

IEDC – Small Business Financing

SMALL BUSINESS FINANCING TOOLS - ESTABLISHING
A REVOLVING LOAN FUND

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The logo for Franzini Consulting, LLC consists of three colored squares stacked vertically: blue on top, orange in the middle, and green at the bottom.

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

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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