



Survey of Revolving Loan Funds and Entrepreneurial Capital: Technical Assistance, Co-Financing, Seed and Equity Capital

December, 2011

Dr. Mark A. Edelman and Sandra Charvat Burke

Revolving loan funds and entrepreneurial capital are important issues for Iowa and its entrepreneurs. The survey¹ reported here was conducted to learn more about the characteristics and practices of revolving loan funds in Iowa. The funds responding to the survey were from across the areas and regions of Iowa and involved many kinds of agencies and entities.^{2,3} This report examines findings from questions in the survey that asked for information about technical assistance, co-financing, and seed and equity capital issues.²

Technical Assistance and Business Workshops

A number of survey questions were asked regarding the role of the revolving loan fund sponsors in providing technical assistance for local entrepreneurs. Of the 67 funds answering the question, 73.1 percent indicated that they provide technical assistance to the loan client during the loan application process although 22.4 percent do not (Question 33). Somewhat fewer funds said they provide technical assistance during the term of the loan. Sixty-six percent of the funds provide technical assistance during




33. Is technical assistance provided to the loan client during the loan application process?

		Response Percent	Response Count
Yes		73.1%	49
No		22.4%	15
Not Sure		4.5%	3
answered question			67
skipped question			15




34. Is technical assistance provided to the loan client during the term of the loan?

		Response Percent	Response Count
Yes		66.2%	45
No		27.9%	19
Not Sure		5.9%	4
answered question			68
skipped question			14




35. Would access to additional business technical assistance coaching improve your loan client's odds for business success?

		Response Percent	Response Count
Yes		57.7%	41
No		12.7%	9
Not Sure		29.6%	21
answered question			71
skipped question			11

36. In the past, has the fund co-sponsored local business development workshops for entrepreneurs?

		Response Percent	Response Count
Yes		20.5%	15
No		76.7%	56
Not Sure		2.7%	2
answered question			73
skipped question			9

37. Would the fund be interested in co-sponsoring local business development workshops for entrepreneurs in the future?

		Response Percent	Response Count
Yes		47.1%	33
No		22.9%	16
Not Sure		30.0%	21
answered question			70
skipped question			12

the loan term while 27.9 percent indicated no technical assistance was provided during the term of the loan (Question 34). Many funds did indicate, however, that more business assistance coaching would help their loan clients. Of 71 respondents answering the question, 57.7 percent said that access to additional business technical assistance coaching would improve their loan client's odds for business success. A minority (12.7%) did not think that more business coaching would improve their client's potential for success while 29.6 percent indicated they were not sure whether it would make a difference (Question 35).




For the most part, the revolving loan funds had not sponsored local business development workshops. Only 20.5 percent indicated that they had previously co-sponsored such workshops for entrepreneurs while more than three-fourths said they had not (Question 36). Many funds

(47.1%) did express interest in sponsoring such workshops for entrepreneurs in the future (Question 37).




Co-Financing Collaboration

A number of survey questions asked about revolving loan funds co-financing and collaboration activity with other lenders, economic development entities, and other agencies. A large majority of the funds (85.7%) said that they made loans that were co-financed with banks or credit unions. However, fewer entities (51.4%) indicated such co-financing with local, regional or statewide development organizations (Questions 38, 39). The funds were less likely (42.5%) to have loans co-financed with state or federal agencies and reported the lowest level of co-financing (32.9%) with local government units (Questions 40, 41). A significant majority of the funds (82.9%) indicated that they take subordinated positions to other lenders on a loan (Question 42).




38. Are current loans co-financed with banks or credit unions?

		Response Percent	Response Count
Yes		85.7%	60
No		11.4%	8
Not Sure		2.9%	2
answered question			70
skipped question			12




39. Are current loans co-financed with local, regional or statewide development organizations?

		Response Percent	Response Count
Yes		51.4%	37
No		43.1%	31
Not Sure		5.6%	4
answered question			72
skipped question			10



40. Are current loans co-financed with local units of government?

		Response Percent	Response Count
Yes		32.9%	24
No		57.5%	42
Not Sure		9.6%	7
answered question			73
skipped question			9

41. Are current loans co-financed with state or federal agencies?

		Response Percent	Response Count
Yes		42.5%	31
No		49.3%	36
Not Sure		8.2%	6
answered question			73
skipped question			9

42. Does your loan fund take subordinated positions to other lenders?

		Response Percent	Response Count
Yes		82.9%	58
No		14.3%	10
Not Sure		2.9%	2
answered question			70
skipped question			12

In regards to whether the revolving loan fund had ever co-financed a project with any of the other local, regional or statewide revolving loan funds, nearly two-thirds (63%) reported they had (Question 43). An even larger percent (74.6) indicated they would be willing to consider co-financing a project with other local, regional, or statewide funds in the future (Question 44).




One of the survey questions asked about interest in co-financing with a regional or statewide program if a number of possible services were included. Nearly 85 percent of the respondents were interested in co-financing if the program provided loans to entrepreneurs requesting \$5,000 to \$50,000. Fewer funds, although still a majority, noted interest if the regional or statewide program provided: loans to entrepreneurs requesting \$50,000 to \$250,000 (53.8%); regular quarterly technical assistance onsite for client to review financials and business status (59.6 %);

site visits to set up accounting systems, conduct customer research or implement marketing plans (57.7 %); or business coaching online as needed during the loan term (53.8 %) (Question 47). Using co-financing as a fund management strategy for diversifying or spreading risks was of interest to 51.6 percent of the fund managers while opportunities to leverage local funds or to multiply funds by providing matching funds was of interest to 43.8 percent of the fund managers. Nearly half of the respondents noted they were not sure about shared risk options (Question 48).




Seed and Equity Capital and Priorities

When asked if the local fund would have interest in a variety of seed or equity fund activities, 33.9 percent of the respondents indicated that they would have interest in organizing a local seed capital or equity fund, 44.1 percent were interested in opportunities for local funds to network






43. Has your fund ever co-financed a project with any of the other local, regional, or statewide funds?

		Response Percent	Response Count
Yes		63.0%	46
No		27.4%	20
Not Sure		9.6%	7
answered question			73
skipped question			9




44. Would your fund be willing to co-finance a project with other local, regional or statewide funds?

		Response Percent	Response Count
Yes		74.6%	53
No		7.0%	5
Not Sure		18.3%	13
answered question			71
skipped question			11





47. Would your fund be interested in co-financing a project with a regional or statewide program if the program provided the following services? (Check all that apply)

		Response Percent	Response Count
Loans to entrepreneurs requesting \$5,000 to \$50,000.		84.6%	44
Loans to entrepreneurs requesting \$50,000 to \$250,000.		53.8%	28
Regular quarterly technical assistance visits onsite for client to review financials and business status.		59.6%	31
Targeted site visits to set up accounting systems, conduct customer research, or implement marketing plans.		57.7%	30
Business coaching online as needed during the loan term.		53.8%	28
answered question			52
skipped question			30

48. Would your local loan fund sponsor have interest in... (Check all that apply)

		Response Percent	Response Count
Opportunities to co-finance entrepreneurial business loans with a regional or statewide fund to diversify or spread risks in your fund?		51.6%	33
Opportunities to provide matching funds for shared risk pools to access federal or foundation funds if loan capital was allocated for deals in your area?		43.8%	28
Not Sure		45.3%	29
answered question			64
skipped question			18

49. Would your local fund sponsor have interest in... (Check all that apply)

		Response Percent	Response Count
Organizing a local seed capital or equity fund?		33.9%	20
Opportunities for local funds to network with regional or statewide seed capital or equity funds?		44.1%	26
Opportunities to provide matching funds for shared-risk pools to access federal or foundation equity funds if equity capital was allocated for deals in your area?		28.8%	17
Not Sure		49.2%	29
answered question			59
skipped question			23

50. In your opinion, what is the most important single action for improving entrepreneurial development in Iowa?

Count	Response
10	More equity funds, more risk taking by financial entities, more early stage capital, seed funds, more rural angel funds, community driven investment and entrepreneurial development program
8	Rural technical assistance, SBDC expansion, startup assistance
7	Entrepreneurial and financial education
6	Better access to low interest loan funds
3	Increase entrepreneurial capacity and ideas
3	More awareness of funds, TA availability, matching entrepreneurs with resources
2	Entrepreneurial grants and business plan competition
1	Rehab buildings for entrepreneurial businesses
1	Competitive tax system in Iowa
1	Covering health care for entrepreneurs
42	Total Responses

with regional or statewide seed capital or equity funds, and 28.8 percent were interested in the concept of providing local matching funds for shared-risk pools, if equity capital was allocated for deals in their area (Question 49). Nearly half of the respondents, however, (49.2 percent) were not sure of their interest in the seed and equity capital concepts.

Finally, the respondents were asked about what they thought was the most important single action for improving entrepreneurial development in Iowa. Although there were a variety of answers from the 42 respondents who answered the question, they tended to cluster around several types of suggested actions. The need for more equity funds, early stage capital, seed funds, or angel investors

was a top priority noted by 10 of the respondents. Others saw a need for more technical assistance or SBDC help along with entrepreneurial and financial education, as well as better and more consistent access to low interest loans across the state. Additional suggestions included increased entrepreneurial capacity and ideas, providing better awareness of resources available, business plan competitions, rehabilitation of buildings, a more competitive tax system in Iowa, and health care coverage for entrepreneurs (Question 50). These suggestions provide a path of “next steps” that could be considered by local loan funds and development groups as they proceed to enhance the entrepreneurial environment in their local areas and regions.

¹This project was carried out by the Community Vitality Center at Iowa State University with the assistance of a multi-agency taskforce for the Iowa Small Business Assistance Connection (ISBAC), a newly formed statewide alliance of entrepreneurial support networks. The survey was conducted in the summer of 2011. Loan fund managers

responded to the internet survey after first being contacted by email. There were 82 responses but only 81 were usable for a response rate of 41%.

²Additional reports in this series examine other topics covered in the survey and can be found on the CVC web site at: www.cvcia.org.

³Web site resources:

MyEntrenet: www.myentre.net

U.S. Department of Agriculture, Iowa Rural Development: www.rurdev.usda.gov/SupportDocuments/IA_rlf.pdf

Iowa Association of Regional Councils of Government: www.iarcog.com

Iowa Area Development Group: www.iadg.com

Professional Developers of Iowa: www.pdiowa.com

Iowa Economic Development Authority: www.iowaeconomicdevelopment.com

Iowa MicroLoan: www.iowamicroloan.org

Community Vitality Center: www.cvcia.org

*Community Vitality Center
183 Heady Hall
Iowa State University
Ames, IA 50011-1070
515-294-6144
cvc@iastate.edu
www.cvcia.org
December, 2011*

... and justice for all

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at 202-720-2600 (voice and TDD). To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue SW, Washington, DC 20250-9410, or call 800-795-3272 (voice) or 202-720-6382 (TDD). USDA is an equal opportunity provider and employer.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Cathann A. Kress, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.

IOWA STATE UNIVERSITY
University Extension