

## Nonprofit lender assists small businesses here

### SNEDA economic-development group has \$600,000 to lend, targets poor areas

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Three years ago, Elenita Sy and her husband, Narciso, wanted to start a home-based day-care business, but didn't have the money or the credit history to obtain a bank loan. They sought help from the Spokane Neighborhood Economic Development Alliance (SNEDA), opened their business, and now have paid back their loans to SNEDA and are expanding their business.

SNEDA, organized by the Spokane Neighborhood Community Centers in 1999, offers revolving loan funds at less than the market rate to small businesses and startup companies that are unable to obtain loans from banks or credit unions, says Eric Loewe, SNEDA's executive director. Borrowers make loan payments directly to the fund, which uses the money to make new loans, hence the name revolving loan fund. SNEDA got the money to launch its loan program from the City of Spokane, a federal grant, and Banner Bank.

Loewe says SNEDA creates jobs in Spokane by helping businesses get started or expand their operations. It works closely with business owners so they can repay their loans as soon as possible, and then perhaps be able to borrow money as needed from larger financial institutions.

"We think many of the small businesses and startups here have unrealized potential, and we put substantially more work into them than the bank would," Loewe says.

The organization looks for businesses that aren't quite "bankable," meaning they can't get a loan from a bank or credit union, but have the potential to become bankable with financial assistance and guidance from SNEDA or other community development organizations, Loewe says. Those organizations include Spokane Neighborhood Action Programs, also known by its acronym of SNAP, and Seattle-based Cascadia Revolving Fund, to which

SNEDA refers clients. It also looks for people who are "teachable" and are willing to improve their management of their businesses, he says.

Tita Leny's Home Day Care, owned by the Sys and located in their two-story home at 3724 E. Eighth, is a success story for SNEDA, Loewe says. The word "Tita" means aunt in the Philippine language, and Leny is Elenita's nickname.

In 2002, the couple, who moved here from the Philippines 11 years ago, were referred to SNEDA by Family Care Resources, of Spokane, a nonprofit child-care referral agency. The Sys took out a \$3,000 loan from SNEDA, then borrowed an additional \$7,000 in 2004. They paid off both loans last April and are expanding the day care to a capacity of 12 children, he says.

"They explained what to do and how to start a business," Elenita Sy says. "They really helped me a lot, and now people trust me to offer high-quality care and pay back my loans."

The Sys are the first clients to pay SNEDA back in full, but the organization has approved nearly \$400,000 in loans since late 2004, Loewe says.

SNEDA has disbursed a \$50,000 loan and a \$26,000 loan to Community Frameworks, a low- to moderate-income housing developer located at 315 W. Mission. That nonprofit's owner, Frank Carpenter, says he used the larger loan to take out a second mortgage on a single-family, low-income house on North Lacey Street. He says he's using the smaller loan in conjunction with a \$295,000 loan from the Colfax, Wash.-based Bank of Whitman to help fund the development of a 78-unit senior independent-living facility on a 3-acre site along Farwell Road that Spokane Baptist Association of Homes will own. The total cost of that project is expected to be \$9 million, he says.

SNEDA approved a separate \$75,000 loan to Spokane Baptist Association of Homes, which didn't end up spending the funds, but rather used the money as a bridge loan to secure a \$4.7 million loan from the U.S. Department of

Housing and Urban Development (HUD) for a planned restructuring of the financing of a 96-unit senior independent-living facility it owns in Spokane Valley, Loewe says.

SNEDA also has approved a \$201,000 loan and has distributed a portion of it to the developers of Market Street Market, a public marketplace in the Hillyard neighborhood that has the potential to create 75 new jobs in the next two years, Loewe says.

Additionally, SNEDA approved a \$31,000 loan to the owners of Dalton

Archery, a sporting goods manufacturer and wholesaler. Again, the owners of that business didn't spend the money, but used the loan as leverage to negotiate a home-equity loan, Loewe says.

In all, he says SNEDA has helped inject nearly \$700,000 into Spokane's economy through loans and a joint venture with the Bank of Whitman on Community Frameworks' senior independent-living project, and it expects to help create as many as 70 to 80 jobs from 2005 to 2007. It currently has \$600,000 available to lend.

SNEDA targets areas in Spokane where the median household income is below 80 percent of the city's average, meaning less than \$30,600 per year for one person or less than \$57,000 for a family of eight people or more. Those neighborhoods include Nevada/Lidgerwood, Hillyard, Whitman, Bemiss, Logan, Chief Garry Park, East Central, Browne's Addition, West Central, Peaceful Valley, and Emerson/Garfield, he says.

Spokane County has one of the highest percentages of low-income households among urban counties in the state, according to the Spokane Housing Affordability Study, conducted in 2000 and revised in 2002. Twenty-three percent of the households in the county earn less than \$10,000 a year, the study found.

Loewe says there is a tremendous amount of interest in SNEDA's loans, but applicants must endure a lengthy process to be approved for one, during which they are required to draw up



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highly-detailed business plans and projections.

"The biggest obstacle to people is that they are too busy trying to run their business to do the necessary paperwork to receive a loan," he says.

J.R. Sloan, a volunteer business consultant for SNEDA, says he has interviewed owners of 80 small businesses since he came to the organization last September. Some people come in looking to get a loan, but others just want business advice.

"Folks come in with a good idea, but are expecting a free grant," he says. "There's no such thing as a free lunch, and we lend money according to risk rates just like anyone else does."

Sloan says the clients he sees who want to start up a company typically come from blue-collar backgrounds. If clients have previous business experience, they usually want to borrow from a commercial institution, but either have a spotty credit history or no collateral to support a loan from those lenders, he says.

"They're good at what they do, but they just don't have the credit history," he says. "We create a substitute for that history by helping them draw up plans that project their budgets for the next two years in gross detail."

Once customers fill out the paperwork, their applications are sent to SNEDA's loan committee, on which two volunteer "senior bank officers" and a "local micro-enterprise expert" sit, Loewe says. He declines to disclose the names of those committee members.

The loan committee looks at a loan package and decides whether to take the risk, he says. For loans that total more than \$50,000, the committee offers a recommendation to the SNEDA board, which decides whether to grant a loan, he says.

The process takes two to eight months. Once a loan is approved, Sloan says he follows up with the client once every six weeks to provide business counseling and accounting assistance to help the borrower stay solvent.

Sloan says the route to obtaining money may be long, but that's necessary to "safeguard the public's money" and to make sure each investment is a sound one.

In November 2003, the city of Spokane granted \$220,000 to SNEDA to lend through a community development block grant funded by HUD, Loewe says. In mid-2004, Banner Bank invested \$250,000, and later that year SNEDA won a \$201,000 federal grant from the U.S. Office of Community Services to invest in the Market Street Market.

Loewe says he is trying to raise money for the revolving loan fund by going to banks and asking for equivalent investment funds, which are loans that banks and other institutions can issue to non-profit community development organizations at low interest rates. He says it's difficult to find lenders or donors who've been willing to take the time to make loans to SNEDA. No institution other than Banner Bank has been willing to provide equivalent investment funds yet, although Loewe is in the process of sending applications to two banks.

He also has applied to receive some of the funds the U.S. Department of the Treasury awards annually to Community Development Financial Institutions (CDFIs). Such institutions have community development as their primary mission and can operate under a variety of forms, such as a credit union or bank. SNEDA is one of a small number of CDFIs east of the Cascade Mountains in Washington state and is the first in Spokane, Loewe claims. It's competing with other CDFIs for a maximum award of \$300,000, which must be matched with local funds.

Loewe, who has directed economic development associations in North Carolina and Louisiana, says he came to Spokane four years ago because he was attracted to the "nonconventional" tools that SNEDA board members, including City Councilman Al French, were willing to consider to alleviate poverty in the area.

One such tool is equity investments,

in which the organization not only lends money to a business, but also acquires an interest in it in order to invest in the success of that business, he says.

He also is working to raise funds through what's called the New Market Tax Credit (NMTC) Program, which he says the Treasury department launched in 2001.

That program permits taxpayers to receive a credit against federal income taxes for making equity investments in CDFIs, such as SNEDA, which in turn must invest in low-income communities.

Such tax credits are allocated annually to CDFIs through a competitive application process, and the CDFIs in turn distribute them to investors. Thus far, the CDFI Fund has made 170 awards totaling \$8 billion, according to its Web site.

Loewe applied for a tax-credit allocation for SNEDA last year, but didn't receive one. He says he is applying again this summer, and that such an award would "put the icing on the cake" for investors of capital interested in helping finance community-development projects and stimulate economic growth in the low-income areas of Spokane.

He says CDFIs are a growing trend nationwide as more people recognize the need for such organizations, but federal funding cutbacks are causing investors here and across the country to become more hesitant.

Loewe is SNEDA's only full-time employee. Angie Huang, an MBA student at Gonzaga University, works part time as an office assistant. Robert Olson, who has worked as a loan consultant for 35 years and currently is employed at Banner Bank, serves as a loan officer and is paid per assignment.

SNEDA has two volunteers through AmeriCorps, Vista's entrepreneurship program, Sloan and Robert Lawrence, who is SNEDA's bookkeeper and accountant. The organization's annual budget is \$250,000, Loewe says.