

## BACK TO BUSINESS IOWA PODCAST

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

### SEASON 1 | EPISODE 3: Revolving Loan Funds

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**Description:** *In this episode we interview Rick Hunsaker, executive director at Region XII Council of Governments, and Tami Lehmann, business RLF administrator for Region XII Council of Governments. They discuss revolving loan fund programs they operate and similar programs throughout Iowa as a potential funding option for businesses.*

#### Transcript:

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**Steve Adams, host** 00:04

Hello, and welcome to the COVID-19 business development response podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach 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** 00:44

I am Steve Adams, field specialist three at Iowa State University Extension and Outreach in the Community and Economic Development unit, and I am your host for these podcasts. In this podcast, we will be discussing revolving loan funds and how they might be an option for businesses during the COVID-19 pandemic. Today, our guests are Rick Hunsaker, executive director of Region 12 Council of Governments, and Tami Lehmann, business RLF administrator with Region 12, RLF standing for revolving loan fund. Thank you both for being here today.

**Rick Hunsaker** 01:24

Thank you, Steve.

**Tami Lehmann** 01:25

Thank you.

**Steve Adams, host** 01:26

Rick, for our listeners, could you give them a quick overview on the Council of Governments—who they are, who they represent, and why they were formed?

**Rick Hunsaker** 01:35

Sure. Councils of governments blanket the state of Iowa, and we are all in the neighborhood of 40 to 50 years old. For the most part, were formed by our cities and counties to provide a variety of services to local governments and businesses and our citizens. And over time have become not only a grant writing agency for local governments and a planning agency for things like comprehensive plans, but do a variety of services, from running public transit systems, to helping with housing rehabilitation or downpayment assistance programs, and in this case, working in economic development, either through



planning, to help our communities and our local economic development groups be ready for development when it comes, but operating business loan funds to supplement what's out there available commercially, or even with other partner revolving loan funds to make sure that businesses have the capital they need to start up, grow, expand and be successful.

**Steve Adams, host** 02:45

Well, what a great segue into the next question here. So it sounds like you have a lot of federal and state partnerships. Is that correct? Who do you work with primarily?

**Rick Hunsaker** 02:56

We work with, you know, across the COG, work with a lot of different federal agencies, Department of Transportation, Department of Labor, FEMA, Housing and Urban Development. In economic development, our two key partners federally are probably the Department of Commerce, specifically the Economic Development Administration. They provide us both funds to have boots on the ground, to have people out there working every day in communities towards an approved economic development plan we work on.

**Rick Hunsaker** 03:32

And then also they capitalize revolving loan funds, which I know is one of the things that we're going to talk about. The other key federal agency for us has been USDA Rural Development. And they also have capitalized revolving loan funds in COGs and other organizations. Statewide, it's again Department of Transportation, the Iowa Finance Authority, but also very close relationship with Iowa Economic Development Authority.

**Steve Adams, host** 04:00

So where would be your primary source of funding then from the RLF? Would it be the Economic Development Administration or from USDA Rural Development?

**Rick Hunsaker** 04:09

That is going to depend on region for us. It is pretty closely split between both of those two agencies. As we have needed additional funding, as we've seen demand ramp up, we will seek funding where it's available. And the federal Economic Development Administration fund has been a good source of funds for us, but there isn't always money available there to recapitalize. And in those cases, we have turned to USDA Rural Development. And we have received both grants from USDA and have a couple of intermediary lending programs, so that, essentially it's funds that Region 12 has loaned at a very low interest rate over a long period of time that we then loan out to businesses.

**Steve Adams, host** 04:56

So with that USDA Rural Development money, is that coming through their Rural Business Opportunity Grant, the Rural Business Enterprise Grant program, or direct moneys in this program?

**Rick Hunsaker** 05:07

The grant fund that we received, and we actually have received two smaller grants that we administer for a couple of our counties, all came out of the Rural Business Enterprise Grant. The IRP fund of course, is a separate fund, and is not a grant.

**Steve Adams, host** 05:23

OK. Tami, I see that you're the business revolving loan fund administrator. What does your work consist of, and maybe give us a little description of what some of your day to day activities might be?

**Tami Lehmann 05:36**

Sure. So I help businesses as they're coming in or having questions of what we may offer. First question I have to them is, have you spoken with a bank? We do not compete with banks. Therefore the bank has to ask us to partner with them or if the bank denies a loan, then we would look at it that way. And part of what the bank would need is, this is the loan amount, this is how much the bank's willing to lend to that client.

**Tami Lehmann 06:03**

The client may not have the 30%, 20% that they need down for the bank to approve the loan. So therefore, our funding would come in to secure that gap financing so that the project can happen. We start them there, they go to the bank first. After that, then I start the discussion with the application, which is on our website. I have them look through that. They can then contact me we, kind of discuss the project. After that I refer them to the Small Business Development Center to help with preparing their business plan projections, making sure they have all of those details figured out and knowing how much money they need to borrow, and how much they need and what they need available to get that business started and up and running.

**Steve Adams, host 06:52**

I know with some of the COGs that I've worked for, they will look at perhaps doing funding for 100% of a project but I think Tami, what I'm hearing from you is, you prefer to be more of a gap financier. Is that correct?

**Tami Lehmann 07:07**

We do look for primarily being the gap. That is what our work plan that we prepared is, we like to be that piece behind the bank. But there's some projects that the banks are not comfortable financing. And so if they deny it, we will finance up to 90%. So the client would need 10% down, that we choose to have that down in cash. But if they've maybe purchased some equipment or purchase things that are, they're getting ready to start the business, we could use that as equity towards this project.

**Steve Adams, host 07:40**

Understood. So Tami, I'm pretty sure that you've been fielding a lot of calls from various businesses based on our current economic environment. Could you provide detail on other eligibility requirements that small businesses today are doing? And I understand that you're making some exceptions with the clients that are already out there, and deferring principal and interest funds for a while. But are there other things that a business must keep in mind during this COVID-19 struggle that would help determine eligibility?

**Tami Lehmann 08:17**

So our funds are geared more towards employment, and we want to see employment numbers increasing. So who are you going to be hiring? How many people are you hiring for this business? So obviously, right now, it's a little harder with COVID-19 going on. So we would look at how that business now, if they're going to apply right now, how it's going to affect them in the short term, and then overall, what that may look like down the road.

**Tami Lehmann 08:43**

How many employees may they hire, maybe they'll hire 10 within five years. Well, then we would look at that situation, kind of more long term. The ones that we have right now, we have extended interest only. We've offered interest only payments up to 12 months and then we extend the maturity date out for a year. Kind of helps them get through this part of it, they're still making a good faith effort to make their loan payments by paying the interest, but not the big payment that they may have making the full payment.

**Steve Adams, host** 09:14

Well, I think every small business today is certainly looking at their cash flow issues and having that interest only option available must be really something that's kind of settling for them. So they know they don't have the onus of that hanging over their heads.

**Tami Lehmann** 09:30

And so we've had some that, you know, they've taken advantage of that. Others that I've talked to, I've tried to keep in contact with all my businesses, just to see how they're doing through this. And some of them have been doing very well through this. Surprisingly, they've opened up their drive throughs or did curbside. And we had a client that was featured on Good Morning America, so that was exciting. Her sales surged after that. So some of them are doing quite well even through this.

**Steve Adams, host** 09:59

So if I'm a small business, Tami, and I'm looking at making an application, could you walk me through some of the steps necessary in order to do that? I assume that you would want to start counseling them pretty quickly if they've made a decision to start a small business. Is that correct?

**Tami Lehmann** 10:16

Yeah, so I talk to them a little bit to see what their plans are. But I do refer them off to a Small Business Development Center, so that she can go through all the numbers and projections. Like I said, our application is on our website, and there's a list of items that we need. And those are two of the key pieces we need with the application to be turned in. So I start from there. I do like to talk to them just to make sure that their project is going to fit our funds, because there are certain requirements with each one. So before getting all that other information done with our Small Business Development Center, I do like to talk to them and just make sure it's going to fit.

**Steve Adams, host** 10:59

Would you say that process that is similar across the state of Iowa in various COG locations or does every COG have a little different approach to this, Tami?

**Tami Lehmann** 11:09

I think every COG has different requirements depending on what kind of funding they're receiving. So they would need to contact their COG in their area. Region 12 covers six counties: Audubon, Carroll, Crawford, Greene, Guthrie and Sac. So they would probably need to call their COG to make sure they're doing the steps that that COG would need.

**Steve Adams, host** 11:32

Okay, understood. Now, you talked about dropping in and visiting with your clients. How many active clients or loans do you have out there right now, Tami, would you know?

**Tami Lehmann** 11:44

We have over 50 clients, I'm guessing. I do site visits and I try to do them each year. They are also required to fill out employment reports so I can see how many employees they have. And I send those out by email every six months. So I keep in contact with them at least every six months, besides then scheduling site visits to visit and see if there's any needs or how their businesses doing. And so I guess about 50, I would guess.

**Steve Adams, host** 12:13

I'm very familiar with the Southwest Iowa Planning Council's program. I've taken a half a dozen businesses through them, including one that my oldest son started. And they too got site visits and checkins, almost like a well, business checkup kind of thing, to make sure everything is going as smoothly as possible. So I am quite familiar with that. I think that's a terrific idea. Tami, are there any best practices businesses should consider before they apply for RLF funding?

**Tami Lehmann 12:46**

And I what exactly do you mean by best practices, I guess?

**Steve Adams, host 12:50**

Do you look for certain things that, you know, let you know immediately that this might be a business worth making a loan to? So are there like highlights maybe every business ought to focus in on directly when they're making an application?

**Tami Lehmann 13:08**

So if you have a startup business, you really want to know how much work they put into it. Because there is a lot of things to consider before you start a business. So many businesses in that first year, or two years, fail. So let's go through all the steps. It is a lot of work to go through that. But it's so much beneficial, so much more beneficial to do that. So you know exactly what you need to do on a day to day basis to make your business successful.

**Tami Lehmann 13:34**

If you already have a business already set up, it's going to be a little different. If you're looking to expand, you know, we look at the financials from the previous three years, we look at projections of what you're looking to do. We look at the back end, the collateral, of course. The majority of the time, if we have a bank involved, we're taking second positions on all of the collateral behind the bank. So our position is a little bit riskier. So we are going to look at the whole project as a whole. Who's running it, how they've done in the past, and how they look for the future.

**Steve Adams, host 14:06**

If you were to take a shot at this, would you say most of your businesses that are applying for these RLF funds, are they startups, or are they expansions? Or how would you say that ratio went?

**Tami Lehmann 14:21**

Lately we've had, the last three loans that we've made are startups. Previously before that, I would say more of them are probably expansions with a few startups here and there.

**Steve Adams, host 14:32**

And I know in my son's case, again, he was, of course got startup funding, and then he got two rounds of expansion funding after that. So I was just kind of curious there.

**Rick Hunsaker 14:45**

Steve, sometimes we'll also help people transition ownership of a business and we look at that as save jobs. In some cases, it's an expansion of jobs, but we've had several loans where it has, for example, a hotel that may have changed hands. We recently were part of a grocery store. And while it's really a, you know, Tami is referring this to a startup, it really was restarting a business that had closed in the community. And so there's, we see those types of projects as well and are happy to try to keep companies that are viable still operating in our region.

**Steve Adams, host 15:26**

Rick, I may be asking you to crystal ball this a little bit, but it was interesting in a conversation we were having this morning with the SBDC, they're predicting that they'll see a lot more transition of businesses, perhaps, coming out of COVID-19. Would you agree, disagree? Or how would you see on down the road post-recovery looking?

**Rick Hunsaker 15:53**

You know, I haven't thought about that, there's just so much that's unknown. It is hopeful that what we will see our companies figuring out how they are more nimble, and those that are able to survive this, I guess crisis, at this point are going to come on the other side stronger. It may mean that they have a different market, it may mean that they market differently. It might have an impact on the people that they employ. Are they finally spurred into doing more internet sales? I don't know.

**Rick Hunsaker 16:33**

But I think it is going to be very tough on Main Street. I'm concerned at the payments that are out there aren't enough to keep some of our businesses open. But I'm hopeful that it's, that we will figure out in a few months, perhaps, how we can, how our companies are able to operate and still make money and still keep our smaller communities vibrant.

**Steve Adams, host 16:58**

I think we were all kind of surprised, and I got same feeling from the SBDC call earlier today, that we were able to go through \$349 billion worth of PPP program in less than two weeks. So and the number of applications that were pending or didn't get processed now are still all in the queue. So if the next round of funding does come, there's probably going to be the same kind of repeat effect and that that money will go out the door pretty quickly. But what I'm hearing, and again, back me up on this if you can, is a lot of people are wondering how long they can hang on. And if this would go out another year to maybe even 18 months, what might be the survival rate? I don't think anybody has a fair and accurate guess on that.

**Rick Hunsaker 17:51**

No, there's no way I can speculate. I know we do have some companies that have shuttered that are long-time businesses. I don't think they're ready to hang it up yet. And they were able to weather the storm a little bit more. Maybe they have their building paid for, maybe they have money squirreled away. But I don't think that that's terribly common. You know, I'm really worried about entrepreneurs that we have that are younger.

**Rick Hunsaker 18:17**

And we have so many communities that seemed to just start hitting the stride with some rural revitalization that's been going on and and reworking of the downtowns and all of this excitement that we've had even in small business clusters like East Village in Des Moines. I'm concerned that we are going to stifle all of that growth, because I don't want it to be like Sioux City in the late 1890s, you know, where they built all of these warehouses and it's going great guns in 1892. And they have all of these six story brick buildings that are ready for all the supplies because that's where the railroad ends and where all the ships go or all the paddle boats go north.

**Rick Hunsaker 19:02**

And then the Panic of 1893 hits. And after the Panic of 1893 comes back, the economy's moved west. And there were buildings in Sioux City that I don't think ever had anything occupied in the upper floors. I hope that's not what happens to our smaller towns. Certainly, we've been vibrant through all of this in a lot of other ways and how communities are remaking themselves. And so I just have to have faith in in the business leaders and the community leaders, that we're going to figure it out, and we're going to come out on the other end stronger.

**Steve Adams, host** 19:36

Rick, I had no idea you're an amateur historian.

**Rick Hunsaker** 19:40

That's a story that was told to me by a gentleman that worked at the State Historical Society when he found out I was originally from Sioux City. He had done a paper about all those warehouses in Sioux City, and that's the only reason I know that

**Steve Adams, host** 19:55

Seems like they're turning a lot of them into apartments and things now and I have seen some revitalization coming back there in Sioux City, so.

**Rick Hunsaker** 20:02

It's very good to see.

**Steve Adams, host** 20:04

Rick, if businesses listening to our podcast today would like to see what RLFs are in their region and, you know, make contact with you all, how would they do so? And what would be the easiest way for them to do that—through the website, pick up the phone? What might be the best way of going about that?

**Rick Hunsaker** 20:24

The first place they might want to go is to [lowaCOG.com](http://lowaCOG.com). That's the website for all the COGs in the state so they could find their local COG. I don't believe every single COG has an RLF, but most of us do. That will at least give you a directory of who the COGs are, somebody that you can email with a question. If a business is comfortable with their SBDC or their County Economic Development Group, that's another good place to go talk to—both of those individuals should know where the where RLFs exist.

**Rick Hunsaker** 21:03

COGs aren't the only ones that have revolving loan funds for businesses. And we've often partnered with other funds, for example, those with whom Iowa Area Development Group works, and whether it be an REC or whether it be a community. There are a variety of different funds out there. But IR cog, sorry, Iowa COG.com is one of the first steps that they can take.

**Steve Adams, host** 21:30

Excellent. And that was going to be a follow-up question. I think you've answered that. Do all COGs have revolving loan funds, but in your opinion, most of them probably do or have access to monies?

**Rick Hunsaker** 21:43

Yes. And there will be even if they don't, or they don't have a fund that's very large, they're going to know who does. And there will be a revolving loan fund available in every county in Iowa. It's ours or whether it's another one funded through USDA or HUD or a different source.

**Steve Adams, host** 22:01

So it's just a matter of doing your research and your background checking in order to find those. But, again, you've given us some resources of, if you contact these people, whether it be your County Economic Development directors or COG, they're going to know which direction to send you, correct?

**Rick Hunsaker 22:16**

Yes.

**Steve Adams, host 22:17**

Okay. All right. Well, Rick, I'm gonna give you the last words, if you've got any additional comments you'd like to make.

**Rick Hunsaker 22:24**

There, I'll add one more thing and we know that there will be more money out there, right, with the stimulus fund, maybe not directly to business, but in terms of how the revolving loan funds are. I think USDA will see some funds, and I know that the Economic Development Administration will have money available. Some of the things that Tami talked about in terms of collateral, whether or not we could do 90% or 100% of the loan and the interest rate and the employment are all things we have discussed with our federal partners.

**Rick Hunsaker 22:59**

Both our congressional delegation and people at Economic Development Administration in particular, that these things need to be relaxed if we're going to be able to be of most assistance to businesses. Particularly...and I realized this isn't something that's available now, but if people do have a chance to talk to their federal legislator, you know, Senator Grassley's office, Senator Ernst's office or their representative's office, it's important that these funds are flexible in terms of collateral.

**Rick Hunsaker 23:36**

You know, the federal agencies want us to see our loans be collateralized and that makes sense. But if you have a business that has been closed for a couple of months, and think in terms of a restaurant, their inventory's gone, there is no collateral, right? These businesses are already collateralized. They already probably have loans that they need to be paying. So we need to very much loosen the ability to For us to make loans to these companies.

**Rick Hunsaker 24:02**

There's also PDA in particular has an interest rate floor that we can't go below that by federal statute. We've asked them to release us so that we can do zero percent loans if we choose to do so, and if that's justified, and 100% loans if we need to, because banks either may not be able to make the loan by their standards, or it may just be a business that has a really good business plan, but they're high risk, and they can't attract over capital. So having the flexibility in these revolving loan funds, particularly the ones that are funded by federal resources, is something we've asked for, and hopefully Congress will give us some flexibility to be able to be the most effective with what our region's businesses need.

**Steve Adams, host 24:50**

So keeping that dialogue open with our Senate representatives and our House representatives, you think it's probably key to that? Obviously, the more people talk to them, the more likely they are to consider what the constituency wants. Is that correct?

**Rick Hunsaker 25:08**

I think that's correct. And I realize for many people, it is money in the front door. And so things like the PPP program that you mentioned that are out of funds, or the EIDL funds. These are things that may be prominent in their minds, and may be their first priority, to make sure that those buckets get filled up, and I completely understand that. But as as time goes on, and we're recovering from this six months, nine months, a year from now, all of these different types of funds that are available to businesses, you know, and when that, when the grants go past, the revolving loan funds are still going to be here, right, in a few months? And we want them to be as flexible as possible.

**Rick Hunsaker 25:47**

And I think any of that dialogue that happens with federal representatives, and particularly if it's not somebody like me, who is a talking head, or you know, not somebody like you, that's working in the business at Iowa State, but somebody that's on Main Street, that can talk to, for example, somebody from Senator Grassley's office and say, This is what I'm seeing my friends and neighbors suffering through. These are the types of assistance that we need. They're going to listen to that person, much more than they're going to listen to me.

**Steve Adams, host 26:20**

Well, you know, these are all terrific comments. And I think one of the one of the best podcasts we've done so far. But I want to thank really both of you for taking the time to visit with us and we certainly appreciate the hard work you're doing to assist businesses during this unusual time for all of us. So, again, our thanks personally for participating in this and giving people an idea of what some of their other options might be.

**Steve Adams, host 26:49**

Well, if you have any questions about this Back to Business podcast, please feel free to contact me, Steve Adams, at [stadams@iastate.edu](mailto:stadams@iastate.edu) and again, thank you for listening. This podcast again is a collaboration between Iowa State Extension and Outreach and the Small Business Development Centers of Iowa. Always serving Iowans, hashtag strong Iowa. Our justice statement: This institution is an equal opportunity provider. For the full non-discrimination statement or accommodation inquiries, please go to [www.extension.state.edu/diversity/ext](http://www.extension.state.edu/diversity/ext). Thank you all.

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