



**Small Business Administration's
Microloan Program
OFN Conference
*October 27-30, 2009***



Program Overview

- How the Microloan Program works
- Eligibility Requirements
- Loans from SBA
- Microloan Lending Requirements
- Technical Assistance
- Reporting Requirements
- Administrative Cost & Reference Information



***How the Microloan Program
Works***



How the Microloan Program Works

- SBA makes loans to intermediaries
- SBA provides Technical Assistance grant funds to intermediaries (grants are based on outstanding microloans)
- Small Business Concerns apply directly to local intermediary
- Intermediary is responsible for processing, underwriting, making credit decisions, closing, disbursing, and servicing microloans (SBA does not review microborrower application)
- Intermediary's make loans to microborrowers in amounts up to \$35,000
- Intermediary's must provide technical assistance to micro-borrowers



Program Eligibility Requirements



Eligibility Requirements

Who Can apply –

- A private, non-profit CDC or other entity
- A consortium of private, non-profit CDCs or other entities
- A quasi-governmental economic development entity, other than a state, county, municipal government or any agency thereof; or
- An agency of or a non-profit entity established by a Native American Tribal Government
- Organization that has made and serviced microloans of \$35,000 or less for one year, and
- Has at least one year of experience providing in-house Technical Assistance



Loans from SBA to our Microloan Intermediaries



SBA Loan Terms

- Loan Approval Amounts to intermediaries can not exceed \$750,000 for one (1) SBA loan, however, each intermediary may apply for loans amounting up to \$3.5 million over a 10 year period
- Maximum term for loans to intermediaries is 10 years
- Interest Rate on Loans – 5 year T-bill rate at time of loan approval
- Interest Rate Structure Reviewed Annually –
 1. If intermediaries portfolio average loan size is \$10,000 or less, SBA will reduce the interest rate by 2%
 2. If intermediaries portfolio average loan size is greater than \$10,000, SBA will reduce the interest rate by 1.25%



SBA Loan Closing Requirements

- Loan must be closed within 120 days from Approval Date and closed local SBA District Office (Extensions may be requested)
- Intermediary must set up:
 1. Microloan Revolving Fund (MRF) Account
 2. Loan Loss Reserve Fund (LLRF) Account
 3. Grant Account

(These accounts are set up prior to closing and can be sent with the closing package to SBA Headquarters. MRF and LLRF can earn interest and be housed at the same institution)



SBA Loan Closing Requirements

- MRF account is used to:
 1. Accept deposits from SBA
 2. Make loans to microborrowers
 3. Accept payments from microborrowers
 4. Accept deposits from LLRF
 5. Make payments to SBA
 6. Make payments to LLRF
- LLRF account is used to:
 1. Accept deposits from private sector sources and the MRF
 2. Payments to the MRF for any microloan losses incurred



Disbursement of SBA Loan

- Intermediary must send a request (letter or e-mail) to Microloan Program Office requesting loan distribution.
- Initial request is usually 35% of the approved loan amount
- Request must include a copy of the deposit slip showing a deposit of an amount equal to 15% of the amount to be drawn down has been deposited in the intermediaries Microloan Revolving Fund. In some cases, the Intermediary may wish to deposit the 15% match into the Loan Loss Reserve Fund.
- Intermediary has 24 months to draw down all loan funds from SBA.



Repayment of SBA Loan

- Loan repayment begins on the 13th month from Note date or date of 1st disbursement
- Payments equal Outstanding Debt to SBA amortized over 9 years plus 1/108 of the first years accrued interest
- Payments generally withdrawn on 7th of each month via Preauthorized Debt (PAD) System
- **If PAD doesn't work, we will request a check**



Microloan Lending Requirements



Eligible Microborrower

- Any type or form of for-profit small business
 - *Exception:* non-profit childcare centers
- Must meet SBA's Size Standard
- Small business located within the intermediary's operating area



Eligible Microborrower (Cont.)

- Microloan Target Market:
 1. Women
 2. Low-Income Individuals
 3. Minority entrepreneurs
 4. Veterans and other small business which need small amounts of financial assistance



Eligible Microborrower (Cont.)

- Use of Microloan Proceeds:
 1. Working Capital
 2. Machinery & Equipment
 3. Inventory
 4. Furniture & Fixtures
 5. Supplies

In no case shall the proceeds of a microloan be used as a down payment or for the purchase of real estate



Microloan Lending Requirements

- Microloans must be assigned to SBA in Note
- Microborrowers must execute SBA Form 1624: Debarment Certification
- Microborrowers must certify they are not more than 60 Days delinquent with child support
- Microborrowers must provide letters stating they are not able to obtain credit from other lending sources for amounts over \$20,000



Microloan Lending Requirements (Cont.)

- Loans to Microborrowers
 1. Maximum loans size - \$35,000
 2. Fixed Term – up to 72 months
 3. No revolving line of credit
 4. Maximum interest rate as follows:
 - Loans of \$10,000 or less – interest rate can be intermediaries Cost of Funds plus 8.50%
 - Loans of \$10,000 over – interest rate can be intermediaries Cost of Funds plus 7.75%



Technical Assistance

- What is Technical Assistance?
- How to Use Technical Assistance
- How to get reimbursed for Technical Assistance provided



Technical Assistance (Cont.)

Technical Assistance Covers:

- Marketing to Prospective Borrowers
- Management Assistance
- Business Counseling
- Training



Technical Assistance (Cont.)

- Provide advice, guidance, or instruction specifically tailored to a group of individuals associated with a single business
- Training can include counseling, teaching a group of non-related individuals in a classroom or other public setting
- Information delivery media may vary and expand beyond person to person
- Whether training or counseling, Topics must include information necessary to Start, Manage, and/or operate a small business



Technical Assistance (Cont.)

To insure a healthy repayment rate, intermediaries are required to:

- Provide ongoing Technical Assistance to microborrowers
- Integrate Technical Assistance into microlending and collection (*While providing assistance with bookkeeping, marketing, or business plan, pick up a payment or find out why payment is late*)
- Up to 25% of Technical Assistance Funds may be used to provide information and Technical Assistance to prospective microborrowers
- Intermediaries may use no more than 25% of the Technical Assistance Funds it receives from SBA for contracts with third parties to provide Technical Assistance to borrowers



Technical Assistance (Cont.)

- Technical Assistance Fund must be used only to provide Technical Assistance to Microborrowers and potential Microborrowers
- Technical Assistance Awards will vary based on outstanding debt to SBA and Intermediaries performance
- Grant funds must be used only for Technical Assistance to microborrowers and potential microborrowers
- Technical Assistance Grant funds cannot be used to cover Administrative Costs



How to get reimbursed for Technical Assistance provided



Technical Assistance Reimbursement

- Technical Assistance Grant funds are awarded based on the amount of the outstanding debt to SBA
- A 25% match of cash, or In-Kind contributions is required for Grant funding
- Reimbursements are requested by submission of SF 270 and deposited directly in the intermediaries designated bank account
- Minimal interest allowed
- Technical Assistance available over the life of the loan
- Technical Assistance Funds segregated for other funds



Technical Assistance Reimbursement

- Intermediaries are required to submit SF 269, Financial Statement, and New Template for TA Narrative for the period of reimbursement supported by and Detailed Expenditures Worksheet
- Only one advance is permitted to new intermediary
- Financial Cash Transaction Report, SF-272, if an advance is made to an intermediary
- Reimbursements are based on reports, expenditures, and activity



Reporting Requirements

Daily

- All new loans must be reported in the Microloan Electronic Reporting Systems (MPERS) within 7 days of the microloan closing
- All loans must be updated in MPERS on a monthly basis as to their status
- All loans more than 30 days late are delinquent
- All loans reported more than 120 days late are in default and must be liquidated via refund from the Loan Loss Reserve Fund to the Microloan Revolving Fund



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Quarterly

- MRF Report – with bank statements
- LLRF Report – with bank statements
- MPERS update



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- LLRF Report – with bank statements
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Annually

- Audited Financial Statements within 120 day from the end of the fiscal year



Reporting Requirements

- Intermediaries are required to maintain the Loan Loss Reserve Fund at the 15% matching level based on the balance of outstanding Microloans
- *Upon written request, the Loan Loss Reserve Fund may be reduced to 10% provided the intermediaries average annual loss rate during the preceding 5 years is under 15%*



Administrative Cost

- All Administrative Cost incurred by the intermediary for the operation of the Program will be funded out the interest rate spread (the difference between the intermediaries Cost of Funds and the rate the intermediary charges its microborrower)
- Intermediaries may not charge fees
- Intermediaries may charge for direct costs
- Technical Assistance can be built in as a requirement of the microborrowing
- An Annual contribution of \$100
- Intermediaries must request earned interest withdrawal



Important Reference Information

The following information can be found in the “Nuts and Bolts”

- | | |
|--|---------|
| • Requesting additional Funds from SBA | Page 6 |
| • Intermediary Rights and Responsibilities | Page 8 |
| • Signature Requirement | Page 9 |
| • Ineligible Microloan | Page 9 |
| • Voluntary Separation from the Program | Page 10 |
| • Foreclosure and Resource | Page 11 |
| • Denial of Credit to Microloan | Page 12 |
| • Credit Life Insurance | Page 15 |
| • Investing in Treasury Bills | Page 15 |
| • Servicing Territory | Page 16 |
| • Technical Assistant Grants to Intermediary Lenders | Page 17 |



SBA Contact Information

- Office of Financial Assistance
 - Microloan Help Desk
 - (202) 205-6400
 - microloan@sba.gov



Committed to the future of rural communities.



Opportunity Finance Network Conference

October, 2009



Discussion Agenda

- ☞ IRP- Intermediary Relending Program
- ☞ REDLG- Rural Economic Development Loan and Grant Program
- ☞ RBEG- Rural Business Enterprise Grant
- ☞ RMAP- Rural Microentrepreneur Assistance Program


Comparison of Purpose

IRP: Poverty Alleviation, Increased economic activity, Increased employment in rural communities

RBEG: To support the development of small and emerging private business enterprises in rural areas.



REDLG: Promote rural economic development and job creation projects, Direct funds to those areas experiencing the greatest economic hardship.

RMAP: To provide microentrepreneurs with the skills necessary to establish new rural microenterprises and continuing technical and financial assistance related to the successful operation of rural microenterprises



Intermediary Relending Program (IRP)

Purposes Are Achieved Through--
 Loans from USDA to eligible entities for capitalization of rural revolving loan funds. Entities (intermediary lenders) make loans targeting small and emerging businesses.


Eligibility- for Intermediary Lender Status

Private non-profit corporations, Public agencies, Indian groups, and Some Cooperatives *

That:


- Have a proven track record/ qualified staff, and adequate capitalization
- Are legally allowed to carry out the proposed loan purposes and unable to obtain similar RLF funding elsewhere
- Have no outstanding debt to the Federal Government
- Will borrow enough to ensure completion of projects and provide adequate assurance of repayment

*Co-ops must have 51% rural membership and be formed to increase income for producers members or increase purchasing power for consumer members.



Ultimate Recipient and Project Eligibility

<p>Eligible Ultimate Recipients</p> <ul style="list-style-type: none"> • Citizens or legally admitted to the U.S. • Located in a rural area (less than 25,000). • Able to incur debt, give security and repay the loan • Can be a corporation, partnership, LLC, individual, non-profit corporation, public body. • No delinquent debt to Federal Government 	<p>Some Eligible Project Types</p> <ul style="list-style-type: none"> • Business/Industry acquisition (for job retention or creation), construction, conversion, enlargement, repair... • Purchase or develop land (easements, rights of way, buildings ...) • Purchase equipment, leasehold improvements, machinery, supplies • Pollution control and abatement • Transportation Services • Start-up costs and working capital • Payment of interest before a facility becomes income producing (not to exceed 3 years) • Feasibility studies • Limited Debt refinancing.
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LOAN TERMS

From USDA-RD to the Intermediary

- 1% Interest over 30 years, Principal payments deferred for first three years.
- Initial loan up to \$2 Million (Based on availability of funds)
- Subsequent loans up to \$1 Million (Based on availability of funds)
- Total debt limited to \$15 Million
- Security- Pledge of IRP revolving funds and loans, assets of the borrower, other rights and interests

From the Intermediary to the UR

- Maximum loan of \$250,000 or 75% of the project cost whichever is less.
 - Most loans do not exceed \$150,000
- Interest rate and term established by Intermediary
 - Usually low interest with 3 to 10 year depending on purpose
- Security- Like normal business loan; Depends on the use of funds; May include lien on real estate and/or equipment; Personal guarantee of owners, life insurance on owners, etc.



Rural Business Enterprise Grants (RBEG)

Purposes Achieved Through:

- Grants to rural public entities (towns, communities, State agencies, authorities, Indian tribes)
- And,
- Grants to rural private nonprofit corporations (No cooperatives unless private nonprofit and other restrictions)



RBEG Grantee Eligibility

- Public Bodies and private non-profits serving rural areas
- Any funded project must finance or develop a small and emerging private business (any private business with 50 or fewer employees AND with less than \$1 million in projected gross revenues
- Successfully competes for funding based on Regulatory Scoring system.



Eligible RBEG Uses

- Citizenship requirement- At least 51% ownership or membership by U.S. Citizens or legal resident aliens
- Acquire or develop land/easements/rights of way
- Construction/conversion/renovation of buildings, plants, machinery, equipment, access streets and roads, parking areas, utilities, pollution control and abatement
- Capitalization of Revolving loan funds
- Training and technical assistance
- Distance Adult Learning (job training/advancement)



Rural Economic Development Loan and Grant Program (REDLG)

- Purposes Achieved Through—
 - Grants to eligible utility cooperatives to establish rural “revolving” loan funds
 - Zero interest loans to utility cooperatives for relending to specified job creation projects.



REDLG – Eligible Intermediary Applicants

- Eligible entities must:
 - Have borrowed and repaid or pre-paid an insured, direct, or guaranteed loan received under the Rural Electrification Act or,
 - Be a not-for –profit utility that is eligible to receive assistance from the Rural Utility Service




REDLoans

- Zero interest loans made to intermediaries by USDA-RD
- Intermediaries re-lend the money at zero interest for up to 10 years to pre-determined ultimate recipients.
- Maximum loan to Intermediary is \$740,000.
- Intermediary must provide a 20% match.
- Intermediary responsible for loan payments if the ultimate recipient defaults.
- Funds can be used for any business start-up or expansion project


REDGrants

- Grants are made to private non-profits and public bodies (intermediaries)
- Grants are used to establish a revolving loan fund
- Grants require a 20% match
- Intermediaries lend at zero% interest, usually over ten years




REDLG Eligible Uses

- capitalization of RLFs
- project feasibility studies (only in conjunction with a loan)
- technical assistance in conjunction with projects funded under a zero interest REDLoan
- Business Incubators
- Community Development Assistance to non-profits and public bodies (particularly job creation or enhancement)
- Facilities and equipment for education and training for rural residents to facilitate economic development
- Facilities and equipment for medical care to rural residents
- Telecommunications/computer networks for distance learning or long distance medical care



Rural Microenterprise Assistance Program

- Proposed Rule Published October 7, 2009
- Comment Period is 45 Days, and expires on November 23, 2009
- Please submit comments in accordance with the instructions in the Proposed Rule

Summary of RD Oversight

IRP-

Until funds are loaned out, RD staff will...

- review each ultimate recipient (UR) loan application
- Perform an environmental assessment on each UR application

After funds are loaned out....

- Revolved funds must continue to be used for eligible purposes

Reports will include

- Annual Audit
- Quarterly Reports (FORM 1951-4).
- Review of IRP Annual Budget
- RD annual site visits (check loan files/ monitor civil rights data and fair lending posters/visit UR sites)

RBEG-

Quarterly narrative and financial status reports

Civil Rights compliance
Final report at end of project
Continued monitoring if Real estate or equipment

REDLG-

Review of loans to ultimate recipients of REDLG Intermediaries

Annual project performance reports.

Site visits to inspect files and projects

Documentation of expenditures (invoices, receipts, etc.)

Civil Rights compliance

RMAP- See Proposed



Consistent with the National Rural Development Policy

How to Apply

- Contact your Rural Development State or Area office



- Contact information is available on the internet at [www.usda.gov/agencies and offices/rural development/where to apply](http://www.usda.gov/agencies-and-offices/rural-development/where-to-apply)



Consistent with the National Rural Development Policy
