



Request for City Council Committee Action from the Department of Community Planning & Economic Development

Date: March 19, 2013
To: Council Member Lisa Goodman, Community Development Committee
Subject: Year-end 2012 portfolio summary and delinquency report for the Alternative Finance Program

Recommendation: Receive and file the year-end 2012 status report and loan portfolio and delinquency information for the Alternative Finance Program

Previous Directives: On December 13, 2006 City Council approved the Alternative Finance Program. Progress reports have been taken to Council on an annual basis.

Prepared by: Becky Shaw 673-5066
Approved by: Charles T. Lutz, Deputy Director CPED _____
Catherine A. Polasky, Director, Economic Development _____
Presenters in Committee: Becky Shaw

Financial Impact

- Other financial impact: The revolving loan fund programs use repayments to fund new loans.

Reviews

- Permanent Review Committee (PRC): Approval N.A. Date _____
- Neighborhood Notification: Activity is not neighborhood specific.
- City Goals: *Jobs and Economic Vitality* – Businesses, big and small, start here, stay here, thrive here *Many People, One Minneapolis* - New arrivals welcomed, diversity embraced
- Sustainability Targets: Not applicable.
- Comprehensive Plan: *Policy 1.4* Develop and maintain strong and successful commercial and mixed use areas with a wide range of character and functions to serve the needs of current and future users *Policy 4.1.1* Use public development resources and other tools to leverage maximum private sector investment for public benefit *Policy 4.1.4* Improve the coordination of economic development activity among units of government, the business community,

neighborhood organizations and nonprofit entities *Policy 4.9* Focus economic development efforts in strategic locations for continued growth and sustained vitality

- Zoning Code: The financed investments must be in compliance with the City's Zoning Code.
- Living Wage/Business Subsidy Agreement Yes ____ No X
- Job Linkage Yes ____ No X

The small business assistance programs of the City have generally been exempt under the State Act and the City's local ordinance because of the small size of the financing investments.

Supporting Information

The Business Development division of CPED currently provides a broad range of financing options for Minneapolis small business owners. The 2% Revolving Loan Fund facilitates below market financing for building improvements and equipment. The 2% Loan funds are limited to \$75,000 in our City's commercial corridors and commercial nodes, and \$50,000 throughout the rest of the City of Minneapolis, and are provided as a match to a private lender's financing (typically at the market interest rate).

Since the early 1990s a large number of immigrants from Africa have moved into the Minneapolis area. Many of these immigrants have experience running small businesses and have opened businesses here, often dealing in goods imported from their home regions. Many observant Muslims have found their business growth constrained by the amount of capital they are able to pool from friends and family. Muslim Sharia law prohibits interest payments typical with conventional financing. Interest charges are considered usury and called 'Reba'. Community based non-profit lending institutions such as the African Development Center (ADC), Neighborhood Development Center (NDC), Minneapolis Consortium of Community Developers (MCCD) and First Children's Finance, saw a unique opportunity through partnership with the City to develop a Sharia-compliant financing program, parallel to the 2% Loan program, to serve these entrepreneurs.

The Sharia-compliant Alternative Finance Program was approved by Council action in December 2006 and started January 1, 2007. In the Alternative Finance Program, the client pays an overall rate of return or fee equivalent to 2% to CPED instead of the 2% interest rate. The Financing is structured by the participating lenders on a Reba-free basis to comply with the requirements of Islamic Law. Since the inception of the program, CPED has closed on 63 projects for a total of \$1,191,500. Of the 63 projects closed from the inception of the program, 18 have been paid in full, 39 are outstanding, 6 are in default, and another 12 are at risk. The program has created 116 jobs and retained 61. The default rate is currently 3.9%, which is slightly higher than the 2% loan program's default rate of 2.9%. This is to be expected given the higher risk associated with mostly start-up businesses of new arrivals.

The Alternative Finance Program is an important financing tool for entrepreneurs wanting to start or expand a business while staying true to religious beliefs. The City's partnership with our local non-profit agencies has truly fostered a number of success stories. Participants in 2012 include:

- Rise N Shine Childcare Center is a new licensed childcare center owned by Shukri Idiris. The new childcare center, located at 4749 Hiawatha Avenue, applied for alternative financing through First Children's Finance for the remodel of the interior space. When the daycare is open, it will provide employment for 5 full time and 4 part time individuals. Total project cost was \$125,000 with CPED purchasing a \$50,000 participation.

- Ziam Clothing is a sole proprietor business owned by Halima Sidow. Halima is well known for her sewing skills and henna collection. She requested alternative financing to expand her retail shop to include women’s clothing, perfume, jewelry and home décor. African Development Center financed \$10,000 to Ziam Clothing with CPED participating in \$5000.

Alternative Finance Program

PORTFOLIO SUMMARY(since program inception in 2007)

Total # of Loans to Date: 63	Total Loans Outstanding: 39
Total \$ Loaned to Date: \$1,191,500.00	Total \$ Outstanding: \$509,382.69
Total # of Loans Written Off: 6	Total # of Loan on Watch List: 12
Total \$ Amount Written Off: \$46,866.92	Total \$ Amount on Watch List: \$216,126.21
Total # of Loans Defaulted: 18*	Total # of Loans Paid Off: 18
Default Rate: 3.9%**	Total \$ Private Invest: \$1,438,000

\$1.21 of Private Investment for every \$1.00 of Public Funds – Not Including Owner’s Equity.

***Includes loans on the Watch List and loans written off.**

****The default rate percentage does not include the loans currently on the Watch List.**

Alternative Finance Report February 20, 2013