

ACCESS TO CAPITAL



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Facilitating Financial Options
for Minority Businesses



The Commission on Economic Inclusion, a program of the Greater Cleveland Partnership, works to significantly improve the meaningful involvement of minority businesses and individuals in the economic engines that drive Northeast Ohio.

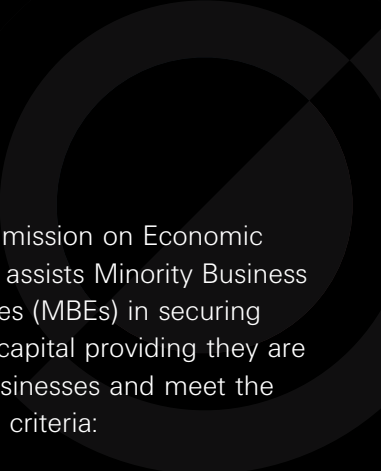
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The Commission on Economic Inclusion assists Minority Business Enterprises (MBEs) in securing working capital providing they are viable businesses and meet the following criteria:

- Have a proven track record.
- Have support from a reference within the business community.
- Have secured a revenue growth opportunity.
- Are actively engaged in a business advisory relationship.
- Are able to provide legitimate collateral.
- Have some existing equity.
- Have difficulty acquiring traditional capital.

OVERVIEW

The current economic climate is challenging for most businesses. Lenders are performing greater due diligence on loan applications than they have in recent years. Lines of credit are no longer readily available to businesses, and business owners that are too highly leveraged may have difficulty taking on new debt, even if that debt is critical to the survival of the business.

Access to capital continues to be the most important factor limiting the expansion and growth of minority-owned businesses, and the current financial environment has placed an even greater burden on minority entrepreneurs who are trying to keep their businesses thriving in today's economy. In reviewing the state of the credit markets, five common themes exist:

- Less money is flowing. The requirements to obtain credit are much more stringent.
- Companies with strong credit ratings are paying five percentage points more than the federal government to borrow money and more than double the premiums they paid previously.
- Real estate is less valuable as an asset or collateral. Real estate prices have declined.
- Cash/marketable securities are the most preferred source of collateral but are not readily available in the minority business community.

In response to this reality, the Commission on Economic Inclusion has established a financial resource to fill the gap for minority-owned companies in Northeast Ohio. With the support of the business community and committed volunteers, the Commission created a working capital fund to serve as an essential component of the MBE's toolkit for success and growth.

Working capital measures how much in liquid assets a company has available to build its business. Companies that have sufficient working capital will be more successful since they can expand and improve their operations.

WORKING CAPITAL LOAN FUND

The Working Capital Loan Fund (referred to as “the fund”) is a pool of funds that can be used as collateral to secure working capital lines of credit to support viable minority businesses. The fund is managed as a restricted fund by the Economic Growth Foundation (EGF), an affiliate of the Greater Cleveland Partnership (GCP).

This fund is specifically for African American and Hispanic business owners in Northeast Ohio. Key components include:

- Funds that are deposited in an interest-bearing account at a local commercial financial institution—fixed with low income risk.
- All customary financial analysis, loan review, and underwriting.
- Assignment of a depository account as collateral to secure a line of credit based on pre-defined criteria and credit scoring. (i.e. the MBE is bankable with additional collateral).
- A Management Review Committee approving assignment of funds as collateral.
- The MBE receiving ongoing advisory support and technical assistance in the formal program.
- The MBE receiving informal ongoing advisory support from community leaders.

How the Commission operates the Working Capital Loan Fund

- Eligible MBEs complete an application process to apply for a line of credit.
- A loan valuation expert (i.e. financial institution) handles the due diligence review of the MBE application.
- The Loan Review Committee makes loan decisions. Each applicant is evaluated on an individual basis with consideration of the “credit worthiness” recommendation of the financial institution.
- If the line of credit is approved, the Loan Review Committee works with the financial institution to determine the level of collateral needed to support the loan (from 50 to 100 percent of the loan value). After the collateral amount has been determined, the funds are deposited with the financial institution as an interest bearing account for no more than 12 months, with the option for renewal (i.e. continued collateral) 45 days before maturity.
- In exchange for the funds being used as collateral, the Working Capital Loan Fund has the right to pursue liens on all business assets including receivables, equipment and contracts against the MBE through EGF.

Fund Loan Review Committee

The Commission provides staff support for the Loan Review Committee, which reviews and manages the loan process. The committee includes 7 - 10 independent individuals representing: financial institutions, a venture investment fund, the minority business community, a community foundation, and the Greater Cleveland Partnership.

RESEARCH STUDY

Research presented by the Kirwan Institute for the Study of Race & Ethnicity, at The Ohio State University www.kirwaninstitute.org and the National Economic Development & Law Center www.nedlc.org reports found that a lack of access to capital is one of the main impediments to a Minority Business Enterprises (MBE) opportunity to grow.

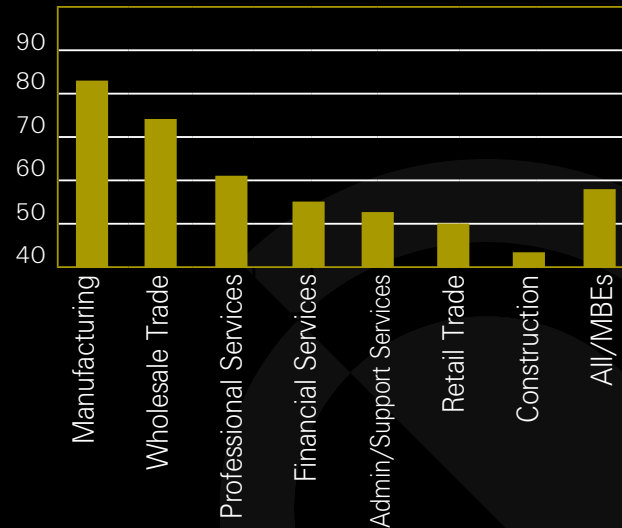
In addition to the challenges of the general credit market conditions, minorities face extenuating circumstances including:

- Most MBEs are first generation, and they make start-up mistakes.
- In general, minorities have less net worth and less capital. They may not think broadly when accessing capital.
- Partly due to history and ancestry, many minorities have limited alternatives for capital including less access to credit cards, mortgage loans, vehicle or equipment loans, etc.

As a result, viable MBEs with growth opportunities, cannot secure working capital to fund the growth. These businesses are forced to turn down business opportunities or take a risk on being undercapitalized. This may lead to the already small number of viable MBEs declining even more during these difficult times. To avoid this decline, such businesses must have access to capital. The Working Capital Loan Fund can be used as security to back working capital lines of credit for MBEs.

Credit Rating by Industry

Industry by Credit Rating, Percent of MBEs with Credit Rating over 80



VALUE PROPOSITION

The fund leverages an MBE's ability to manage business expenses more efficiently and effectively. For example, for a general contracting business, the fund can provide working capital for the first 30, 60, or 90 days into the project to help cover payroll costs, material costs, and other operational expenses. The fund is also unique because its "loan back" process is nimble, and it is more flexible than any other fund of its kind in the country.

This fund has value for the overall business community and region as it facilitates increased, successful participation by local minority businesses in our economy. Fully participating MBEs contribute to the tax base, employ more minority individuals and enable Northeast Ohio to capitalize on its diversity.

ONE MINORITY BUSINESS OWNER'S EXPERIENCE

Combination of technical assistance and capital was essential



The couple relocated to Cleveland from Pittsburgh in the late 1980s for Theresa's new position with LTV Steel. They launched their company when LTV closed its doors and made the transition from residential contracting, to commercial work in 2007. Projects have included Hillcrest Hospital and North Point Hotel near East Ninth Street and Lakeside Avenue. Their affiliation with the Minority Business Accelerator 2.5+ has provided their company with an infusion of working capital to cover expenses such as union dues, payroll and materials.

Completing work on their Richmond Heights home motivated Robert and Theresa Miller to take the major step of founding Start To Finish Construction, Inc. in 1999. "It was difficult to find someone who wanted to finish on time, so we named our company Start to Finish," says Theresa, who is the company's vice president.

Robert, the company's president, is a journeyman carpenter and a member of Carpenters Local 21 who worked on several major downtown projects. He focused on marketing the company and growing the business while Theresa was completing her bachelor's and master's degrees in management at Ursuline College.

The MBAccelerator 2.5+ also has provided Start to Finish with business development services, which allowed the couple to devote more time to growing their business. "We're grateful that we're in a position to mentor others," says Theresa. Robert offers hands-on training at

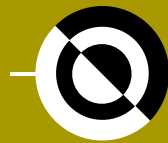
the Start to Finish office for minority and female carpenters to ensure that their skill level will match on-the-job expectations.

In turn, Theresa credits two mentoring relationships with helping the company move to the next level: Britton-Gallagher, a business insurance company, which grew from Start to Finish's participation in the Commission's Bonding Prep program, and Panzica Construction, the prime contractor on the Juvenile Justice Center project for which Start to Finish was a subcontractor.

Accelerator involvement ensures successful access to capital

"The Minority Business Accelerator assisted our company by providing access to capital, which enhanced our ability to bid more projects and be ready to execute. This was critical because the economic climate did not allow for easy access based on the challenges experienced by the banks. It was difficult to navigate the waters, and the Accelerator led the charge in helping us to successfully secure the financing we needed. As a result, we have been able to add jobs and take on more projects."

Robert Miller
President
Start to Finish Construction, Inc.



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