IOWA SMALL BUSINESS COLLATERAL SUPPORT PROGRAM

IOWA Economic Development

OVERVIEW

The Iowa Economic Development Authority (IEDA) is committed to promoting economic growth and innovation in communities, and empowering small business owners to change their lives and make an impact in their communities.

Through the Small Business Collateral Support Program, the state of Iowa can provide businesses up to 40% of a collateral gap needed to secure a loan through a commercial lender, with support available for loans up to $500,000, or subject to case-specific circumstances. The program was established through the U.S. Treasury State Small Business Credit Initiative (SSBCI).

BACKGROUND

State's contribution

IEDA will offer collateral support up to 40% of the loan amount. The state will only participate in the amount needed to secure the loan based on the lender's analysis of collateral shortfalls.

Program access for Small Businesses

Small businesses will be encouraged to contact their current lender and ask about the program. Alternatively, lenders may also promote the program if they are a participating lender in the program. Once the lender has evaluated the collateral of the borrower and any gaps that exist to securing the loan, the lender can apply for the program on behalf of the applicant for the remainder collateral amount needed to secure the loan. The Small Business Collateral Support Program is offered on a first-come, first-served basis to qualified Iowa businesses until funds are no longer available, however, once loans are repaid, collateral deposits will be returned to the state and recycled back into the program.

Responsibility for setting the loan terms

Participating lenders are responsible for their own credit underwriting decisions and loan originations. IEDA ensures compliance with the program requirements, approves the state's collateral support level and reports to the U.S. Treasury based on information shared by the lender as required in the Provider Participation Agreement (PPA) that must be on file with IEDA to participate in the program.

State's responsibilities

IEDA's responsibility is to ensure compliance with U.S. Treasury collateral support requirements and reporting. IEDA will review each participation agreement and collateral support application for compliance with SSBCI standards. IEDA may request additional information from the lender or borrower if necessary to approve applications. Standard reporting documentation will be provided to participating lenders, and an IEDA point of contact will request quarterly reporting data on any collateral support loans. IEDA will market and promote the Small Business Collateral Support Program to potential applicants and Iowa's lending institutions. If approved for collateral support, IEDA will open a pledged collateral support account with the lender.

Lender's responsibilities

By signing the PPA, the lender will agree to service the loan and any collection on loan payments and remittance to the state's purchased portion. The lender will agree to provide quarterly reports on collateral support loans using the standardized documentation provided by the state. The lender will agree to notify the state, in writing, of any acceleration of payment under any of the loan documents; the commencement of any collection proceeding against the borrower or any co-guarantor or co-signer of the loan; the seizure, sale, transfer, assignment, foreclosure or attempt to exercise against any collateral securing the loan, any forbearance or similar arrangements or any written notice provided by the lender to the borrower, guarantor or other endorser of the loan. The lender will notify the state, in writing, regarding any commencement of collection proceeding against the borrower or any co-guarantor or co-signer of the loan; the seizure, sale, transfer, assignment, foreclosure or attempt to exercise against any collateral securing the loan. The state will allow the lender to lead in attempt to recover assets and negotiate any excess recoveries because of its subordinate position.

Loan process

The state will not perform its own underwriting but may request more information from the lender before determining to provide collateral. The lender is notified of the decision, and if approved, prior to closing, IEDA will open a pledged collateral support account with the lender. At loan closing, the lender will execute a collateral deposit agreement with IEDA, certifying that it has followed prudent underwriting loan processes and the collateral support was critical in the lender making the loan eligible. Funds are deposited into an account with the financial institution, pledged as additional support for the loan. Upon maturity, deposits are returned to IEDA for recycling to other qualified borrowers.

ELIGIBILITY

Borrower qualifications

To be eligible for collateral support, businesses/business owners must meet the following requirements:

- At least 18 years of age
- Located in the state of Iowa
- Privately owned business
- Operating for a profit
- Have an average gross business income of less than $4 million, computed as an average of the preceding three fiscal years
- Must have a credit score above 600
- Must have less than 125 employees across all locations and divisions
- Cannot earn a portion of revenue from lending activities
- Must meet other criteria outlined in the application by the lender and/or U.S. Treasury requirements
- Cannot have a principal or investee with 20% or more of the ownership stock or stock equivalent who has been convicted of a sex offense against a minor (as defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. 16911))

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Lender qualifications

- A depository institution, insured credit union or community development financial institution that is experienced in the making of loans to businesses of the type provided for under the SSBCI regulations.
- The institution has a physical office in the state of Iowa and is regulated by the Iowa Division of Banking, the Federal Reserve Board, Iowa Finance Authority, Iowa Division of Credit Unions or similar regulatory agency.
- The lender is in material compliance with all federal and state laws, rules and regulations.

Uses of loan funds

- Start-up costs
- Generate more working capital
- Invest in new employees
- Business improvements
- Purchase of equipment
- Inventory and supplies
- Marketing and advertising
- Specific operating expenses

Prohibited uses of funds

- Paying off existing business or personal debt
- Passive or investment real estate activities
- Contributions to charities or non-profits
- Lending
- Illegal activity
- Businesses may not be involved in the adult entertainment industry or be subject to any federal or state liens
- Purchase of farmland or farm equipment
- Intangible property/resources

Loan eligibility

- Eligible loans must meet a lender's credit underwriting criteria.
- SBA 7(a), SBA 504 and USDA loans are ineligible as are any loans that have a government guarantee.

Program limitations

- Minimum loan requests allowable for collateral support are $50,000.
- Maximum loan requests for collateral support are $500,000, or subject to case-specific circumstances.
- Participating lenders must always maintain at least a 20% interest in the loan.

Fees

- Loans with maturities of one year or less will be assessed a 0.5% fee of the amount of the state's purchased participation on the loan.
- Loans with maturities of one year to five years will be assessed a 1% fee of the amount of the state's purchased participation on the loan.
- Loans with maturities of five to ten years will be assessed a 1.5% fee of the amount of the state's purchased participation on the loan.
- Loans with maturities of ten or more years will be assessed a 2% fee of the amount of the state's purchased participation on the loan.