

SMALL BUSINESS FINANCE FORUM

Capital Access Fund of Greater Cleveland Lead Partners:



Urban League of
Greater Cleveland

Empowering Communities.
Changing Lives.



URBAN
EMPOWERMENT
FUND
a subsidiary of the National Urban League

Morgan Stanley

***Empowering African American Small
Businesses, Eliminating Barriers &
Building Wealth***

Lead Sponsor

JPMORGAN CHASE & CO.

OPPORTUNITY FINANCE NETWORK 

CAPITAL ACCESS FUND OF GREATER CLEVELAND

Partnership

- National Urban League's Urban Empowerment Fund (UEF)
- Morgan Stanley
- Urban League of Greater Cleveland
- NDC
- City of Cleveland
- Cuyahoga County
- Local Partners (banks and CDFIs)

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

CAF MISSION

To increase minority small business access to affordable growth capital

&

To assist NUL's Urban Empowerment Fund to become a Treasury certified CDFI

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

CAF: THREE POOLS OF CAPITAL

- Morgan Stanley Pool (CILF) *
- SBA Loan Pool (GAF)
- NDC and UEF Pool

*CILF is today's focus
CILF and GAF are certified CDFIs

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

Minority small businesses face many barriers and biases against access to credit:

- Bank lending to minority small businesses is excessively low, especially since the Great Recession
- Higher declination rates, more paperwork, longer approval times
- Concentrated in low income communities
- Less community wealth and smaller affluent customer base
- Thinner capitalization base (equity); smaller margin for error
- Relative to white owned businesses, less equity and more debt
- With less margin for error, mistakes are relatively more costly that lead to higher delinquency rates

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

CAF is designed to break down those barriers & biases

- Easier access to credit
- Story loans & character loans
- Credit decision relies more on owner's judgement and honesty than track record (but they are related)
- Quicker turnaround times
- Commit within two weeks of full application
- Close within two weeks of approval (not a real estate acquisition program)
- Make accessing credit less intimidating

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

COST OF CAPITAL MATTERS

- Predatory Lenders offer quick and easy access to capital
- But, devastate underlying profitability of business
- Prevents increases in business net worth and community wealth
- \$200,000 loan at 25% rate for three years costs \$102,000 p.a.

CAPITAL ACCESS FUND OF GREATER CLEVELAND

MORGAN STANLEY

- **Why is Morgan Stanley participating in CAF?**
- **What does CAF mean to Morgan Stanley?**

CAPITAL ACCESS FUND OF GREATER CLEVELAND

MORGAN STANLEY POOL

Designed to meet needs of community

- Quick and easy
- Less intimidating
- Affordable
- Patient & Flexible

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

NUL URBAN EMPOWERMENT FUND goals for CAF

- To provide a solution
- To help MBE's gain access to capital
- To build a sustainable -Capital Access- Model which can be replicated in other markets and build UEF's capacity as a direct financing entity
- To help the National Urban League build its capacity as a financial intermediary and extend its reach more broadly into the community and economic development arena

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

URBAN LEAGUE OF GREATER CLEVELAND

- What does CAF mean to ULGC?

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

Program Components

- Support Services before and after loan is made
 - Entrepreneurship Center and NDC
- Properly Structured Affordable Financing
- Decoupling the Morgan Stanley debt from the small business debt;
 - 20% loss reserve in lieu of borrower debt capacity

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

URBAN LEAGUE ENTREPRENEURSHIP CENTERS IS VITAL COMPONENT

- Counsels and coaches Entrepreneurs before applying for debt
- Creates financing package that meets needs of business
- ULGC and NDC mentor business after loan has been made



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CAPITAL ACCESS FUND OF GREATER CLEVELAND

MORGAN STANLEY POOL

- \$2 Million Capital Pool
- Patient Debt (7 years)
- Flexible Credit Underwriting
- NMTC Enhanced
- 20% Loss Reserve protects Morgan Stanley



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MORGAN STANLEY POOL

- Because the 20% Loss Reserve and NMTC protects Morgan Stanley,
- There is no need to price for risk of individual borrowers
- Permits affordable interest rates



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CAPITAL ACCESS FUND OF GREATER CLEVELAND

LOAN LOSS RESERVE ~ CAPITAL RAISED

NUL's Urban Empowerment Fund:	\$100,000
NDC:	\$100,000
Morgan Stanley (NMTC equity):	\$100,000
City of Cleveland:	\$ 50,000
<u>Cuyahoga County:</u>	<u>\$ 50,000</u>
TOTAL RESERVE SIZE*:	\$400,000

* 20% of \$2,000,000 secures Morgan Stanley



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CILF PROGRAM

Eligible Borrowers:

- Operating businesses in operation for more than 18 months and a client of ULGC training or equivalent



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CILF PROGRAM

Use of Proceeds:

- working capital, receivable financing,
- machinery and equipment (including software and installation costs);
- in exceptional cases, real estate



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CAPITAL ACCESS FUND OF GREATER CLEVELAND

CILF PROGRAM

Amount: up to \$150,000*
Rate: under 5% fixed (LIBOR based)
Term: seven-year term; ten-year amortization period, three years interest only

**When appropriate, loans may exceed \$150,000*



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CILF PROGRAM

Collateral:

- UCC filing on business assets and personal guarantee;
- no lien on personal residences except in exceptional circumstances



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Loan Package

- **One-page application**
- **Short project description including S&U**
- **Business financials and tax returns**
- **Current personal financial statement**
- **Aging of receivables and payables and schedule of debt**



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Loan Package

- **Credit release form and certification that taxes are current**
- **Resume**
- **Simple projection demonstrating impact of financing and copy of pre-existing business plan**
- **Borrower certification form and QALICB Information Request (for NMTC purposes)**



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CAPITAL ACCESS FUND OF GREATER CLEVELAND

Underwriting Criteria (flexible guidelines)

Positive financial statement (P&L)

- Profitable; secondary source of income if profitable because not taking salary
- DCR > 1:1

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Underwriting Criteria (flexible guidelines)

Positive credit history

- SBA credit score > 120
- Personal credit score > 620
- Indication of effort to correct credit blemishes

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

Underwriting Criteria (flexible guidelines)

Positive Net Worth

- Without undue intangible assets or goodwill inflating stated net worth
- Negative net worth permitted if story is real and problems corrected or remediated

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Underwriting Criteria (flexible guidelines)

Current on payroll and income taxes or have an acceptable payment plan that is current

Site Visit evidencing going concern clearly established

- Basements and garages are acceptable business locations

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Underwriting Criteria (flexible guidelines)

Business References

- References from three enterprises with whom applicant does business
- Evidencing good character

Use Judgment

- Exceptions to underwriting criteria permitted when appropriate

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

Quality Indicators and Risk Mitigates

- Training:
 - client of ULGC training program or equivalent
- Credit Score:
 - evidencing strong effort to pay obligations
 - weaker scores accepted if there is a good reason and the issue has been resolved

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CAPITAL ACCESS FUND OF GREATER CLEVELAND

Quality Indicators and Risk Mitigates

- **Education & Experience**
 - educational experience relevant to the operation of the business
 - operating history of the business
 - experience in managing employees or money

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Fees and Closing Costs

- CAF charges no application fee
- closing costs will not exceed 2% of loan amount (excess borne by NDC/UEF)
- if project involves acquisition of real estate, borrower will be responsible for cost of appraisal, environmental review and title work

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Standard Closing Documents

- Promissory Note
- Security and Loan Agreement
- Personal Guarantee
- UCC Filing
- Updated Borrower's NMTC Certification and QALICB Information Request

CAPITAL ACCESS FUND OF GREATER CLEVELAND

CAFGC launched December 1, 2016

- CAF Summary Impact To Date:
 - TOTAL BUSINESSES: 13
 - TOTAL LOANS TO DATE: \$2.02 MILLION
 - TOTAL JOBS TO BE CREATED: 138
 - TOTAL JOBS RETAINED: 158

CAPITAL ACCESS FUND OF GREATER CLEVELAND

LESSONS LEARNED

- CAF is reducing barriers to access to credit
- ULGC Entrepreneurship Centers are working
- Success requires passion-perseverance-commitment
- Decoupling Morgan Stanley debt from SBC debt is key to affordability
- Partnership is essential
 - Work at it constantly
 - Communication is vital

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BRIDGE ~ BUILT UPON TRUST

- African American Community trusts Urban League
- Finance Community trust NDC
- Together we are building a bridge from the minority community into the finance community

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**CAPITAL ACCESS FUND OF GREATER
CLEVELAND**

**FINAL COMMENTS BY PANEL
MEMBERS**

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**CAPITAL ACCESS FUND OF GREATER
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**THIS IS THE CAPITAL ACCESS
FUND**

Q & A

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