

EDFS RLF Conference

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Presented by REDEC

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Sources of funding for microloans

- USDA – Rural Business Enterprise Grant (RBEG) funding is limited and is determined at the State level
- SBA – Micro loan Program
 - This is a loan to your agency, rather than a grant. It has a 10 year repayment period and the interest rate is reviewed on an annual basis.

Eligibility Criteria for RBEG program

- Maximum loan size is \$20,000 based on availability of funds. Minimum loan is \$2,500.
- At least 50% of the total project cost must be otherwise provided by the applicant.
- Eligible applicants must be for-profit businesses.
- Interest rate is determined at loan approval.

Eligibility criteria for SBA micro loan program

- Maximum loan size is \$50,000 and minimum loan size is \$1,000
- If the total project cost is greater than \$50,000, at least 67% of the total project cost must be otherwise provided by the applicant and the total maximum financing package may not exceed \$150,000.
- Eligible applicants must meet size eligibility standards established by SBA
- Eligible applicants must be for-profit businesses, with the exception of non-profit childcare centers
- For loans over \$20,000, the borrower must demonstrate that it is unable to obtain credit elsewhere at comparable interest rates
- Interest rate is determined at loan approval

Marketing Strategies

- Quarterly newsletters
- Annual lender's roundtable and periodic visits to lenders
- Monthly Women in Business Roundtable
- Business Expo
- Direct Mailing
- Word of Mouth—we have many repeat clients and satisfied clients are our best marketing
- Technology including website, Facebook

Technical Assistance

- REDEC/RRC had provided technical assistance on an informal basis for a number of years.
- SBA requires technical assistance be provided to its borrowers and provides grant funding to assist with this. SBA requires the technical assistance provided must consist of 25% to pre-loan clients and 75% to post-loan clients.
- T/A comes in many forms: seminars, one-on-one counseling, networking, expos, business class series, partnering with other resources

Collections

- All of loans are secured loans and personal guarantees are required of any principal with 20% or more ownership
- We require all new clients to set loan repayments up on automatic ACH
- Late fee is assessed after the 10th day and late billings are issued monthly.
- Important to maintain open communication with the borrower and participating lender
- We risk rate all of our loans and review the loan portfolio on a regular basis

Loan Loss Requirements

- REDEC reviews its loan portfolio during its annual budget process and includes a loan loss in its annual budget as a line item
- SBA has a loan loss requirement: a separate bank account must be maintained at a level of 15% of the balance of microloans outstanding.
- SBA also requires that collateral coverage of 115% must be maintained. SBA calculates it as the Loan fund account balance plus the loss reserve account balance plus the principal balance outstanding must be 115% > debt owed to SBA

What is a microloan?

- The actual definition of a microloan varies from funding source to funding source (based on dollar amount)
- Basic definition is the truly small business such as a home based business or small retail store on Main Street. We have found that generally the businesses which use our microloan programs generally have 10 employees or less.

What makes the micro borrower different?

- Generally, not always, they are unsophisticated borrowers who are intimidated by paperwork.
- They require more one on one assistance and follow up.
- More time consuming
- Have minimal financial resources
- Are proud and extremely appreciative of assistance
- They are committed to the community in which they live



Questions?

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THANK YOU!