

Microfinance Programs Annual Report

**Division of Community Development
Department of Economic Opportunity**

November 1, 2015



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PROGRAM HISTORY

Effective July 1, 2014, the Florida Microfinance Act was established in sections 288.993 – 288.9937, F.S. and \$10 million was appropriated to the Florida Department of Economic Opportunity (Department) for implementation. The intent of the Act is (1) to provide credit and financing to Florida entrepreneurs and small businesses in Florida access to credit and financing that otherwise may not obtain it 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 Loan Guarantee Program.

Eligibility for both programs is defined in s. 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 training and business development training to acquire the skills necessary to achieve long-term financial stability.

The Department offers another similar program, the State Small Business Credit Initiative (SSBCI), but the SSBCI Program has a stated minimum loan size of \$250,000 and as such, tends to complement, rather than compete with, the Microfinance Program.

In the summer and fall of 2014, the Department spent considerable time creating the program framework and process; reviewing best practices; working with the Small Business Development Center Network (SBDC) to determine the minimum business management and development training and technical assistance businesses needed to become sustainable; and soliciting, vetting, and executing agreements with qualified loan administrators.

As required in section 288.9934(11), F.S., in October 2014 the Department contracted with Florida State University to conduct a study to identify best practices and methods to increase access to credit along with the ability of non-profits and financial institutions to expand access to credit to entrepreneurs and small businesses in the state.

In addition, the Department monitored the execution of the memorandum of understanding between the loan administrators, Enterprise Florida, Inc. (EFI), and the SBDC through the winter of 2014 and early spring of 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.

Because of the time required to launch the program, the loan portfolio is relatively new. This report reflects the entire portfolio of all closed loans, and all loans are reported as current with no overdue payments, defaults, or payoffs. The repayment of funds awarded to the Microfinance Loan Program administrators will be provided upon expiration of the agreement period.

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 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 for the purpose of improving business sustainability.

Implementation

Section 288.9934(3)(a), F.S., required that the Department execute at least one, but no more than three, loan program administrator contracts by December 1, 2014. The Department 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 spring of 2015, the Department began receiving constituent inquiries about the program, however the two loan program administrators were limited by geography and staff capacity. To remedy this challenge, the Department issued another RFP on April 21, 2015. The second solicitation did not receive any responses, at which point the Department reallocated additional funding in the amount of \$1,825,000 to OUR Microlending LLC, for a total balance of \$4,825,000.

Results

Under the Microfinance Loan Program, there were 25 small minority business (24 Hispanic and 1 African American) loans closed (see Table 1) during the FY 2014-2015 time period. The physical location of the businesses are concentrated in the southeastern counties of: Miami-Dade (11), Palm Beach (4), Broward (8), and additionally in Duval County (2). This concentration of loans may demonstrate the program need in highly urban, dense locations of the state, but may also suggest the need for additional loan administration coverage in the less densely populated portions of the state.

Loan Administrators	Applications	Closed Loans	Closed Gross Loan Dollars	Program Share Loan Dollars	FTE Created	Average Wages
OUR Microlending, LLC	29	23	\$327,400	\$163,700	15	\$21,600
Florida Black Business Support Corporation	6	2	\$20,000	\$10,000	0	0
Totals	35	25	\$347,400	\$173,700	15	\$21,600

Because of the time required to launch the program from the summer of 2014 through the spring of 2015, the Department has included program results through September 30, 2015 (see Table 2) to demonstrate the continued increase in activity following the execution of all agreements and implementation of the program. During the period of July to September 2015, the program produced 10 additional loans in the amount of \$198,364, for a life-to-date total of \$545,764. The difference between program contributions of \$277,882 and total loan amounts is the result of program funding and loan match requirements.

Loan Administrators	Applications	Closed Loans	Closed Loans Total Dollars	Program Share Loan Dollars	FTE Created	Average Wages
OUR Microlending, LLC	37	31	\$445,400	\$227,700	19	\$21,280
Florida Black Business Support Corporation	6	4	\$100,364	\$50,182	9	\$21,429
Totals	43	35	\$545,764	\$277,882	28	\$21,327

Loan program administrators are contractually obligated to comply with all objectives established in s. 288.9934, F. S. In order 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. DEO expects to receive financial and performance audits from loan administrators for the current fiscal year by the fall of 2016.

THE 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 February 17, 2015, the Department entered into an agreement with EFI, as required in s. 288.9935(3), F.S., for \$2.52 million to administer the loan guarantee program. On June 16, 2015, EFI received an additional allocation of \$2.3 million 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 loan guarantee program. As required under s. 288.9936(2), F.S., the Microfinance Loan Guarantee Program report submitted by EFI is included in this report as Attachment A.

TRAINING

In further adherence with s. 288.9934(4)(e), F.S., Department staff consulted with Mike Myhre, the CEO of SBDC, and selected “Profit Mastery University,” a financial education online video curriculum, to provide entrepreneurs and small businesses with management training, development training, and technical assistance. The core benefits of Profit Mastery are to: 1) Foster client relationships, 2) Improve client cash flow, 3) Learn about effective tools & processes, 4) Advance client profitability, and 5) Increase client bankability. Department staff and SBDC staff chose this curriculum as it offered convenience to the borrower and a built-in online tracking system for data reporting.

In accordance with s. 288.9934(4)(e), F.S., the Florida SBDC Network was required to enter into a MOU with each loan administrator for the provision of providing business management training and 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. SBDC executed MOU's with each of the two Microfinance Loan Program administrators on January 27, 2015.

Following is a summary of the technical assistance and training provided by SBDC to the qualified borrowers of the Microfinance Loan Program for FY 2015 ending June 30, 2015:

- 22 qualifying businesses were provided access to training
 - 20 completed the required training
 - 20 of the 22 received training in Spanish
 - 18 received a total of 119.5 hours of one-on-one professional consulting following the required training

RECOMMENDATIONS

The Microfinance Loan Program has shown some success during its first year, but changes may be needed in the future to improve the utilization of both programs. The Department recommends that staff work with loan administrators and stakeholders of both programs to better define any challenges that may currently exist with the programs. Working collaboratively, all stakeholders can develop ways to enhance the program to ensure that it accomplishes the goal of stimulating access to credit for entrepreneurs and small businesses.

CASE STUDIES

Arpechi Windows, Inc., Miami, Florida

Arpechi Windows Inc. is in the business of manufacturing and installing custom windows and doors. In October, 2014, Mr. Arturo Dominguez applied for and received a microloan in the amount of \$9,500 for working capital. The loan purpose was to stock up on custom glass inventory to be used in the business' high season which runs from January to October. Seen in the picture is Mr. Arturo Dominguez (center), William Mateo of OUR Microlending (right), and Garry Thomas, program administrator (left).



Mi Columbia Linda USA, Inc., Hollywood, Florida

Mi Columbia Linda USA, Inc. imports and distributes Colombian handmade crafts. In January of 2015, Our Microlending, LLC provided a loan for business owner, Mrs. Nubia Cardenas, who used the \$9,000 working line of credit to stock inventory for the holiday season. In the photo are Mrs. Nubia Cardena (left) and William Mateo of OUR Microlending (right).



ATTACHMENTS

Exhibit A: Enterprise Florida, Inc. Annual Report

Exhibit A

Enterprise Florida, Inc. Annual Report



October 1, 2015

*Rick Scott,
Florida Governor
Chairman*

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

*Bill Johnson,
Florida Secretary of Commerce
President & CEO*

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**, covering the activity as of September 30, 2015, and the required additional information, as follows:

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INTERNATIONAL TRADE & DEVELOPMENT

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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 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 \$4,850,000 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:

EFI is working with our stakeholders to determine the best processes and make 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.

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*Bill Johnson,
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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.

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Current availability and access to credit for small businesses in FL:

According to the most recent Private Capital Access Index from Pepperdine Graziadio School of Business and Dun & Bradstreet¹, Florida small business loans were awarded at a rate far below the national average in Q3, despite the state beating the national average for planned growth. The highlights from this study are as follows:

1) Florida's need for financing seems to be about on par with the national averages, according to the survey results. Thirty-six (36%) of small and medium businesses in Florida surveyed reported that they planned to raise financing in the next 6 months, and 62% reported needing that financing due to planned growth;

2) Though need is similar to the national average, access to capital seems to be lagging far behind in Florida. Though 45% of small and medium businesses surveyed attempted to get a bank loan in Q3, only 24% were successful. While this is up from Q2, it's still 13% below the national average. This suggests that banks are still struggling in making capital accessible to small businesses, and credit enhancements (like Microfinance Loan Guarantees) may play an important role in reducing risk and facilitating access to capital in the immediate future;

3) Likely due in part to the challenges faced accessing capital, 63% of Florida small and medium businesses surveyed reported feeling that their growth opportunities are restricted. This is 6% above the national average for Q3. And while the national average dropped compared to Q2, Florida's percentage actually increased, and;

4) One bright spot in the survey findings is that the percentage of Florida businesses which had to resort to using personal assets is down 2% from Q3 of 2014. This is significant as the national percentage is up 6% year over year. This means that despite the challenges that seem to face Florida businesses looking for capital, they are not resorting to personal assets at an abnormally high rate. This last point suggests that local lenders may have started to slowly open up and increase small business lending, which may have been helped by state programs like SSBCI and Microfinance.

In summary, although Florida small businesses have a collective positive outlook for growth, access to capital continues to be a challenge and lending activity continues to lag

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¹ <http://accesstocapital.com/florida-small-business-loans-hard-to-get-in-q3-despite-planned-growth-according-to-the-pca-index/>



behind compared to other states, resulting in a generalized feeling of lack of opportunities for access to capital.

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.;
\$4,850,000.00
- (g) The number of loan guarantee applications received;
Three
- (h) The number, duration, location, and amount of guarantees made;
(see attached table)
- (i) The number and amount of guaranteed loans outstanding, if any;
\$292,600.00
- (j) The number and amount of guaranteed loans with payments overdue, if any;
None
- (k) The number and amount of guaranteed loans in default, if any;
None
- (l) The repayment history of the guaranteed loans made;
Satisfactory; No loans are 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 following 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: Default rate to date is 0%
 - 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

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Results: The program currently exceeds the parameter, with only \$0.19 in program funds at risk vs. \$1.00 in private funds at risk (or 5.2 leverage of private funds vs. program funds)

*Rick Scott,
Florida Governor
Chairman*

Summary of Results:

Despite a slow start, the Microfinance Guarantee Program gained traction in the first quarter of the fiscal year, achieving the following results:

*Bill Johnson,
Florida Secretary of Commerce
President & CEO*

1. Three (3) Microfinance Guarantees were approved and closed with a total commitment of \$292,600 (average guarantee \$97,533).
2. 67% (2 out of 3) of recipients are minority-owned businesses.
3. The program attracted a total of \$1,703,341 in private capital (\$1,385,200 in bank loans) for a leverage of \$5.20 in private capital for every \$1 of Microfinance funds committed.
4. Thirteen (13) new jobs are projected with an average annual wage of \$36,066.67 per job.
5. No geographical concentration - borrowers and lenders are geographically dispersed in the state.

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Sincerely,

David Rodríguez
Director – Capital Programs

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MICROFINANCE GUARANTEE PROGRAM

Annual Report as of: 9/31/2015

Unique ID	Borrower	NAICS	Minority (B,W,V)	Minority Ethnic Group	Borrower Zip Code	County	Rural	LMI	Underserved / Distressed	Date closed	Equity	Program qualifiers						Other concurrent financing	Leverage	Jobs created	Avg annual wage for new jobs	Lender	Lender Type	Lender City	Lender State	Lender Zip Code		
												Must not exceed 25	Must not exceed \$1.5MM	Must not exceed \$250,000	Must not exceed \$125,000	Must not exceed 50%	Must not exceed 36 months											
												Current FTE's	Average gross revenues (last 2 yrs)	Loan amount	Amount guaranteed	Percentage guaranteed	Term (months)											
EFI MG-01	God's Little Blessings LLC	624410	B, W	African Amer	32304	Leon	No		No	31-Jul-15	\$ 25,141.00	1	\$ 13,000.00	\$ 105,200.00	\$ 52,600.00	50%	36	\$ -	2.5	1	\$ 37,440.00	First Commerce Credit Union	Credit Union	Tallahassee	FL	32314		
EFI MG-02	Dutch Enterprises, Inc.	811110	V	NA	32804	Orange	No		No	28-Aug-15	\$ 33,000.00	3	\$ 512,000.00	\$ 240,000.00	\$ 120,000.00	50%	36		2.3	7	\$ 45,760.00	Harbor Community Bank	Bank	Kissimmee	FL	34741		
EFI MG-03	Kairali Drycleaners, Inc.	812320	W	Indian	33594	Hillsborough	No		No	9-Sep-15	\$ 260,000.00	20	\$ 753,500.00	\$ 240,000.00	\$ 120,000.00	50%	36	\$ 800,000.00	10.8	5	\$ 25,000.00	Sunshine Bank	Bank	Tampa	FL	33602		
												\$ 318,141.00	8	\$ 426,166.67	\$ 585,200.00	\$ 292,600.00	50%	36	\$ 800,000.00	5.2	13	\$ 36,066.67						
<i>Total</i>													<i>Avg</i>	<i>Avg</i>	<i>Total</i>	<i>Total</i>	<i>Avg</i>	<i>Avg</i>	<i>Total</i>	<i>Avg</i>	<i>Total</i>	<i>Avg</i>						

Applications received in the quarter (#)	Amount \$\$ (cumulative)	Loan in default (#)	Loans in default (\$\$)	Loans with payments overdue (#)	Loans with payments overdue (\$\$)
3	\$ 292,600.00	0	\$ -	0	\$ -