

# Iowa's State Small Business Credit Initiative (SSBCI)

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# SSBCI Overview

- » **Created by the Small Business Jobs Act of 2010**
  - U.S. Treasury provided \$1.5 billion for SSBCI
- » **Purpose is to strengthen new or existing state programs that support lending to small businesses**
- » **Iowa received \$13,168,350 from the U.S. Treasury to fulfill program objectives**
- » **Five year program duration, set to expire in September 2017**
  - August 2013 performance benchmark deadline

# SSBCI Overview

- » Required to demonstrate that each \$1 of investment with SSBCI funds will result in at least \$1 of new private credit
- » SSBCI funds will generate \$10 in new small business lending for every \$1 of SSBCI support over the life of the program
- » **Must use SSBCI funding to extend credit support that:**
  - Targets an average borrower size of 500 employees or less
  - Does not extend to borrowers with more than 750 employees
  - Targets loans with an average principal amount of \$5 million or less
  - Does not extend loans that exceed a principal amount of \$20 million

# SSBCI Strategy Committee

## » Partners Represented

- Iowa Bankers Association
- Community Bankers Association
- Iowa Division of Banking
- Iowa Business Growth Corporation
- Iowa Micro Loan
- Iowa Innovation Council
- IDED Board Chair
- IEDA Director and Staff

## » Committee created programs and allocated funds

# Iowa's SSBCI Programs

» **Iowa Small Business Loan Support Program = \$3,168,350**

Administrator/Program Manager: Iowa Foundation for Microenterprise and Community Vitality (Iowa MicroLoan)

» **Iowa Innovation Acceleration Program = \$5,000,000**

Administrator/Program Manager: Iowa Economic Development Authority

- Iowa Launch
- Iowa Propel
- Iowa Business Expansion

» **Iowa Capital Access Program = \$5,000,000**

Administrator/Program Manager: Iowa Business Growth Company



# Iowa Small Business Loan Support Program

## » Direct micro-lending < \$50,000

- Borrowers work directly with IFMVCV
- Interest rate = 7.5%
- Maximum 5 year term
- Eligible uses: working capital, equipment, inventory, renovation
- Technical assistance provided
- Follow SBA & IFMVCV underwriting criteria

## » Participation loans < \$100,000

- Private Lender participation required, min. 1/3 from another source
- Other criteria the same as micro-loans

# Iowa Innovation Acceleration Program

## Iowa Launch (pre-seed)

- » Leverage research discoveries that will lead to intellectual property development
- » Eligible uses
  - IP Development
  - IP Evaluation
  - Analysis of Market Potential
  - Competitive Analysis
  - Proof of Concept
  - Prototype Design and Development
- » Awards
  - \$100,000 maximum, low-interest loan or royalty agreement
  - Must leverage 1:1 in private investment

*Application Review and  
Ongoing Mentoring/Technical  
Assistance Provided by  
VentureNet*

# Iowa Innovation Acceleration Program

## Iowa Propel (seed)

» Aimed at accelerating the growth of an innovation, increase research and capital investment funding, and create successful partnerships

### » Eligible Uses

- Advanced IP Development
- Advanced IP Evaluation
- In-Depth Analysis of Market Potential
- Competitive Analysis
- Advanced Proof of Concept
- Advanced Prototype Design and Development

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### » Awards

- \$500,000 maximum, low-interest loan or royalty agreement
- Must leverage 1:1 in private investment



# Iowa Innovation Acceleration Program

## Iowa Business Expansion

- » Encourage expansion of product lines through product refinement, market planning and market entry activities
- » Eligible uses
  - Equipment
  - Construction/expansion
  - Hiring key personnel
  - Procuring key services
- » Awards
  - \$2,000,000 maximum, low-interest loan or royalty agreement
  - Must leverage 1:1 in private investment

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# Iowa Capital Access Program (ICAP)

- » Provides credit enhancement for banks to make loans they wouldn't otherwise make
- » Establishes loan loss reserve pool to support enrolled loans

» Example: \$100,000 loan using 4% fee

\$2,000 non-refundable fee from borrower

\$2,000 bank match (bank may ask borrower to pay)

+ \$4,000 match with SSBCI funding

= \$8,000 placed on reserve to support enrolled loan(s)

- » Higher cost of money, but borrower gets money they would not have gotten without enrolling the loan in ICAP

# Iowa Capital Access Program: Modeled after Success

- » **North Carolina operated a capital access program from 1994 to 2008**
  - During that period \$3.6 million in NC-CAP funds generated \$103 million in business loans.
  - Total of 1,850 loans allowed businesses to create or retain more than 27,000 jobs.
- » **California has administered a capital access program since 1994**
  - Since 1994 CA has enrolled 8,801 loans.
  - In 2010 alone CalCAP enrolled 943 loans, which created/affected 2,045 jobs.
- » **Michigan Capital Access Program began 1986**
  - Since inception, \$24 million in funds has generated \$675 million in business loans.
- » **16% or \$250 million of SSBCI funding going into CAPs in 25+ states**

# Iowa Capital Access Program 2012

Get the  
“Green Light” with  
Iowa Business Growth  
Company!





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## Iowa Capital Access Program (ICAP)

- » U.S. Treasury provided \$5 million to create the Iowa Capital Access Program
- » IBGC is administering the program through a partnership with the Iowa Economic Development Authority
- » \$5 million can support approx. 1,500 loans and leverage as much as \$100 million in small business lending
- » ICAP is available in all 99 Iowa counties





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## Concept:

A matched-fee pooled reserve fund that encourages business lending by reducing risk to the lender.



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## Eligible Lenders

- » **Commercial Banks**
- » **Federally-insured Credit Unions**
- » **Community Development Financial Institutions (CDFI's)**



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## **Lenders maintain control**

- » **Voluntary participation**
- » **Standard loan application procedure**
- » **ALL decision-making retained by lender**



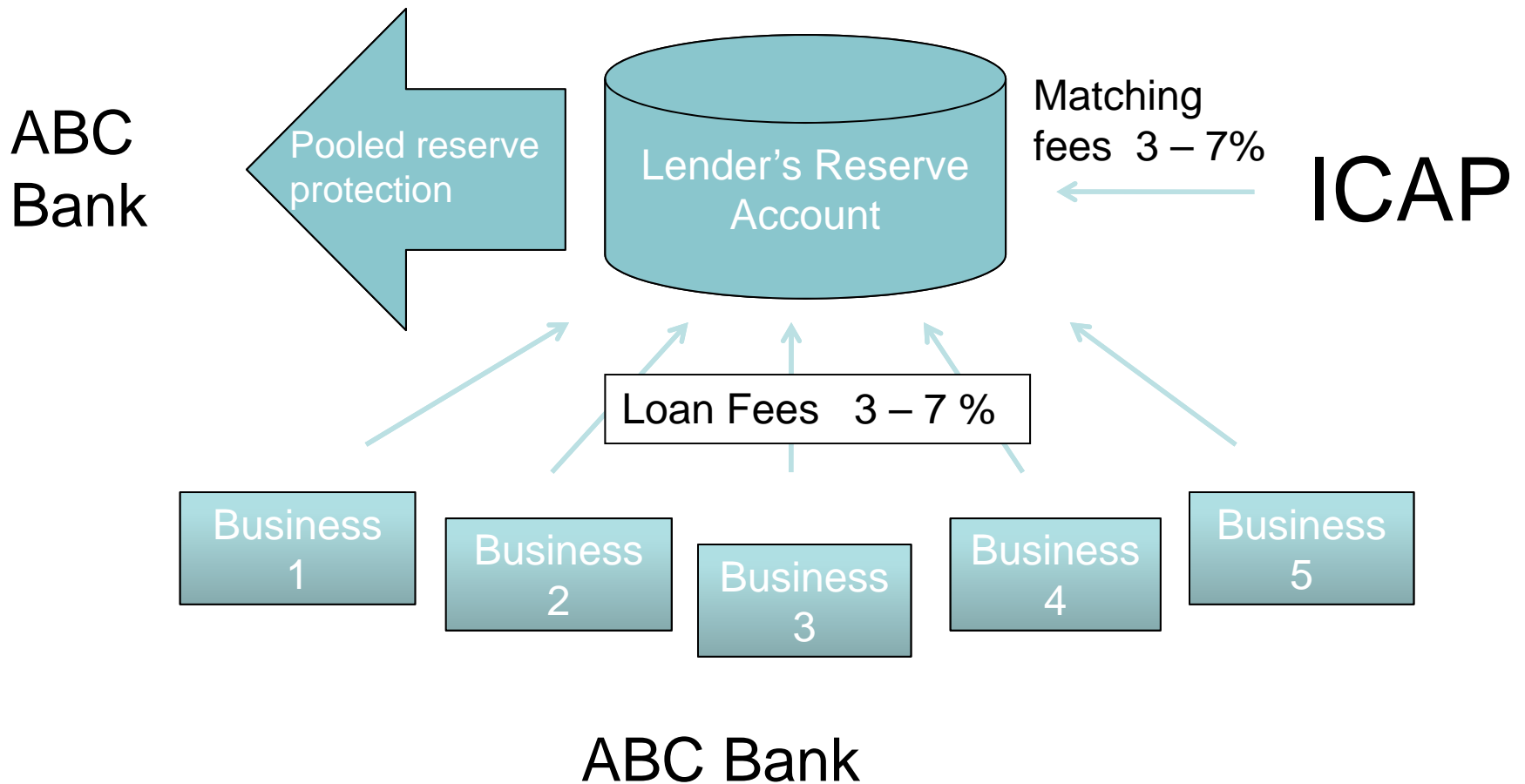
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## Each lender builds a CAP reserve for all of its enrolled CAP loans

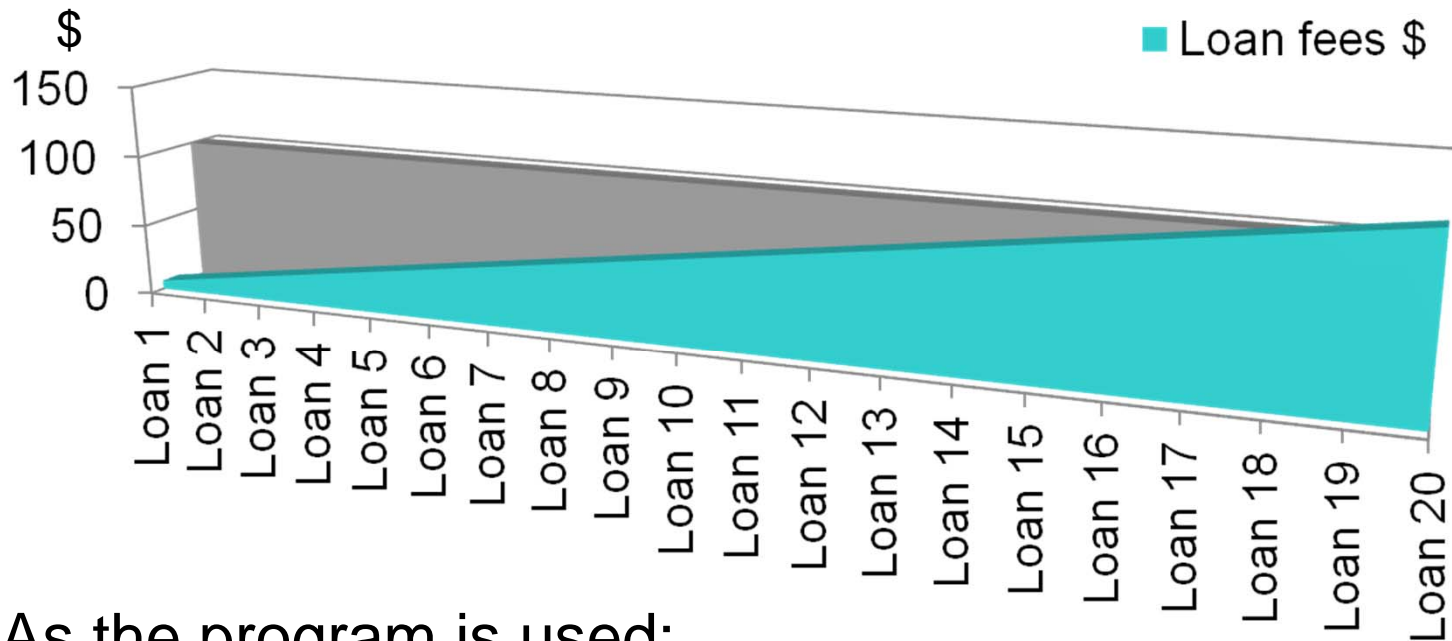
- » Borrower and/or Lender pay fee of 3% to 7% of the enrolled amount
- » ICAP matches up to 7%, dollar-for-dollar
- » Pooled fees reserve builds as program is used and loans are enrolled
- » The reserve covers any losses on enrolled loans by that lender, up to the account's balance
- » Prior losses can be recouped on enrolled loans as additional loans create re-growth in reserve account.

# Building the Reserve Account





# Building the Reserve Account



As the program is used:

- The reserve grows to exceed the average loan size
- Providing up to 100% protection to the lender over time

## Example:

- Lender makes 10 loans for \$100,000 each
- Lender sets all terms and charges a 5% reserve fee (\$5k each) for total of \$50,000
- ICAP matches reserve with \$50,000
- Lender now has \$100,000 in reserve account to use on any or all of the enrolled loans that experience a loss.



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## Typical Loan Profile

- Higher loan to value (LTV) loan
- Credit scores slightly below standards
- Insufficient collateral
- Insufficient cash flow coverage
- Businesses entering new markets
- Start-up or early stage businesses



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## Eligible Businesses

- » **Small businesses up to 500 employees**
- » **Non-profits are eligible**
- » **Loans up to \$500,000**
  - Owner-occupied real estate/construction
  - Equipment
  - Working Capital
- » **Business must be located in Iowa**



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## Eligible Loan Types

- » **Term loans up to 10 years**
- » **Lines of credit up to 7 years**



## Prohibited Loans

- » **Refinancing existing debt at same lending institution**
- » **Passive or investment real estate**
- » **Loans to reimburse business owner for capital injection**
- » **Repayment of state or federal withholding taxes, which should have been held in escrow**
- » **Loans for commodity trading or speculative purposes**



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## Prohibited Loans (Cont.)

- » Loans to firms involved in lending activities such as banks, finance companies, leasing companies, insurance companies (excluding agents/agencies) or other companies whose stock in trade is money
- » Pyramid sales plans
- » Firms engaged in activities prohibited by law



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## Standard Bank Underwriting

- » **Good Character**
- » **Good Credit**
- » **Solid Business Plan**
- » **Investment by Owner**
- » **Collateral (When available)**
- » **Personal Guarantees**
- » **Ability to Repay**



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## Why Lenders Like CAP

- » **Reduced Loan Risk**
- » **Control Maintained—loan terms, underwriting decisions, pricing, etc.**
- » **Simple loan enrollment procedure**
- » **Lenders retain FULL decision-making for ongoing loan management and servicing**
- » **Loans to non-profits ARE ELIGIBLE**
- » **Partial loan enrollment is allowed, providing full protection when collateral is deemed short while collecting lower fees**
- » **Allows lender to say, “Yes” to otherwise difficult loan**



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## Getting Started

- 1. Lender Signs Lender Participation Agreement**
- 2. IBGC sets up an account with lender**
- 3. Lender enrolls a loan and submits forms to IBGC for processing**
- 4. IBGC makes deposit held with lender**

# SSBCI Resources & Contacts

<http://www.iowaeconomicdevelopment.com/business/ssbci.aspx>

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