

2018 NMTC Projects

Small Loan Funds

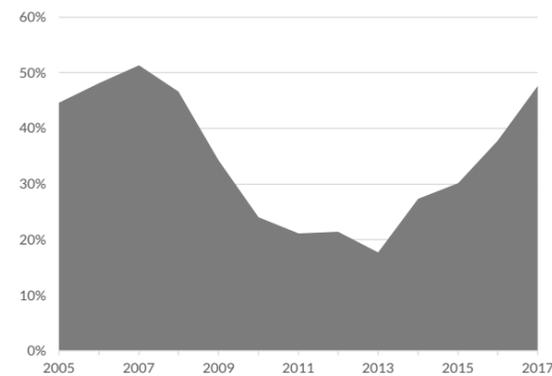
An increasingly popular use of NMTC allocation

TREND: INCREASED USE OF THE NMTC TO FINANCE LOAN FUNDS

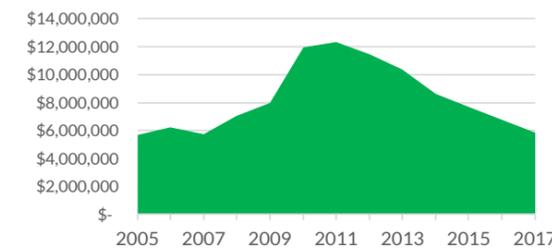
The NMTC is not known for small business financing, but a significant percentage of NMTC financed projects receive no more than \$4 million in NMTC allocation. NMTC allocation can be used to capitalize loan pools that make small loans (\$50,000 to \$4,000,000) to businesses and community facilities.

There is evidence that the capitalization of loan pools with NMTC financing has increased since bottoming out during the Great Recession. The two charts below show a significant increase in the number of projects receiving less than \$4 million in NMTC allocation and a corresponding decrease in the average amount of allocation provided to any given project.

PERCENT OF NMTC PROJECTS RECEIVING UNDER \$4,000,000 IN ALLOCATION (2003-17)



AVERAGE NMTC ALLOCATION PER PROJECT (2003-17)



WHY LOAN POOLS?

The Need

As the CDE above reported in their survey, small businesses face considerable difficulty accessing affordable, patient capital in low-income communities.

Limiting Transaction Costs

Many of the transaction costs associated with traditional leverage (A/B note) NMTC projects are fixed and are incurred up-front (during project closing). Thus, loans under \$5 million are unattractive to most borrowers.

Under the loan pool structure, CDEs to incur those up-front costs but can then make smaller loans and revolve the funds over the seven-year compliance period. Revolving the proceeds of Qualified Equity Investments also allows CDEs to stretch their NMTC allocation further, achieve greater impact, and limit The CDFI Fund has encouraged loans of under \$2 million in the NMTC application.

IMPACT EXAMPLE

Loan pools can stretch an NMTC allocation beyond what might be possible with a single seven-year loan to a discreet project. For example, the Small Business Capital Fund, created by Greenline Ventures and capitalized in 2017 by a mere \$11 million in NMTC allocation, provided \$22 million in financing to 16 different small businesses and supported 912 quality jobs in highly distressed areas of 17 different states. Of those jobs, 427 were held by women and 442 were held by minorities.

- \$1.25 million average loan amount, average term: 24 months to 7 years
- Loans support working capital, business acquisition, equipment financing and come with a variety of below-market features intended to provide maximum flexibility to the business for future growth and capital needs.

"The small loan fund was strategically created to respond to market needs. Staff have heard from small businesses and small-scale developers...that they are unable to access affordable, flexible capital through traditional lenders. While this information is confirmed by national studies, we also did our own surveys and convened a 75+ member...stakeholder committee to gain a deeper knowledge of the barriers these groups are facing in our market. We found an unmet demand for financing between \$750,000 and \$2M, and a need for loan products that offered a loan-to-value ratio above 75%. The small loan fund was created in response to these needs. We continue to convene our stakeholder committee every few months to seek feedback on this loan fund and other new products we have created, and have adjusted accordingly."

-CDE financing their first ever loan pool in 2018.

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PROJECT EXAMPLES



THINK BROCCOLI

Think Broccoli, a minority-owned urban social enterprise located in Baltimore, Md, organizes social impact campaigns and events to help mobilize and educate impacted communities. Think Broccoli organizes The Broccoli City festival, which is one of the few Afri-

can American-owned events of its kind. Greenline Ventures' Small Business Capital Fund made a time sensitive working capital loan to the company to execute its festivals, conferences, volunteer opportunities and other community events. In addition to arts and music, the festival includes a 5K run and BroccoliCon, Broccoli City's immersive two-day conference of the brightest minds from diverse disciplines and backgrounds focused on emerging technology, culture, entrepreneurship and social movements. Between the festival, conference, 5K run, and a community service day, Think Broccoli creates an estimated 376 temporary jobs.



AURA FABRICATORS

Jasmine Sonmor founded Aura Fabricators as a college senior in 2014 and began bidding on bridge components in the various DOT markets. Aura has grown rapidly under Sonmor's leadership. In less than four years, Sonmor has more than doubled the number

of contracts held by Aura and expanded the business to a second location, hiring 16 new employees between the two facilities. With plans to pursue additional certifications and enter new metal-working markets, neither Sonmor nor Aura is slowing down any time soon. As Aura secured more contracts and considered new lines of business, expansion to a second location became critical. Sonmor's plans for the company's future required more room and equipment for Aura's continued growth. NMSC provided favorable financing for new equipment to accommodate Aura's further expansion into new products and business lines through the NMTC enhanced Bremer Bank Loan Fund, dedicated to supporting small businesses in the rural Midwest.

At least 80 projects financed in 2018 were financed through a small loan pool, which is nearly one-third of all projects.

LOAN POOL SURVEY

The Coalition asked survey participants with loan pool QLICs closed in 2018 to describe the purpose and targeting of their loan pools along with the average loan sizes and financial products offered. Seven respondents provided information on their loan pools. With a bit of additional digging, we identified an additional 13 NMTC-financed loan pools either capitalized in 2018 or capitalized in a prior year but financing projects in 2018.

LOAN FUND TARGETS

Many loan funds carried a general purpose - to finance small businesses in a specific geographic area, for example. Others targeted populations or asset classes. Examples include: minority and women entrepreneurs, rural real estate, nonprofits, immigrant entrepreneurs, environmental remediation of industrial sites, and predevelopment loans.

FINANCIAL PRODUCTS

Most of the loan funds aimed to provide below-market interest rates. Other features included relaxed credit requirements, higher than average LTV ratios, and longer amortization periods.

CAPITALIZATION

Loan funds commonly involve partnerships between multiple entities, mostly often a bank, a private foundation, a CDFI or SBA lender, a city development authority, nonprofit consortiums, and of course, a CDE. In terms of leverage debt, foundations seem to be a bigger player in the loan pool space than they are in typical NMTC transactions, though banks still provide a majority of the leverage debt.

CDEs typically capitalized their loan funds with \$8 to \$10 million in NMTC allocation, though one CDE set aside half of its \$80 million allocation for a loan pool.

LOAN SIZES

Most CDEs were willing to loan anywhere between \$400,000 and \$2,000,000, though one CDE provides loans for between \$50,000 and \$150,000.



"It has become easier since our first fund in 2012 because there is a lot more investor interest now."

-CDE financing their first loan pool since 2012