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On Focus and In Depth

Nonprofit Bank-Loan Partner Setting Sights Beyond Minn.

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By [Ben Jackson](#)

After several years of groundwork, a nonprofit in Minneapolis that teams up with small banks to make bigger loans to growing business customers is looking to take its model to other states.

The Northland Institute aims to duplicate its Minnesota Community Capital Fund elsewhere and is eyeing Nebraska, Florida, Georgia, Iowa, Missouri, Ohio, and Wisconsin. It has already branched into South Dakota.

"Hopefully we'll look back five years from now and say there are 20 of these operating around the country," said Scott Martin, the president and chief executive officer of Minnesota Community Capital. "The sales job for me is to find and encourage other like-minded organizations in other states to do this."

Since its creation in 2003, Minnesota Community Capital has partnered with 45 banks to make 60 loans totaling \$16 million. The average loan is \$400,000, but the fund will make a loan ranging from \$50,000 to \$2.5 million. It currently has \$3.5 million available to lend.

The fund is fed by local governments and economic development organizations that deposit \$25,000 to \$250,000 and then request a loan up to 10 times the size of the deposit for a local borrower that is looking for more money than the local bank can lend.

For instance, the \$52.5 million-asset Citizens State Bank of Hayfield, Minn., worked with the fund to help a small manufacturer expand. The company was a partnership of four family members who would have had to mortgage their homes to get the loan. But Citizens and Minnesota Community Capital made two separate loans collateralized by the business alone.

"We were kind of a hero because we were able to do it without the mortgages on their homes," said Curt Wendland, a Citizens vice president.

"If a bank has a gap in a proposed business financing they can call upon us to fill that gap as a subordinated lender," Mr. Martin said.

Mr. Wendland would not divulge the loan's size but said the bank and the fund took an equal share. The bank made a five-year, fixed-rate loan and the fund made a 10-year, fixed-rate loan. Another lender, the one that wanted the family members' homes as collateral, had offered only an adjustable rate loan, which would have raised the company's borrowing costs, Mr. Wendland said.

Though the fund and its bank partners make separate loans to the same borrower, the bank has the senior lien, which means it gets paid first and is first in line to take collateral if the loan defaults. The bank and the fund separately evaluate a borrower's ability to repay.

"We're not the money of last resort," Mr. Martin said. "We're not going to make a loan that a bank is not going to make."

Minnesota Community Capital has already led to two spinoffs, one also based in the Twin Cities that focuses on urban lending, and another in South Dakota.

Minnesota Community Capital sells its loans to the Community Reinvestment Fund of Minneapolis, which pools them with other community development loans and sells the pools in the secondary market. Investors such as banks, pension funds, and insurance companies buy securities backed by the loan pools. The default risk is transferred to the investors and Minnesota Community Capital uses the proceeds to make more loans.

Bill Wilson, a vice president of commercial lending at Integrity Bank Plus in Wabasso, Minn., said his \$40.2 million-asset bank worked with the fund to finance a local grocery store that wanted to expand to compete with national chains. The loan was too big for Integrity but the Town of Wabasso had deposited money with Minnesota Community Capital, so the two teamed up to provide the funding.

"Without the Minnesota Community Capital Fund, there wouldn't have been enough [money] available," Mr. Wilson said.

Mr. Martin added, "We're helping some small town banks become a little more creative on pulling the trigger on some loans they might be uncomfortable with."

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