



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

Date: August 23, 2005 (**Revised August 22, 2005**)

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by: Greg Davidson (673-5070) and Bob Lind (673-5068)
Business Finance

**Presenters in
Committee:** Bob Lind and Greg Davidson

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: Request for 5th Amendment to Contract #16980 with MCCD
(Minneapolis Consortium of Community Developers) to enhance
loan guarantees for emerging small businesses.

RECOMMENDATION: The CPED Director recommends that the City Council authorize the execution of the Fifth Amendment to the MCCD contract No. 16980 extending the partnership to include the Emerging Small Business Loan Guarantee Program.

Previous Directives: Contract No. 16980 with the MCCD, dated August 3, 2001. Contract is renewed annually by City Council action to carry-out the yearly activities of the City's partnership with MCCD on small business financing.

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget. (If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): The \$25,000 of technical assistance funds as well as the guarantee reserve are appropriated in funds SED0 and MED0 (Small Business Finance).
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: City-wide small business loan guarantee program.

Neighborhood Notification: Activity is not neighborhood specific.

City Goals: Promote public and private partnerships that help enhance the city's economy and neighborhoods.

Comprehensive Plan: All loans will comply.

Zoning Code: All loans will comply.

Living Wage/Job Linkage: Not applicable.

Background/Supporting Information

Previous Directives:

The City of Minneapolis and the Minneapolis Consortium of Community Developers (MCCD) entered into the Small Business Program, contract No.16980 dated August 3, 2001 and further amended on June 2, 2002, May 20, 2003, April 1, 2004 and January 7, 2005; for the origination of small business loans in Minneapolis.

The MCCD in cooperation with the City of Minneapolis' Department of CPED, operate a number of micro loan programs for small emerging neighborhood businesses. In addition to the funding from the City, MCCD uses other resources including state, federal, corporate and private foundation funds to further capitalize their various small business programs, therefore leveraging the funds provided by the City.

The small business programs are operated by member community development organizations of the MCCD that include:

- African Development Center
- Latino Economic Development Center
- North Side Residents Redevelopment Corp.
- North East Community Development Corp.
- **Neighborhood Development Center**
- Seward Redesign
- West Bank CDC
- Whittier CDC

Background: Recent discussions with small business community bankers, representatives from the MCCD, the Neighborhood Development Center and neighborhood business associations, have stated a need to increase public sector loan guarantees, in collaboration with participation by commercial bankers and often the SBA, on business loans under \$150,000. The City of Minneapolis operates a number of small business loan programs that provide funding for the purchase and renovation of existing buildings, the purchase of production equipment and the financing of leasehold improvements. However, the need for working capital whether through a working capital term loan or through a revolving line of credit, has been inadequately served by the existing programs offered through local lenders and MCCD. What the proposed Emerging Small Business Loan Guarantee Program would do is to increase the availability of working capital for small and emerging businesses. We propose doing this by amending the existing contract

with MCCD to include our ability to offer small emerging businesses access to working capital through our partnership with the MCCD.

New immigrants and others with no-credit history, or poor personal credit history, (yet with business or other management and life experience) often do not meet tightening underwriting criteria by commercial banks and the SBA. Increasingly the bank's underwriting decision is based upon the credit scores (FICO scores) of the borrower(s), with little emphasis on other factors in determining whether to provide a loan. A role of economic development is to ameliorate within reason, some of the hindrances borrowers may encounter.

Presently banks, often in participation with the SBA, obtain loan guarantees on term and revolving loans up to 50% of the credit amount. The City is often not involved with these loans.

This new initiative provides access to capital for small businesses that face challenges in obtaining the credit they need for conventional sources. Under the Emerging Small Business program, CPED will partner with MCCD to assist businesses to obtain bank financing. CPED will provide a guaranty equal to 33% of the bank's loan, provided that the CPED's maximum exposure does not exceed \$25,000 for any one loan. MCCD will provide an additional \$25,000 in credit enhancement from its existing capital sources, which include the state-funded Urban Initiative Program and the Wells Fargo Community Development Corporation. The lender may also obtain credit enhancement from the Small Business Administration or another third party, provided that total credit enhancement from all sources, including CPED, MCCD and SBA, does not exceed 75% of the total loan amount.

The bank and MCCD will verify that an initial borrower equity of between 10-30% was made when the business started. It is believed that this increased guarantee amount, and the borrower participating in on-going technical assistance (business plan monitoring and mentoring by the MCCD, the SBA's SCORE or others), and on-going monitoring and involvement between the borrower and banker, will enhance chances for business success. These larger guarantee amounts should encourage lenders to provide more loans, and help job creation amongst the city's new immigrant and other underserved communities. The borrower will be required to remain in frequent mentoring contact (at least semi-annually) with the MCCD and CPED. Should the business relocate outside of the City of Minneapolis, the loan will become immediately due.

Eligible uses will be: to help finance lines of credit, working capital, leasehold improvements, equipment, production contracts, inventory, and receivables. Loans cannot refinance existing debt. Bars and liquor stores are not eligible.

Loan Terms: up to 5 years on a term or line of credit, depending upon the collateral and bank's underwriting criteria. The interest rate is determined by the bank. A 1% CPED origination fee will be collected, in addition to fees charged by the bank and MCCD.

The City of Minneapolis has a good track record in providing working capital to businesses. In 1988 the former MCDA started a working capital-only loan program. That program funded 308 businesses (1988 – 2003) thus leveraging \$11.5 million in private financing over the 15 year period. The default rate averaged 3.7%, rather low by banking standards given the portfolio of businesses assisted. The 1988 program did not have the technical assistance and mentoring component. Mentoring to newer businesses is known to increase business success as evident by the SBA's SCORE, the Minneapolis non-profit MEDA's Minority Business mentoring program, the *Minnesota Collaborative*, and others. It is believed that ongoing technical assistance by the MCCD and bankers will decrease the potential for loan losses.

Included in the Fifth Amendment to the MCCD contract is the addition of \$25,000 to be made available to the MCCD on an as needed basis to support their providing technical assistance to **Minneapolis businesses**. CPED staff will report annually to the Community Development Committee on the program's status.

Borrowers will complete a CPED and a bank loan application. Standard loan documentation required will include: personal financial statements of borrowers, 2 years taxes, a prior year's business financials and taxes, interim financials, a 12 month cash-flow projection, a business plan or narrative; and appropriate lien and collateral pledge agreements.

Final approvals will be obtained from loan committees of the participating bank, the MCCD, and CPED Business Finance. This triple-check in underwriting, guarantees provided by three entities, and multiple sharing in the credit risk, should decrease chances for loan losses.

AFFIRMATIVE ACTION COMPLIANCE: Not required as the assistance amount is under \$50,000 per loan.

Small Business Loans Closed in First Six Months of 2005
Under the City's Partnership with MCCD

<u>Project/ Address</u>	<u>Loan Amount</u>	<u>Date Closed</u>	<u>Ward</u>	<u>Neighborhood</u>
Spanish Wines Importers 1403 Dupont Ave. N.	\$17,500	01/7/2005	5	Near North
Mind Body Fitness, LLC 4305 Upton Ave. S.	\$25,000	03/04/2005	13	Linden Hills
Taco El Paso 2845 Harriet Ave. S.	\$25,000	03/08/2005	6	Whittier
Minnesota Professional Health Services - 2522 8th St. S.	\$9,500	03/21/2005	2	Cedar-Riverside/West Bank
Vintage Touch Barber Salon 4649 Bloomington Ave. S.	\$28,750	03/29/2005	11	Northrup
Innovation Magazine, Inc. 2845 Harriet Ave. S.	\$15,000	03/31/2005	6	Whittier
Three Branch Press, LLC 3641 Park Ave. S.	\$2,500	04/07/2005	8	Central
The Furniture Man 1800 Winter St. N.E.	\$11,000	04/04/2004	1	Como
Williams Jan Pro 4139 Irving Ave. N.	\$12,600	06/13/2005	4	Camden
Healing Source, Inc. 3003 Hennepin Ave.	\$3,750	06/22/2005	10	CARAG
Richard White, LLC 1616 Emerson Ave. N.	\$12,500	04/26/2005	5	Near North
Al-Najax Store 2940 Pillsbury Ave. S.	\$12,000	05/03/2005	6	Whittier
Salaam Barber Shop 2213 Central Ave. N.E.	\$2,500	05/03/2005	1	Windom Park
La Fortaleza, LLC 2516 Central Ave. N.E.	\$22,500	05/16/2005	3	Holland
Black Cat Natural Foods 2015 Talmage Ave. S.E.	\$20,000	05/17/2005	1	Como
Hikma Transportation, Inc. 1530 6 th St. S.	\$25,000	05/23/2005	2	Cedar-Riverside/West Bank
Habil Transportation, LLC 2940 Pillsbury Ave. S.	\$25,000	05/24/2005	6	Whittier
A-Sign and Screen Company 710 Lowry Ave. N.	\$29,250	05/25/2005	3	McKinley
Fireroast Mountain Café 3802 37 th Ave. S.	\$25,000	06/13/2005	9	Howe
Blue's Barber Shop 2729 25 th St. E.	\$15,000	06/15/2005	9	Seward
Africk Grocery Store, Inc. 613 ½ Cedar Ave. S.	\$42,000	06/17/2005	2	Cedar-Riverside/West Bank
Ilmi Transportation, Inc. 2949 Russell Ave. N.	\$25,000	06/24/2005	4	Jordan
Spectrum Cleaning Services 3331 Morgan Ave. N.	\$25,000	06/29/2005	4	Folwell