



## Survey of Revolving Loan Funds and Entrepreneurial Capital: Loan Terms and Requirements

December, 2011

Sandra Charvat Burke and Dr. Mark A. Edelman

Revolving loan funds and entrepreneurial capital are important issues for Iowa and its entrepreneurs. The survey<sup>1</sup> reported here was conducted to learn more about the characteristics and practices of revolving loan funds in Iowa. This report examines findings from questions in the survey that asked for information about the terms of the loans and the requirements the borrower had to meet in order to be approved.<sup>2</sup>

The funds responding to the survey were from across the areas and regions of Iowa and involved many kinds of agencies and entities.<sup>2,3</sup> The funds varied in the size of loans they could make. More than a third of the funds responding said they had no minimum loan amount while another 32 percent had minimum loans of less than \$10,000 (Table 1). A commonly cited minimum amount was \$5,000. Although six (7.6%) of the responding funds said they had no maximum loan amount, most funds did have a cap on the amount that could be loaned. Fifteen percent of the funds had a cap below \$50,000 but a

majority were able to lend at least \$100,000 (Table 2). Eleven funds reported being able to lend at least \$250,000 and several funds based the amount on a percentage of the total project.

Interest rates varied among the funds. A large majority (65%) of the funds had an interest rate between three and six percent but ten funds (13%) said they charged no interest at all to the borrowers (Table 3). In some cases the funds based the rate on the prime rate at the time of the loan and others reported that the rate varied from project to project.

The length of the loan repayment term varied across the funds. A five year time frame was noted most often (80%) but two-thirds of the funds would also do seven and ten year loan periods. Relatively few had terms exceeding ten years and others said the period varied by the type of project (Question 24).

In many cases (44%), the loan client is required to have co-financing from another source besides the

Table 1: Minimum loan size of revolving loan funds.

Minimum Size of Loan	Count	Percent
No minimum	26	36.0
Less than \$1,000	1	1.4
\$1,000 - \$4,999	2	2.8
\$5,000 - \$9,999	20	27.8
\$10,000 - \$14,999	6	8.3
\$15,000 - \$19,999	2	2.8
\$20,000 - \$49,999	3	4.2
\$50,000	2	2.8
Based on jobs created	2	2.8
Other	8	11.1
<b>Total Funds Reported</b>	<b>72</b>	<b>100.0</b>

Table 2: Maximum loan size of revolving loan funds.

Maximum Size of Loan	Count	Percent
Less than \$24,999	4	5.1
\$25,000 - \$49,999	8	10.1
\$50,000 - \$74,999	11	13.9
\$75,000 - \$99,999	3	3.8
\$100,000 - \$149,999	10	12.6
\$150,000 - \$249,999	15	19.1
\$250,000 - \$499,999	10	12.6
\$500,000 or Larger	1	1.3
No Maximum	6	7.6
Based on percent of project	3	3.8
Other	8	10.1
<b>Total Funds Reported</b>	<b>79</b>	<b>100.0</b>

Table 3: Interest rate on loans.

Percent	Count	Percent	Percent	Count	Percent
0.0	10	13.0	5.0 - 5.9	13	16.9
0.1 - 0.9	0	0.0	6.0 - 6.9	1	1.3
1.0 - 1.9	2	2.6	7.0 - 7.9	0	0.0
2.0 - 2.9	4	5.2	8.0 - 8.5	1	1.3
3.0 - 3.9	20	26.0	By Prime	6	7.8
4.0 - 4.9	17	22.1	Varies	3	3.9
			<b>Total Reported</b>	<b>77</b>	<b>100.0</b>

revolving loan fund. Among the 36 funds reporting that co-financing was not required, five said co-financing was a preferred arrangement for the loan (Question 23).

Even though many funds did not make co-financing a requirement, a large majority (92%) of them required the borrower to have collateral coverage in order to get loan approval (Question 21). Five funds noted collateral percentages between 10 and 85 percent of the loan, but 34

(57%) of the 59 funds that answered the question said that 100 percent coverage of the loan was needed. Another 20 funds reported that the amount they required varied by the type of project or business (Question 22). Six funds noted that they usually took a secondary or subordinate position to other lenders on the loan.

A business plan was required by nearly all (92%) of the funds although some noted exceptions depending on

#### 24. What periods for loan terms are allowed? (Check all that apply)

		Response Percent	Response Count
3 Years		57.1%	40
5 Years		80.0%	56
7 Years		68.6%	48
10 Years		68.6%	48
15 Years		10.0%	7
20 Years		2.9%	2
Not Sure		2.9%	2
Other (please specify)			18
answered question			70
skipped question			12

#### 23. Is co-financing with a local lender required for loan approval?

		Response Percent	Response Count
Yes		44.3%	31
No		51.4%	36
Not Sure		4.3%	3
answered question			70
skipped question			12

the type of business. Some said they would not require a business plan for an expansion loan (Question 28). A positive cash flow projection generally was required by most funds as well (85.9%), although several said they wouldn't necessarily expect this in the first year of the operation of the business (Question 25).

The borrowers had to provide previous tax returns

to most (82%) of the funds in order to apply for a loan (Question 26). Thirty-one funds (57.4%) of the 54 funds that answered the question said that three previous years of tax returns were required. Fifteen funds wanted two years of returns, six funds requested just one year, and two funds said that the number varied depending on the type of business (Question 27).

### 21. Is collateral coverage required for loan approval?

		Response Percent	Response Count
Yes		92.0%	69
No		5.3%	4
Not Sure		0.0%	0
Other		2.7%	2
answered question			75
skipped question			7

### 22. What percentage of the loan must be covered by collateral security?

	Response Count
answered question	59
skipped question	23

### 28. Is a business plan required as part of the loan application?

		Response Percent	Response Count
Yes		91.8%	67
No		5.5%	4
Not Sure		2.7%	2
answered question			73
skipped question			9

In contrast to requirements for business plans, tax returns, and collateral, relatively few (9.5%) funds had a minimum credit score requirement. For those that did, it ranged from 550 to 650 or was reported to depend on the situation of the client (Questions 29, 30).

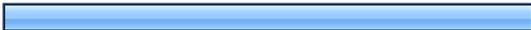
Two-thirds of the funds required periodic financial

statements from the loan clients. Half (52.2%) of the funds answering the question requested annual statements while 13 percent wanted to see financial statements on a quarterly basis. One-fourth of the funds said they did not ask for periodic financial statements at all after the loan was made (Question 32).

### 25. Is a positive cash flow projection required for loan approval?

		Response Percent	Response Count
Yes		85.9%	61
No		11.3%	8
Not Sure		2.8%	2
<b>answered question</b>			<b>71</b>
<b>skipped question</b>			<b>11</b>

### 26. Are tax returns required as part of the loan application?

		Response Percent	Response Count
Yes		82.4%	61
No		12.2%	9
Not Sure		0.0%	0
Other		5.4%	4
<b>answered question</b>			<b>74</b>
<b>skipped question</b>			<b>8</b>

### 27. What is the minimum years of tax returns required?

	Response Count
	54
<b>answered question</b>	<b>54</b>
<b>skipped question</b>	<b>28</b>

**29. Is a minimum credit score required for approval?**

		Response Percent	Response Count
Yes		9.5%	7
No		79.7%	59
Not Sure		6.8%	5
Other		4.1%	3
answered question			74
skipped question			8

**30. What is the minimum credit score required?**

	Response Count
	7
answered question	7
skipped question	75

**32. How often are periodic financial statements required from the loan client?**

		Response Percent	Response Count
Never		25.4%	17
Monthly		0.0%	0
Quarterly		13.4%	9
Yearly		52.2%	35
Not Sure		9.0%	6
answered question			67
skipped question			15

The loan approval process varied but the funds generally reported having a designated loan committee that reviewed the applications and made recommendations and/or decisions on which to fund (Question 31). Many funds said that the board of directors of the fund actually

made the final decisions on funding based on the loan committee's recommendations. Several funds that are operated or sponsored by a government body reported that the final decision on loans rested with a city council or a county board of supervisors.

### 31. Who makes the revolving loan approval decisions? (Check all that apply)

		Response Percent	Response Count
A loan administrator makes some loan decisions.		8.2%	5
<b>A loan Committee makes some loan decisions.</b>		<b>63.9%</b>	<b>39</b>
A loan Committee makes the decision after reviewing a credit application summary drafted by the loan officer.		45.9%	28
Not Sure		0.0%	0
	Other (please specify)		29
<b>answered question</b>			<b>61</b>
<b>skipped question</b>			<b>21</b>

<sup>1</sup>This project was carried out by the Community Vitality Center at Iowa State University with the assistance of a multi-agency taskforce for the Iowa Small Business Assistance Connection (ISBAC), a newly formed statewide alliance of entrepreneurial support networks. The survey was conducted in the summer of 2011. Loan fund managers

responded to the internet survey after first being contacted by email. There were 82 responses but only 81 were usable for a response rate of 41%. <sup>2</sup>Additional reports in this series examine other topics covered in the survey and can be found on the CVC web site at: [www.cvcia.org](http://www.cvcia.org).

<sup>3</sup>Web site resources:

MyEntrenet: [www.myentre.net](http://www.myentre.net)

U.S. Department of Agriculture, Iowa Rural Development: [www.rurdev.usda.gov/SupportDocuments/IA\\_rlf.pdf](http://www.rurdev.usda.gov/SupportDocuments/IA_rlf.pdf)

Iowa Association of Regional Councils of Government: [www.iarcog.com](http://www.iarcog.com)

Iowa Area Development Group: [www.iadg.com](http://www.iadg.com)

Professional Developers of Iowa: [www.pdiowa.com](http://www.pdiowa.com)

Iowa Economic Development Authority: [www.iowaeconomicdevelopment.com](http://www.iowaeconomicdevelopment.com)

Iowa MicroLoan: [www.iowamicroloan.org](http://www.iowamicroloan.org)

Community Vitality Center: [www.cvcia.org](http://www.cvcia.org)

*Community Vitality Center  
183 Heady Hall  
Iowa State University  
Ames, IA 50011-1070  
515-294-6144  
[cvc@iastate.edu](mailto:cvc@iastate.edu)  
[www.cvcia.org](http://www.cvcia.org)  
December, 2011*

**... and justice for all**

*The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at 202-720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue SW, Washington, DC 20250-9410, or call 800-795-3272 (voice) or 202-720-6382 (TDD). USDA is an equal opportunity provider and employer.*

*Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Cathann A. Kress, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.*

**IOWA STATE UNIVERSITY**  
University Extension