Enterprise Financing

Financing to grow your business and your impact, not just your portfolio

NeighborWorks Capital is best known as a development and real estate lender. Meeting the enterprise-level, rather than project-level, capital needs of NeighborWorks organizations (NWOs) is a challenge that is becoming more evident in the current environment of rising interest rates. NC has been working on this specific problem for the past several years; with The Kresge Foundation and NeighborWorks America, we developed the NeighborWorks Strategic Growth Fund (SGF).

The goal of SGF is to address the enterprise capital needs of NWOs to position them for sustainable operations and financial strength by supporting expanding, innovative and new (to the NWO) revenue-generating lines of business. Many NWOs are already participating in business assessment, strategic planning, and capacity building work through STRENGTH MATTERS™ and NWA’s Sustainable Business Initiative and Portfolio Strengthening programs. SGF and other enterprise capital leverage the organizational benefits of these ongoing activities with flexible, longer-term capital that can capitalize business innovations for sustainability and stability.

The demand for this kind of financing was evident by the 33 proposals submitted for $42.5 million, 6x the amount of funds available. The first seven SGF borrowers are shown (AHSTI, NWBRV, Mountain Housing, Way Finders, Homewise, ANDP, HPI) on the map below, along with NC’s enterprise financing for EBALDC in Oakland, CA. Because SGF is funded with a $5 million PRI from Kresge and $2.5 million from NC, the total fund was limited to helping only a few NWOs in its pilot phase.

All NeighborWorks Capital loans originated since 2001, with 8 most recent Enterprise loans highlighted
Affordable Homes of South Texas, Inc.  
$1,500,000 – Closed August 2016

After studying the demand and dynamics of the single-family market in the Rio Grande Valley, AHSTI determined there AMI. AHSTI had not focused on that market segment, so they requested financing to fund the growth phase of Frameworks Homes (AHSTI’s subsidiary builder) to develop new homes for a higher-income buyer than AHSTI has previously served, and who has less access to subsidies. The profits from the new program will be used to reduce AHSTI’s reliance on HOME and CDBG to subsidize their lower-income purchaser activities. was an underserved customer base, families between 80% and 120%

NeighborWorks Blackstone River Valley  
$750,000 SGF Loan – Closed March 2017

NWBRV has developed a number of commercial and mixed-use projects in and around Woonsocket, RI, always applying creativity and community input to their properties. Their most recent development, the ARTech District in Woonsocket, is repurposing several former mill buildings as incubator space. A new business for NWBRV. The $750,000 loan is capitalizing the completion of a new commercial kitchen, outdoor market, and office and event space to support local entrepreneurs and generate new revenues. The campus is a key catalyst for the City’s plans for Main Street redevelopment.

Atlanta Neighborhood Development Corp.  
$1,500,000 SGF Loan – Closed August 2016

Like many CDC’s, ANDP developed expertise using NSP funds, and wanted to continue the acq/rehab activities that assisted so many communities. ANDP’s enterprise loan capitalized a program to acquire and rehabilitate homes in hard-hit areas, expanding their activities to areas outside those designated under NSP. By partnering with experienced real estate investors with systematic tools for assessing, acquiring, and rehabbing homes, ANDP is leveraging both its expertise and its enterprise loan to scale its impact throughout metro Atlanta. This investment in its capacity will generate new revenues for ANDP and reduce their dependence on government grants.

EAST BAY ASIAN LOCAL DEVELOPMENT CORPORATION  
EBALDC – $6,205,000 secured credit facility  
Closed November 2016, increased October 2018

EBALDC’s revolving enterprise financing supports two lines of business – predevelopment expenses for LIHTC-financed developments, primarily new construction in the exploding Oakland market, and providing subordinate financing for acquiring operating apartment buildings to stabilize their occupancy and keep them affordable without significant public subsidy. The tide of gentrification and rent increases is very strong in the Bay Area, and EBALDC is using its experience and assets to preserve affordability for families facing severe rent pressure. NC’s innovative credit facility is secured with other EBALDC real estate, to allow for quick closing of property purchases and good security for predevelopment costs in a very high cost market.
The Housing Partnership, Inc.
$1,500,000 SGF Loan – Closing November 2018

HPI will utilize a $1.5M Strategic Growth Fund Enterprise loan to provide acquisition funding and working capital for 81 single-family homes as part of the Beyond Ninth Initiative in Louisville, KY. The SGF loan will leverage a $2.1M loan from Limestone Bank for the project. The homes will be renovated and leased or sold to low income families. The revenue generated from this program will be reinvested to support the acquisition renovation of additional properties Beyond Ninth neighborhood through the 5-year term of NC’s loan. HPI is leading the Beyond Ninth Initiative, which focuses on the revitalization of three neighborhoods, Russell, Shawnee, and Portland, in West Louisville. The Beyond Ninth Initiative seeks to expand redevelopment beyond Ninth Street, the historic dividing line separating the City’s central business district from its historically African American "West End" neighborhoods.

Mountain Housing Opportunities
$1,000,000 SGF Loan – Closed October 2016

Mountain Housing has historically served a very low income population and saw an opportunity to develop and sell homes to families in the middle income range. MHO has been successful at supporting its development activities with PRI’s and public subsidies; greater sustainability meant developing more revenue-generating programs, and homes to serve the next income level meets this need. The SGF loan will support expanding both their real estate development and homeownership programs to serve 30% more customers each year.

Way Finders, Inc. (formerly HAP Housing)
$500,000 SGF Loan – Closed June 2017

Way Finders used a $500,000 enterprise loan to finance the purchase of a consulting company, MBL Housing and Development, as its founder was retiring from the business. MBL is one of the leading affordable housing consulting organizations. This was one of the most innovative proposals for SGF funding and would maintain the available of high-quality development consulting to organizations throughout Massachusetts. Way Finders ownership of the consulting business will increase its revenues and reduce its reliance on developer fees to support operations.

Homewise
$1,500,000 SGF Loan – Closed July 2016

Homewise needed new capital to expand its successful home mortgage business. Their current mortgage portfolio is not large enough to generate sufficient profits to make Homewise fully self-sufficient – increasing their amortizing loan portfolio (those not sold to secondary market buyers) from $4.5 million to $12 million would increase their portfolio revenues to a sustainable level, effectively reducing their reliance on grants and contributions to nearly zero. NC’s enterprise loan will leverage other loans from commercial banks and the CDFI Bond program, a total of $12 million.
As we track the progress of NWOs with SGF financing, we will learn how their business lines expand, how well revenues and profits align with projections, and how to better assess business plans and organizational capacities. This knowledge will increase NC’s capacity to analyze organizations and allow NC to deliver the right capital with flexibility and patience.

SGF loan terms were EXTREMELY favorable, as Kresge’s PRI subsidized the loan rate to 3%. Future enterprise capital loan may not have a subsidized interest rate as additional capital is raised, but a market rate reflective of the risk of the loan. Enterprise financing is different from project or real estate lending, especially concerning collateral and security and means of repayment, as the predictability of development financing is much greater than future business operations. Financing new or expanding lines of business, where projections, market analyses, and management capacity to execute business plans are the basis for underwriting, is generally a higher risk proposition. But the rewards of greater community and neighborhood impact, and improved sustainability of our customers, is worth the risk.

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<thead>
<tr>
<th>Strategic Growth Fund Loans</th>
<th>NC Enterprise Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum loan amount</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Term</td>
<td>Up to 7 Years</td>
</tr>
<tr>
<td>Security</td>
<td>Unsecured</td>
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<tr>
<td></td>
<td>Direct loan to Sponsoring NWO</td>
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<td>Annual rate of interest</td>
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<tr>
<td>Payments</td>
<td>Quarterly interest only payments</td>
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<tr>
<td></td>
<td>Structured principal repayments</td>
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<tr>
<td>Prepayment</td>
<td>None</td>
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While SGF was focused on supporting new or expanded lines of business, because of Kresge’s specific funding, enterprise capital does not have to be only for new and shiny programs. Expanding a successful acquisition/rehab program, opening an office in a new area, or hiring new staff and consultants to seize on a high-impact opportunity requires resources to bridge the period from implementation - to revenue - to sustainable, profitable operation. NeighborWorks Capital’s mission is to support the NeighborWorks network with capital to grow its impact - this means providing more than project financing, and the experience gained through underwriting and monitoring SGF loans makes NC the choice for your enterprise financing needs.

NC’s greatest value-proposition is our flexibility, which allows us to craft a solution for your problem, rather than offering you something from a menu of “products” We’d love to hear from you about your enterprise-level financing challenges and want to help you find solutions. So give us a call or drop us a line, and let’s get to work!

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