

Helping Small Business Access Credit through Participation Loans

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Organized by the Federal Reserve Bank of Richmond

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The **Connecting Communities**[®] audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded)

- Call-in number: 888-625-5230
- Conference code: 27472875
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/6414>

You have two options to ask questions today:

**These questions may be part of the recorded archive for this session.*

- Email us at: communities@stls.frb.org.
- Type your question into the chat box of the webinar.

An archived recording of this session will be available on the **Connecting Communities**[®] web site shortly after the session ends. Please visit www.stlouisfed.org/connectingcommunities/

In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

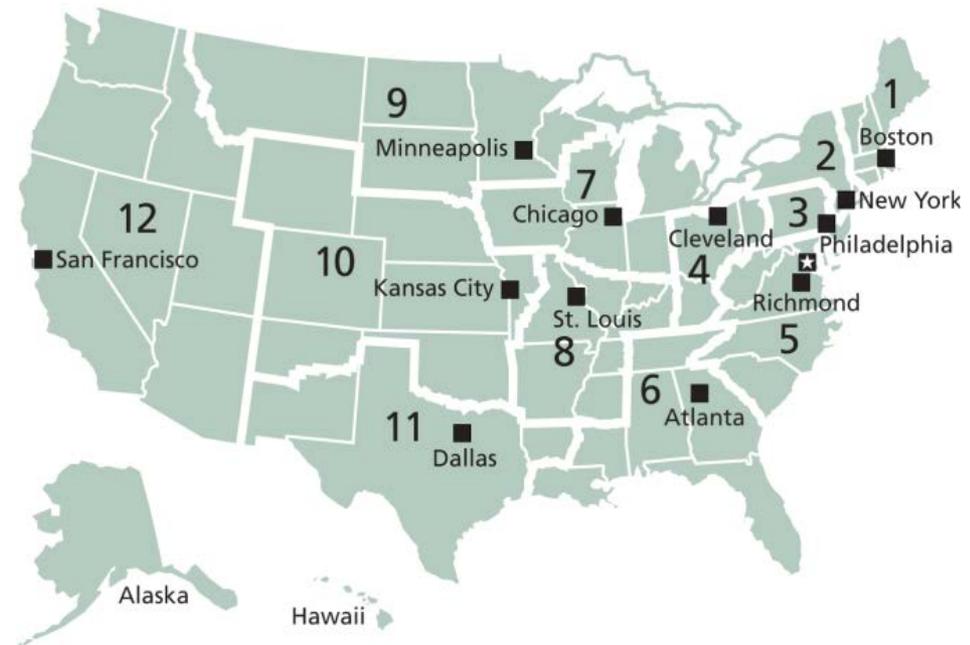
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Community Development

The Community Development (CD) function within the Federal Reserve System – consisting of individual departments at each of the twelve Federal Reserve Banks as well as at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:

- **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors,
- **Conducting and sharing research** to examine economic challenges facing low- and moderate-income communities and attendant policy implications; and,
- **Identifying emerging issues.**



Introduction

Sandy Tormoen

AVP and Community Affairs Officer
Federal Reserve Bank of Richmond



Today's Presenters

- **Dave Clark**, Executive Director, Woodlands Community Lenders, Elkins, WV, dclark@wdgwv.org
- **Dan Reitz**, Executive Director, First Microloan of West Virginia, Washington County Council on Economic Development (WCCED), Washington, PA, dan.reitz@StarpointePark.com
- **John Hamilton**, VP Economic Opportunity, New Hampshire Community Loan Fund, Concord, NH, jhamilton@vestedforgrowth.com
- **Jim Reiff**, Executive Director, Nebraska Enterprise Fund, Omaha, NE, jimr@nebbiz.org

Agenda

- The following will be discussed:
 - Sharing the Risk & Making Deals Work
 - First Microloan of West Virginia
 - New Hampshire Community Loan Fund
 - Nebraska Enterprise Fund

Sharing the Risk & Making Deals Work

Dave Clark

Executive Director

Woodlands Community Lenders

Elkins, WV

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Introduction

- Woodlands Community Lenders is a Community Development Financial Institution (CDFI) providing loans and development services to small businesses in North-Central West Virginia.
- Davis Trust Company, a local community bank established in 1901, provides a full array of banking services to the greater Randolph County, West Virginia region including consumer, commercial and small business administration (SBA) loans.



Custard Stand

- Small, West Virginia -based franchise based in Webster Springs, WV.
- Businessman in Elkins, WV approached lender with an interest in:
 - Purchasing property
 - Purchasing equipment and fixtures
 - Borrowing start-up capital



Sharing the Risk

Davis Trust	Woodlands Community Lenders
Provided financing for:	Provided financing for:
<ul style="list-style-type: none">• Real Estate purchase and• Line of Credit/Operating Capital.	<ul style="list-style-type: none">• \$96,000 in financing for equipment and fixtures

Underwriting Considerations

- The business was a start-up, but borrower had an existing successful business
- All loans involved security personally held by borrower
- Franchise purchase provided a basis for grounded financial projections
- Created 8 new jobs

Sharing the Risk – Benefits and Challenges

- CDFI is willing to take on risk that conventional lenders cannot.
- Not all deals can work with both parties;
- Requires a bank loan officer who understands CDFIs and our potential role in a given transaction.
- Davis Trust and WCL have an open and trusted line of communication, and talk regularly about potential borrowers.

First Microloan of West Virginia

Dan Reitz

Executive Director

First Microloan of West Virginia

Washington County Council on Economic Development

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Hermosilla's Deli

- First Microloan of West Virginia, a division of the Washington County Council on Economic Development, partnered with Huntington National Bank to finance Hermosilla's Deli in Fairmont, West Virginia.
- This was a start-up business so the bank couldn't make the initial loan, but they had an existing relationship with Dennis Hermosilla, so they referred them to First Microloan of West Virginia.



First Microloan of West Virginia



Hermosilla's Deli (continued)

- First Microloan of West Virginia made a \$50,000 SBA Microloan to buy equipment, inventory and supplies to get the business going.
- Once he opened the business, Huntington National Bank came in with merchant services, business accounts, credit card capabilities and a working capital line.



First Microloan of West Virginia



Hermosilla's Deli (continued)

- Once the Hermosilla's has a track record the bank can come in and finance the next stage of his expansion.
- The loan was closed 23 months ago, and he is so busy, Dennis is looking for a place to expand into in the same general location.



First Microloan of West Virginia



Hermosilla's Deli (continued)

- Huntington National Bank was able to serve an existing customer in a new venture by referring to a non-traditional lender.
- First Microloan was able to finance a start-up, which created employment and brought services into an underserved area.
- Huntington National Bank was able to offer merchant services, etc. to a customer.



First Microloan of West Virginia



Hermosilla's Deli (continued)

- When he is ready to take his business to the next level, Dennis is going to go back to Huntington National Bank for further financing, with a business track record.



First Microloan of West Virginia



New Hampshire Community Loan Fund

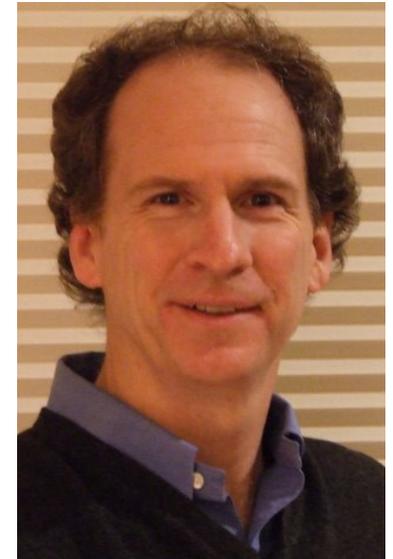
John Hamilton

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New Hampshire Community Loan Fund

Concord, NH

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Business Finance

- Lending pool = \$93 million, from 500 investors plus our own equity
 - No reliance on federal guarantee programs = flexible capital
- More risk-tolerant to fill capital gaps
- Add value and mitigate risk
 - Chief Executive Officer (CEO) peer groups, advisory boards and customized business education
- \$1 thousand to \$1 million (and more through participations with other investors)
- Offer debt, sub-debt, royalty financing structures

Throwback Brewery

- Purchase and relocation of brewery to historic New Hampshire farm
- Enterprise Bank and Trust referred to us when 100 percent financing was needed for equipment
- Community Loan Fund issued term sheet and closed equipment loan for \$450 thousand



Benefits

- Bank grew relationship with customer while staying within its risk profile
- Bank mitigated risk by partnering with CDFI that offers business education/network
- Brewery got a value-add partner (access to advisory board, peer group, consultants ...)
- Community Loan Fund strengthened Farm Food Initiative



Johnson Precision

- Need: \$3.6 million to buy profitable competitor
- Ledyard National Bank and owner able to finance \$2.2 million
- Community Loan Fund fills gap with royalty investment
 - Return = 2.1% of gross sales until 1-3x multiple is reached (approx. 7 yrs.)
 - Eight Angel investors declined equity investment but join royalty deal

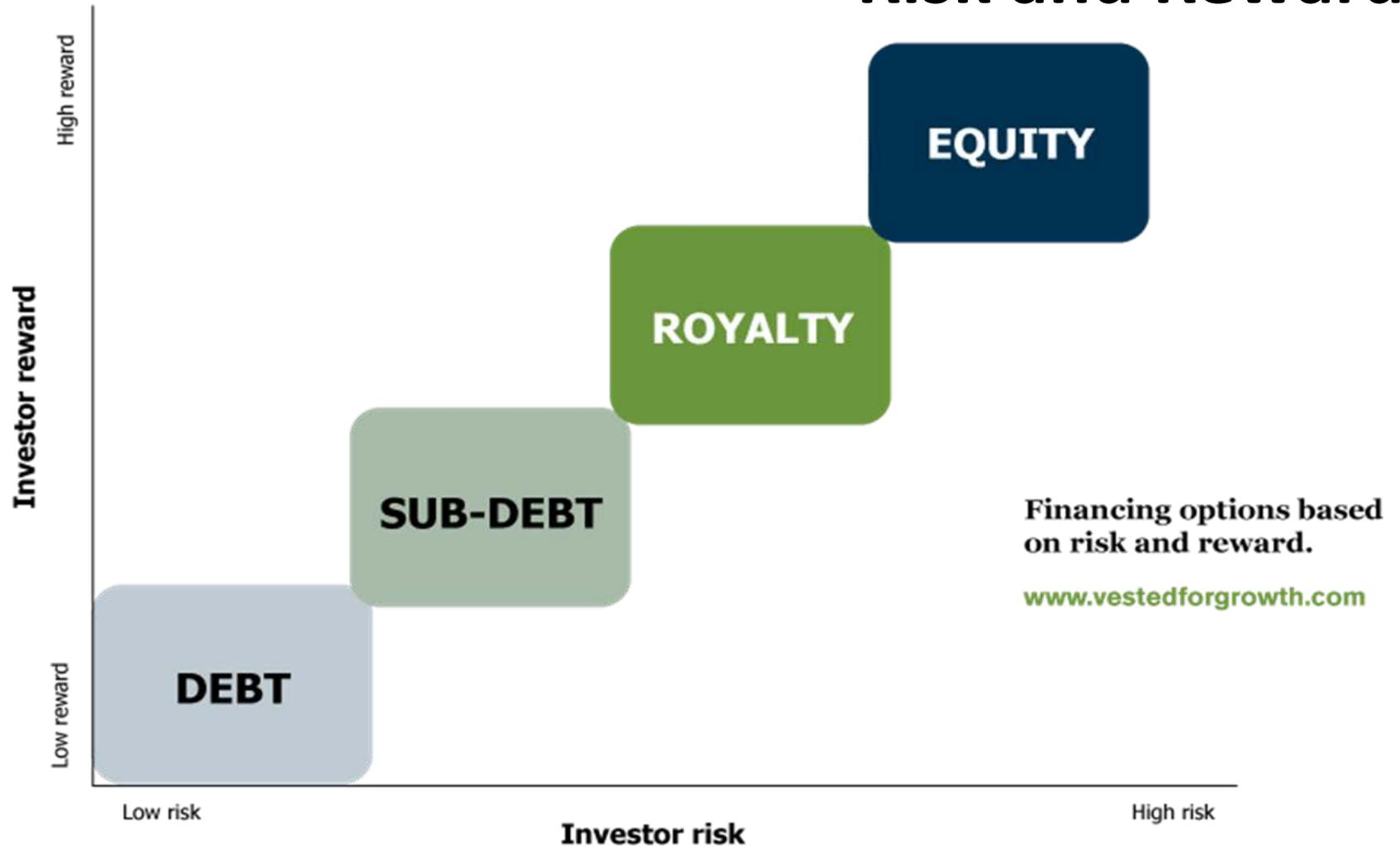


Benefits

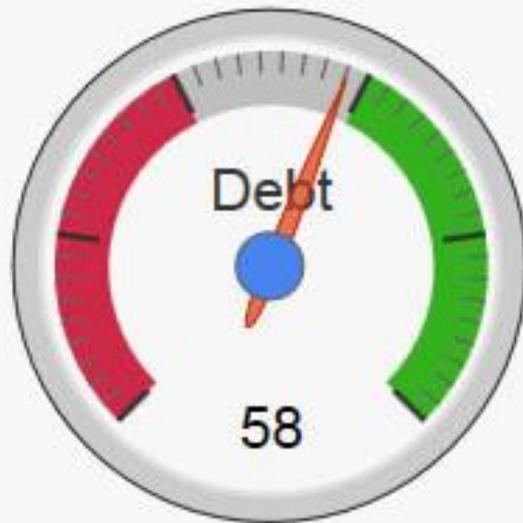
- Deal completed despite \$1.4 million gap
- Bank retains customer despite competition from seller's bank
- Business achieves growth plan
- Acquired company and 60 good jobs remain in NH



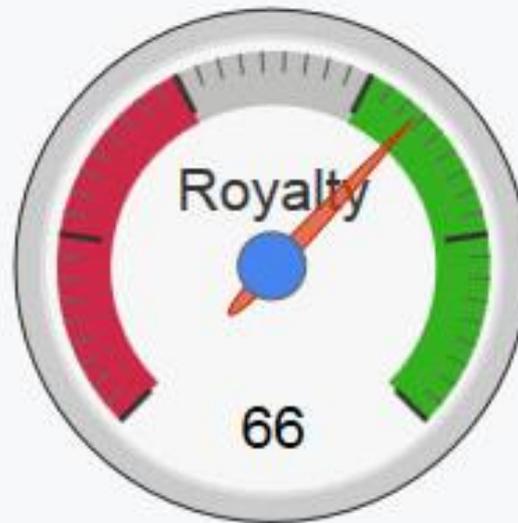
Financing Options Based on Risk and Reward



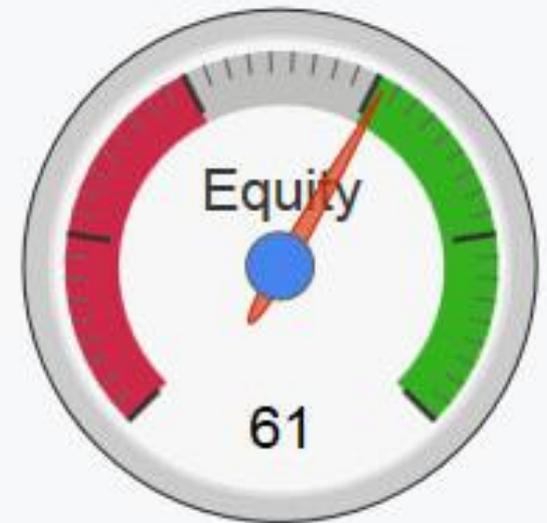
Capital Compass



Step 1
Your business today



Step 2
Your business's future



Step 3
Your business's market

Step 4
Owner's risk

www.communityloanfund.org/capital-compass

Nebraska Enterprise Fund

Jim Reiff

Executive Director

Nebraska Enterprise Fund

Omaha, NE

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Introduction

- Nebraska Enterprise Fund
 - CDFI since 1997
 - Serving the state of Nebraska
 - Over 100 deals in the past 4 years
 - Extensive collaboration with banking sector in NE
- First National Bank Northeast
 - Community bank
 - Serves rural Nebraska with 8 branches

Rief Design & Manufacturing, LLC

- Outside of Bancroft, Nebraska (population 500)
- Established in 2006 by father and son
- Adam graduated in 2008 from UN-L's Mechanized Systems Program
- Custom Manufacturing and Ag. Equipment
- Sales in US and Canada, looking to expand internationally \$90,000 deal.
- Nebraska Enterprise Fund (NEF) guarantee of \$20,000, Bank Loan of \$65,000 and Development District loan of \$25,000



Rief Design & Manufacturing, LLC (continued)

- Increased sales
- Employs 5 full-time (FT) and 2 part-time (PT) employees
- 25 product lines
- Planning addition that will double production capacity
- In the process of hiring 5 additional employees
- 2013 Cuming County Small Business of the Year



Benefits of Partnerships

- Bank was able to do a deal and still meet regulatory guidelines
- NEF identified a target market client
- Community gains additional employer
- Home grown business and owner
- Increased tax base
- 5 FT and 2 PT positions adding 5 more once addition is complete



Questions?

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Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our web site and in the next few days we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org
- Information about future sessions will be posted on our website along with archived materials from past sessions:
www.stlouisfed.org/connectingcommunities/

Related Resources



In connection with this session, you can find a variety of additional resources on this topic , available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the practice of community development, or small business development.