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Wringing the most out of loans in tight times

Last year, Lake Superior Laundry expanded from its century-old Superior, Wis., plant to a new \$4 million industrial laundry in Pine City, Minn.

It's a growth business that has added 42 full-time workers with full benefits and is a business that also gets rave reviews for its low-energy and water-recycling systems.

It was a stretch for owner Max Blaufuss, who raised most of the financing from National Bank of Commerce and East Central Energy, and who also was assisted by the city, state and Minneapolis-based Community Reinvestment Fund (CRF).

"We needed to increase our capacity because we're running six days a week, 19 hours a day at Superior and we had a big customer near Pine City, 85 miles from Superior, so we decided to go with a second plant," said Blaufuss, who's owned the business for 20 years. "But we needed all the help we could get. The banks were really starting to tighten their lending in 2007."

Tight lending became apparent in 2008 when the global financial system nearly came to a halt. Without CRF, the 20-year-old national financing pioneer that provides small businesses credit on projects in small towns and inner cities, the Lake Superior Laundry project would have withered

and Minnesota's ranks of unemployed would have been slightly bigger.

Secondary market

CRF pools its small business loans and sells them to secondary-market investors such as pension funds and insurance companies. Last week, the U. S. Treasury also expanded CRF's national franchise as a seller of "New Markets" tax credits, which will be offered to affluent individuals and institutions as an incentive to spur economic development in frayed neighborhoods. CRF received U.S. Treasury authorization for about \$110 million in new tax credits that it can issue to private investors in its projects. That will help it continue underwriting industrial-development financing as the secondary market recovers.

Fortunately, the Lake Superior financing got done before the financial crisis came to a head late last year and before the speculative boom in real estate crashed in 2007-08. Since then, lenders have backed away from even solid borrowers and the secondary markets froze shut for all but government-insured mortgage loans.

"Right now, every player in the financial world wants more capital and less leverage," said CRF's CEO Frank Altman, who started the business in 1988 as a way to replenish lender funds and inspire more development. "We got our last securitization ... for \$70 million in loans, our largest transaction, done the day that Bear

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Stearns went under [in March 2008]."

Altman said "there really isn't a secondary market right now, even for performing loan portfolios. We're holding loans on our balance sheet. I'm hoping that we'll have more outlets open by January or February."

CRF-backed loans perform well. They range from financing rural laundries to refurbishing abandoned apartment buildings for senior housing or helping finance Jacqueline Hamilton's decade-old wig business in north Minneapolis. CRF boasted a 1 percent default rate until the recession drove it to about 3 percent, said Altman. Contrast that with 25 percent-plus defaults in some pools of Wall Street-peddled subprime mortgage and commercial real estate portfolios.

CRF and its participating lenders keep at least a small portion of every community development loan made on their own balance sheets.

Altman, a dapper fellow who sports bow ties, whipped out a map of the near South Side of Minneapolis, where hundreds of small commercial loans, many touched by CRF over the past 15 years, have seeded the renaissance of once-decaying Lake Street and E. Franklin Avenue. These were loans to artisans, bakers, restaurateurs, new factories owned by immigrants, new entrepreneurs and courageous veterans of what once again are important

commercial arteries.

"We're about jobs," Altman said. "Small firms employ half of all private sector employees. CRF and its lending partners connect disadvantaged communities with capital, so small business owners can expand and hire new employees."

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