



CDFI Microloan Growth: Information + Strategy

IOWA CENTER FOR
ECONOMIC SUCCESS

Iowa Center for Economic Success

Mission

Our mission is to empower Iowans with the potential to succeed as they pursue opportunities for financial success.

Priorities

Education · Capital · Networking

Our Why

The Iowa Center is committed to empowering people to strengthen and stabilize their financial futures through business ownership and investment. It is our belief that to be successful in small business, one needs support in three core areas: education, capital, and networking. We have built key programs that support those core areas and empower individuals to succeed, families to prosper, and communities to thrive. Success to us is people supporting themselves and their families through the execution of their own ideas.

Key CDFI Requirements for Certification

- Applicants for certification must identify the Investment Area(s) and/or Targeted Population(s) they intend to serve as their Target Market.
- CDFI Fund policy requires that an organization must serve at least one eligible Target Market and must direct at least 60 percent of all of its Financial Product activities to one or more eligible Target Market to qualify for certification.
- If the Organization does not meet the 60% benchmark, the organization must provide a compelling argument as to why one of the two figures is less than the 60% benchmark. The CDFI Fund reserves the right, in its sole discretion, to accept or reject such explanation.
- Minimum 34% of organization's annual accounts receivable must come from loan payments. Standard best practice is 50-60% to ensure fluke gifts or increase in programming revenue does not throw off the ratio.

TSB Money Loaned Out

- FY 18 384,224
- FY 19 823,300
- FY 20 744,205
- FY 21 335,000 (so far this year; on target to make previous years' averages)

Lending Potential 1 / 4

Based on clients we have already served over the past three years, we feel confident saying we have left at least the following amounts on the table, un-loaned:

1) Applicants that needed more than \$30,000 or \$50,000. How much more could we have loaned out if it was available:

- FY 21 36% of applicants so far this year (\$420,000)
- FY 20 43% of applicants; 10 loans at an average of \$30,000 per loan - \$300,000

*For this figure we only included people that would have liked more money, and would have been approved for that money as well.

**Please note every month 3-5 people call looking for a loan amount more than what we would be able to loan. We normally refer them to a bank if we are not able to work in conjunction a bank. These individuals were NOT added into our figures.

Lending Potential 2/4

2) Applicants that are underqualified based on the current thresholds but if we had enough capita to do more \$500 - \$4,500 credit repair/credit building how much more could we have loaned out over the last 2-3 years:

- FY 18 130 average \$3,000 per client \$390,000
- FY 19 119 average \$3,000 per client \$357,000
- FY 20 113 average \$3,000 per client \$339,000

*This includes clients that we completed hard credit pulls and soft credit pulls and clients that we would have coached and did not pull any credit reports on.

**We are able to do some of these types of loans now through our WeLend Fund however the minimum for TSB is \$5,000.

Lending Potential 3/4

3) Applicants that are not TSB eligible but for whom we don't currently have enough WeLend funds – this includes males classified as white without disability or service disability. This classification includes middle eastern men, immigrant men, financially compromised men as well as husband/wife or male/female 50/50 partnerships, etc:

- Average 12 per year. \$600,000 - estimating 50,000/ loan

*Most potential applications do not even try – this is estimated based on those who do not read the requirements before they call.

Lending Potential 4/4

4) If our WeLend Fund was \$1 million dollars or more, how much money could we have loaned out to those we currently can't?

Estimating using rough figures we are thinking \$1.2MM per year with advertising,
\$800,000/\$900,000 without advertising

SWOT Analysis

Strengths

1. Six, plus years of experience operating owned and managed loan funds
2. Staffing and implementation structure already consistent with CDFI lenders
3. Community stakeholders have approached us directly encouraging us to do this and offering support
4. Understanding of the small business community
5. Supportive services already in place that strengthen the client and impress CDFI regulators

Opportunities

1. CDFI status opens The Iowa Center up to new funding sources and grants to support operations of our loan program and our supportive services
2. CDFI status opens us up to loan funds to grow our portfolio; the regulation of treasury reassures many donors or lenders to our fund
3. We would continue our trajectory as the economic development leader in Iowa for small businesses; one stop shop would ring even more true

Weaknesses

1. Staff capacity. We would have to add leadership level loan director very early on in the process to grow and implement this program
2. Onerous process in applying for CDFI status
3. Our organization has very diverse funding sources so would have to explore second non-profit to ensure CDFI status

Threats

1. One Economy is pursuing CDFI status as well which divides the attention of the corporate and foundation community
2. Raising funds
3. Managing expectations

Proposed Structure

- Iowa Center for Economic Success launches second “Junior” 501c3, The Iowa Center Loan Fund
- This non-profit only houses the loan fund(s) for our loan program
- All supportive services, loan marketing, loan processing, underwriting, etc. would be channeled through the “Senior” nonprofit
- WeLend funds would be moved over to this Junior organization, in addition, we could direct a portion of the Stanley Gift.
- Fundraising to grow this fund could commence immediately in tandem with applying for CDFI status for this new entity
- The board of directors would consist of The Iowa Center (Senior) executive committee
- Bylaws would include language indicating the fund serves to provide capital exclusively to The Iowa Center microlan program
- Two potential sub committees would include a loan committee and investment committee

Proposed Staffing/Infrastructure for Launch

- A microloan director with experience in leading a lending team, managing a portfolio(s) would be hired. The proposal would be to allocate a portion of the Stanley Gift to augment the salary for a specific period of time
- A small launch committee would be established with members of the board and leadership staff (including the new microloan director) to finalize the CDFI application, raise funds for the new loan fund, and finalize staffing/process infrastructure
- Once CDFI certification is complete, we grow the fund(s) and program at a calibrated rate, including adding staff (loan officers, etc.) in the way consistent with The Iowa Center growth plans

What If This Doesn't Work?

- If we cannot grow the portfolio in a way consistent with serving our mission, we may have to reevaluate the program and return to “just” managing the TSB program and a small WeLend fund
- If we can't get/retain CDFI status, the same applies
- We can dissolve the 501c3
- We can terminate staff/absorb them into other programs
- We roll any remaining loan funds from the Junior organization back into the Senior organization and service any remaining loans for their lifetime

What If We Succeed?

The Iowa Center is a trusted organization in the small business world. If we do this, countless clients (current and ones we will continue to earn) will have access to a one-stop shop to support their business growth.