

**Economic Development
Presentation – NCDA Region 1
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Six Challenges of CDBG Economic Development Lending

1. The Promoters vs The Realists

- Promoter's proposal: 108 loan to cut through two floors of an historic mill to accommodate a battery manufacturer's cranes.
- Realist's proposal: small loan to buy 4 computerized sewing machines to increase growing company's output.

2. Markets Change – Need to be Nimble

- A lot of time goes into developing a business loan program
- Big projects (like 108 funded) take time

3. A Program Without Focus

- Little Impact
- Susceptible to political interference
- Difficult to market – audience too broad

4. Staff Competencies

- HUD Regulations
- The lending culture and language
- Internal processes and controls
- Documents
- The local business environment

5. Working with New Type of Borrower

- New Immigrant Small Business Owners
- Social Enterprises
- New Young Entrepreneurs

6. Borrower Capacities

- New Immigrant entrepreneurs
 - No banking relationships
 - Cash basis
 - Grey economy participants
 - Borrowing at high rates
 - Language and cultural barriers

Borrower Capacities (2)

- Recent college grads and social entrepreneurs
 - Large student loans
 - Lots of energy & enthusiasm
 - Impatient with city processes
 - Pitch contests and instant gratification

How to Overcome These Challenges

Build/Hire Expertise or Contract for Expertise You Don't Have

- Underwriting
- Technical assistance and training
- Closings
- Servicing
- Collections

Understand the Market

The Importance of Underwriting

- In house or consultant
- Double check the assumptions and the market analysis
- Do it even if not required (for instance with micro enterprises) – OMB Circulars do apply

Avoid 570.203 Special Economic
Development Activities
If You Can Do It Another Way

Borrow from Best Practices

- Lowell, Massachusetts
- Davenport, Iowa
- Madison Development Corporation, Wisconsin

Use Available Training Resources

- Paul Webster, Mark Tigan Presentations to NCDA
- National Community Development Council
- HUD's Economic Development Toolbox
- HUD's "One CPD" Technical Assistance

Our Solution

Micro Enterprise Lending
and
Technical Assistance to
Micro Enterprises

Results - Loans

One loan – to 99 Degrees Custom
\$36,750 at 5% to buy 4 high end
sewing machines

Results – Technical Assistance

- Contract with Sub Recipient *Merrimack Valley Small Business Center* for \$35,500
- Individual counseling
- 8 Session 2 hour classroom training
- 8 Students representing 7 businesses
- Primary purpose – to make ready for formal banking relationships and a loan application

Success Measures

1. Complete a business plan with financials
2. Grasp importance of financial statements
3. Establish business goals
4. Apply for a loan
5. Networking, access to larger markets
6. Understanding availability of other resources

One Third Through Program

- Highly motivated
- Thirsty for information
- Feel they are taking control of their business
- Enjoy meeting with other businesses