

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 13: Iowa Foundation for Microenterprise and Community Vitality

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Description: *Craig Downs and Mark Edelman discuss the Iowa Foundation for Microenterprise and Community Vitality and the Community Vitality Center at Iowa State University. Episode includes a discussion of the Microenterprise Loan Fund and the technical assistance available at the Community Vitality Center. Hosted by Steve Adams of Iowa State University Extension and Outreach.*

Transcript:

[music]

Steve Adams, host 00:10

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 00:54

Today, our guests are Craig Downs, president and senior loan administrator for the Iowa Foundation for Microenterprise and Community Vitality, also known as the IFMCD, and Dr. Mark Edelman, director of the Community Vitality Center, also known as the CVC. They're our guests today. Craig and Mark, thank you for being here today.

Mark Edelman 01:18

You're welcome.

Craig Downs 01:19

Happy to be here.

Steve Adams, host 01:20

In this podcast, we'll be discussing some of the programs that IFMCD and CVC have been using for years to help microbusinesses start up and expand. While at the same time they are also assisting rural communities in both planning and improvement through data and community discussion. Craig, let's start with you. Can you first give us a little background on the how and why of IFMCD and how long the organization has been existing?

Craig Downs 01:50

All right. Absolutely. And just for edification a little bit, I will talk about Iowa Microloan, rather than our full handle, because it's long and confusing and hard for me to say sometimes. So IFMCD, Iowa Microloan, all the same entity. But we've been around since 2008. And our start really came in 2006 when Dr. Edelman and a group of people around the state of Iowa did a survey about credit needs



within the state and areas of credit that were not being served—in today's vernacular, probably more like credit deserts.

Craig Downs 02:27

But they started showing up at the \$250,000 range and became very acute at \$50,000, which really kind of helped locate and focus on the microloan program, because that's the max in the microloan program. So it's been around for some period of time, became a legal entity in '08. First loan pool and money was closed from the SBA in 2008. The first loan actually was funded the end of February 2009. So that's kind of the real short history of where we got started and how we get started. But it's [unclear] group of leaders with the foresight to look at credit issues across the state for businesses is really where the emphasis and the idea that came from originally.

Steve Adams, host 03:11

I really like, no, I really like that phrase credit desert, you know, as we hear a lot about food deserts, but hard to believe that in a state as wealthy as Iowa that there are places out there that do not have access to credit.

Craig Downs 03:25

Yeah, correct, and our clients all, to qualify in our program, must be unable to obtain traditional credit from your local bank, credit union savings situation, whatever it may be. So we do kind of a niche lending market for those people that can't obtain traditional credit. And there's many reasons for that. We came about in 2008 in the recession time, and there were a lot of people at that point losing jobs, changing occupations, and finally realizing we have this as the time to pursue their dream and pursue their idea for a sole proprietorship or a business. So that's kind of where in 2008 it was a really a ripe opportunity, I think, to fund and do some things for people. But because of job losses, income deterioration and various things, they were unable to access traditional credit. So it was was a big time for us to get started.

Steve Adams, host 04:18

Well, as we like to call them, those end up being necessity entrepreneurs. And I've gotta ask you, since you brought that up, do you foresee that COVID-19 is going to create that same type of environment that we came out of the recession in 2008?

Craig Downs 04:33

I think it has the potential to do just that. Currently, my feel is in talking with people, they're just a little shell-shocked and still trying to get their arms around what's going on with job changes, those kind of things. As you know, the unemployment has been growing dramatically from a very stable and growing economy, all of a sudden the bottom fell out and things have kind of fallen apart. But there's enough unemployment and other aid and some business aid that's eligible. People are also [unclear] before. I think it's delaying that a little bit, but there's quite a bit of conversation. Most of the people reaching out now are probably economic-development related more than just entrepreneurs, which has kind of surprised me a little bit. But I think people are laying the stage and the groundwork to get ready for what I think is going to be a bigger demand. Absolutely.

Steve Adams, host 05:24

So who is eligible for an Iowa microloan, and how would you go about applying if you wanted to?

Craig Downs 05:30

Our requirements to be eligible for microloans, you must be 18 years of age or older, and your business must be located anywhere within the confines of the border of the state of Iowa. We can operate in all 99 counties. It's not a real big issue except for the border counties. If the business is in

Iowa, sometimes the owner may not live in Iowa, it might be across the border, across the river. That's still based on a case by case basis, it can be eligible. We do small deals, they must have five or fewer full time employees to start with.

Craig Downs 06:03

We average about one and a half employees per closed loan, so we're looking at really small deals. Our limits are anywhere from \$5,000 to \$50,000. We can amortize over a period not to exceed six years. Current pool rate is 8.125 is the rate to the clients, fixed rate for the term of their loan. With typically monthly payments, we have the ability to do some seasonal payments, but most things we're looking at are typically on a monthly payment.

Steve Adams, host 06:30

So what types of businesses have you typically financed through this microloan program, Craig?

Craig Downs 06:36

Well, in the 150 years or so loans that we made, we've had a myriad of the businesses, pretty much everything from soup to nuts, if you will. Our one concentration in types of business has been hair salons. And that's been a real mix between rural and urban locations. And I don't know if you heard this story, but but I'm going to tell it again. Actually our second loan client was a hair salon in Oskaloosa, and the lady had been working for a large hair salon, a chain, for about three years and built up several clients and wanted to go on her own.

Craig Downs 07:09

And her projections came in and she was predicting that she would keep 80% of her clients. And me being the skeptical soul that I am and the recovering banker in me come out and said, that's a little high, they need to redo that. So we lowered them, still was a breakeven point at about 60. And so we approved the loan, she went into business, things were sailing along at the end of the first year. We had a meeting and I went down and met with her and talked and went through the numbers. And sure enough, she did not keep 80% of our own clients. But instead of 80% she kept 100%.

Craig Downs 07:42

Loyalty to hair salons is absolutely amazing. And that's been throughout the dozen or so hair salon loans we've made. People follow their person just without fail. It's absolutely amazing. So it's been a great, great success industry for us. We've done a at least 12 I think now, scattered around the state of Iowa. We have done many retail stores, art supplies, party supplies, you know, balloons and all those kind of things. They've been mixed between smaller towns and larger towns.

Craig Downs 08:13

One of our early clients was an IT repair person in rural Iowa, north central Iowa, and he did an amazing job. We've done some food trucks, mostly in urban areas because that's where the congregation of people may be. We have a mobile ag repair shop that was in northeast Iowa that was an absolute star for us, did really really well, and capitalized on people not wanting to move the dealership, took his truck and his tools and his equipment and met them on farm to do repairs.

Craig Downs 08:45

Property inspection service. We've had small manufacturing. Had a goat cheese operation out in western Iowa that was successful. Fruit and berry production in Lansing, Iowa. Nursery, campground, many business ventures all in one up around Guttenberg did quite well. We've had two music lesson clients in metro areas, but very successful as well. One of those is on our books currently. Well actually, we got 200 books currently. And they're adapting their lessons to online services and it's going actually better than I think anyone thought. So that's going well.

Craig Downs 09:23

Healthcare staffing up in far northeast Iowa, single-person shop doing health, they're staffing nurses predominantly for nursing home and hospital on a temporary basis. Have a municipal bond advisor that went on her own here in central Iowa. Currently have a plastic molding company down in far southern Iowa has just become operational and started off really well. They're a little concerned about how this is going to go currently. They have still several contracts in place and the manufacturing is not going to be the issue. They're concerned about collection of receivables.

Craig Downs 09:57

Car detail shop on the west side of Des Moines, appliance repair in Dallas Center. One of our most successful clients is a metal roofing panel manufacturer. Her business is located on the east side of Des Moines, but serves the entire state from there basically. But she has done a wonderful job in making that business really sing. That's just, and there's many others, but that's just a sample of some of the ones we've done.

Steve Adams, host 10:21

Well, a couple of comments there, your hairstylist and the 100% following there. I've always joked that hairstylists probably know more about you than you know about yourself. So that's one reason that there's such a loyalty there. You develop that bond, that relationship with that person. And I'm happy to hear you admit that you're a recovering banker. I'm sure there's a 12-step program out there somewhere for that.

Craig Downs 10:47

[laughter] Pretty much, pretty much. Yeah, the hair salons are really interesting. Now of course they were going along great guns and then all of a sudden, just slam, the door shut and the cash flow is stopped. So the pent-up demand is going to be huge for them, I assume.

Steve Adams, host 11:01

Well, and I've been paying it forward with my hairstylist. Although I'll have to say I don't think my hair has been this long since the 70s, but that's another story as well. I imagine and this, and I heard you kind of mentioned it earlier, Craig, but you've probably got a lot of primary and secondary partners that are working with you in this microenterprise development effort. Could you kind of touch on them? I did go up to your website, there was a long list of folks that have participated or have been interested in what you're trying to do there.

Craig Downs 11:32

Right, some of the predominant partners that we work with on an ongoing basis. But obviously, the Small Business Development Centers across the state of Iowa are key in client referrals and client servicing and in doing a lot of pre loan type help for clients with applications and budgets, projections and those type of things. So they're an absolutely wonderful resource. SCORE can be a big help whenever there's a good successful and active SCORE chapter, they can kind of range the state. I don't know that we have full-wide state coverage but different parts of the state have some excellent coverage.

Craig Downs 12:08

We use a lot of regional partners. They can be city groups, county groups, multi-county groups, we have a very active group down in Ottumwa that started out, they had some money they wanted to put into the program and we use that as loan loss reserve money to multiply their efforts and leverage their efforts. And we've had about eight clients I think in that particular area. So they've been very active and still are active. And so that's been a great deal.

Craig Downs 12:37

Sometimes they're organized groups, entities, other times they're just groups with an interest in either economic development or growth of small businesses. The Ottumwa project came about with the desire to improve minority businesses, both in number and quality. So several partners throughout the state and from one corner to another and border to border essentially. And some projects are very noted, very pointed towards individual areas of a city or a county. Others are a much wider and broader area. So quite a few.

Steve Adams, host 13:12

I see also that you're a 501 c 3 charitable nonprofit, has that helped or hurt your efforts here in Iowa?

Craig Downs 13:20

Well, I think overall it's a big plus, it allows us to access some grant funding that we could not if we were not a nonprofit. We've been able to receive donations, and those are tax deductible as a 501 C 3. So overall, I think it's a plus. I was not here and part of the group when the 501 C 3 was organized, and that was a lot of work and effort to get that done. And that I think has been very, very beneficial to us.

Steve Adams, host 13:47

Craig, could you just real quickly, again, tell us how much a person could borrow from Iowa Microloan and again, what the interest rates and terms are, just to reinforce that point?

Craig Downs 13:58

Absolutely. Our loans range from \$5000 to \$50,000 in size, we can amortize over a period not to exceed six years, our current interest rate is 8.125. And typically it's a monthly payment. Not always, but typically it's a monthly payment.

Steve Adams, host 14:13

Well, during COVID-19, have you gone to an interest only type payment program? Or how are you working with some of your loans that are out there right now? Have you been forced into looking at things a little bit differently?

Craig Downs 14:26

I was looking for an opportunity to talk about this. But there's a wonderful thing that's going on in our program that I have never seen before anywhere. We are an SBA microlender, which means that we're an intermediary for them. We basically borrow our money from SBA, lend it to our clients, when our clients then pay us back, we also pay SBA back. We also get some technical assistance help annually from SBA. But currently what they're doing, SBA has agreed to our clients that are in good standing, which is almost all of our clients—in fact, all of our clients at this point—is making the next six months monthly payment for our clients.

Craig Downs 15:04

So our clients are getting a free ride, if you will, or a deferral for up to six months, from any personal payments or business payments that they must make. We've got some clients are going for six month deferral we've got some clients are going for less. We got some clients are continuing on with payments, just trying to take this opportunity to reduce debt faster. But part of the CARES Act legislation gave SBA and the microloan program funds to make these payments for six months. So that's a huge help, particularly to those clients that are closed.

Steve Adams, host 15:37

Again, you brought up the phrase "shell-shocked" at the moment, crisis mode may be another way of looking at this. But all of that I know it's just got to help these small businesses tremendously and, you know, kudos to the SBA and CARES Act and what you all are doing there. That's terrific. I'm going to shift this over to Dr. Edelman and Mark, again, could you give us a little background and some of the history behind the Community Vitality Center?

Mark Edelman 16:06

Sure. The Community Vitality Center was organized in 2002, really at the request of the Iowa Rural Development Council at that time. Several of their representatives from rural organizations and state and federal agencies had this concept for a center that would work on innovative strategies for economic development and vitality for Iowa's network of over 900 rural communities. They had felt that agriculture at that point had somewhat recovered from the financial crisis of the 80s. And the metro areas had generated their own momentum.

Mark Edelman 16:50

So they came up with a concept for community vitality centers that would basically serve the gap that was apparent at that time in economic vitality across the state. They asked Extension to consider administering the center with double bottom line, which basically the priorities were determined and budget approved by a board of rural leaders from diverse interests across the state and administered by Extension. So that's really how it came about, is to look at innovative and unique economic development strategies for communities across the state.

Steve Adams, host 17:35

I see in some of the information that's provided by the CVC that you are an independent policy analysis center. What does that mean exactly, Mark?

Mark Edelman 17:45

Well, we used to do a lot of policy analysis on how policies affect rural citizens and communities differently or differentially than urban centers. And this was vernacular that emerged of the Rural Policy Research Institute, which used to operate in the Midwest fairly extensively, to identify ways that maybe policies that were one-size-fit-all could be adjusted in order to improve the opportunity and potential for rural communities.

Mark Edelman 18:19

And then the thought was, you do the rural differential policy research on issues of importance to rural leaders. And then you would have dialogue and demonstration projects to figure out what works best. And as we learn in many instances, rural communities are not the same across the state or across the country. And each has their own set of priorities and resources that they work with. And so one priority is likely to only be at the top of the agenda of 25% of the communities at any one time, unless you have a national emergency like we currently face.

Steve Adams, host 18:59

I know you do a lot of data analysis and collection on a variety of topics. If you go to your website, for example, there's just listing after listing after listing. So how does this help communities or regions when they're going about trying to make a decision in regards to their county, their community or their region in the state of Iowa?

Mark Edelman 19:21

Well, the priorities for the Community Vitality Center have kind of shifted over time. I would say probably the biggest data collection studies that had the most impact in the state that we've done were really the wealth transfer studies that Sandy Burke took the lead on and I assisted with. We did one

around 2000 data and one around 2010 data, which basically provides information county by county on how much wealth transfer occurs each year. Totally across the state in 2000 it was about \$5 billion transfer through probate each year annually. And by 2010, it was up to \$8 billion.

Mark Edelman 20:08

So a significant amount of wealth transfers and that is used by a lot of planned gift professionals and financial advisors, and really led to the work of the county endowment entities across the state that share in the state gaming revenue to help them create and sustain growth in endowments on a county by county. We did a satellite program back in the early, well over a decade, 15 years ago, with about 85 of the counties that did not have gaming establishments created, county endowment entities that have since shared in some of the gaming revenues, part of the political compromise that was at that point in time.

Mark Edelman 20:59

But that's example of a unique and different economic development strategy or community vitality strategy. One county, for example, wrote a piece the other day that they've been able to distribute \$1.5 million to serve local educational and nonprofit needs in their county over the past 15 years due to the availability of that additional revenue. And each county has developed a unrestricted county endowment that can be used.

Mark Edelman 21:35

That really kind of gets to one of the topics that I'm not sure that there's been too much discussion around the state about this, but during national emergencies and disasters that have been declared like what we've experienced with COVID-19, nonprofits are afforded a little bit more flexibility in providing assistance and grants to small businesses in particular situations like this. And normally, nonprofits that are 501 c 3s are limited in what they can do with private sector for-profit entities. And that's oftentimes limited to educational programs for entrepreneurship and so forth. But experts on the Iowa nonprofit law that we consult with in Des Moines have informed us that IRS under certain conditions, relax nonprofits can do in terms of assistance for during declared emergencies, like in the current situation, but it has to be documented.

Steve Adams, host 22:42

So Mark, what do you think right now, and again, you brought it up, in light of COVID-19, what do you think are some of the most important policy discussions that Iowans should be having today?

Mark Edelman 22:55

Well, I think we are going to go through a cycle, and whether it's V-shaped or whether it's L-shaped is a discussion for longer-term observation and debate. But I think the strategy currently is, of course, to save what we can in terms of the small business structure and current relationships that we have in the business sector. And that as we go through this process, certainly not all businesses are going to survive. But as we learn in each recession, the entrepreneurs that oftentimes start during a recessionary period, what happens to the assets of businesses that don't make it often become less expensive opportunities for other entrepreneurs that can pick up assets and start a business that has a fairly solid foundation at some point. I think in visiting with, hearing Craig's comments, I would agree with him that I'm not sure that we're there yet, but it's going to be observable over the next few months, just how deep and how broad this pullback in the economy is going to be.

Steve Adams, host 24:08

Well, out of every challenge comes an opportunity, I guess. And so I appreciate those comments. Mark, since we've known each other for quite a while, I know that you are involved in many other organizations that are trying to assist small businesses either start, expand and actually thrive. And I

know you're involved, for example, in the Ag Ventures Alliance, the AIM seed capital group and the Iowa Rural Equity Project. Could you briefly explain what these groups are doing relative to business financing and/or community improvement?

Mark Edelman 24:42

Yeah, sure. One of one of the focuses of the Community Vitality Center for the last 20 years has really been on what are the gaps in access to capital that our entrepreneurial ecosystem faces? And so creation of Iowa Microloan was sort of our first foray into creating an institution that would help address that gap that was there. Part of the importance of that model too, that leads to their success is, and Iowa Microloan provides quarterly technical assistance to the entrepreneurs. And that helps to improve loan repayment right to the successful level that they currently have been able to achieve.

Mark Edelman 25:29

That's loan capital. On the other side of the coin is, many startup businesses like come out of the ag startup engine at Iowa State and other accelerators around the state, they aren't well-suited for debt capital when they're starting up, and they're more fitting for venture capital or equity capital. And Ag Ventures Alliance for example, is an example of an early-stage equity fund that invests in value-added agriculture enterprises.

Mark Edelman 26:06

And it's a rather unique institution in the state. It was started back in 1998 with the assistance of Extension and group of farm and agricultural leaders in north central Iowa. They have continued to invest in startups that show promise for adding value to farmers and improving farm income and productivity. And so that's an interesting example that we're trying to assist Ag Ventures Alliance with the Iowa Rural Equity project in expanding their model across the state, so perhaps beyond the state's borders, because agriculture is national and international in scope.

Mark Edelman 26:56

Another model that does something similar to that is AIM seed capital. It's been in a unique situation in helping to commercialize new technologies that come out of Iowa State University, or that come to the University and Research Park where they evaluate prospects that look for early-stage funding from them as well. They're a little ... they're more diversified into, across sectors. They'll look at software companies in addition to ag technologies.

Mark Edelman 27:33

Kind of interesting to note that they have recently made a decision to hold off on evaluating prospects until next fall, until the picture of COVID-19 becomes a little clearer in terms of the next step forward. Because many of the companies that these early-stage funds invest in are fairly fragile, some more fragile than others. And there's kind of a sorting process and assistance process that they'll want to go through to help each of their portfolio companies be as successful as they can be.

Steve Adams, host 28:15

So Mark, if I wanted to contact you or access some of the resources you had available, how would I do that?

Mark Edelman 28:23

Well, I still have an office at the university, although the university is somewhat shut down these days, the phone transfers and the email there still works. So I still get my emails and I still get phone messages from university, even though many of the staff are working out of their home like I've been working through the last month and a half.

Steve Adams, host 28:47

Yep, same here, Mark. No problems with that. So Craig, I'm gonna give you the last words here. Anything more you would like to add about IFMCV or the Iowa Microloan program and again, how might somebody contact you personally or find out more about IFMCV?

Craig Downs 29:06

Alright, great. Thank you. And Mark mentioned one thing that I had for closing comment too, but our program, one of the cornerstones of our program is our technical assistance counseling with clients. And as you mentioned, we meet with our clients at least quarterly. Currently, of course, we're doing phone meetings, and those types of meetings, because we're not able to meet in person. But we think that makes a huge difference for our clients as far as repayment, our default rate is just under 4%. Nationally, microlending carries about a 15% default rate. So we think that's what makes the difference in our program.

Craig Downs 29:40

Also, our website is lowamicroloan.org. My phone is 515-212-0182 and happy to take calls. My contact information is on the website as well. Our application process and application is on our website. So it's a great place to start as well. There's instructional videos on there, success stories of clients, more information about us and our program. So great place to start, and always happy to answer questions anytime.

Steve Adams, host 30:11

Alright guys, so appreciate that. And same with you, Mark, want to thank you both for taking time to visit with us today. And we all really, really appreciate the work you're doing to assist the business, industry and community during this rather unusual time in American history, to say the least.

Steve Adams, host 30:29

If you have any questions at all about this Back to Business Iowa podcast, please feel free to contact me, Steve Adams at stadams@iastate.edu, and thanks again for listening. This podcast is a collaboration between Iowa State Extension and Outreach and the Iowa Small Business Development Centers. Always Serving Iowans, hashtag Strong Iowa. Let's get back to business, Iowa.

Steve Adams, host 31:01

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