

2018 IOWA TARGETED SMALL BUSINESS LOAN PROGRAM REPORT



INTRODUCTION AND PROGRAM HISTORY

Created in 1988, Iowa's Targeted Small Business Financial Assistance Program was designed to provide financial assistance to businesses owned and operated by women, minorities or persons with a disability (Targeted Small Businesses or TSBs). The Iowa Economic Development Authority (IEDA) administered this program through 2013.

In 2013, the Iowa Legislature adopted HF 324, repealing the statutory authority for administration by IEDA of the Targeted Small Business Financial Assistance program and authorizing IEDA to transfer remaining program funds into an account to be used to engage a "qualified microloan provider to provide financial and technical assistance to targeted small businesses in Iowa." IEDA continues to manage the program through a third-party provider with the requisite expertise to underwrite and make loans to small businesses meeting the TSB program qualifications.

The Iowa Legislature enacted SF 2359 in 2014, requiring IEDA to provide a report to the legislature and governor's office regarding the results of the selected microloan service provider upon the completion of the provider's initial performance period.

IEDA contracted with the Iowa Center for Economic Success from August 2014 through August 2018 to administer a targeted small business loan fund. This report provides a summary of the loan program's activity and results over the initial four-year contract period, as well as recommendations for future program funding.

PROGRAM DESCRIPTION

Iowa's Targeted Small Business (TSB) program is designed to help women, individuals with minority status, service-connected disabled veterans and individuals with disabilities overcome some of the hurdles to start or grow a small business in Iowa.

Businesses certified as TSBs can:

- Receive access to a bid notification website to view state procurement opportunities 48 hours in advance of posting to the state's public site.
- Access non-competitive bid opportunities for purchases under \$10,000.
- Receive bond waivers up to \$50,000 for state projects, if unable to secure a bond because of the lack of experience, net worth or capital.
- Be included in a TSB directory, used by private and public entities across Iowa.
- Obtain invitations to TSB networking and TSB-exclusive events to meet with other business owners, public purchasing managers and private buyers.

To be eligible for TSB certification, businesses must be:

- Located in the state of Iowa;
- Operating for a profit;
- Make less than \$4 million in gross income, computed as an average over the preceding three fiscal years; and
- Majority owned (51 percent or more), operated and managed by a female, individual with minority status, service disabled veteran or individual with a disability.

Businesses interested in applying for TSB certification must apply online through IEDA's certification website (iowaeconomicdevelopment.com/tsb). Businesses meeting the criteria for TSB certification are eligible to apply for loan funds through the Iowa Center for Economic Success.

IOWA CENTER FOR ECONOMIC SUCCESS OVERVIEW

Founded over 30 years ago, the Iowa Center for Economic Success works to empower Iowans with the potential to succeed as they pursue opportunities for financial success. The Iowa Center offers the following resources and programs to clients:

- Women's Business Center;
- Volunteer Income Tax Assistance (VITA);
- Small business coaching and counseling;
- Small business advocacy and networking opportunities;
- FIN Capital – a female angel investing network;
- Microenterprise lending.

TSB APPLICATION LOAN REVIEW PROCESS

The Iowa Center has two full-time employees dedicated to administering the TSB loan program: Credit and Lending Manager and Lending Coordinator. These two staff members provide all direct services relating to the program, including processing applications, coaching clients, managing underwriting, coordinating the loan review committee, and referring clients to additional services when necessary. This team also markets the program, speaking to groups and partners about the TSB loan program.

The Iowa Center has established policies and procedures for accepting and reviewing TSB loan applications. Baseline criteria must be fulfilled before the Iowa Center will consider funding a loan

Criteria includes:

- Business must be based in Iowa;
- Business owner must have lived in Iowa for at least six months;
- Must have financial ability to repay (debt service coverage ratio must be at least 1.25:1);
- Must have collateral equal to the amount of the loan requested;
- Must have good credit with other creditors, such as landlords and suppliers;
- Must demonstrate commitment to improving credit; and
- Must demonstrate character and commitment to improving the business.

Applicants can apply online through the Iowa Center's website. The Iowa Center provides a list of all supporting documents that must be submitted with the application, including tax information, proof of income, bank statements, collateral information, profit and loss statements, balance sheet, cash flow statements or financial projections, and, for new businesses, a business plan.

Iowa Center staff ensure applications are complete prior to review. Iowa Center staff will pull the applicant's credit report and schedule a phone call with the applicant to discuss the parameters of the TSB program and confirm information submitted in the application. Complete applications meeting baseline criteria are then submitted to underwriting.

The Iowa Center contracts with LiftFund, based in Texas, to underwrite all loan applications. LiftFund is a community development financial institution (CDFI) and Small Business Administration lender. Established in 1974, LiftFund is a 501c3 organization focused on microlending with a presence in 13 states. During the initial contract period with IEDA, the Iowa Center determined that LiftFund had the necessary expertise and would be the most qualified and most cost-effective way to provide comprehensive underwriting. LiftFund has an established infrastructure to conduct underwriting for Iowa's TSB loans.

Once a loan is approved by LiftFund, the loan is presented to the Iowa Center's credit committee for consideration and approval. The credit committee is comprised of the Iowa Center senior staff, including the president/CEO. In most cases, the loan is ultimately approved or denied by this credit committee. However, the Center has also established an external credit committee comprised by five Iowa Center board members. The external credit committee only reviews certain loans, including larger loans, loans deemed to be higher risk and loans with non-unanimous internal approval.

Upon approval by the credit committee or external credit committee, Iowa Center staff prepares loan documents, including collateral documents. The Iowa Center then requests funding from IEDA for the loan. Upon receiving funds from IEDA, the Iowa Center schedules the loan closing with the client.

The Iowa Center's work with clients continues after a loan is approved and disbursed. Iowa Center staff work with clients to provide technical assistance as needed, report payment history to credit bureaus to build credit, and follow up with clients on delinquencies and late payments. In addition to assisting small businesses with growing or starting an enterprise, by making timely payments, the business can improve its credit rating.

The Iowa Center also provides assistance to businesses that do not qualify for a TSB loan to improve the businesses' condition and qualify for a loan in the future. Clients may participate in the Center's business coaching, financial and credit coaching, and accounting support services. These related, wrap around services help create a strong pipeline for future TSB loans, while improving the condition of small Iowa businesses.

CURRENT PROGRAM STATUS

The charts included in this report summarize the activity of the TSB loan program from August 2014 through June 30, 2017. This report also highlights several businesses and entrepreneurs that received assistance through the program.

In May 2018, IEDA issued a request for proposals (RFP) for administration of the TSB loan program. In August 2018, IEDA and the Iowa Center for Economic Success entered into a new three-year agreement for management of the program.

RELATED INITIATIVES

Legislative changes made in 2014 (SF 2359) allowed IEDA to establish a statewide initiative to increase the number of female entrepreneurs in the state in at least ten communities. IEDA has not created such a program to date, but instead has been working on several other initiatives aimed at expanding entrepreneurship and TSBs across Iowa.

From 2011 to 2015, IEDA partnered with Ascent, a non-profit aimed at inspiring and growing women owned business in Iowa. During this time, Ascent initiated a number of programs to assist women with starting and/or growing a business. Those initiatives included:

- Hosting a startup bootcamp in several locations across the state;
- Partnering with Women Lead Change to include entrepreneurial tracts at their conferences;
- Meetings with over 300 female entrepreneurs who want to grow and scale their businesses; and
- Planning and hosting “Invest in She”, a shark tank-type investment event aimed at pairing women-owned businesses with local investors committed to providing investments, as well as support and mentoring.

In 2016, IEDA partnered with the Iowa Center for Economic Success to create the first women’s angel investing network in Iowa, FIN Capital. IEDA provided startup assistance during a two-year period to develop this unique network. FIN Capital’s goal is to increase the wealth of women in Iowa through private angel investing. Members are female residents of Iowa who meet SEC accredited investors standards. FIN Capital currently has 28 members. FIN Capital works with Angel Capital Association (ACA) affiliated organizations to receive referrals on optimal investment opportunities.

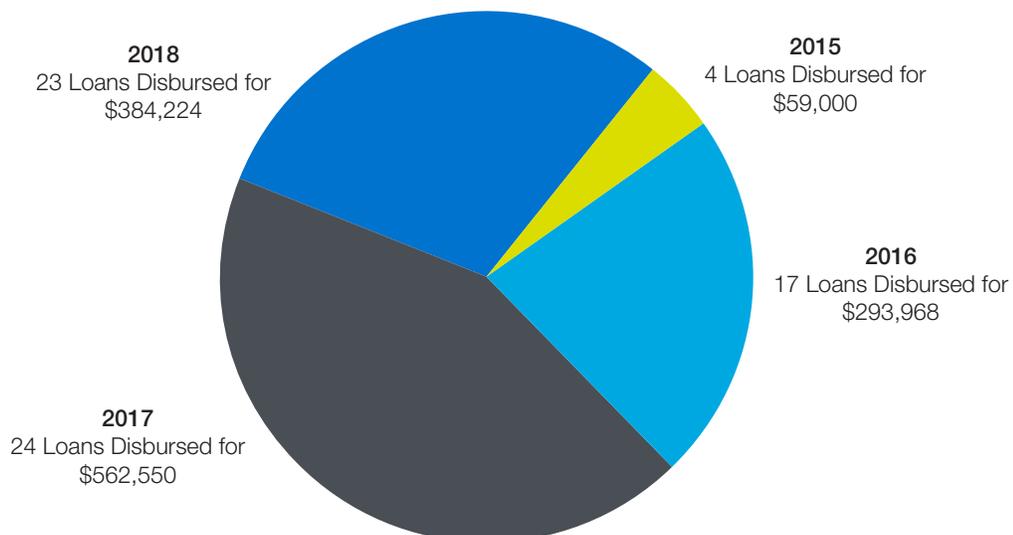
IEDA is currently working on creating a business contest for its Certified Targeted Small Business owners in the spring of 2019. This initiative will offer entrepreneurs and business owners the opportunity to pitch their business ventures to a to-be-determined group of investors and/or small business resource experts to support the growth or expansion of their businesses.

FUNDING RECOMMENDATIONS

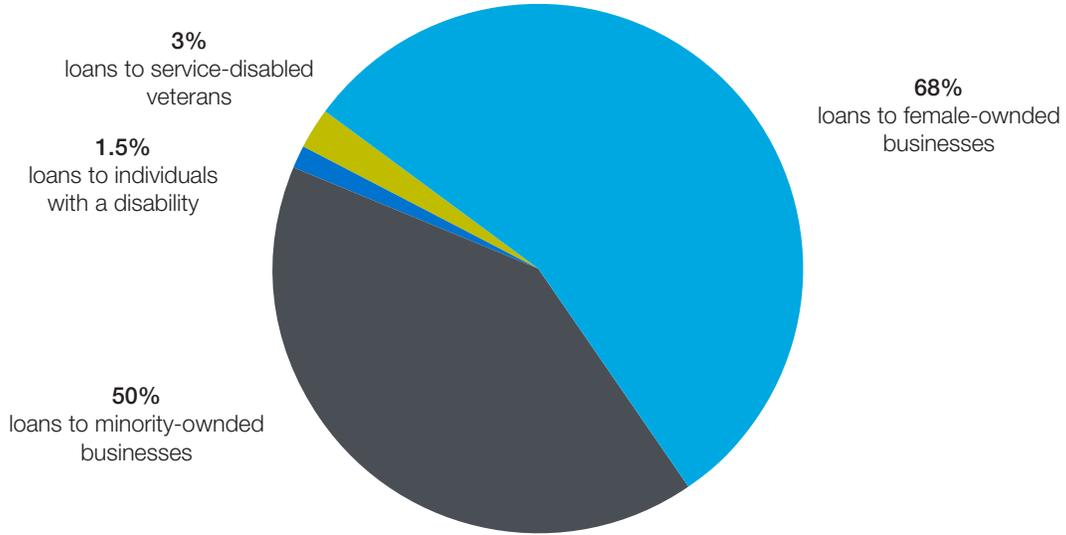
Currently, IEDA has approximately \$1.8 million available over the next two years for the Targeted Small Business Financial Assistance Program. Additional funding will be available through loan repayments, estimated at approximately \$300,000 annually.

At this time, IEDA recommends maintaining the current funding level.

TSB Loans from 2015-June 30, 2018
A total of 68 Loans for \$1,299,742

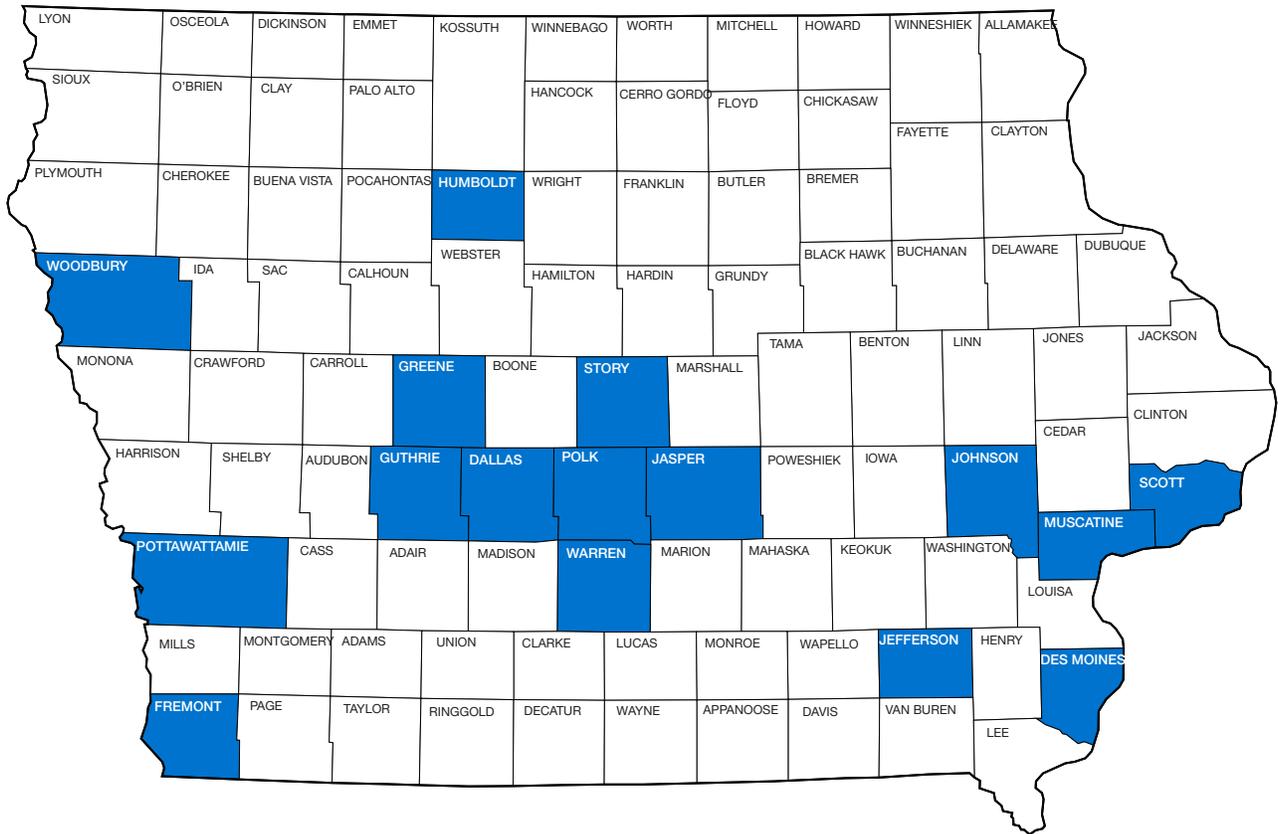


TSB Loan Demographics



Note: Percentages reflect applicants that meet more than one qualifying criteria.

Counties with at Least One TSB Loan



IOWA CENTER SUCCESS STORIES

Gerald Young

Young G's

Gerald Young, a disabled veteran who served in Afghanistan, received a family recipe for a gluten free, low sodium, no high fructose corn syrup barbecue sauce from his father. It is perfect for those with celiac disease, diabetes, high blood pressure or families wanting to live a healthier lifestyle. As expected, his sauce is flying off the shelves in stores such as Hy Vee, Fareway, Whole Foods and several other grocery chains in many states. Recently, Mr. Young traveled to China to research additional ways to grow his business, including meeting with Ambassador Terry Branstad. The success of the business is due to hard work, determination and a little nudge from the Iowa Center for Economic Success. Mr. Young received assistance from the Women's Business Center and was approved for a TSB microloan. The loan he received from the Iowa Center was used for the first round of production for his sauce. He repaid the loan and has ramped up production. Mr. Young has also volunteered as a speaker to potential entrepreneurs. The Iowa Center is very proud of Mr. Young and looks forward to his continued success.



Silica Boutchee

Eventfully Yours

The Women's Business Center at the Iowa Center provided assistance to Sillica to create a business plan through the Dream Builder program, and she obtained tax assistance through the Iowa Center's Volunteer Income Tax Assistance program. Once all her paperwork was in order, the loan department helped her secure funding. Sillica bought a business called Puttin' on the Ritz and renamed it Eventfully Yours. It's a company that specializes in linens and décor, including backdrops, draperies, trees, runners, chairs and tables. She used her small business loan to purchase more inventory and as working capital. At that time, the company was involved in between 30 and 50 events per month. She has now grown to working over 120 events every month and moved into a larger space. The company is now looking to purchase a building of its own.



Christina Mutchler

Scherr Contracting

Christina Scherr went to the Iowa Center approximately three weeks after retiring from her job of over 30 years as a controller. She knew what she wanted to do, but she did not have the first clue how to set up and start a new business. Within a couple of weeks after starting to work with the Women's Business Center, Christina had created a business plan and financials for Scherr Contracting - a business named after her father. A firm believer in family, Christina created this business primarily to hand down to her son and as something for her to do in retirement. Scherr Contracting is an underground utility contractor providing qualified labor for fiber optic cable jetting in Iowa. The company started with two people - Christina working in the office and her son working in the field. Within a year of receiving TSB loan funds, Scherr Contracting has grown to four people in the field and added two vehicles. The company has grown so quickly that Christina occasionally works in the field. Christina calls the Iowa Center from time to time to provide updates and asks questions that are often referred to the Center's volunteer accountant and attorneys. She is always thankful for assistance with her rapidly growing company.

