interest and fees paid by the RLF borrowers support program administration so that the fund’s capital base remains intact.**

RLFs are typically administered with the goal of creating positive change within their community. Loans are made to credit-worthy borrowers consistent with standard prudent lending practices. The range of RLFs varies widely, supporting public purposes such as historical preservation, affordable housing, energy efficiency, safe drinking water, and small business development. Designed and managed properly, a RLF can last indefinitely.

Generally, sponsorship and administration of a RLF falls into one of two types: (1) direct lender, in which the fund-holder makes the credit decision and administers the loan, and (2) indirect lender, in which the fund-holder collaborates with a traditional lender to provide partial funding for loans or a linked deposit. In addition, there are hybrids that combine these two basic strategies.

A RLF is generally established and operated as a public/private sector partnership. RLFs can be sponsored and administered by third-party lenders (originated and serviced through a local bank or other financial institutions; non-government), but can also be government-owned and managed. Government-sponsored RLFs typically offer lower interest rates and/or more flexible terms than are available in commercial capital markets

### **WAP Revolving Funds?**

DOE top managers have mentioned at several public events that the Department is considering policy changes to allow WAP funds to be used for RLF’s. For example, in a multifamily rehab project WAP funds might be loaned to pay for the costs of energy efficiency improvements, especially where the owner’s repayment of the WAP-funded loan is made subordinate to the senior loan. Upon repayment, the lending WAP agency would use the funds for another loan. As of May 15, 2011, no regulatory or policy changes supporting RLF’s have been announced.

### **Clean Energy Retrofit Revolving Loans**

A RLF is an effective tool for residential energy efficiency improvements in the \$2,000 to \$10,000 range that are not large enough to justify taking out a second mortgage or equity line.

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The recent programs typically focus on financing the cost of efficiency upgrades such as appliances, lighting, insulation, and heating and cooling system upgrades.

Funding

RLFs are an eligible activity under the EECBG program which can be used for the “establishment of financial incentive programs for energy efficiency improvements.” States and units of local government can create an RLF alone or with other EECBG recipients or other partners, but the RLF must adhere to the use and financial limitations [federal Guidance](#) for [EECBG](#) and [SEP](#) Grantees.

[Common Issues with a RLF](#)

Two major problems arise when RLF’s are used to increase credit access for viable organizations that lack alternative funding sources: (1) they require periodic refunding to avoid continued erosion of their capital base and (2) in lending money to high-risk borrowers, RLF’s experience high loss rates. Also, since RLFs provide access to a flexible source of affordable financing, operating costs may come to exceed operating income, resulting in erosion of the fund’s capital base. Additionally, annual inflation can contribute to loss of the capital base. In either case, the fund may need to require additional public investment to remain functional.

Weatherization local agencies supporting affordable housing might be able to borrow from those RLFs for efficient new construction or for rehab projects extending the usable life of their buildings. Also, they may look to RLFs for credit for energy services small business start-up, expansion, and retention.

**Using Clean Energy RLF’s in Your Area for Low-Income Community Projects**

- Review existing energy loan programs in your state and local communities. The [Database of State Resources for Renewable and Energy Efficiency \(DSIRE\)](#) is an excellent resource and provides summary tables by state on existing revolving loan programs under the ‘Loan Programs’ category [35 states have created new RLFs or augmented existing RLFs to finance efficiency and renewable energy projects] localities outside those states?
- Determine allowable uses and limitations on use of funds in your state as well as the prohibited
  - The SEP program guidance administrator determine what RLF funds can be used for
  - They might select specific technologies or applications *Allowable uses for RLFs (State Code)*Sample: [Utah Administrative Code - Energy Efficiency Fund; adapted from 1. Utah R68 3-3-3](#)
  - Items such as building materials, mechanical, electrical and even renewable energy systems are generally allowable

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- The costs of a construction or rehab project that are not directly related to energy efficiency measures and acquisition of financing are generally prohibited uses.
- Examples and case studies of states with existing energy RLFs can be found on the [Council for Development Finance Agencies' Online Resource Database](#)
- The following State RLFs specifically address residential and have also been highlighted by the DOE their EERE WIP TAP Webinar Series
  - [Montana Alternative Energy Revolving Loan Program](#)
  - [Ohio Local Option - Municipal Alternative Energy RLF Loan Program](#)
- See if your state has any other RLF programs for affordable housing, and public health
  - Affordable housing RLF details can generally be found at the state or local level through a State's Department of Housing and Community Affairs or the State Housing Finance (or Housing and Mortgage Finance) Agency. At the local level, individual municipalities and their housing agencies should have more details on available RLFs
  - Public health
    - [Rural Health Services Revolving Fund](#) (Arkansas)
      - Targets health improvement activities and community strategic planning efforts
    - EPA RLFs for [Brownfield](#) or [Safe Drinking Water](#)
      - RLFs used to capture land parcels through land banking; provide loans to support cleanup activities for sites contaminated with hazardous substance for redevelopment
    - RLF for lead hazard control
- Non-Residential RLF Models can provide information on RLF program design/structure and administration
  - [Texas LoanSTAR \(loans to Save Taxes And Resources\)](#)
  - [Utah Public School Energy Efficiency Fund Zero-Interest Loan Program](#)

**Links**

[NACO – RLF Factsheet](#)

The National Association of Counties has put together a detailed Fact Sheet on RLFs. Additional detail on what a RFL is and how it can be utilized is described. Information about benefits to

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lenders and borrowers, challenges to setting up, creating and administering, the different types and current examples of RLFs are discussed.

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