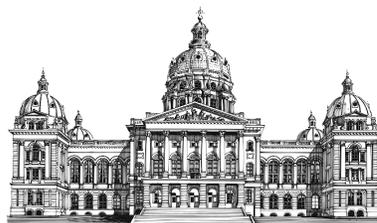

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
December 1, 1998

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Linked Investments for Tomorrow Program

ISSUE

This *Issue Review* provides an overview of the Linked Investments for Tomorrow Program in the State Treasurer's Office.

AFFECTED AGENCIES

Office of the Treasurer of State

CODE AUTHORITY

Sections 12.31 through 12.52, Code of Iowa

BACKGROUND

The Linked Investments for Tomorrow (LIFT) Program began in 1986 as part of a State government initiative to diversify Iowa's agricultural industry. The initial effort was named "Horticulture and Alternative Crops." In subsequent years, other perceived needs were addressed with low interest loans for Targeted Small Business (1988), Main Street Historical Preservation (1991), and Rural Small Business Transfer (1992). A moratorium was placed on the Targeted Small Business Program between April 4, 1996, and June 30, 1997. The Focused Small Business Program was established on July 1, 1997, as a replacement. The Main Street Program which provided below-market financing for restoration and rehabilitation of commercial buildings eligible for the National Register of Historic Places was repealed in 1996 due to lack of use.

Through the Linked Investments for Tomorrow Program, the Treasurer of State is authorized to deposit funds in Iowa depositories at an interest rate of 3.0% below current market rate for a U.S. Treasury Bill of comparable maturity. The depository must make a loan for a like amount to a qualified project. The interest rate for the loan cannot be more than 4.0% above the interest rate of deposit. The initial certificate of deposit for a borrower has a maturity of one year and may be renewed for eight additional one-year periods.

The following steps take place in the process of loaning money through the Program:

- A lending institution wishing to receive a linked investment accepts and reviews applications for loans from eligible borrowers. The institution must apply all usual lending standards to determine the creditworthiness of each borrower.
- The financial institution forwards a linked investment loan package to the State Treasurer. The package includes information required by the Treasurer, including the amount and purpose of the loan. The institution must certify that the applicant is an eligible borrower and state the present borrowing rate applicable to the borrower.
- The Treasurer may accept or reject a linked investment loan package or any portion of the package based on the type or terms of the loan involved.
- Upon acceptance of the package or any portion of the package, the Treasurer places certificates of deposit with the lending institution.
- Upon placement of a linked investment with a lending institution, the institution is required to lend the funds to the eligible borrower listed in the linked investment loan package in accordance with the investment agreement.

The project must fit the requirements of one of the three programs eligible for participation. A description of each of the programs follows.

Horticulture and Alternative Crops

This Program is designed to provide lower cost funds for lending purposes to stimulate existing business and encourage new businesses in the area of producing, processing, or marketing of alternative crops and livestock.

Borrowers may be individuals, corporations, or cooperatives engaged in growing or bringing to market, crops and animals not currently a standard part of Iowa's agricultural market. There are no net worth restrictions on borrowers and no fees.

The maximum loan amount is two-tiered. Production loans up to \$200,000 or processing/marketing loans up to \$500,000 may be combined for a maximum of \$500,000 per borrower and business.

Focused Small Business

The purpose of this Program is to provide below market financing to women and minority- owned small businesses. The small business must meet the following criteria:

- Located in Iowa and operated for profit.
- Owned 51.0% or more by one or more women, minorities, or persons with disabilities.
- Actively managed by one or more women, minorities, or persons with disabilities.
- Have annual sales of \$2.0 million or less.
- All owners of the business or borrowers must not have a combined net worth of more than \$500,000, excluding primary residence.
- Not have received a LIFT loan prior to July 1, 1997.

Real estate as a business does not qualify under this Program and any business whose sales of liquor, beer, and wine must not exceed 20.0% of annual sales. In addition, the business may

not be operated out of a person's home unless the person is eligible for a deduction under Internal Revenue Service rules for home office and the loan proceeds can not be used to refinance existing debt, including credit card debt. Proceeds of loans under this Program may be used for any and all

business expenditures, with a limit of \$100,000 per borrower or business. The borrower or business is limited to one loan from one financial institution.

Rural Small Business Transfer

This Program is designed to maintain and expand existing employment opportunities for rural communities facing a business closure.

The rural small business may not be a new business and must be located in a city with a population of 5,000 or less and the city must be located in a county with a population of less than 300,000. In addition, the rural small business must meet the following criteria:

- Be located in Iowa and operated for profit.
- Have annual sales of \$2.0 million or less.
- All owners of the business or borrowers must not have a combined net worth of more than \$500,000, excluding primary residence.
- Not have received a LIFT loan prior to July 1, 1997.

Real estate as a business does not qualify under this Program and any business whose sales of liquor, beer, and wine must not exceed 20.0% of annual sales. The business may not be operated out of a person's home unless the person is eligible for a deduction under Internal Revenue Service rules for home office. The transfer of the rural small business must be by purchase, lease-purchase, or contract of sale. The purchase must be for a portion of the business which is essential to its continued viability.

The maximum loan amount per borrower or business is \$50,000.

CURRENT SITUATION

Program Statistics

The following table provides information on current outstanding loans as of October 1, 1998:

LINKED INVESTMENT FOR TOMORROW LOANS

<u>Program</u>	<u>Total Loaned</u>	<u>Number of Loans</u>	<u>Number of Borrowers</u>
Focused Small Business	\$ 10,058,330	217	253
Horticulture and Alternative Crops	16,986,918	407	406
Rural Small Business Transfer*	1,936,481	55	75
Targeted Small Business	36,066,578	650	749
Main Street*	25,183	2	3
Total	\$ 65,073,490	1,331	1,486

* Renewal of investments made prior to April 4, 1996.

Limit on Amount Loaned

In 1997, the General Assembly passed HF 613 (Linked Deposit Investment Programs Act) which states that the Treasurer of State may invest up to the lesser of \$68.0 million or 10.0% of the balance of the State pooled money fund in certificates of deposit in eligible lending institutions. Due to this cap, the Treasurer's Office suspended new LIFT loans in July 1998 and the suspension

remained in effect until the amount of repayments of outstanding loans created a large enough margin that additional loans can be made. The suspension of loans lasted until November 1998.

The following calculation shows the amount eligible to be loaned, the total amount outstanding in loans through the Program, approved but not closed loans, and the remaining amount eligible to be loaned as of November 1, 1998.

Amount eligible to be loaned	\$ 68,000,000
Total amount of loans outstanding	- 65,073,490
Approved, but not closed loans	- 774,000
Remaining amount eligible to be loaned	\$ 2,152,510

BUDGET IMPACT

The total estimated amount of forgone interest due to the Linked Investments for Tomorrow Program from June 1986 to September 1998 is \$12,457,245.

STAFF CONTACT: Paige Piper/Bach (Ext.17942)