

Southern Development Council and CRF: Turning Financial Barriers Into Business Opportunities

**By Leon Darby, Business Development Officer
Southern Development Council, Inc.**



Founded in 1983, Southern Development Council, Inc. (SDC) provides financing for small businesses in Alabama, Mississippi and the panhandle counties of Florida. As a Certified Development Corporation (CDC), we rely most heavily on the U.S. Small Business Administration's (SBA) 504 loan program to help qualifying businesses fund capital improvements, real estate acquisition and new construction.

While my title is "business development officer," I consider myself being in the business of making dreams come true. My job is to connect hard-working entrepreneurs with the capital needed to grow their businesses and create jobs. Borrowers come to us with a gleam in their eyes and passion in their hearts, and often become emotional when their loans are approved. That's why we continually strive to find alternative financing options for deserving borrowers who don't meet SBA 504 lending criteria.

Fortunately, our work with Community Reinvestment Fund, USA (CRF) has allowed us to expand our lending capabilities beyond SBA 504 loans. For example, we recently worked with a borrower who needed to refinance his business, which is an ineligible use of the 504 program. The owner wasn't able to leverage his property to obtain additional loans because it was tied up as

collateral for another high-rate loan that was bleeding cash from the business. We were unable to restructure the owner's debt service using a 504 loan; so, we turned to CRF. With a CRF Business Loan, we helped the borrower pay down his short-term, high-interest debt while providing additional capital for business improvements by freeing up collateral and generating additional borrowing capacity.

As the above example demonstrates, CRF's Business Loan gives us greater flexibility and more opportunities to get deals done. In fact, we often use CRF loans as a catalyst for securing the portion of a financing package that must come from more traditional lenders, such as banks. If we can complete our second-position loan before traditional lenders approve their first-position financing, it helps banks mitigate their perceived risk and move forward more rapidly with the loan.

Although less than half of our territory is NMTC-eligible, we also take advantage of CRF's pioneering work with the New Markets Tax Credit (NMTC) program when appropriate. CRF helps us identify NMTC census tracts and allows us to make these loans with very favorable terms and interest rates to qualifying borrowers.

In our geographic area where we still are dealing with the aftermath of Hurricane Katrina, the flexibility and creativity CRF can bring to a deal is vitally important. In August 2007, it will be two years since the hurricane, and business owners are just now starting to receive insurance settlements. Sadly, many small businesses didn't have enough insurance to begin to cover their property losses. With all of the problems associated with rebuilding

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COMMUNITY IMPACT

FEEDING VICTIMS OF HURRICANE KATRINA

Since 1978, Vanelli's Greek and Italian Restaurant has been a fixture of the Tupelo, Miss. community with employees totaling more than 60. Following Hurricane Katrina in 2005, Vanelli's owner, Vasilios Kapenekas, took it upon himself to serve more than 3,500 meals free of charge – at an average cost to himself of \$15 per meal – to individuals in need. Unfortunately, Kapenekas' generosity negatively impacted the restaurant's finances, a result exacerbated by a short-term loan draining vital cash from the business. Thanks to a long-term, low-interest loan of \$586,250 provided by the Southern Development Council and CRF, Kapenekas was able to restructure his debt, maintain jobs at his restaurant and meet his humanitarian commitments.

If you have a community impact story you'd like to share, email it to katelyn@crfusa.com.

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the Gulf Coast, CRF will give us alternative financing options we would not otherwise have.

SDC is committed to creating jobs and opening up capital resources to our region's brave entrepreneurs, and we look forward to strengthening our relationship with CRF to turn financial barriers into business opportunities for strong, lasting community impact.

YOUR QUESTIONS

What is community impact information?

Community impact provides a measure of the positive outcomes we generate by providing financing, such as: creating employment opportunities; financing a business that otherwise could not secure capital; enhancing community services such as childcare; revitalizing or stabilizing a declining downtown; or allowing a business owner to move from renting to ownership. Measurement varies from project to project; however, in an effort to better standardize community impact data collection, CRF will provide its lending partners specific guidance on possible categories of impact in the near future.

Why does CRF collect community impact data on every loan?

As a mission-driven organization, our focus is to create community impact by providing lending partners access to capital. Tracking and measuring this community impact helps us attract increased amounts of capital from social investors who are increasingly asking for community impact data to demonstrate performance. In fact, CRF often must commit to specific impacts in designated regions to attract new investments, and we rely on our lending partners – the true drivers of community impact in underserved neighborhoods – to help identify our successes.

How does it benefit me as a lending partner?

Our ability to attract more capital benefits your organization because you can make more loans to more borrowers knowing you have access to a secondary market that is increasing in scale. You benefit as we offer more products to meet the needs of borrowers who simply do not qualify for conventional financing. Also, the overall cost of capital lowers as CRF attracts more capital.

TRACKING PROGRESS

CAPITAL SOLUTIONS BUSINESS LOANS

Deals Closed July 1, 2006 to June 30, 2007

Amount: \$50.0 million (current fiscal year); 101 deals between \$6,500 and \$1,538,000.

Deals Ready to Close

Amount: \$14.3 million; 31 deals located in California, Colorado, Florida, Wisconsin and Connecticut among other states.

Deals in the Pipeline

Amount: \$14.9 million; these loans – currently in the review process at CRF or lending partners – are being prepared.

CAPITAL SOLUTIONS NMTB BUSINESS LOANS

Deals Closed July 1, 2006 to June 30, 2007

Amount: \$72.0 million (current fiscal year); 105 deals between \$67,000 and \$2,500,000.

Deals Ready to Close

Amount: \$46.5 million; 54 deals located in California, New Jersey, Washington and Minnesota among other states.

Deals in the Pipeline

Amount: \$30.0 million; these loans – currently in the review process at CRF or lending partners – are being prepared.