



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

Date: December 12, 2006

To: Council Member Lisa Goodman, Community Development Committee
Council Member Paul Ostrow, Ways and Means/Budget Committee

Subject: Approval of contract and funding of the partnership with the African Development Center and the City of Minneapolis on establishing an Alternative Financing Loan Program (AFLP) as part of the City's small business assistance programs.

Recommendation: The CPED Director recommends that the City Council:

- 1. Authorize the execution of a contract for the partnership of the City of Minneapolis with the African Development Center (ADC) on establishing the Alternative Financing Loan Program (AFLP) as part of the City's small business assistance programs;**
- 2. Authorize an allocation of \$20,000 to the ADC for the AFLP business loan activities in 2007 from CPED Business Finance Fund SED0;**
- 3. Authorize a transfer from Other Non-City Reporting Fund MED0 to Community Planning and Economic Development agency Fund SED0 – Economic Development Program (SED0-890-8934) in the amount of \$467,656 to finance the initial projects in the Alternative Financing Loan Program (AFLP), and;**
- 4. Approve the attached Resolution delegating authority to the Executive Director of CPED or his designee to make and execute Lender Agreements for the Alternative Financing Loan Program (AFLP).**

Previous Directives: None

Prepared by: Becky Shaw
Approved by: Charles T. Lutz, Deputy Director CPED _____
Presenters in Committee: Bob Lind and Kris Maritz

Reviews

- Permanent Review Committee (PRC): Approval N.A. Date _____

Financial Impact

- Other financial impact: The \$20,000 has been appropriated in Fund SEDO (Small Business Finance) and is part of the CPED 2007 budget.

Community Impact

- Neighborhood Notification: N.A. A City-wide program available to all Minneapolis businesses Muslim and non-Muslim.
- City Goals: The AFLP program meets the cities goals to provide entrepreneurial opportunities for everyone where diversity will be welcome, respected and valued. It also meets the cities goal of creating a connected community where individuals live within walking distance of what they need.
- Sustainability Targets: N.A.
- Comprehensive Plan: Projects when completed are in compliance.
- Zoning Code: Projects when completed are in compliance.
- Other: N.A.

Supporting Information

A large number of the Muslim immigrants are entrepreneurial in nature and wish to start their own businesses. Those who are committed to their religion have faced a difficult challenge of obtaining financing in the United States because of the conventional lending system. The conventional lending and bank loans are traditionally based on a system of paying principal and interest. All forms of financing involving interest/usury (Reba), directly or indirectly are NOT allowed according to Islamic law (or Sharia). Those who are committed to their religion are faced with the challenge of satisfying their religious obligations or accepting the conventional way of bank lending. In Islam it is important that all parties involved in a financial transaction share the profit or loss of a business and that no one receives guaranteed compensation such as interest. Traditional lending institutions such as banks and credit unions are unable to meet the lending needs of the Muslim community due to Federal and State Regulatory constraints. Community based non-profit organizations such as the Neighborhood Development Center (NDC), the African Development Center (ADC), Minneapolis Consortium of Community Developers (MCCD) as well as individual contributors have taken a lead in developing financing alternatives for the Muslim community. The Business Finance division of CPED recognizes the growing need for financing businesses without interest expectations and wishes to partner with these community leaders in establishing a small business loan program available to the Muslim community as well as non Muslims.

Accurate demographic information regarding the number of Muslim individuals in Minneapolis is difficult to obtain. The US Census Bureau is heavily relied upon for demographic information. Since they are prohibited from asking questions regarding religion on forms it is difficult to ascertain how many Muslims have moved into the area. The US Census Bureau also relies heavily on trends to assess a growing population. In the 1990s a civil war forced thousands of Somali individuals from their native land. Since the population of Somalis (who are almost 100% Muslim) settling in the Twin Cities was not tracked during the 1990 Census, there is no base line to calculate growth. Estimates vary from anywhere

between 20,000 to 130,000 Somalis in the Twin Cities with the local Somali community estimating around 60,000-80,000. According to information obtained by the Minneapolis Public Schools, 6.3% of students enrolled in Minneapolis schools speak Somali as their primary language. Somalis are not the only Muslim population in the area. There are also Muslim residents from Turkey, Asia, and the Middle East who reside here as well. Although a true number is not available, all estimates accurately show a trend of an increasing Muslim population in the state of Minnesota as a whole with a large concentration of Muslim individuals (approx 90%) in Minneapolis.

The Business Finance division currently provides a broad range of financing options for Minneapolis small businesses. The 2% Commercial Loan Fund facilitates below market rate financing for building improvements and production equipment. The 2% loans are limited to \$40,000 and are a matched program with lender financing at market interest rate. The Commercial Corridors/Nodes 2% Loan Fund similarly is a matching loan program that recognizes increased needs for funding in the City's commercial corridors and commercial nodes. The city loans up to \$75,000 at a 2% interest rate with a match from the lender at market rate. The Capital Acquisition Loan (CAL) program provides loans from \$200,000 to \$1 million for the acquisition of small commercial and industrial properties. It provides fixed rate financing in partnership with private lenders at or slightly below market interest rates. At this time, all the City small business loans provide lending to business owners at a competitive or below market interest rate with low and reasonable fees. All conventional lending methods are interest based. All the current programs have set precedence for partnerships with banks and lending using the conventional interest/principal system.

Staff is proposing to set up a profit based loan program where no interest is paid or collected on the loan to individual businesses. With the AFLP, loan amounts are up to \$50,000 with the Minneapolis Consortium of Community Developers, African Development Center, or Neighborhood Development Center or a combination of the parties participating in half of the loan amount. Like our current 2% Commercial Loan fund, the AFLP would provide asset based financing to purchase equipment or make interior or exterior improvements to the facility. The rate of return would be based on an up-front profit payment added to the front end of the loan and amortized over the life of the loan. The up-front profit mark-up is different in concept from the interest a non-Muslim client would have paid on the same loan but essentially there is no difference in the dollar amount the program receives.

The African Development Center (ADC) which would partner with the City of Minneapolis on the AFLP program has extensive knowledge in the subject of Reba-free financing. ADC was created in 2002 to work within the African communities in Minnesota to start and sustain successful businesses, build assets and promote community reinvestment. ADC does this through three key initiatives:

1. Providing technical assistance and business planning services, financial assistance and micro-lending to African businesses under both the profit-based financing and traditional conventional loans;
2. Increasing African immigrants' understanding of American financial systems and services through culturally-appropriate financial literacy workshops to provide the bridge to building relationships with local banks; and
3. Increasing home ownership opportunities for African immigrants by developing and delivering culturally-sensitive education, counseling, and related support services. ADC has recently partnered with Project for Pride in Living (PPL) on a profit based Islamic home ownership financing model.

Since 2005, the first year that the ADC has provided Islamic (Sharia) financing, 39 small business clients have obtained financing for their businesses. Currently the maximum amount available through Islamic financing to any one business is \$50,000. By partnering with the ADC and other non-profit lenders, it is anticipated that the City of Minneapolis could potentially double the amount of loan capital available to \$100,000 and see an additional 15-20 loans a year financed through the City's AFLP program. This will be of tremendous benefit to the Islamic communities in the City both by extending entrepreneurial opportunities available and by the potential creation of jobs in these businesses. The City's partnership in this program will have a great impact on the Muslim community and all those who are looking for alternative financing to the interest-based system. The Muslim community, both individuals and businesses, has talents, energy and promising business ideas to revitalize and develop themselves and their neighborhoods.

City staff is proposing to allocate the \$20,000 as a grant to the African Development Center so it can further leverage these funds with other funding sources to expand the Islamic financing alternative for small businesses in Minneapolis. City funds will be used to capitalize the loan program, to support program operations including loan origination and servicing, and to provide technical assistance for loan recipients. The \$20,000 for support of the ADC was included in the CPED 2007 budget in Fund SED0 – Small Business Finance.

Alternative Financing Program Report December 12, 2006

**PROPOSED RESOLUTION
of the
CITY OF MINNEAPOLIS**

Delegating authority to make and execute Lender Agreements consistent with Alternative Financing Loan Program (AFLP) Guidelines.

Resolved by The City Council of The City of Minneapolis:

If the City Charter allows, authority is delegated by the City Council to the Director of the Department of Community Planning and Economic Development (CPED) or his designee, the Manager of Business Finance for CPED to make and execute Lender Agreements not to exceed the City Council authorized appropriation for the Alternative Financing Loan Program (AFLP) and for a maximum term of ten (10) years.