

S.B. 34:

Alaska
Small Business
Revolving Loan Fund

Prime Sponsors (Bipartisan)

Senators
Wielechowski,
Menard, Ellis, Paskvan,
McGuire, and Thomas

Purpose:

To **promote**
economic development
by helping small businesses
in Alaska to access
critically needed capital

The Need

- Nationally, **the number of small businesses able to obtain adequate financing has steadily decreased in the last several years.**
- In 2010, only 59% of small businesses reported adequate access to capital.
- This is down from 78% in August 2008 and 62% in July 2009. (National Small Business Association)

Fewer Loans

- In 2009, new small business loans fell 33% to \$192 billion, **the lowest total since 2000.** (Federal Financial Institutions Examination Council)
- Small business use of nearly every financing mechanism has decreased -- from traditional bank loans to credit cards to vendor loans. (NSBA)

Credit Crunch

- **80% of business owners – 4 out of 5 – report that their company has been impacted by the credit crunch.**

Why is this a problem?

- **Small firms tend to drive job growth,** particularly during recoveries. They employ roughly half of all American workers and account for about 60% of job creation.
- Businesses less than 2 years old are especially vital. Over the past 20 years, **start-ups have accounted for roughly 25% of job creation.** When capital flows more freely, small businesses add new jobs.

Is Alaska Different?

- Probably not, according to experts. In fact, **Alaska's higher business costs could exacerbate the problem.**
- Support for small businesses is as important here as elsewhere.

Given this ...

- Perhaps we should listen to Fed Chairman Ben Bernanke, who recently said:
- **“Making credit accessible to sound small businesses is crucial to our economic recovery and so should be front and center among our current policy challenges.” (June 9, 2010)**

One Answer: Micro-Loans

- The Small Business Revolving Loan Fund Senate Bill 34 proposes is modeled after a program currently operated by the federal Small Business Administration.

An Unmet Need

- **46 other states have “micro-loan” programs**
- Alaska does not because an intermediary lender is required and no lenders meeting SBA qualifications have been identified to date in the state

A Little History

- Last year, Governor Parnell introduced HB 412 to create a state micro-loan program.
- The bill **passed the House unanimously** on April 13 but stalled in the Senate.
- Over the interim, we tried unsuccessfully to ascertain whether the Governor intended to re-introduce the bill.

Senate Bill 34

- As a result, a bipartisan group of Senators decided to introduce SB 34.
- This bill differs from HB 412 in that the **maximum loan amount** has been **slightly increased** in response to comments from small business owners and new federal guidelines.

Senate Bill 34, cont.

- ❖ The Senate bill also require applicants for loans over \$35,000 to prove they have been **turned-down from a local financial institution** before requesting a state loan.
- ❖ It also requires that applicants provide a **minimum 20% match** for the loan.

Loan Eligibility

- ❖ Applicants must be **Alaska residents** and their businesses must be **located in Alaska**.
- ❖ They must provide **sufficient collateral to secure the loan**.

(Nationally, micro loans have a very low default rate – less than 5%. DCCED expects an even lower rate in Alaska. Overall, their default rate is .6%)

Loan Terms

- ❖ The loans would bear an interest rate of prime plus 1%, with a **floor of 6% and a cap of 8%**.
- ❖ The maximum term would be **6 years**.

Loan Terms, cont.

- Loans could not exceed **\$50,000** for 1 individual and **\$100,000** for 2 or more individuals.
- The program would be housed within the Department of Commerce, Community and Economic Development.

Other Programs

This program would complement two existing programs administered by the Division of Economic Development:

1. The Small Business Economic Development Revolving Loan Fund
2. The Rural Development Initiative Fund

Economic Development Fund (SBEDRLF)

- This program relies on funding from the federal EDA and is targeted at communities experiencing economic hardship.
- Funds are primarily used for long-term financing and numerous federal requirements must be met.

Rural Development Fund (RDFI)

- Created with state funds, primarily for long-term financing.
- Only available in communities of 5,000 or less (if not connected by road or rail to Anchorage or Fairbanks) or communities of less than 2,000 (if connected).

Alaska Small Business Loans

- Would provide relatively **short-term, low-interest loans** to Alaska small businesses
- Could be used for working capital, purchasing machinery, equipment, inventory and leasehold improvements.

Statewide Eligibility

- Loans would be **available in all regions of the state.**
- The application process would be streamlined and fees would be modest: \$100 to apply and a 1% origination fee.

Capitalization

- The fund would be capitalized with **\$3.5 million**.
- All **earnings** and loan repayments would be retained by the fund for future loans.
- And operating expenses would be paid from fund **earnings**.

Potential Fund Sources

- Two possibilities:
 1. General funds
 2. State Small Business Credit Initiative funding through the U.S. Treasury

Small Business Credit Initiative

- New federal program created by the Small Business Jobs Act of 2010
- **\$1.5 billion** appropriated to “strengthen state programs that support lending to small businesses and small manufacturers”
- Formula-driven program

Small Business Credit Initiative, cont.

- **Alaska's share = More than \$13 million**
- State has filed letter of intent to apply
- Application deadline : June 27, 2011

Revolving Loan Funds: Self-Sustaining

- Assumptions: 20 loans in first year
- Average loan = \$35,000
- 25 in second year and every year thereafter
- By FY'17, all principle pushed out
- Fund starts earning money and re-lending

Widespread Support For Micro-Loans

Business groups from across the state recognize the need for a micro-lending program, such as that proposed by S.B. 34.

Bristol Bay Economic Development Corporation

“By far, the most challenging aspect of starting a small business in our region is lack of capital; even when it involves a very small amount of money. **Traditional sources of capital** such as banks and other financial institutes **are not viable sources of capital for small entrepreneurs in rural Alaska.**”

H. Robin Samuelsen
Chief Executive

Anchorage Economic Development Corporation

“This modest investment by the state of Alaska could yield significant benefits for communities in every region of the state. The sizes of the loan are quite modest, as are the corresponding fees and interest rates charged. The infusion of capital this program offers will help both existing businesses and start-up businesses to bridge short-term funding gaps, purchase new equipment, expand services and employ more Alaska citizens.”

**Bill Popp
President and CEO**

Alaska Small Business Development Center

“Micro-lending is an opportunity for **many small businesses** who typically **do not find lending options with banks due to the small amount of their loan request**. Many lending institutions prefer loan applications with values of \$100,000 or more. ... The approval of micro-lending bills will significantly impact and support many small businesses throughout Alaska...”

Debi Fowler
Associate State Director

Southwest Alaska Municipal Conference

“In Southwest Alaska, a revolving loan fund could help small boat owners or smaller fish processors with equipment purchases. It could assist bed and breakfast owners with upgrades to their homes and business. Or it could **provide much needed capital to mechanics, day care providers, and a host of other small business startups and entrepreneurs.**”

Andy Varner
Executive Director

Small Business Owner

“As a small business owner, I depend on credit to place orders for inventory, expansion, advertising and payroll during slow times. Availability of this credit has allowed many businesses to weather economic slow downs in the past and even to emerge stronger when the economy recovers. **This recession is different: all forms of available credit have dried up, especially those for small business.**”

Ted Ragains

Alaska Bankers Association

- SB 34 even has the **support of the Alaska Bankers Association.**
- The sponsors of this legislation worked closely with them to resolve any concerns they had.

Closing Thoughts

- Small loans, many under \$15,000
- Alaska residents only
- Quick pay-back
- **The difference between success and failure, especially when credit is tight**
- Possible federal funding
- **Self-sustaining, including operating costs**