

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

Date: December 2, 2008

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

Subject: Request for Funding of Partnership with the Metropolitan Consortium of Community Developers and the City of Minneapolis for the Small Business Loan Programs and the Implementation of a Credit Building Loan Program.

Recommendation: The CPED Director recommends that the City Council:
(1) authorize an allocation of \$135,000 to the Metropolitan Consortium of Community Developers to extend the City's partnership on small business loan programs for 2009 and;
(2) authorize the expansion of the partnership in 2009 with the addition of the credit building loan proposal and authorize an allocation of \$50,000 to the Metropolitan Consortium of Community Developers to pilot the credit building proposal in 2009.

Previous Directives: Since 1991 the Business Finance staff on an annual basis has requested that the City Council approve the partnership arrangement with the Metropolitan Consortium of Community Developers to operate the micro loan program and other small business assistance programs.

Prepared by: Bob Lind, CPED, Business Finance, 673-5068

Approved by: Charles T. Lutz, Deputy Director CPED _____

Catherine A. Polasky, Director, Economic Development _____

Presenters in Committee: Bob Lind

Reviews

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

Financial Impact

- Other financial impact: The \$185,000 in funds have been appropriated in Fund 01SED (Small Business Finance) and are part of the CPED 2009 budget request.

Community Impact

- Neighborhood Notification: All programs are City-wide small business loan programs.
- City Goals: Assistance to small businesses aids in building communities and in creating the environment that maximizes economic development opportunities in Minneapolis.

- Sustainability Targets: N.A.
- Comprehensive Plan: N.A.
- Zoning Code: N.A.
- Living Wage/Business Subsidy Agreement Yes ____ No X
The small business assistance programs of the City have generally been exempt under the State Act and the City's local Ordinance given the small size of the financings and the projects are undertaken for a variety of community development purposes.
- Job Linkage Yes ____ No X

Supporting Information

The Metropolitan Consortium of Community Developers (MCCD), in cooperation with the City of Minneapolis Department of CPED, operates the micro loan program to provide loans to small neighborhood businesses. Many of the micro loans have been under \$10,000. The micro loan program is just one of a number of small business assistance programs that the MCCD operates. In addition to the funding from the City, MCCD uses other resources including state, federal and private foundation funds to further capitalize the various loan programs it operates, thereby leveraging the funds provided by the City of Minneapolis.

At last year's annual MCCD meeting in October 2007, it was announced the merger of the Minneapolis Consortium of Community Developers with the St. Paul counter-part, the St. Paul Coalition for Community Development, resulting in the subsequent name change to the Metropolitan Consortium of Community Developers. With the merger, MCCD is now an association of 43 members working across the seven county Twin Cities metropolitan area. As a group, MCCD sees the potential for greater leveraging of resources, opportunities for new alliances within the membership, and the development of new programs that operate across the metropolitan area. See the attached Exhibit B for a listing of the combined membership of the new MCCD.

The small business loan programs in cooperation with the City of Minneapolis are a partnership of the following MCCD member lending organizations:

- African Development Center
- Latino Economic Development Center
- Metropolitan Economic Development Association
- Neighborhood Development Center
- Northside Residents Redevelopment Corporation
- Northeast CDC
- Seward Redesign

Through the micro loan program the City of Minneapolis has assisted MCCD in providing financing for more than 500 target area businesses during the last eighteen years. See the attached exhibit for the 14 small businesses that have been assisted in the past twelve months. The MCCD loans represent one of the only sources of city-assisted financing for start-up and home-based businesses in Minneapolis. MCCD has initiated an intensive and on-going technical assistance program for its borrowers, in an effort to strengthen their financial, marketing and business management skills. The advice, counseling and technical assistance can often mean the difference between success and failure. The MCCD small business programs help new and early stage businesses access the capital and technical assistance they need to grow and prosper.

In addition to continuing our partnership with MCCD in 2009 on the various small business loan programs and the providing of technical assistance to our borrowers, it is staff's recommendation that we add a new financing program called the credit building loan program.

Today, many residents are finding that credit impairment is limiting their access to the capital they need to enhance their economic opportunities. Particularly for small business owners and aspiring entrepreneurs, having low or non-existent credit scores constitute a major barrier to financial success. With few opportunities to create or improve their credit scores at credit bureaus, these borrowers have less access to competitive interest rates and safe loan products. Particularly hard hit of late, are residents who have been victimized by predatory home mortgage loans and are finding that their credit history is being adversely affected.

MCCD will build on the experience of other organizations that are already providing credit counseling and foreclosure prevention programs. Several MCCD member organizations, including Habitat for Humanity and Community Neighborhood Housing Services, currently offer these services. It is MCCD's proposal to provide credit building loans to up to 50 Minneapolis residents/businesses who are already in foreclosure prevention and credit counseling programs. Along with MCCD, we will be targeting the credit building loan program to existing and potential small business owners who are in foreclosure prevention counseling and who may have had a strong credit score until they were faced with a home mortgage crisis. This program will be a good link with the City's existing foreclosure mitigation initiatives and our other small business efforts.

MCCD will partner with Wells Fargo Bank to arrange participants in the credit building loan program to access a Wells Fargo secured credit card. The MCCD/CPED funds would be used to provide very small loans of up to \$1,000 each to the credit building participants/borrowers. These borrowers would use these small loans to fund a small reserve account at Wells Fargo Bank that would collateralize their credit card. With the guidance of a credit counselor, borrowers would make regular payments on their secured credit card balance. At the end of six months to a year, assuming that they had made timely payments on their credit card, the borrowers could see a substantial increase in their credit score. At that point, the reserve account would be released by Wells Fargo Bank, the borrower would repay their MCCD/CPED small loan and receive an unsecured credit card from Wells Fargo Bank.

City staff is proposing to allocate the \$185,000 as a grant to MCCD so it can further leverage these funds with other funding sources. City funds will be used to capitalize the micro loan program, to provide guarantees for the working capital small business loan guaranty program, to support program operations including loan origination and servicing, to provide technical assistance for loan recipients, and to provide funding for the launch of the credit building loan program. The \$185,000 for support of MCCD is included in CPED's 2009 budget in Fund 01SED – Small Business Finance.

Attachments: Exhibit A: MCCD loans closed in 12 month period of October 1, 2007 through September 30, 2008; and Exhibit B: membership list of the MCCD.

EXHIBIT A

Small Business Loans Closed For the Period of October 1, 2007 Through September 30, 2008 Under the City's Partnership with MCCD

Applicant – Loans in Date	Loan	Projected	Retained
<u>Partnership with MCCD Closed</u>	<u>Amount Neighborhood</u>	<u>Ward</u> <u>New Jobs</u>	<u>Jobs</u>
Heidi's 10/12/07 Lynnhurst 816 50 th St. W.	25,000	13	4
		0	
Distribuidora Latino 10/16/07 Northrup 4232 12 th Ave. S.	25,000	8	1
		1	1
Modapolis, Inc. 10/18/07 Central 419 Lake St. E.	25,000	8	2
		0	0
BRAZA Home, LLC 12/24/07 Willard-Hay 1700 Penn Ave. N.	25,000	5	0
		5	5
Lowry Food Market 01/11/08 McKinley 626 Lowry Ave. N.	25,000	3	1
		1	1
Spirit Quest Massage, LLC 02/08/08 Armatage 5509 Penn Ave. S.	1,500	13	0
		1	1

Jessie Quality Classic Shoes 04/11/08 Downtown West	6,000	7	1	7
600 Hennepin Ave.				
D. Chism & Son Trucking, LLC 04/29/08 Phillips West	3,600	6	0	2
2937 Third Ave. S.				
Los Portales Resaurant 04/30/08 Central	50,000	8	3	1
419 Lake St. E.				
Reyna do los Jugos 06/04/08 Powderhorn Park	5,500	9	0	1
3016 Bloomington Ave. S.				
Imperio's Beauty Salon 05/30/08 Powderhorn Park	13,200	9	0	4
3016 Bloomington Ave. S.				

Applicant – Loans in Date	Loan Amount	Ward	Projected New Jobs	Retained Jobs
<u>Partnership with MCCC Closed</u>	<u>Neighborhood</u>			
Global Pharmacy 06/10/08 Phillips West	50,000		6	4
2400 Chicago Ave. S.				
Local D'Lish, LLC 07/25/08 North Loop	51,000		7	5
212 First St. N.				
A&A Millwork, Inc. 08/27/08 Hiawatha	25,000		12	0
3320 41 st St. E.				
Total # Loans	14		21	30
	\$330,800			

We all know that financing is only one part of a successful business. In addition to partnering with the City on the above loans, MCCD also provides the advise, counseling and technical assistance to businesses that can mean the difference between success and failure. The City utilizes the services of MCCD and its member organizations to provide help in planning, organizing and managing the businesses that are seeking financing for their projects. For more information on the services provided by the MCCD visit: <http://www.mccdmn.org>

For more information regarding all other programs offered through the City's Business Finance, visit: http://www.ci.minneapolis.mn.us/cped/business_finance.asp

MCCD Loans Closed for Report 2009

EXHIBIT B

Members of the Metropolitan Consortium of Community Developers

1) Members from the former Minneapolis Consortium of Community Developers:

Aeon (formerly Central Community Housing Trust)

African Development Center

Alliance Housing Incorporated

American Indian Neighborhood Development Corporation

American Indian Community Development Corporation

Artspace Projects, Inc.

City of Lakes Community Land Trust

CommonBond Communities

Community Housing Development Corporation

First Children's Finance

The Green Institute

Habitat for Humanity

Hope Community, Inc.

Latino Economic Development Center

Lyndale Neighborhood Development Corporation

Metropolitan Economic Development Association

Neighborhood Development Center

Northeast Community Development Corporation

Neighborhood Housing Services

Northside Residents Redevelopment Council

Plymouth Church Neighborhood Foundation

PRG

Project for Pride in Living
Riverton Community Housing
RS Eden
Seward Redesign
Urban Homeworks
Urban Ventures
West Bank Community Development Corporation
Whittier Community Development Corporation
WomenVenture

2) Members from the former St. Paul Coalition for Community Development

Aurora/St. Anthony Area Block Clubs, Inc.
Community Neighborhood Housing Services
Dayton's Bluff Neighborhood Housing Services
East Side Neighborhood Development Company
Frogtown CDC
Neighborhood Development Alliance
Neighborhood Development Center
Northeast Neighborhood Development Corporation
Rondo Community Land Trust
Selby Area CDC
SPARC