

# IEDC – Small Business Financing

SMALL BUSINESS FINANCING TOOLS - ESTABLISHING  
A REVOLVING LOAN FUND

October 7, 2013

The logo consists of three colored squares: a blue square on the left, an orange square in the top right, and a green square in the bottom right.

Franzini Consulting, LLC

# Three Alternatives

- 1. Establish Your Own Revolving Loan Fund
- 2. Partner with a Bank(s) to create a Capital Access Program
- 3. Invest in a Micro Lender servicing your region

# 1. Create Loan Program

- Before creating your own new program, need to ask 3 questions:
  - Do we have the staff capacity to manage a loan program?
  - Do we have the technical infrastructure to handle loan disbursements and loan payments?
  - Does the loan product meet the needs of the business community?

# Do we have the staff capacity?

- There are several staff skill sets needed to manage a loan program:
  - Business Development Officer
  - Credit Officer
  - Loan Closing Officer
  - Post-closing monitoring
  - Loan “work out” professionals

# Technical Infrastructure

- ▣ Do you have the technology infrastructure to:
  - ▣ Perform financial analysis
  - ▣ Establish billing/payment of accounts
  - ▣ Monitor accounts
  - ▣ Consolidate loan financials into accounting software
  - ▣ Report to Board of Directors and Auditors on Loan Portfolio Performance

# Is this the right loan program?

- ▣ Will there be a demand for your program?
  - ▣ Have you spoken with/surveyed potential customers?
  - ▣ Does the product meet their needs?
  - ▣ Does the pricing of the loan product cover your costs? Make money?
  - ▣ Does the pricing and term meet the customer's needs?

# Example of Recovery Loan Programs

- ▣ Stronger NJ Programs:

- ▣ Stronger NJ Business Grant
- ▣ Stronger NJ Business Loan
- ▣ Stronger NJ Neighborhood and Community Revitalization Program

- ▣ More info available at: [www.njeda.com](http://www.njeda.com)

# Stronger NJ Business Grant

- Grants of up to \$50,000
- Small businesses which sustained minimum of \$5,000 of physical damage as a result of Superstorm Sandy;
- Less than \$1 million in liquid assets;
- Funding can be used for working capital; inventory; equipment; machinery; furnishings and prospective construction



# Stronger NJ Business Loan

- Loans of up to \$5 million
  - Terms: 0% interest for first 24 months; rate set at 5 yr Treasury; fixed and reset every 10 years up to 30 year term;
  - For small businesses impacted by Superstorm Sandy;
  - Funds can be used for renovation; construction; equipment and working capital;
  - Several HUD requirements including environmental review

# Stronger NJ Neighborhood and Community Revitalization Program

- Loans and Grants up to \$10 million
- Three Programs:
  - 1. Development and Public Improvement Projects
    - Park/Recreational/Cultural
    - Environmental Cleanup for Catalytic Projects
    - Demolition; Clearance and Predevelopment Work

# Stronger NJ Neighborhood and Community Revitalization Programs

- Cont..

- 2. **Main Street** Capital Improvements

- 3. Funding for **Community Development** Financial Institutions

- Loans up to \$500,000 per Fund to lend to small businesses in Sandy impacted areas

## 2. Capital Access Program

- Benefits of Capital Access Program
  - Bank manages the loan program
  - Limited risk to Economic Development Agency
  - Economic Development Agency monitors program activity
  - Small businesses have increased access to funding and building bank relationships

# Capital Access Program

## ■ Example – State of Oregon

- All types of loans and lines of credit available to small businesses;
- Lenders build a loan-loss reserve each time they enroll a new loan into the program;
- Applicants pay an enrollment fee of 3%-7% as determined by the bank;
- Oregon Economic Development Agency matches enrollment fee up to \$35,000 per borrower;
- Bank determines loan interest rate and term.

# Invest in Micro Lender

- Benefits of investing with micro lenders:
  - They know the small business market place
  - Have experience in making/managing small (\$5,000-\$50,000) business loans
  - Have the staff/infrastructure to manage loans
  - You can create the program criteria for the utilization of your funds
  - You can “lend” the money to the micro lender at below market rate to achieve small return

# Invest in Micro Lender

- How to select a Micro Lender?
  - If multiple micro lenders in your region – issue Request for Proposal
    - Ask for credit underwriting guidelines
    - Loan/loss activity over past 3 years
    - Experience of staff managing their funds
  - If only one Micro Lender – seek same information as above

# Micro Lender Example

- NJ Loans to Lenders Program
  - Makes loans up to \$750,000 to community lending organizations
  - Interest rate is 2%
  - Term is up to 15 years



# Combination of Structures

- Create new loan program; perform underwriting of loan and “outsource” back office payment and collection functions;
- OR
- Create new loan program; market program and have regional community lender/credit union manage the underwriting and back office operations.

# Is your program working???

- After one year of operating loan program:
  - Survey customers for their experience with the program from first meeting with your organization to closing and monitoring of the loan.
  - Review number of loans and quality of loans made.
  - Analyze staff time spent and “cost” of administering program against program revenues.
  - Is the program meeting the program goals?

# Best Practices

- Find an organization similar in size/make-up to your own
- Reach out...ask them what is working right and what needs improvement
- Although we compete....economic development organizations are very supportive

# Questions??

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