Empowering African American Small Businesses, Eliminating Barriers & Building Wealth

Capital Access Fund of Greater Cleveland Lead Partners:
- 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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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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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
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

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
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.

MORGAN STANLEY

- Why is Morgan Stanley participating in CAF?
- What does CAF mean to Morgan Stanley?
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MORGAN STANLEY POOL

Designed to meet needs of community
- Quick and easy
- Less intimidating
- Affordable
- Patient & Flexible

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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URBAN LEAGUE OF GREATER CLEVELAND

• What does CAF mean to ULGC?

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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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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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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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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
Cuyahoga County: $50,000
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

Use of Proceeds:

• working capital, receivable financing,
• machinery and equipment (including software and installation costs);
• in exceptional cases, real estate
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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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Underwriting Criteria (flexible guidelines)

Positive financial statement (P&L)
- Profitable; secondary source of income if profitable because not taking salary
- DCR > 1:1

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

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
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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

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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FINAL COMMENTS BY PANEL MEMBERS

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THIS IS THE CAPITAL ACCESS FUND

Q & A