



ENTERPRISEFLORIDA.COM



September 30, 2019

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

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** for fiscal year 2018-2019, covering the activity from July 1, 2018 to June 30, 2019, and the required additional information, as follows:

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

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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 \$4,825,000 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:

At this time EFI has no 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.

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.

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.; **\$4,825,000.00**
- (g) The number of loan guarantee applications received in the fiscal year; **Two (see attached table)**
- (h) The number, duration, location, and amount of guarantees made in the fiscal year: **(see attached table)**
- (i) The number and amount of guaranteed loans outstanding, if any; **9 loans with outstanding balances totaling \$474,456.00**
- (j) The number and amount of guaranteed loans with payments overdue, if any; **1 loan with outstanding balance of \$8,765**
- (k) The number and amount of guaranteed loans in default, if any; **1 loan with outstanding balance of \$38,561**
- (l) The repayment history of the guaranteed loans made; **Satisfactory; only one loan 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 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: Of the 9 outstanding guarantees as of 6/30/19 only 1 is in default, which reflects a default rate of 1.8% (based on outstanding loan balance).
 - 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
Results: The program currently exceeds the parameter. In FY18-19 the proportional risk was 2.14x leverage of private funds vs. program funds)

Summary of Results:

Utilization of the Microfinance Guarantee Program in FY18-19 was consistent with the results reported for the prior fiscal year. Key indicators are:

1. Two (2) Microfinance Guarantees were closed in the fiscal year 2018-19 with a total commitment of \$166,000.00 in program funds (average guarantee \$83,000.00).
2. The program attracted a total of \$355,000 in private capital (\$332,000 in bank loans, and \$23,000 in borrower's equity) for a leverage of \$2.14 in private capital for every \$1 of Microfinance funds committed.
4. Ten (10) new jobs are projected with an average annual wage of \$20,930.00 per job.
5. Two lenders used the program in the fiscal year. Program funding concentrated in counties in Central Florida.

Sincerely,

A handwritten signature in cursive script that reads "Brandon Boles".

Brandon Boles

VP of Finance & Accounting