



Iowa Microfinance Demonstration Initiative: Report to the Northwest Area Foundation

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Iowa MicroLoan Milestone Results:

1. Organized legal nonprofit March 3, 2008 with Board of 17 leaders including diverse lending and entrepreneurial development interests from across state.
2. IRS approved tax exempt status July 2008.
3. SBA approved microloan intermediary status Aug 2008.
4. Hired Loan Administrator, Aug 2008
5. Closed SBA Microloan Fund October 2008.
6. Microloan Application website went live for statewide access December 2008.
7. First Microloan Closed Feb 26, 2009.
8. Started Iowa Small Business Loan Program Aug 1, 2010.
9. USDA RMAP Program Application Approved Sept 2010.
10. Main Street Development Program Approved Sept 2010.
11. 61 Iowa Microloans and ISB loans approved by December 31, 2010.
12. 133 direct jobs created or retained; 232 direct, indirect, and induced jobs created or retained during recession.
13. Approximately \$2.5 million of new investment leveraged during recession.

Iowa MicroLoan Demonstration Performance Measures & Outcomes:

Counties with Approved Loans (Iowa has 99 counties)	19
Average Loan Size disbursed	\$22,434.15
Annual Average Loan Loss	\$34,829.05/year
Approved Microloans by Rural/Urban Distribution	72% rural/28% metro
Approved Microloans by Gender	41% female/59% male
Approved Microloans by Minority Status	6 % minority loans
Approved Microloans to Persons with Disability	6 % with disability
Approved Microloans by Poverty Status:	
	56% qualify HUD low income
	38% below HHS 150% poverty
	19% below HHS 100% poverty

IMAP and Microfinance

The Iowa Microenterprise Assistance Project (IMAP) has successfully organized a statewide microlending intermediary as a startup entity. IMAP allocated \$575,000 of the initial \$1 million investment in Iowa's Microenterprise Development System to organize the Iowa Foundation for Microenterprise and Community Vitality (IFMCV). The brand name of IFMCV is Iowa Microloan. Of the total, \$75,000 was granted to the Community Vitality Center (CVC) at Iowa State University to provide technical assistance, training, and evaluation services. IFMCV received \$500,000 for a 3-year startup demonstration project. In addition, the Community Foundation of Greater Des Moines (CFGDM), CVC, and Iowa MicroLoan implemented an IMAP Grant program for CFGDM affiliate foundations to build local microenterprise networks and capacity for philanthropy to help sustain local philanthropy and microenterprise initiatives.

Two Iowa MicroLoan Success Stories:

The Computer Guy. Patrick Palmer started his computer repair company in his basement in 1995. After being denied a loan from a conventional lender in 2009, Iowa MicroLoan helped him expand his business and open a retail store location in Hampton, Iowa. In addition to providing computer supplies and repairs at his retail store, he also provides in-home technical service and repair, as well as computer pick-up and delivery. His service area

Iowa MicroLoan Match Funding Leverage:

Loan Capital:

\$1,500,000 SBA Microloan Capital approved by SBA
 \$ 400,000 USDA RMAP loan Capital approved by USDA
\$ 500,000 National Trust Loan Fund (CDFI) for Main Street Development Loans
\$2,400,000 Subtotal Currently Approved MicroLoan Capacity

Operations and Technical Assistance:

\$211,000	CVC/ISU Extension/USDA NIFA grants for operations and match
\$ 75,000	Community Housing Initiatives, NeighborWorks America
\$200,000	Preservation Iowa grant from Iowa Department of Economic Development
\$ 50,000	Ag Ventures Alliance
\$ 8,000	Boone County Community Endowment Fund
\$ 5,000	Greene County Community Foundation
\$ 10,000	Northeast Iowa Food and Farm Coalition, Upper Explorerland Regional Planning Council and Northeast Iowa Business Network
\$ 5,000	Iowa Asian Alliance
\$198,000	SBA Grants for MicroLoan Technical Assistance
\$100,000	USDA Grant for RMAP Technical Assistance
\$100,000	Iowa Department of Economic Development ISB Contract for Service
\$962,000	Subtotal Direct Cash Match

External In-Kind Contributed Time and Leveraged Resources:

\$ 38,400	Board Members
\$ 3,840	Executive Committee Members
\$112,320	Loan Committee Members
\$360,000	CVC Startup Technical Assistance
\$ 50,000	CVC Entrepreneurial Affiliation Projects
<u>\$ 75,000</u>	<u>CVC Training & MicroTest Technical Assistance from NWAFF-CFGDM</u>
\$639,560	Subtotal In-Kind Contributions

Combined Total Operations, Technical Assistance, and In-kind Contributions

\$962,000	Direct Cash Match Operations and Technical Assistance
<u>\$639,560</u>	<u>Match from In-Kind Resources & Time Contributed</u>
\$1,601,560	Total Match Cash and In-Kind
<u>\$ 575,000</u>	<u>Grant Subcontracts to CVC and IFMCV from NWAFF & CFGDM</u>
\$2,176,560	Operations, Technical Assistance & In-kind Total 3-Year Demonstration

26.4% NWAFF-CFGDM Grant CVC & IFMCV / Total CVC & IFMCV Funds

\$2.79 Match for Operations & Technical Assistance Leveraged for each \$1 NWAFF-CFGDM Grant Funds

includes all communities within 45 miles of Hampton, including Mason City. In addition to now employing a full-time service technician, Pat Palmer also employs one part-time person to help serve customers when he is out doing service calls. Since opening his retail location, sales at The Computer Guy have more than doubled as compared to 2008

River's Edge Salon. Amanda Boehmer and Brandi Lantz are two young women who decided to open a hair salon in Charles City. After being denied credit from a local lender, Iowa Microloan provided a loan to start their business in the summer of 2009. Both had either worked in other salons or had clients who would come to their home to get their hair styled. Since opening River's Edge Salon in this town of 7,300 people, they have continued to grow and expand their business. They are now a full-service salon providing haircuts for women, men and children, as well as coloring, highlights and perms primarily for their female clientele. In addition to providing full-time income for both Amanda and Brandi, their salon now also employs another full-time stylist, as well as a part-time receptionist. They also rent space in their shop to a massage therapist who now works full-time at River's Edge as she builds her business as well.

Toward Sustainability of Iowa's Microfinance System

Planning for sustainability has been a consideration from the initial development of the business plan for Iowa MicroLoan. The original business plan indicated that a maximum level of sustainability is reached in 8 to 10 years from startup. Based on expected portfolio growth rates, the portfolio size that

generates a maximum level of funding for support of operations, staff, and technical assistance occurs in 8 to 10 years. While the initial projections showed 100% sustainability to be attainable, nationally few—if any—microlenders have reached sustainability without some ongoing grant support. As a result a three phase plan was developed. Phase I was to secure funding for an initial three year demonstration project. If the demonstration were to prove successful outcomes, Phase II was to generate a campaign for transitioning to a sustainable organization over the subsequent five year period until the predicted sustainability could be maximized. (See Best Practices)

Four additional best practices are worth mentioning because of the potential opportunities to share staff with similar functions and expertise across multiple programs that serve different segments of the microfinance market.

1) Reinvigorating a Dormant CDFI.

An opportunity to reinvigorate a dormant Community Development Financial Institution (CDFI) provided an opportunity to diversity into equity tools for a new target clientele in the area of Healthy Food Financing Projects as well as provide another source of funding which sometimes does not require an institutional match. A \$600,000 proposal for creating a \$450,000 Regional Flavors Equity/Mezzanine Fund to support a 10-County pilot local foods expansion and local food cooperative development project in Southeast Iowa was submitted to the U.S. Treasury CDFI Fund last November. Since the programs are complementary, the concept of having two independently managed sister organizations that

Best Practices for sustainability have included the following strategies:

- a. Large statewide nonpartisan board of distinguished leaders to provide legitimacy and potential clout in the political, business, and lending arena.
- b. Experienced CEO who is respected by broad array of lending and entrepreneurial interests
- c. Experienced university technical assistance provider aggressively assisted in pursuit of strategic collaborations, political support, and additional federal, private, and state funds to build networks, diversify the funding base, and reduce institutional risks in case of funding reductions.
- d. Agreed to interest rate pricing above bank rates and to make credit denial by conventional lenders a requirement for Iowa Microloan eligibility to secure support and referrals from conventional lender networks.
- e. Developed near banking model for microloan decisions so as to limit initial loan losses in contrast to Grameen Model.
- f. Rural microenterprise interests joined metro microenterprise interests to create one statewide coalition, in contrast to competing interests.
- g. As lending and technical assistance capacity emerged, rapidly developed expertise to provide multiple programs serving different microfinance segments to fully utilize staff across maximum market segments.
- h. Affiliation with local networks provided local access to business coaches, matching funds, and workshops for generating deal flow.
- i. Affiliation with diverse affinity networks provided opportunity to manage portfolio risk and to sponsor workshops for generating deal flow.
- j. Participation in National Conferences provided opportunity to learn from others and share experiences regarding best practices.
- k. Participation in Aspen Institute MicroTest protocol provided access to national data base for comparison of Iowa Microloan performance parameters with other microenterprise lenders and trainers nationally.

could employ overlapping lending and technical assistance staff emerged from observing similar models in other states and in other industries.

2) Collaboration Innovation in A Main Street Development National Pilot Project.

Iowa Microloan collaborated with Main Street Iowa, the National

Trust For Historic Preservation, Preservation Iowa, six Main Street Communities, and local lenders to create a national Pilot Main Street Development (MSD) Loan Program. Iowa has 45 Main Street Communities that focus on rehabilitating historic main street buildings. However until the pilot project was developed, no

specialized tools were available for assisting entrepreneurial businesses to move into and occupy rehabilitated buildings. If the pilot is successful, it will be expanded to other Main Street Communities in Iowa. Other states have expressed interest in the program. Because of the trust, legitimacy, and confidence created by the Main Street Development collaboration, the Iowa General Assembly turned to Iowa MicroLoan to provide underwriting services for a fee while assisting the Iowa Department of Economic Development and 15 Iowa Small Business Development Centers (SBDCs) during implementation of a temporary \$5 million Iowa Small Business (ISB) Loan Program to stimulate job creation and retention during the recent recession and slow recovery. Powerful partnerships build capacity and can create opportunities for additional partnerships. This initiative has given rise to an invitation to participate with the Iowa Department of Economic

Development in an application to a U.S. Treasury state Capital Access Program during 2011.

3) Entrepreneurial Training for Affiliated Networks.

IFMCV efforts to facilitate deal flow have included approving policies to provide co-sponsorship support for local business plan competitions and entrepreneurial training workshops for affiliates. CVC and IFMCV cosponsored a recent facilitator certification training using Fast Trac™ entrepreneurial curriculum supported by the Kauffman Foundation. Thirty Main Street Directors, Extension Specialists, and Horizon Community Coordinators were certified. The new training capacity represents more than double the current training capacity. Grant proposals are being developed to support the workshops planned by the new network. The approach used is designed not to duplication SBDC capacity, but to augment and extend Iowa's current entrepreneurial training capacity to networks and counties that

may be underserved in order to enhance Iowa MicroLoan deal flow.

4). Collaboration with National Rural New Market Tax Credit CDE.

Ag Ventures Alliance is emerging as a valuable partner that has a national mission for gap equity, debt and technical assistance for eligible distressed census tracts in nonmetro areas nationally through its Rural Development Partners CDE that receives annual allocations of New Market Tax Credits (NMTC) from the U.S. Treasury CDFI program. NMTCs are designed for large scale entrepreneurial projects, but by partnering with AgVA; CVC, Iowa MicroLoan and ICC have an opportunity to collaborate nationally in rural America to create small scale rural entrepreneurial development projects in the same proximity of the distressed census tracts. This concept has given rise to a national Policy Center for Rural Enterprise Finance (PCREF) demonstration network.

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