



**City Of Madison
Community Economic Development
Disadvantage Business
Deferred Payment Loan Program**

Program Introduction

There has been a great deal of talk across the country about the best way to create jobs, and solutions vary depending on the source. One point on which there is consensus; small businesses create the majority of new jobs in this country. In fact, small businesses account for two-thirds of all new jobs in America, often times it is these businesses that create jobs at the local level for individuals in the communities.

The **Disadvantaged Business Deferred Payment Loan Program** will be a pilot program designed to encourage entrepreneurs to create jobs either by opening or expanding small businesses. A major premise for launching this pilot program is the increasing number of individuals seeking employment in the Madison area. In addition, the Small Business Administration found that small businesses are more prone to do the following¹:

- Fill niches in the labor market that are underserved
Employ higher shares of:
 - people of color
 - people with limited education (high school degree or less)
 - individuals 65 or older
 - disabled workers
 - rural workers

It is anticipated that the measurable results of this program will be individuals in underserved labor market obtaining more jobs.

Loan Program Description

Total available funding for this pilot program is \$120,000. The loan amount is a maximum of \$50,000. The program will be in partnership with Wisconsin Women's Business Initiative Corporation (WWBIC). Businesses vying for this opportunity would be required to go through an in-depth underwriting and approval process. Selected businesses will be required to work with an appointed business assistant on a monthly basis, take designed business development training classes, and have annual reviews of the books to help further increase their rate of success. This service will be provided by WWBIC at no additional cost to the businesses.

This program will help ease the cash-flow crunch through deferred-payment, low-interest loans. The City of Madison loan amount must be at least 50% of the total loan package. The applicant must pay a minimum cash match of 10% of the total loan package. The first loan payment will be deferred for 24 months. Once the payment deferral period is over, loan payments will be paid monthly for a 5- year period until the loan is paid in full. Loans may be paid off early with no pre-payment penalty. The loan interest rate will be 4%. The loan balance, including principle and interest, must be paid at the time the business is sold or transferred, or at the end of the loan term, whichever comes first. The loan term begins when loan funds start getting disbursed.

Eligible Applicants

Business must be located in the City of Madison.

Eligible loan program applicants include business owners who meet one of the following criteria:

- Average annual gross receipts of \$750,000 or less over the last three year period.
- At least 51% owned by one or more racial/ethnic affirmative action group members.
- At least 51% owned by one or more women.

Note: The above criterion was taken from the City of Madison's Department of Civil Rights "Targeted Business Enterprise Programs" pamphlet. Businesses will not be required to be certified to participate in this program.

Conditions

- Loan funds may be used for for working capital, inventory, equipment and leasehold improvements, as well as acquisition.
- The business will be required to create, at a minimum, one full time job for every \$35,000 of funds received to a low-moderate income individual.
- Businesses should develop jobs which pay at least the City's living wage.
- Projects funded must have a well developed business plan that considers among other things: focus of the business and intended customer base, expected costs and revenues, a particular sector of the economy ("green" jobs, etc.), a particular stage of development (start up business, second stage business, etc.), size of business (number of employees), and whether it is part of a larger neighborhood strategy.

Note: Funds being used for leasehold improvements have additional conditions. If you are planning to use funds for this purpose ask the lender about the additional conditions.

Program Goal

The goal of this program is to help disadvantaged individuals or entrepreneurs who feel they have a great idea, but a limited amount of capital, get up and running and ease early cash flow issues. If a business is fortunate enough to get financial backing for their start-up business they will be required to hit the ground running because payback on most loans will begin shortly after opening their doors. This can add a great deal of additional financial and emotional stress for a business owner or even worse prevent a person with a solid business idea from even taking the risk of becoming an entrepreneur.

Reference list

ⁱ Small Business Administration March 2010, *An Analysis of Small Business and Jobs*, research report prepared by Brian Headd, Small Business Administration, Office of Advocacy, USA.