

Microfinance Programs Annual Report

Department of Economic Opportunity

April 2, 2019



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I. PROGRAM BACKGROUND

Effective July 1, 2014, the Florida Microfinance Act was established in sections 288.993 – 288.9937, Florida Statutes (F.S.) and \$10 million was appropriated to the Florida Department of Economic Opportunity (DEO) for implementation. The intent of the Act is (1) to provide entrepreneurs and small businesses in Florida access to credit and financing that they might otherwise be unable to obtain through traditional financial institutions and (2) to develop the skills necessary for a business to be successful. This is accomplished through two programs, the Microfinance Loan Program and the Microfinance Guarantee Program. Per 288.9935 and 288.9936 Florida Statutes, both the Microfinance Loan Program and the Microfinance Guarantee Program are established in DEO. However, section 288.9935 (3), F.S. directs DEO to contract with Enterprise Florida, Inc. (EFI) to administer the Microfinance Guarantee Program.

Eligibility for both programs is defined in section 288.9932(5), F.S., and is limited to entrepreneurs and small businesses that employ 25 or fewer people, with average annual gross revenues of \$1.5 million or less for the preceding two years. Small businesses that receive microloans are required to participate in business management and business development training to acquire the skills necessary to achieve long-term financial stability.

In 2014, DEO created the program framework and process; reviewed best practices; worked with the Florida Small Business Development Center Network (SBDC) to determine the business management and development training and technical assistance businesses needed to become sustainable; and solicited, vetted and executed agreements with qualified loan administrators.

As required in section 288.9934(11), F.S., in October 2014, DEO contracted with Florida State University and conducted a study to identify best practices and methods to increase access to credit for entrepreneurs and small businesses in the state through nonprofits and financial institutions.

In addition, DEO monitored the execution of the memorandum of understanding between the loan administrators, EFI and the Florida SBDC through the end of 2014 and early 2015. Therefore, once agreements were in place, the actual time the loan administrators had available to market, promote, receive and process loan applications, underwrite and fund the loans was approximately four months until the end of fiscal year 2014-2015.

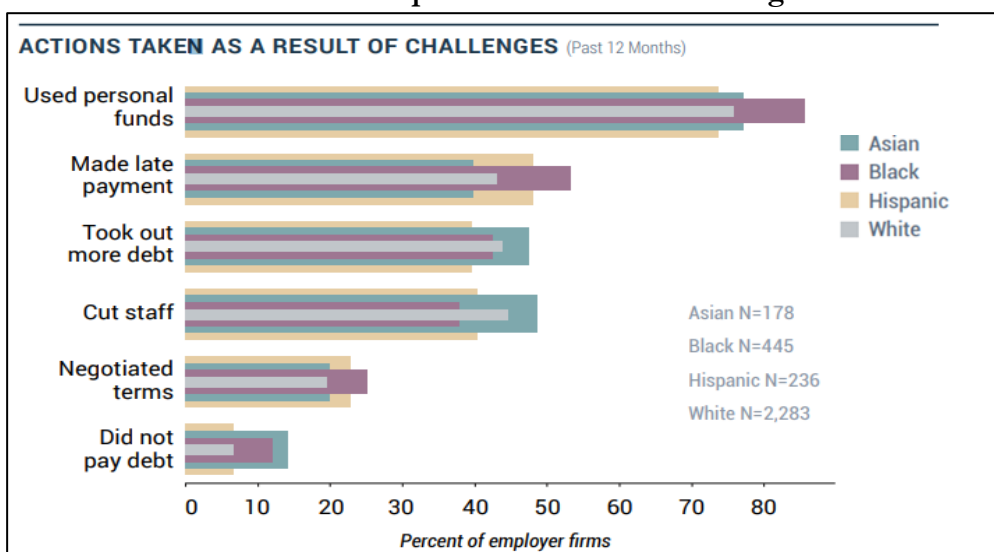
This report reflects the entire portfolio of all closed loans since 2014. The funds awarded to the Microfinance Loan Program administrators were returned to DEO following the expiration of the agreement period in December 2017.

Access to Credit

The need for the Microfinance Program is supported by several national studies and surveys that point to a mixed market for credit enhancement programs directed to small businesses. According to the 2017 Small Business Credit Survey – Report on Employer Firms, small businesses continue to experience financial challenges such as paying operating expenses and credit availability.¹ This was especially prevalent in recent credit applicants, micro firms (\leq \$100k in annual revenues) and businesses in the leisure and hospitality industries. The majority of businesses that responded to this

survey reported profitability and growing revenues which has led to a modest decline in demand for new financing. This decline has led to improved financing success, with a larger share of applicants receiving the full amount of financing requested leading to improved performance and heightened optimism.² Large banks and online lenders finance Florida’s small businesses at a higher rate than the national averages. Fifty-seven percent of Florida small businesses applied to large banks for loans, lines of credit, or merchant cash advances; and 32 percent applied to online lenders as compared to the national averages of 48 percent and 24 percent respectively.³ Table 1 shows how small businesses respond to these business ownership challenges.

Table 1. Small Business Actions in Response to Business Challenges



Small business owners, as a segment of the total business population, tend to be diverse, with Black, Asian and Hispanic-owned businesses accounting for 21 percent of small business ownership in the United States. The credit gap is most pronounced for Black-owned small businesses, who are most likely to rely on personal funds even though they tend to have lower personal wealth levels.⁴ Black owned small businesses applying for new funding is 10 percent higher than white owned small business, however their approval rates are 19 percent lower.⁵ Of the small businesses that were approved for financing, only 40 percent of minority-owned small businesses received the full amount sought compared to the 68 percent of non-minority owned small businesses.

Regardless of race or ethnicity, the top reason for applying for financing is to expand business or pursue a new opportunity. Small business owners face greater credit challenges than other businesses and while there is improving finance success for some, there are still considerable gaps in credit availability.

¹ <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-employer-firms-report.pdf>

² Ibid

³ <https://www.frbatlanta.org/community-development/publications/partners-update/2018/03/180523-2017-small-business-survey-shows-more-optimism.aspx>

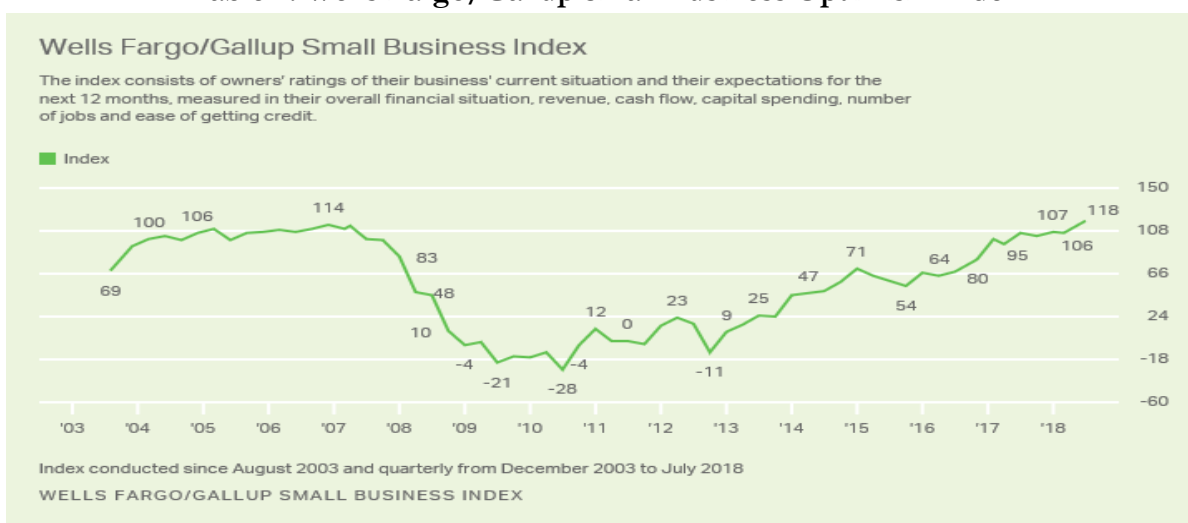
⁴ <https://www.fedsmallbusiness.org/survey/2017/report-on-minority-owned-firms>

⁵ Ibid

Microfinance Lending at a Glance

According to the latest Wells Fargo/Gallup Small Business Index (Table 2), U.S. small business owners are more optimistic now than at any point in history. The overall index is now at 118, up 12 points since March 2018 and up four points from the previous record high of 114 in 2006. This improvement is driven by increases in most of the areas that make up the score as well as record high readings on several metrics. The biggest improvements were in the current financial situation, cash flow in the past 12 months, cash flow expectations in the next 12 months and credit availability in the next 12 months. Small business owners reference issues with government policies and regulations (24 percent) as the most important challenge, while 15 percent mention financial issues as their most important challenge.

Table 2. Wells Fargo/Gallup Small Business Optimism Index



Source: <https://news.gallup.com/poll/239192/small-business-owners-optimism-record-high.aspx>

II. THE MICROFINANCE LOAN PROGRAM

Program Overview

The goal of the Microfinance Loan Program is to enable entrepreneurs and small businesses to gain access to traditional institutional financing upon completing the business development and business management training program provided by the Florida SBDC. Statewide, two loan administrators, with a total allocation of \$5,125,000 provide microloans of up to \$50,000, which include a required 50 percent match to supplement program funds. Microloans may be used for any allowable business purpose such as startup costs, working capital and the acquisition of materials, supplies, furniture, fixtures and equipment. The loan program requires attendance in management and technical assistance training to improve business sustainability.

Implementation

Section 288.9934(3) (a), F.S., required DEO to execute at least one, but no more than three, loan program administrator contracts by December 1, 2014. DEO issued a request for proposals (RFP) to

solicit loan program administrators on October 27, 2014, and received responses from OUR MicroLending, LLC and the Florida Black Business Support Corporation.

OUR MicroLending, LLC initially received \$3 million dollars in funding, and the Florida Black Business Support Corporation received \$300,000 due to limited ability to match funds. The agreement with the Florida Black Business Support Corporation was executed on November 26, 2014, and the agreement with OUR MicroLending, LLC was executed on December 1, 2014.

In early 2015, DEO began receiving constituent inquiries about the program, however, the two loan program administrators were limited by geography and staff capacity. To remedy this challenge, DEO issued another RFP on April 21, 2015. The second solicitation did not receive any responses, and DEO reallocated additional funding in the amount of \$1,825,000 to OUR MicroLending LLC, for a total balance of \$4,825,000. During the last fiscal year, DEO maintained the same implementation framework until the return of program funds.

Results

During fiscal year 2017-2018, small businesses benefited from microloans totaling \$536,500 under the Microfinance Loan Program. Despite statewide program coverage, the businesses that received program assistance are located in the southeastern tri-counties of Miami-Dade (16), Broward (8) and Palm Beach (6). Based on closed loan production, all loans statewide were to Hispanic-owned small businesses. Chart 1 and Chart 2 show the closed loan production and average wages by year for OUR MicroLending, LLC and the Florida Black Business Support Corporation.

Chart 1. Our MicroLending LLC Closed Loan Production and Average Wages by Fiscal Year

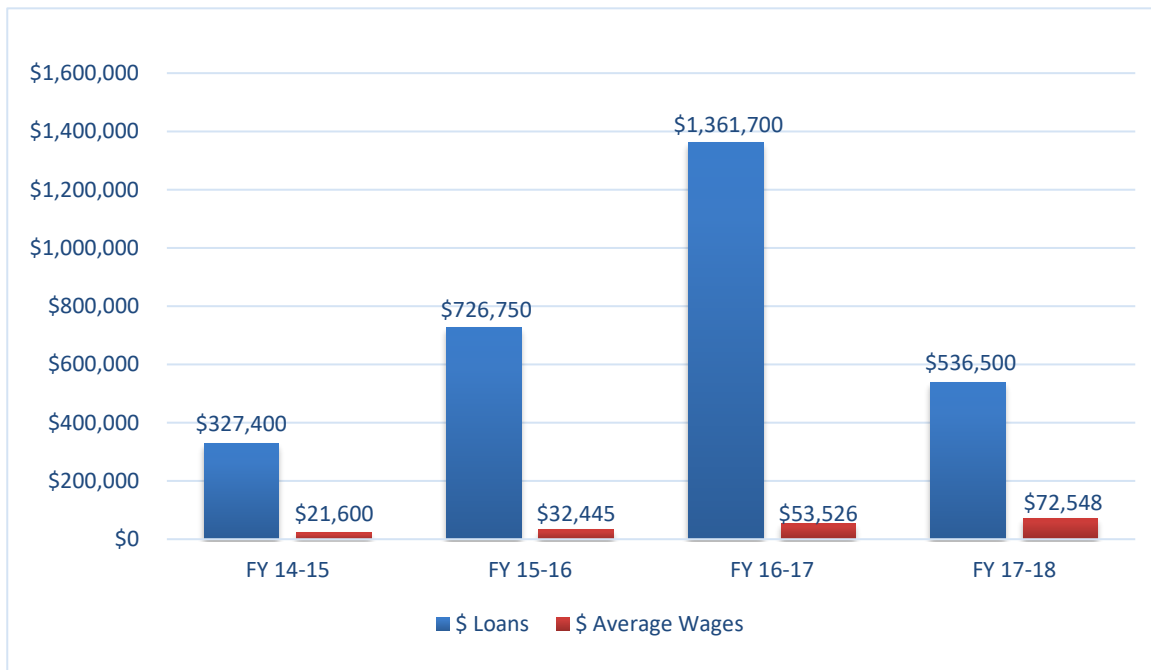
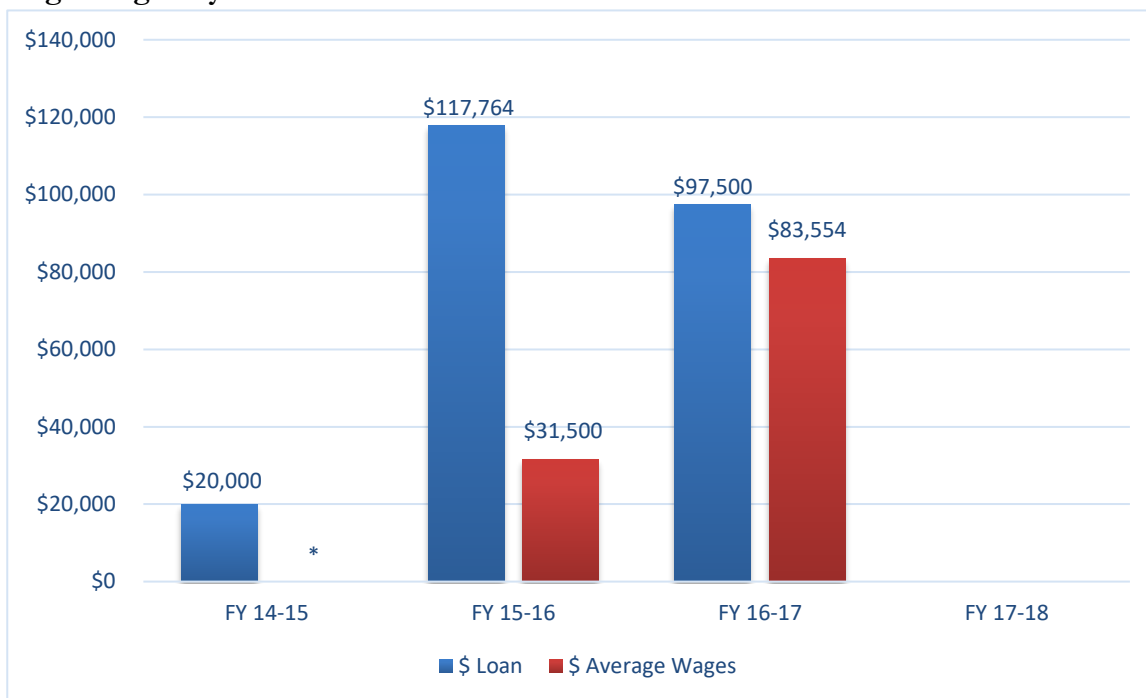


Chart 2. Florida Black Business Support Corporation Closed Loan Production and Average Wages by Fiscal Year



Average wages are skewed in 16-17 due to several businesses with owners earning high wages.

*Not reported.

The program was implemented in fiscal year 2014-2015; with program start-up time, loan production spanned six months. The loan volume level was annualized in fiscal year 2014-2015 to create a three-year comparison in loan production activity which shows the percentage of loan production change year to year (Table 3). The percentage change for fiscal year 2017-2018 is not included on this report as the loan program terminated prior to year-end 2017. Please note that Table 3 represents total loan program dollars; each administrator matched 50 percent of the loan amount.

Table 3. Microfinance Loan Program - Comparison by Year of Closed Loans

Closed Loan Comparison by Year				
	2014-2015	2015-2016	2016-2017	2017-2018
Closed Loans	\$694,800	\$844,514	\$1,459,200	\$536,500
Percentage Change	N/A	22%	73%	-

Chart 3. OUR MicroLending LLC Application Production, Jobs Created and Retained by Fiscal Year

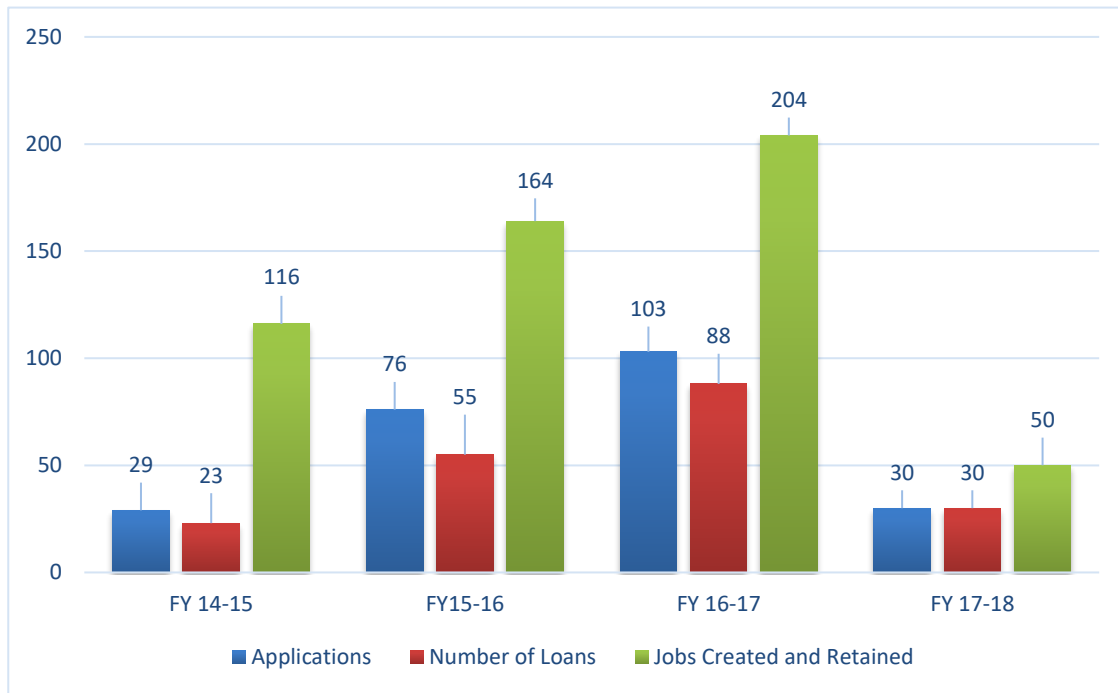
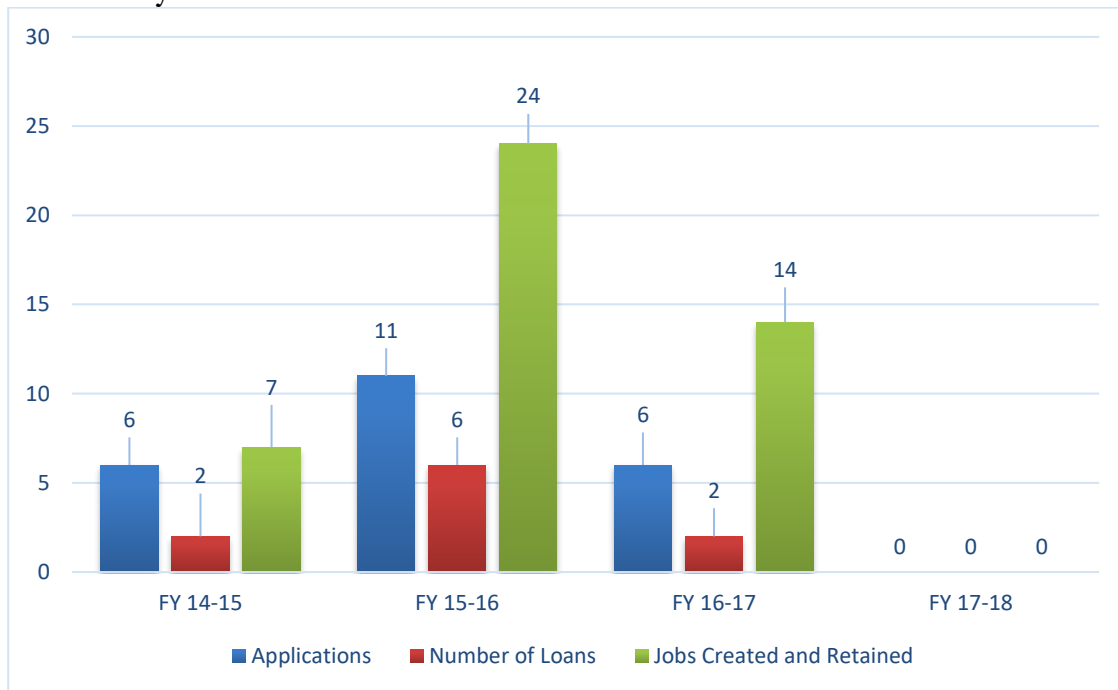


Chart 4. Florida Black Business Support Corporation Application Production, Jobs Created and Retained by Fiscal Year



Similar to the closed loan production, the fiscal year 2014-2015 applications were annualized to provide a three-year comparison of application activity that shows the percentage change in application volume

year to year from the commencement of the program (Table 4). The non-annualized program-to-date application to closed loan rate is 100 percent. The percentage change for 2017-2018 is not included on this report as the loan program terminated prior to year-end 2017.

Table 4. Microfinance Loan Program - Comparison by Year of Applications

Application Comparison by Year				
	2014-2015	2015-2016	2016-2017	2017-2018
Applications	70	87	109	30
Percentage Change	N/A	24%	56%	N/A

Loan program administrators are contractually obligated to comply with all objectives established in section 288.9934, F. S. To monitor performance and ensure that program objectives are met, loan program administrators must provide quarterly status reports including the number of applications submitted and approved, along with detailed information on the loans awarded, training provided, jobs created and information on total number and dollar amount of outstanding loans. In addition, loan administrators must submit an annual financial audit performed by an independent certified public accountant and an operational performance audit for the most recently completed fiscal year no later than nine months after December 31.

III. TRAINING

In accordance with section 288.9934(4)(e), F.S., the Florida SBDC was required to enter into a Memorandum of Understanding (MOU) with each loan administrator for the provision of providing business management training, business development training, technical assistance to entrepreneurs and small businesses that receive microloans and to assist in the promotion of the program to underserved entrepreneurs and small businesses. The Florida SBDC executed MOU's with each of the two Microfinance Loan Program administrators on January 27, 2015.

In further adherence with section 288.9934(4) (e), F.S., DEO staff consulted with Florida SBDC leadership and determined that Profit Mastery University, a financial education online video curriculum, was the best tool to provide entrepreneurs and small businesses with management training, development training and technical assistance. The core teachings of Profit Mastery University are to:

- 1) Foster client relationships
- 2) Improve client cash flow
- 3) Learn about effective tools and processes
- 4) Advance client profitability
- 5) Increase client bankability.

DEO staff and Florida SBDC staff chose this curriculum because it offered convenience to the borrower and included a built-in online tracking system for data reporting.

Training Results

Following is a summary of the technical assistance and training provided by Florida SBDC to the qualified borrowers of the Microfinance Loan Program 2017-2018 ending June 30, 2018:

- Thirty small businesses were provided access to training.
- Businesses received 90 one-on-one professional consulting hours through the required training.

IV. MICROFINANCE LOAN GUARANTEE PROGRAM

The Microfinance Loan Guarantee Program is designed to stimulate access to credit for entrepreneurs and small businesses by providing guarantees for loans made to eligible entrepreneurs and small businesses. Microloan guarantees may be used for any allowable business purpose such as startup costs, working capital and the acquisition of materials, supplies, furniture, fixtures and equipment. Loan guarantees cannot exceed 50 percent of the total loan amount and are limited to loans that range between \$50,000 and \$250,000.

On Feb. 17, 2015, DEO entered into an agreement with EFI, as required in section 288.9935(3), F.S., for \$2.52 million to administer the Microfinance Loan Guarantee Program. On June 16, 2015, EFI received an additional allocation of \$2.3 million for the Microfinance Loan Guarantee Program, as a result of the lack of RFP responses for additional Microfinance Loan Program administrators. EFI received a total allocation of \$4.825 million to administer the Microfinance Loan Guarantee Program. As required under section 288.9936(2), F.S., the Microfinance Loan Guarantee Program report submitted by EFI is included in this report as Attachment A.

Chart 5. Enterprise Florida Closed Loan Production and Average Wages by Year

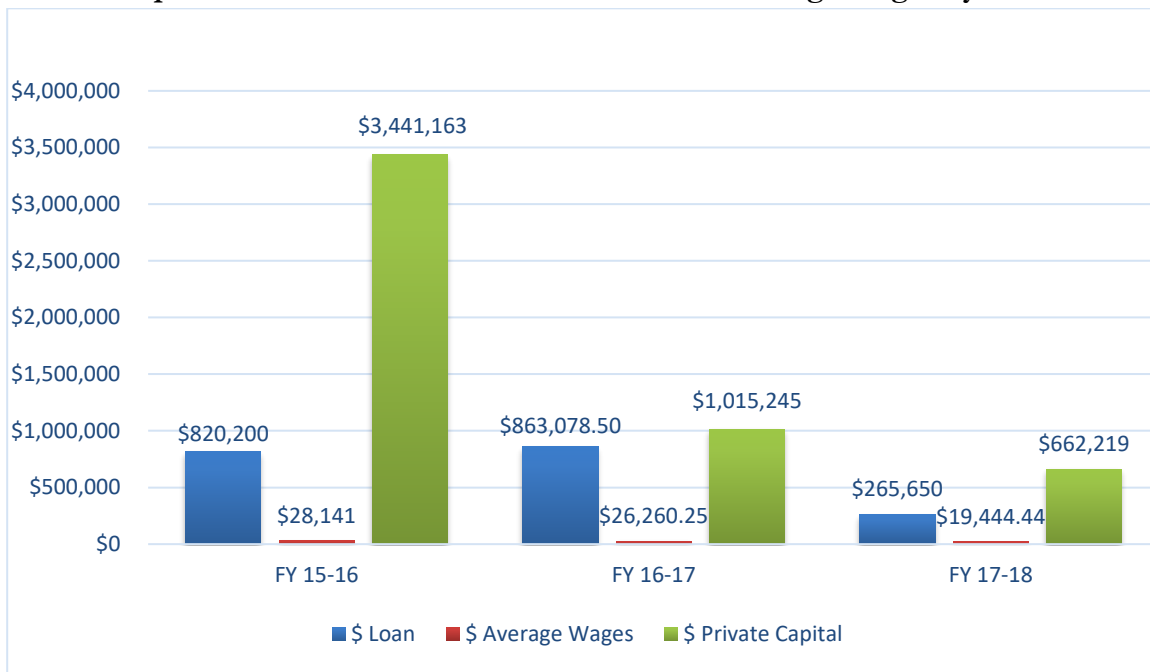
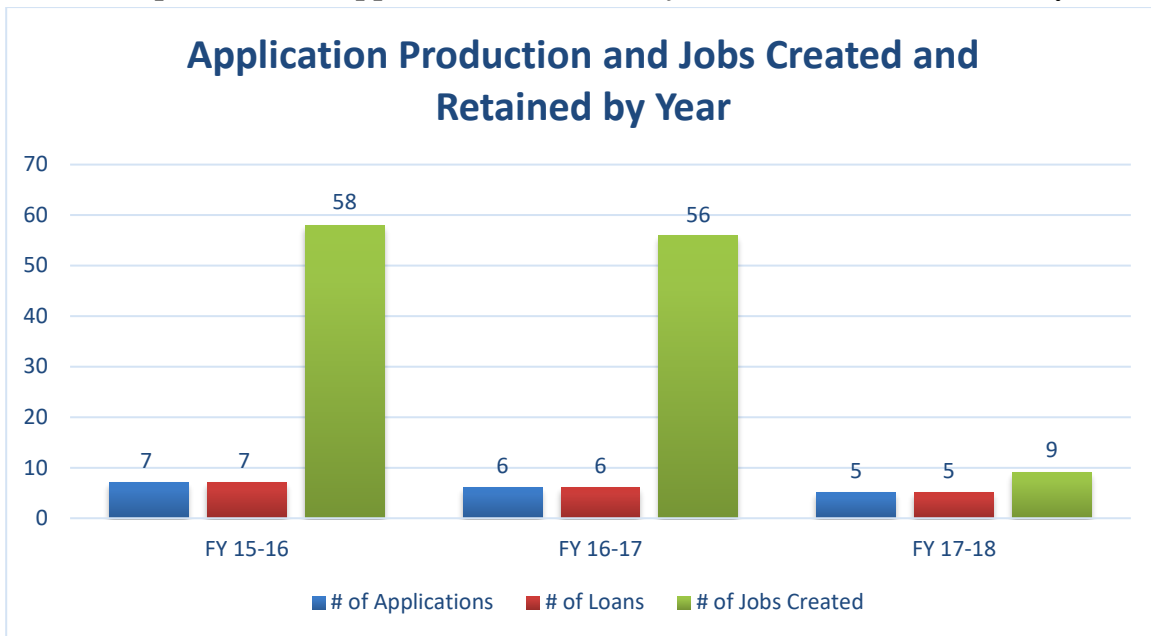


Chart 6. Enterprise Florida Application Production, Jobs Created and Retained by Year



V. RECOMMENDATIONS

There is currently no statutory authority to continue the Microfinance Loan Program; therefore, DEO does not have any recommendations for changes at this time.

VI. EXHIBIT A: Enterprise Florida, Inc. Annual Report



November 15, 2018

Florida Department of Economic Opportunity
107 East Madison Street MSC 160
Tallahassee, FL 32399

Re: **The Microfinance Guarantee Program**

Pursuant to the agreement between the Department of Economic Opportunity (“DEO”) and Enterprise Florida, Inc. (EFI) for the administration of the Microfinance Guarantee Program, attached please find the **Annual Report** for fiscal year 2017-2018, covering the activity from July 1, 2017 to June 30, 2018, and the required additional information, as follows:

Description of the Program:

The Microfinance Guarantee Program was created because the Legislature considers the ability of entrepreneurs and small businesses to access capital as vital to the overall health and growth of this state’s economy; however, access to capital is limited by the lack of available credit for entrepreneurs and small businesses in this state, and that entrepreneurs and small businesses could be assisted through the creation of a program that will provide an avenue for entrepreneurs and small businesses in this state to access credit. As a result, the Microfinance Guarantee Program was designed to stimulate access to credit for entrepreneurs and small businesses in this state by providing targeted guarantees to loans made to such entrepreneurs and small businesses. Funds appropriated to the program must be reinvested and maintained as a long-term and stable source of funding for the program. The program was modeled after the successful *State Small Business Credit Initiative* (SSBCI), launched by the state in 2011.

Eligible lenders (Lenders) for the program are those that meet the definition of the term “Financial Institution” as defined in s.655.005. “Financial institution” means a state or federal savings or thrift association, bank, savings bank, trust company, international bank agency, international banking corporation, international branch, international representative office, international administrative office, international trust company

Rick Scott,
Florida Governor
Chairman

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representative office, credit union, or an agreement corporation operating pursuant to s. 25 of the Federal Reserve Act, 12 U.S.C. ss. 601 et seq. or Edge Act corporation organized pursuant to s. 25(a) of the Federal Reserve Act, 12 U.S.C. ss. 611 et seq. This definition does not include Certified Development Financing Institutions (CDFI) that predominately serves microbusinesses.

The program has the following borrower eligibility requirements:

- a. Entrepreneur or small business located in Florida;
- b. Employs 25 or fewer people;
- c. Generates average annual gross revenues of \$1.5 million or less per year for the last 2 years;
- d. Is not a business engaged in speculative activities that develop profits from fluctuations in price rather than through normal course of trade, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business;
- e. Is not a business that earns more than half of its annual net revenue from lending activities;
- f. Is not engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants; or
- g. Is not engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted. (Included in these activities is the production, servicing, or distribution of otherwise legal products that are to be used in connection with an illegal activity, such as selling drug paraphernalia or operating a motel that knowingly permits illegal prostitution); or
- h. Is not engaged in gambling enterprises, unless the business earns less than 33% of its annual net revenue from lottery sales.

The Microfinance Guarantee program was launched in May 2015 with a fully funded allocation of \$4,825,000 to EFI. The loan requests for guarantees are initially underwritten by the Lender, and then submitted electronically to EFI for evaluation for a Microfinance Guarantee. Requests are reviewed by EFI staff for eligibility, compliance and credit worthiness. Per statute, the allocated funds act as a revolving fund which EFI leverages at levels higher than a 1 to 1 basis, but no higher than a 3 to 1 basis (i.e., \$1 of Limited Guaranty Funds for every \$3 guaranteed).

The Lender pays to EFI a one-time non-refundable guaranty fee of 2.00% of the guaranteed amount, and the term of the guarantee will not exceed 36 months.

Recommendations for change, if any:

At this time EFI has no recommendations.

Overlapping state programs, if any:

The implementation guidelines for the Microfinance Guarantee Program have been designed to minimize overlapping with existing state programs, like the SSBCI. The intent is to use the Microfinance Guarantee Program more as a complement to the SSBCI program so that a borrower that would be ineligible for one program (for example because of loan size, number of employees, etc.) may be eligible for the other.

At the federal level, other programs that could overlap with the Microfinance Guarantee Program would include the SBA Microloan program, but the simplicity of the process and reduced forms makes the Florida Microfinance Guarantee program an attractive alternative to micro lenders that are not familiar with the SBA program, or have already maximized its options for funding through this program.

Other deliverables:

- (d) Industry data about the borrowers, including the six-digit North American Industry Classification System (NAICS) code; **(see attached table)**
- (e) The name and location of lenders that receive loan guarantees; **(see attached table)**
- (f) The amount of state funds received by Enterprise Florida, Inc.; **\$4,825,000.00**
- (g) The number of loan guarantee applications received in the fiscal year; **Five (see attached table)**
- (h) The number, duration, location, and amount of guarantees made in the fiscal year: **(see attached table)**
- (i) The number and amount of guaranteed loans outstanding, if any; **\$265,650.00**
- (j) The number and amount of guaranteed loans with payments overdue, if any; **1 loan with outstanding balance of \$23,983.46**
- (k) The number and amount of guaranteed loans in default, if any; **1 loan with outstanding balance of \$23,983.46**
- (l) The repayment history of the guaranteed loans made; **Satisfactory; only one loan in default**
- (m) An evaluation of the program's ability to meet the financial performance measures and

objectives specified in subsection (3). **The Program is currently in compliance with the performance measures and objectives to maximize state funds:**

- a. Not to exceed 33% default rate (max 1 out of 3 guarantees in default, based on the max leverage of 3 to 1 allowed by the program).

Results: Of the 16 outstanding guarantees as of 6/30/18 only 1 is in default, which reflects a default rate of 3% (based on outstanding loan balance).

- b. Have a proportional risk of up to 1 to 1 (program funds vs. private funds) at all times, based on the 50% maximum guarantee allowed by the program

Results: The program currently exceeds the parameter. In FY17-18 the proportional risk was with only \$0.41 in program funds at risk vs. \$1.00 in private funds at risk (or 2.49x leverage of private funds vs. program funds)

Summary of Results:

Utilization of the Microfinance Guarantee Program in FY17-18 was consistent with the results reported for the prior fiscal year. Key indicators are:

1. Six (5) Microfinance Guarantees were closed in the fiscal year 2017-18 with a total commitment of \$265,650.00 in program funds (average guarantee \$53,130.00).
2. The program attracted a total of \$662,219 in private capital (\$531,300 in bank loans, and \$130,919 in borrower's equity) for a leverage of \$2.49 in private capital for every \$1 of Microfinance funds committed.
4. Nine (9) new jobs are projected with an average annual wage of \$19,444.44 per job.
5. Two lenders used the program in the fiscal year. Program funding concentrated in counties in Central and North Florida.

Sincerely,



Brandon Boles
VP of Finance & Accounting

VII. EXHIBIT B: Florida Small Business Development Center Annual Report



Memorandum

January 11, 2019

To: Michael DiNapoli, Deputy Chief, Business Development, Florida Department of Economic Opportunity
Mason Alford, Development Representative III, Florida Department of Economic Opportunity

From: Michael W. Myhre 

Subject: FY2017-2018 Microfinance Program Activity Report

On June 20, 2014, Governor Rick Scott signed Florida Senate Bill CS/HB 7023 into law. Among other items, the bill created two microfinance programs; the Microfinance Guarantee Program and Microfinance Loan Program. These programs aim to increase the availability of micro capital by making the loans more attractive to originate, thus increasing the availability of loans to small businesses to grow their operations. Under both programs, eligibility is limited to borrowers who are entrepreneurs or small businesses with 25 or fewer employees and revenue up to \$1.5 million per year.

Under the Microfinance Loan Program (§288.9934(4)(a)), the Department of Economic Opportunity (DEO) competitively awarded funds to two lending institutions who in turn make loans of \$50,000 or less to Florida small businesses or entrepreneurs that generate annual gross revenues averaging no more than \$1.5 million per year for the last two years. At least one dollar of that lender's funds must be at risk for every dollar of state funds committed. The two loan administrators selected by DEO included OUR Micro Lending, LLC and Access Florida Finance Corporation, dba, Florida Black Business Support Corporation.

In accordance with Florida Statute §288.9934(4)(e), the Florida SBDC Network was required to enter into a MOU with each loan administrator for the provision of providing business management training, business development training and technical assistance to entrepreneurs and small businesses that receive microloans, and to assist in the promotion of the program to underserved entrepreneurs and small businesses. The Florida SBDC Network executed MOUs with each of the two loan administrators on January 27, 2015.

Following is a summary of the technical assistance provided to the qualified borrowers of the Microfinance Loan Program from January 27, 2015 to December 31, 2017. Due to client confidentiality statute, we are not allowed to release names of the small businesses or owners.

Headquartered at

**UNIVERSITY of
WEST FLORIDA**

Florida SBDC Activity:

- 109 of 111 small businesses concerns were provided and completed required program training
- 2,258 one-on-one professional consulting hours delivered to program participants
- \$2,805,500 in loans were reported approved by Loan Administrators (average of \$15,164 per loan)

Additional Borrower Impact Reported:

- \$765,000 additional capital and owner equity accessed
- \$978,892 in government contracts acquired
- \$1,130,000 in revenue increases
- 11 jobs created/retained