

All about the Common Wealth Revolving Loan Fund

The Common Wealth Revolving Loan Fund (CWRLF), founded in 1986, is a targeted economic development loan program whose purpose is to lend money to employee-owned companies or co-ops for expansion, facilities, machinery and equipment, vehicles, and working capital or for employee buyouts.

The CWRLF has two goals: (1) enhancing housing and employment opportunities for low income and disenfranchised people and (2) job creation and retention, especially in the manufacturing sector. It has a strong preference for loans to employee-owned companies and co-operatives because of their positive impact on job security, wages and benefits, and wealth creation for low income and middle income working people. Such democratically organized firms also exhibit economic structures that increase workers' and employees' power to control their lives.

It is expected that the expansion of the CWRLF will lead to creation and stabilization of 10-20 jobs per year over the next five years. In addition to retaining and creating jobs, expanding the CWRLF will broaden ownership of productive assets among low income working people through increasing the number of both ESOP and cooperative firms and through lending for expansion to existing employee-owned companies.

Mission, History and Business Development Experience

The CWRLF is a nonprofit corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The CWRLF makes low interest loans to democratically owned and managed enterprises and development projects in Ohio and nearby areas of the contiguous states.

The CWRLF was founded in 1986 to establish a financial tool to foster the start up and growth of democratically owned and managed business as a way to create and retain jobs and increase the skills and participation of the employees. Many religious judicatories have provided funding and support. The CWRLF has received grants from the Catholic Diocese of Youngstown, the US Catholic Bishops Economic Development Program, and the Catholic Campaign for Human Development, plus a one-time Diocesan grant of \$30,000 for loan reserves.

Through the years, CWRLF has raised roughly \$450,000 in lending capital and has made 24 loans totaling \$756,899 to diverse businesses that meet the social and credit worthiness criteria. CWRLF has never had a loan default. It has built \$20,000 in permanent capital.

Board of Trustees and Administration

The CWRLF Board is currently composed of Rick Judy, Brian Corbin, Kate Cullum, Gerry Meyer and Sharon Minson. Each has an abiding commitment to social and economic justice and has demonstrated that commitment through their work and activities. The original Board developed all the investment and lending criteria and procedures. The current Board reviews these, and reviews and approves all loans.

The Ohio Employee Ownership Center (OEOC) administers the loan fund by providing a Loan Fund Coordinator (Bill McIntyre) as well as accounting (Dan Bell) and clerical staff (Kelley Fitts). The OEOC was established in 1987. Its mission is “to promote employee ownership in order to broaden capital ownership, deepen employee participation, retain jobs locally, and increase living standards for working families and their communities.” Since its inception, the OEOC has assisted 487 firms and plants in Ohio employing over 93,000 to explore whether employee ownership makes sense in their particular case. Of these, 71 companies employing over 14,000 have implemented partial or complete employee ownership. Many of these employees would otherwise have lost their jobs to plant shutdowns or corporate downsizing. The OEOC also works with a network of about 70 employee-owned companies, for which it provides training and organizational development services. Its constant contact with firms exploring becoming employee owned and with existing employee-owned companies offers real opportunity to market and grow the CWRLF.

The OEOC has administered the CWRLF since 2004. Previously, CWRLF was self-administered. However, CWRLF constantly experienced difficulty in placing loans; therefore, the switch to administration by the OEOC, as the OEOC offered a much greater opportunity for marketing CWRLF loans in addition to being able to provide the administration services.

Who we serve

The CWRLF serves Ohio workers and the employee-owned community in Ohio.

Ohio has been hit hard with job loss in recent years. This is a well known fact. The State’s average wage level is now more than 10% below the national average.

Currently, there are believed to be about 425 companies in Ohio that are partially or wholly owned by about 300,000 employee-owners through ESOPs. There are also approximately half a dozen worker cooperatives employing approximately 200.

In September 2005, the OEOC and CWRLF combined to facilitate what is believed to be the first-in-the-nation use of the tax incentives available for people who sell greater than 30% of their ownership shares to ESOPs to people selling to an employee-owned cooperative. OEOC provided technical expertise, and CWRLF provided subordinate debt needed to complete the transaction. This model transaction, developed with attorney Mark Stewart of the Toledo, OH, law offices of Shumaker, Loop & Kendrick, should be transferable to many other situations. It is especially applicable for succession planning in companies with less than 20 employees, as ESOPs are typically too expensive to be cost-effective for those smaller companies. Conceivably, there could be several hundred transactions of sellers selling their companies to employee-owned cooperatives in the U.S. in the next five years.

Marketing

The OEOC has marketed the CWRLF extensively to two markets: (1) companies considering ESOPs and (2) the almost 70 members of Ohio's Network of Employee-Owned Companies. In addition, with the development of the "employee-owned co-op" model, the OEOC will be marketing the CWRLF to a third market: (3) the purchase of companies by employee-owned co-ops. With their smaller size, these employee-owned co-ops should find financing through the CWRLF to be particularly attractive.

The interest rates charged by CWRLF on its loans vary from loan to loan depending upon the circumstances of the loan. Generally, the CWRLF might make loans that would be somewhat riskier than those made by conventional lending institutions. Everything being equal, CWRLF terms should be superior to those of conventional lending institutions. With a willingness to take a second position on loans, it's not uncommon for CWRLF to charge a higher rate than the conventional lending institution taking the first position.

Quite frankly, the CWRLF needs to get larger. At its current size, it is limited to lending a maximum of \$80,000 to a single borrower. For many companies, it simply is not worth the hassle of submitting an application for such a "small" amount when their total financing is for multiple millions of dollars. Its small size limits the market it can serve.

The OEOC intends to increase CWRLF loans from the current under-loaned level of about \$130,000 to \$1.2 to \$2.0 million within a three to five year period. To accomplish this increase in loans, the OEOC plans to attract additional investors in CWRLF to increase Fund assets to \$1.5 to \$2.5 million.

In soliciting funds from investors, CWRLF current policy is to offer terms that are 75% of the existing market rates on bank CDs for individual investors and on government T-bills for institutional investors.