

Masters of Science in Community Economic Development - 2015

Grow Modesto Fund:

Increasing Access to Capital and Training for Modesto's Low-Income Entrepreneurs

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Abstract

In today's credit-driven and increasingly complex business environment, low income entrepreneurs struggle to obtain the financing they need to startup and grow. Too small to attract investors and business bankers, many don't know where to turn. Traditional banking standards require at least two (profitable) years in business, strong credit history, and collateral to obtain a loan. Equity investors require quick returns in high growth industries. As a result, many of Modesto California's microenterprises rely on high-interest private loans, credit cards, and payday/title loans to start and grow their operations. Modesto's non-profit alternative lenders have had difficulty being effective in this environment, as has project host Fresno Community Development Financial Institution (Fresno CDFI). This project aimed to establish a revolving loan fund for micro-entrepreneurs left out of mainstream financial markets through an innovative and collaborative approach that leveraged local partnerships to increase access to capital and technical assistance. After ten months of development, the Grow Modesto Fund was formally announced by Modesto's Mayor Marsh on August 27, 2015. This paper explores the challenges and successes met by the team that developed the Fund and looks at preliminary indicators of how effective the Fund may be in growing jobs and businesses in Modesto.

Community Context

Community Profile

Modesto, California is a city of 205,000 located in the northern part of the San Joaquin Valley of California. It is the Stanislaus County seat, and has been a transportation and agricultural hub ever since it was founded in 1870 as a result of the Central Pacific Railroad extending its line to the area. Modesto's economy is greatly influenced by both the rich agricultural soils that surround it as well as its proximity to San Francisco Bay commerce. Modesto plays a major role in both intra- and inter-state trade due to the presence of the Union Pacific and Burlington Northern and Santa Fe railroads, and relatively low land and power costs have attracted industrial development. While food processing has historically been the City's largest industry, the transportation/logistics and warehousing industries have grown in recent years. (Cohen, 2010 & ESI Corp, 2003) Modesto's northern neighborhoods are generally more affluent than its southern neighborhoods, where one in three residents live below the poverty line. Modesto's unemployment rate is 15% and fluctuates seasonally corresponding with agricultural employment. (U.S. Census Bureau, 2013)

While Modesto is somewhat less racially and ethnically diverse than other parts of the Central Valley and California as a whole, its demographics are rapidly changing. Its Hispanic population grew from 25% to 36% between 2000 and 2010 and one in four Modesto residents speak Spanish in the home. The Asian population has risen a more moderate 6% to 7.4% and black residents remained relatively constant making up about 4% of the population (U.S. Census Bureau Quickfacts; U.S. Census Bureau 2000 & U.S. Census Bureau 2010). In some

neighborhoods more than 90% of residents are Hispanic, such as the Crows Landing neighborhood in southwest Modesto.

The Tuolumne River that cuts across south Modesto separates Crows Landing from another low-income neighborhood, with its own census designation called 'West Modesto' whose residents are predominantly African American and Hispanic. In Southeast Modesto is the Airport district, so named because of the adjacent municipal airfield. Here Yosemite Boulevard runs east-west with many Hispanic-owned businesses serving the surrounding neighborhoods. Another low-income and predominantly Hispanic area, named the Shakelford neighborhood, was recently annexed to the southern part of the city (C. Avila, personal communication, December 10, 2014).

Community Needs Assessment

While more than one in three of Modesto's residents are of Hispanic origin, only 13% of businesses are Hispanic-owned (U.S. Economic Census, 2007; U.S. Census Bureau, 2010). This statistic reveals both a challenge and an opportunity for Modesto's future, as there is a growing market for goods and services for a growing Hispanic population. This offers opportunities for entrepreneurs to develop businesses in order serve this growing demand.

Modesto's traditional economic development channels have had difficulty providing services to the Hispanic community. The Alliance Small Business Development Center (Alliance) has worked to build bridges in the Hispanic community, however according to Alliance director Kurt Clark, it has been difficult and has taken considerable effort. He describes the challenge of reaching Hispanic entrepreneurs as a cultural one. In general, first generation

immigrant groups are less educated and more institution-adverse than subsequent generations making them more hesitant to approach programs perceived as governmental. They are also less likely to have a relationship with formal banking institutions, relying instead on informal financing like private lenders and cash advance services. One strategy that Kurt has employed to confront this barrier has been to recruit Spanish speaking consultants, with mixed results. He describes retention and lack of competency as barriers to success in this area. (K. Clark, personal communication, December 17, 2014)

Another organization with a mission of assisting entrepreneurs in Modesto is the local chapter of SCORE (Service Corps of Retired Executives). This network of volunteers leverages the experience of retired business people by pairing them with young entrepreneurs in mentorship relationships. According to chapter president John Emery SCORE's impact has been limited in Modesto's Hispanic community, but it has begun to make in-roads through the work of a local Hispanic business-woman and SCORE volunteer, Anamiria Madrigal. John and Anamiria understand that the Hispanic market is the fastest growing sector in Modesto and that SCORE and other institutions need to adapt to their growing needs. Modesto SCORE is working on several initiatives to develop leadership in the Hispanic business community including developing business roundtables and workshops with the local Hispanic Chamber of Commerce. (J. Emery, Personal Communication, December 18, 2014)

Anamiria was born and raised in Modesto. She graduated from a local college in 2002 with a business degree and is well connected in the community, as well as with regional and national Hispanic business networks. Despite her connections and 10 years of business experience in Modesto, she hadn't heard of SCORE's 50-year legacy of helping entrepreneurs in the US, or of the Alliance's services, until 2014. The fact that someone so well-connected (her

cousin was a city council member at the time of this project) hadn't heard of two of the premier entrepreneurship development programs in the country is testament to the barriers that Hispanic entrepreneurs face in accessing mainstream institutions. Anamiria confronted these barriers head-on by bringing a Spanish-language version of SCORE's 'Simple Steps to Start your Business' to her own community. The eight-week course involved multiple presenters (including this report's author) who provided business training to about 30 Spanish speaking entrepreneurs. When asked what the main barriers are for Hispanic entrepreneurs to access resources that exist, Anamiria points to her community's lack of trust in traditional institutions. "There are all these services but they aren't for us... those in leadership positions of these agencies don't look like the Hispanic community and our community can't relate" (A. Madrigal, Personal Communication, December 20, 2014).

Modesto's existing non-profit alternative lenders have struggled to meet the need for relatively small amounts of capital amongst its small business community. A City of Modesto-sponsored Small Business Revolving Loan Fund (RLF) had been established in 2010 but was primarily focused on larger existing 'job-creator' businesses. The City had only deployed two loans over its five-year existence. According to Kurt Clark, who served on its governing board, City staff wasn't equipped to market or service the loans. At the time this project was being conceived, the City department that administered the RLF was being restructured and the RLF had become a liability (K. Clark, personal communication, December 17, 2014). Another RLF serving Modesto was under threat of sequestration because of dis-use. Success Capital Community Development Corporation, specialize in SBA 504 lending, typically large real-estate transactions - much larger than the small amounts of capital many of Modesto's entrepreneurs need. According to the agency's CEO Marsha Carr, the highly transactional nature of micro-

lending and the agencies lack of staff capacity, made deployment of the funds to very small businesses prohibitive. Instead Success Capital's RLF was focused on gap financing the 504 real estate deals that were the non-profit lender's bread and butter (M. Carr, personal communication, Nov 30, 2014).

Self Help Federal Credit Union, another non-profit financial institution, had a mission of serving Modesto's Hispanic community, but was focused on consumer lending rather than serving small businesses. According to its website, Self Help makes larger [business] loans to borrowers in multiple states. For [business] loans of \$35k or less, our lending is restricted to North Carolina borrowers (Self Help, n.d.). Joe Duran, Executive Vice President of the credit union served on the project's advisory team and acknowledged there was a huge need for small business loans among South Modesto's entrepreneurs, particularly in the Spanish-speaking Latino community. However, he said that Self Help was not equipped to fill the need (J. Duran, personal communication, Feb 2, 2015).

Through interviews with local lenders and key informants, it was apparent that the high-touch, highly transactional nature of micro-lending (loans of \$50,000 or less) was deterring Modesto's alternative lenders. Project advisory team member Marie Askew, a business loan officer at BBVA Compass Bank, recognized that "evaluating the credit-worthiness of an entrepreneur can be a long process of back and forth between the applicant and lender, where a \$15,000 microloan often takes more effort than a \$150,000 small business loan." This is in part due to the beginner entrepreneur's lack of formal business education, financial record keeping, and relationships to qualified CPAs and bookkeepers. (M. Askew, personal communication, March 15, 2015)

Amidst this landscape of challenges, host agency Fresno Community Development Financial Institution (Fresno CDFI) was looking for ways to scale its lending across a 12 county region in Central California. If local non-profit lenders had struggled to deploy microloans to Modesto's small business community, how could Fresno CDFI, located 100 miles away, grow a microloan portfolio in the region while providing the high-quality technical assistance (TA) services entrepreneurs would need to be successful?

Problem Analysis

Problem Statement

In today's credit-driven and complex business environment, Modesto's low-income entrepreneurs lack access to affordable capital and resources (such as market information, business advice, and technical assistance) necessary for business success, resulting in unstable incomes and failed businesses.

Stakeholders

An advisory team of local stakeholders was formed in February 2015. Representatives from the aforementioned alternative lenders were included as well as City of Modesto staff. Representatives from other institutions that serve Modesto's small businesses were included such as the Alliance SBDC, the local SCORE chapter, and several local banks. An existing Fresno CDFI client was also included to provide advice from a client perspective.

The following stakeholder analysis was conducted in order to identify potential strategies for obtaining support and reducing obstacles:

Table 1 Stakeholder Analysis			
Stakeholder	Stakeholder Interest(s) in the Project	Assessment of Impact	Potential Strategies for Obtaining Support or Reducing Obstacles
Kurt Clark, The Alliance SBDC Director	Kurt and his team provide a steady stream of technical assistance and a venue for all things Entrepreneurial in Modesto. They received a grant from the State (Go-Biz) to increase access to capital for small businesses. Kurt acknowledges they haven't done a good enough job with bringing in Hispanic – particularly first generation immigrants – to the training program.	He can provide both in-kind and contract-based services and greatly impact the program's sustainability and local buy-in. The Alliance consultants will provide ongoing post-loan technical assistance to loan fund borrowers.	Make the Alliance the first point of contact for applicants. Train Alliance staff and consultants in submitting applications. Co-host series of access to Capital workshops at the Alliance and other venues in the community.
John Emery, SCORE Chapter president	Strong advocate for inclusion of Hispanic business people into SCORE. As a new president of the SCORE chapter he is looking to establish his leadership.	Expect great impact as a result of interacting with such genuine and knowledgeable volunteers, however their reach into the target community is limited.	Create and maintain a mentor development component to the fund. Draw on John and other SCORE volunteer's experience and genuine desire to be of help to others.
Anamiria Madrigal, Business Owner, SCORE volunteer, SBDC Consultant	Local Hispanic business woman who owns an import/export business in Modesto. She has demonstrated commitment to helping entrepreneurs, many of them first-generation immigrants. She is initiating a second round of "Simple Steps en Espanol" entrepreneurship classes. She is currently a SCORE volunteer and an	Strong impact through her understanding of the culture and connections in the Hispanic Community. Will provide a strong dose of enthusiasm for the cause.	Help her achieve her goals – both professional and community oriented. Train her to submit loan applications and provide post-loan TA to fund borrowers.

	SBDC consultant.		
Joe Duran, VP, Community Trust a division of Self Help Credit Union	Joe has been working with Fresno CDFI over the past several years to develop a new Self Help branch in Fresno. His home base has been Modesto for the past 20 years as the CEO of Community Trust Credit Union which was acquired by Self Help in 2008.	Joe brings substantial resources and connections in the community. Self Help has a long history of serving the Hispanic community.	<p>Meet with CT staff, train them on applicant criteria.</p> <p>Develop co-branding campaign. Outreach through Modesto branch.</p> <p>Host a workshop at the branch located in southeast Modesto.</p>
Margaret James,, City of Modesto Community Development Dept	Margaret has demonstrated strong interest in the program and has referred an applicant. She is an advocate inside the City.	The City's impact through the growth of this program is potentially huge. To the extent that it can leverage further CDBG funding and the human capital within its ranks, the City could solidify the sustainability of the Revolving loan pool into the future.	<p>Be a solution to the City's headache by administering their RLF.</p> <p>Schedule an educational meeting at City Hall, inviting City Council, staffers, and the community.</p>
Alejandra Munoz, CDFI Client	As a current CDFI borrower and owner of a new micro-business in Modesto, Alejandra is keenly interested in her own success and willing to reciprocate the assistance that CDFI has provided her in starting her business.	Her perspective as a micro-loan client will be invaluable and hopefully involvement in this project will improve her chances of success.	Hold meetings at Alejandra's restaurant. Ask her to speak to the advisory committee in regards to her own experience with starting a business in Modesto as a Hispanic woman.
Marsha Carr, CEO Success Capital	Personal friend and supportive of the Modesto fund. She manages a Revolving Loan Fund for the County that has had little activity until recently. She is required to maintain a certain deployment and funds have been	Success Capital is the local CDC and represents an important local partner to have at the table. The future of SBA lending does not bode well for CDC's and it will be through	<p>Seek co-lending opportunities – link her with SBA 504 lenders in the network.</p> <p>Request to meet with board members to introduce them to the</p>

	sequestered as a result of the fund's lack of activity. Her main business is SBA 504 lending – mostly larger commercial real estate deals.	collaboration and merger that these lenders will be able to survive.	fund.
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Table 1 – Stakeholder Analysis

A SWOT analysis was conducted to determine strengths, weaknesses, opportunities and threats that could support or hinder the project:

Table 2 SWOT Analysis	
<u>STRENGTHS</u> <ul style="list-style-type: none"> Existing partnerships – Small Business Development Center, City of Modesto Fresno CDFI's history of successful micro-lending and an existing Modesto portfolio. Access to the Hispanic business community via stakeholders. 	<u>WEAKNESSES</u> <ul style="list-style-type: none"> Lack of on-the-ground presence (Modesto is 100 miles from Fresno CDFI offices) requiring long-range management and marketing of loans. Lack of clear protocol and standards (understanding of what constitutes an approved loan) among partners on the ground. Poor/non-existent marketing efforts Unfamiliarity of Fresno CDFI staff with Modesto's politics, communities, and leadership.
<u>OPPORTUNITIES</u> <ul style="list-style-type: none"> Large and growing Hispanic market for micro-loans Availability of City-owned CDBG funds designated for micro-loans – encouraging buy-in from the City of Modesto. SBDC partner received GoBiz grant from State of CA to increase access to capital. Bank partner interest in investing in the growth of a fund specific to Modesto/Stanislaus County. 	<u>THREATS</u> <ul style="list-style-type: none"> Disillusion with the program when applicants are denied loans because they don't meet minimum qualifications Competition from online lenders and banks that are increasing this type of lending Continued weak recovery in low-income areas targeted by program Competition amidst partners for limited grant and membership income Lack of human capital

Table 2 - SWOT Analysis

“CEDness” of the Project

The *community* aspect of this project was the extent to which *local* partnerships were leveraged to increase community involvement in order to portray the initiative as locally-driven. The advisory team comprised of community and institutional leaders was integral to the project’s design and implementation. The downtown Modesto office of the Alliance Small Business Development Center became the hub of activities and their phone number the first point of contact for entrepreneurs looking for capital and advice.

The *economic* aspect of the project was the increased access to information and capital that resulted from the establishment of the new Fund. As entrepreneurs discovered a new source of capital for their small business needs, their potential for success increased, benefitting the local economy through job creation and increased household incomes. \$250,000 in City of Modesto Community Development Block Grant (CDBG) funding was matched dollar for dollar with funds from the project host.

The *development* aspect of the project pertains to the relationships that were built between project partners and South Modesto’s entrepreneurial community (social capital). These connections will have long-lasting and positive effects on the access to technical assistance and capital. Workshop participants had new access to local bankers (at workshops), and borrowers had new access to local small business consultants.

Literature Review

The potential impact of small business development can be summed up by an audacious quote from the 2011 Association for Enterprise Opportunity (AEO) publication *The Power of One in Three*: “If just one in three Main Street businesses hired one employee, then the US would be at full employment” (AEO, 2011). Micro-enterprises (defined as firms with less than 5 employees) are an important component of the American small business landscape: one in four employees work for microenterprises, which comprise more than half of all businesses in the country (U.S. Census; Monahan, 2011). Micro-enterprise includes the self-employed, a segment of the economy that has been on the rise since 2008 due to the job losses of the recession as well as opportunities created by struggling and failed incumbent firms. At the same time fewer new employer firms are being created, underscoring the importance of entrepreneurship as newly unemployed must create their own jobs (Edgcomb & Thetford, n.d.).

Hispanic entrepreneurship has been on the rise. Bishop & Surfield (2013) found that business starts by Hispanics increased almost twice as much as white, non-Hispanic starts since the recession (p. 1). Immigrants are more likely than non-immigrants to be small business owners, but their businesses are more likely to be smaller (Fiscal Policy Institute, 2012). Hispanic entrepreneurs are well-positioned to start new businesses because of their tendency to have strong social ties (social capital). These ties can be very beneficial in the start-up phase of a business, contributing to its support during early stage development (Siqueira & Rasheed, 2006).

The growth in entrepreneurship as a result of recession or job loss is considered ‘necessity’ entrepreneurship (Cheung, 2013; Edgcomb & Thetford, n.d.). Cheung (2013) makes distinction between ‘necessity’ and ‘opportunity’ entrepreneurs and found the former to have less

growth ambition and fewer of the requisite skills to operate their businesses (Cheung, 2013, p. 9). As a result, necessity entrepreneurs are more likely to lack access to financial capital (for example due to limited credit history or lack of assets) and human capital (management skills). To work with this population, microenterprise development agencies (MDA) must consider the educational, training, and high-touch needs unique to necessity entrepreneurs.

Over the past three decades, a patchwork of non-profit MDAs has developed across the country, including agencies with missions to provide capital and training to businesses underserved by traditional banks. Between 1987 and 1996, the number of these programs in the United States grew from less than ten to more than 300 (Schreiner, 1999). With the advent of the federal government Community Development Financial Institution (CDFI) Fund in 1994, these MDA's were able to access federal (equity) capital they then could leverage into investments from banks and other sources. This contributed to an accelerated expansion of the CDFI industry which as of December 2013 had over 800 institutions (Swack, Hangen, & Northrup, 2014, p. 13).

Even with this growth, CDFIs and their subset MDAs are still relatively small when compared with their for-profit counterparts. For example, the nation's most active non-profit microloan fund Grameen foundation, disburses only a fifth of the loan volume as Oportun (formerly Progreso Financiero), a for-profit CDFI specializing in small consumer loans to the low-income Hispanic community (Lieberman, Mudd & Goodeve, 2011). "The [MDA] lending market is somewhat concentrated: only 10 [MDAs] in the United States disbursed more than 100 loans in 2008, and they accounted for 49 percent of all the dollars disbursed... Most [MDAs] are very small, with five or fewer full-time employees and a median operating budget of \$250,000, and they tend to serve small geographic areas" (Hoy, Romero, & Zeuli, 2012, p.3). The difficulty

to scale operations has a lot to do with MDA's traditionally high-touch and relational approach to determining credit risk and few if any operate without subsidy, requiring below-market rate capital for lending and grant revenue for operations. (Hoy, Romero, & Zeuli, 2012; Lieberman, Mudd & Goodeve, 2011; AEO, 2011; Klein, n.d.)

Program Design

Problems of unemployment, business failure, and unstable incomes in low-income communities can be solved through job creation and small business development - long term objectives of the Grow Modesto Fund. Access to capital and training increases business management acumen and provides financing necessary for small business growth. Intermediate outcomes desired were increased income and wages paid by businesses owned by Fund clients. Short term outcomes were to increase awareness and knowledge among participants as to how to better access business services and advice as well as increased understanding and confidence around small business finance concepts.

The original plan was that 40 entrepreneurs would take part in workshops co-hosted by Fresno CDFI and local partners, and that at least 10 pre-loan consultations would take place. Relationships developed between bankers and community leaders would result in at least 10 new referral partnerships that would direct Modesto entrepreneurs toward the training and capital provided by the Fund. It was hoped that by project end at least 10 applications would be submitted by Modesto entrepreneurs and four loan approvals would result.

In addition to these pre-loan TA goals, the project included an innovative relationship between the Alliance and Fresno CDFI in which Alliance consultants would provide ongoing

post-loan TA to Grow Modesto Fund clients. This arrangement recognized that loan deployment is just the beginning of a relationship between lender and borrower that can last for many years. In order for the project's intermediate and long-term objectives to come to fruition, borrowers would need long-term support and guidance. An initial set of three Fresno CDFI borrowers from Modesto were 'grandfathered' into the post loan TA program, and every new borrower from Modesto was enrolled into the program. Frequency of the meetings were dictated by loan covenants that specified frequency of financial reporting, ranging from quarterly (for startups or most risky borrowers), to semi-annually, to annually (for the most stable borrowers). It was hoped that during the project at least ten clients would meet with a consultant who would in turn report on a number of financial and business management performance indicators.

Logic Model

Table 3 Grow Modesto Fund Logic Model		
Problem Statement	Low-income small business owners in Modesto lack access to affordable capital and good advice in an increasingly complex business environment, resulting in unstable incomes and failed businesses.	
Causes	Complex business and regulatory environment.	Lack of assets (ie for generating profits, pledging as collateral)
Long-term Outcome Desired	Strong and growing businesses that provide income and jobs.	
Intermediate Outcome Desired	Low-income entrepreneurs demonstrate increases in revenue, profits and wages paid, decreased interest and bank fees paid.	
Short-term Outcomes Desired	Increased knowledge about where to access small business services and advice for low-income entrepreneurs and small business owners in Modesto.	Increased knowledge about small business finance and how to access capital for low-income entrepreneurs and small business owners in Modesto.

Outputs	<ul style="list-style-type: none"> ● Post-loan technical assistance contract established between Fresno CDFI and Alliance SBDC ● 4 Workshop Presentations & 40 workshop participants trained ● 10 pre-loan consultations (enrollments) ● 10 post-loan one-on-one consultations 	<ul style="list-style-type: none"> ● Funding contract executed between Fresno CDFI and the City of Modesto for \$250,000 in loan funds ● 10 loan applications submitted ● 4 loans approved & closed ● 10 referral partnerships established
Activities	<ul style="list-style-type: none"> ● Group training/ workshops ● Pre and post loan consultations ● Site Visits ● Referrals 	<ul style="list-style-type: none"> ● Pre-loan consultation/application assistance ● Application packaging ● Credit pulls & consults ● Meetings/ presentations with community partners

Table 3 - Grow Modesto Fund Logic Model

Methodology and Implementation Plan

Project Participants and Beneficiaries

The project targeted entrepreneurs who lacked access to capital and/or technical assistance including low-income and minority individuals as well as entrepreneurs who had been declined for a bank loan previously. Outreach to generate workshop participation and loan inquiries was conducted through fliers, emails, social media and an advertisement in the local paper (see Appendix E for examples of outreach materials). Outreach resulted in 21 workshop participants and 17 applicants (enrollees). In addition, six Grow Modesto Fund borrowers received a post-loan technical assistance consultation with a local SBDC advisor.

Despite efforts to include minority and Spanish speaking participants, a majority of workshop participants were white (11 out of 21) and a majority of Fund borrowers were white (67%). However, two of the nine borrowers in the Fund (as of August 31, 2015) and three of the

workshop participants were Spanish-speaking. Six of the nine Fund borrowers were low-income or owned a business located in a low-income census tract (see Appendix H for borrower demographics).

Community Role

At the center of the project implementation was a collaboration between the project host agency, Fresno CDFI (lender / funds administrator) and two Modesto-based agencies: the Alliance Small Business Development Center (local first point of contact / TA provider), and the City of Modesto (local government sponsor / funder). The emphasis on the local partnership was an important aspect of the Grow Modesto Fund design. Workshops were promoted and hosted by Modesto-based agencies and the Alliance office in downtown Modesto was the hub of activities. Additionally, a new web URL www.growmodestofund.com was purchased, and the City of Modesto's Mayor made the formal media announcement at the kick-off press event in August 2015 (see Modesto Bee article, Appendix A).

Host Organization

The Fresno Community Development Financial Institution (Fresno CDFI) was established in 2008 and provides microloans (\leq \$50,000) and small business loans (\leq \$300,000) in a 12-county region in Central California, which includes the City of Modesto. Its mission is to “finance small businesses and create jobs in underserved communities” (Fresno CDFI, 2015, p.2). The term “underserved” has several definitions for the agency. Primarily it refers to low-income entrepreneurs or communities, which accounted for 71% of its lending in 2014 (Fresno CDFI, 2015, p.7). The agency uses the Department of Housing and Urban Development's (HUD) definition for low-income which is $<80\%$ of the area median income

(Moran, 1984). To qualify as a low-income loan, borrowers must either be in a low-income household or have a business located in a low-income census tract.

The first few years of the agency's growth was focused in Fresno County with no activity in Modesto until 2013 when an MOU was established between the agency and the Alliance. Despite the relationship, the agency was challenged in marketing its loan products in the relatively distant Modesto market. As of March 1, 2015, Fresno CDFI's Modesto portfolio only consisted of three loans totaling \$67,664 (see Appendix C – Activity Monitoring). The Grow Modesto Fund was designed to scale the host agency's lending activities and provide Modesto's entrepreneurs with the same level of access to Fresno CDFI's capital and technical assistance services as its Fresno-based clients were receiving.

Project Staffing

Staffing was provided by two of the project partners: Fresno CDFI and the Alliance. Fresno CDFI's Business Development Manager (the author of this report) provided overall project coordination including maintaining communications with the local advisory committee, contract development, and establishing reporting protocol between the organizations.

Fresno CDFI:

- Business Development Manager - Project coordinator, workshop presenter
- Business Development Officer - Marketing and outreach, loan application processing

Alliance:

- Director - Coordinate consultants, program compliance, advisory committee
- SBDC Consultants & staff – Application assistance, consultations, workshop prep and hosting

Project Implementation GANTT Chart

A GANTT chart was developed at the start of the project. As implementation took place, the chart was updated to reflect project delays and adjustments. The chart (shown below as Figure 1) reflects actual implementation, which was very different from the initial plan due to delays in getting the funding contract signed with the City of Modesto. All of the planned activities did take place within the project timeline, though not at the level originally planned for.

Project planning was separated into Contract Development, Marketing and Promotion, and Implementation (meetings, workshops, consultations, and loan approvals). The initial plan was to have contract development finished by March 2015 but this was delayed until July. As a result, other project components were also delayed. As indicated by the chart (in Appendix B), real outputs were just starting to be achieved toward the end of the project with the majority of the time spent on development and marketing activities.

Figure 1 – Grow Modesto Fund GANTT Chart

Grow Modesto Fund	Apri	May				June					July				August				
GANTT Chart	4/27	5/4	5/11	5/18	5/25	6/1	6/8	6/15	6/22	6/29	7/6/20	7/13/2	7/20/2	7/27/2	8/3/20	8/10/2	8/17/2	8/24/2015	8/31/2015
Contract Development																			
Finalize contract with City of Modesto																			
Finalize SBDC Protocol and Contract																			
Marketing & Promotion																			
Develop marketing materials																			
Develop Website page																			
Referral partnership development																			
Workshop Promotion																			
Marketing Campaign																			
Press Release & Kickoff																		8/27/2015	
Partner/Staff Training																		8/26/2015	
Implementation / Programming																			
Advisory Team Meetings																			
TA:																			
Access to Capital Workshops																			
Pre-Loan Consultations																			
Post Loan TA Visits																			
Capital:																			
Loan Approval																			

Project Budget

Efficiency in the deployment of activities and capital in the target market, 100 miles from the host agency, would ultimately determine whether the Fund can be replicated across Fresno CDFI's 12-county service region (a question outside the scope of this research). The Fund was not expected to reach break-even point within the project's timeline because revenue derived from interest and fee income would not be significant in relation to the cost to develop the Fund until later in its maturation.

Staffing costs were the largest expense. An activity costing model was developed to predict and report on staff costs related to the activities performed. Table 4 includes a list of

activities and their corresponding time allocation. \$50 per hour of staff time was used to cover direct staff expense as well as overhead and administration.

Table 4 Staffing Expenses by Activity (@ \$50/hour)				
Activity	Hrs/activity	Cost/activity	# activities	Total Cost
Advisory Team Mtg	8	400	6	2,400
Workshops	10	500	3	1,500
Leads	0.5	25	34	850
Enrollment/ Application	3	150	10	1,500
Loan approval	4	200	4	800
Loan denial	3	150	3	450
Loan deployment	4	200	6	1,200
			Total	8,700

Table 4 – Staffing Expense

An unexpected cost discovered in meetings with Fresno CDFI management was the required provision for loan loss which is a safety net to accommodate for expected losses. This is set by the agency at 4.5% of portfolio balance. Actual losses in the Fresno CDFI portfolio since 2008 have been much lower than this (<2%), so it's not likely the Fund will ever sustain a 4.5% loss rate. Because this cost is based upon the total outstanding balance of the Fund, it will go down over time as the Fund matures. The budget assumed the Fund had a separate loan-loss pool, however in actuality the Grow Modesto Fund shares in the agency-wide loan-loss pool so the budget may not reflect actual loan loss provisions as a result of the loans that were deployed.

Mileage was also a relatively large expense, due to the number of trips for meetings and workshops that Fresno CDFI staff took to Modesto. To the extent that phone and webinar

meetings could take place between project participants they were used to reduce costs and to focus host agency staff time on deploying client services. Because of the development required to initiate the Fund, at least one trip per month took place. The judicious use of staff time and limiting travel through being as effective as possible on travel days was an important factor in keeping the project's budget to a minimum while meeting project objectives.

Project income included interest and fee revenue, in-kind contributions, and grant revenue (subsidy from Fresno CDFI funding sources). Interest income from the existing Modesto loan portfolio was included in the budget. In-kind contributions came from the Alliance SBDC who provided support staff and office space for Fresno CDFI staff when they were in Modesto. Their role was crucial as a 'home base' of operations in the target community.

The project's six-month cost (net of income) of approximately \$7,200 was covered by Fresno CDFI's grant revenue which includes grants from government agencies such as SBA, USDA, the CDFI Fund, and private grants from an array of different banks and foundations (Fresno CDFI, 2014). The 6 month actual project budget is included in Appendix B.

Monitoring

Monitoring indicators

Project activities were tracked through both qualitative and quantitative methods. Quantitative measures included the number of referral partners (bankers, community leaders, etc.) , workshop participation, number of consultations, and number / dollar amount of loans deployed. Qualitative measures included feedback from advisory team members and clients, as

well as workshop participants' perceptions of improved levels of confidence around financing concepts (see pre-post survey in Appendix D).

Methods, tools, forms

A GANTT chart (shown above) was developed at the outset of the project and periodically updated throughout implementation. Also, a monthly activity tracking tool was used to monitor both pre-loan and post-loan client engagement as well as loan activity. The final version of this tool is included in Appendix C.

Monitoring team

Monitoring was conducted primarily by the project coordinator, however the project's advisory team, described in the stakeholder section above, was instrumental in providing feedback along the way. For example, when funding was delayed by the City, this team continued to meet and develop plans for the eventual kick-off of the fund. Status updates were provided by a representative from the City who was able to ensure the contract was continuing to move forward through City bureaucracy.

Evaluation

Evaluation Indicators

The following outcome questions guided evaluation of the project:

Goal 1: Increased knowledge about where to access small business services and advice for low-income entrepreneurs and small business owners in Modesto:

1. Are Grow Modesto Fund borrowers more likely to receive ongoing technical assistance as a result of the Post-loan TA contract with the Alliance?
2. Has access to business technical assistance and advice increased knowledge of available resources and tools for participants as a result of the interventions?

Goal 2: Increased knowledge about small business finance and how to access capital for low-income entrepreneurs and small business owners in Modesto.

1. Has understanding of key small business financing concepts improved as a result of the intervention?
2. Did the project increase loan pipeline activity for the host agency?

Data gathering methods, tools, forms

Data collection occurred at multiple stages of participant interaction, including before and after workshops, and in interviews with participants and partners throughout project implementation. Data maintained in agency databases was also used to understand the profile of borrowers in the Modesto Fund and comparisons were made with the Fresno CDFI portfolio as a whole. A breakdown of borrower profiles is included in Appendix H. The pre-post workshop evaluation tool is included in Appendix D.

Data analysis

Pre- post-workshop evaluations were analyzed according to the change in confidence that occurred as a result of the workshop instruction. Information gathered from host agency databases was analyzed according to a number of metrics including business status, low-income status, and whether borrower had been denied previously by a bank loan (see Appendix H). Analysis of qualitative feedback from advisory team members and other partners was conducted throughout the project implementation.

Evaluation team/tasks

Evaluation was conducted primarily by the project coordinator with help from small business consultants engaged under the post-loan TA contract. The project coordinator conducted interviews with partners, surveys with clients, and analyzed data from the Fresno CDFI loan servicing and marketing databases. Alliance consultants provided reports after their engagement with Fund clients. These reports revealed the status and health of the businesses in the portfolio and gave each client a grade for likelihood of repayment. These reports are included in Appendix F.

Data was maintained primarily by the project coordinator but also with help from other business development officers entering data as part of their standard duties.

Evaluation schedule

Week of...

July 20: Pre-post evaluation of 11 workshop participants (English)

August 10: Pre-post evaluation of 3 workshop participants (Spanish)

2 post loan TA reports by Alliance small business consultant.

August 17: 2 post loan TA reports by Alliance small business consultant.

August 24: Pre-post evaluation of 7 workshop participants (English).

2 post loan TA reports by Alliance small business consultant.

Sustainability

Sustainability in the CDFI industry is measured by an agency's self-sufficiency ratio, defined as "earned income divided by total pre-tax operating expenses". This ratio measures the extent to which an organization is covering its annual expenses through internally generated sources (e.g., interest income, fees) or total earned income, rather than grants or other contributions" (U.S. Treasury Department CDFI Fund, 2012, pg. 17). A study by Swack, Northrup & Hangen (2012) found the larger the CDFI's asset size, the higher the self-sufficiency ratio tended to be. CDFI loan funds in the same asset class as Fresno CDFI (\$5M-\$10M) averaged a 54% self-sufficiency ratio – meaning they only covered a little over half of their operational expenses with earned income (Swack et al, 2012, p. 7). According to Smith, Newon,

Zielenbach & Duda (2009), “the vast majority of community development loan funds do not have a self-sufficiency mandate. In fact, relatively few of the organizations, particularly those primarily engaged in small business financing; earn enough to cover all their expenses. The gap generally results from the technical assistance services that they offer current and potential borrowers.” (Smith, Newon, Zielenbach & Duda, 2009, p. 3) Technical assistance, which includes education, training, monitoring, reporting, and the additional handholding in general, is required to serve high-risk borrowers, distinguishes CDFIs from for-profit lenders, and is the feature which is most likely to attract grants and other subsidies. According to Tansey, Swack, and Tansey (2010):

A fundamental tenet of the CDFI field is that the risks (real or perceived) of lending to low income constituencies in low income communities can be substantially mitigated by care and discipline at both the borrower and lender levels. The cost of this attention, which often translates into counseling, technical assistance or one or another of many forms of support, is high relative to what conventional lenders provide. Hence, the cost of delivery of loan products, when all costs are considered, tends to be higher, often much higher, than that in the conventional sector. The result is that most of CDFIs require some level of subsidy to pursue their mission. (Tansey et al, 2010, p. 36)

They further outline a litany of flaws in the CDFI business model that pose serious challenges to the sustainability of a CDFI loan fund including: lack of visibility, lack of staff capacity, threats from new technology offering rapid-turnaround approvals, concentrated risk, and homogeneity of loan products Tansey et al, 2010, pp. 2-3).

One of the ways that the Grow Modesto Fund attempts to address these barriers to sustainability is with a collaborative approach that leverages local capacity to provide pre- and post-loan technical assistance. This approach can be both a strength and a weakness when it comes to sustainability. On the one hand, changes in a partner's funding stream, or political interest in the project, could disrupt operations. Turnover among staff and consultants among the partners could greatly slow the Fund's impact as new relationships have to be developed. On the other hand, collaboration provides an opportunity for each partner to excel at what they do best. The Grow Modesto Fund was designed so that the lender lends, the TA provider provides TA, and the City brings resources and legitimacy initiative.

The collaborative structure of the project was buoyed by a favorable political environment which pushed the City of Modesto to partner with an out of town entity to service an ineffective revolving loan fund. Barriers to success for the old RLF included heavy upfront paperwork requirements and long decision times (K. Clark, personal communication, December 17, 2014). The lack of sustainability and functionality in Modesto's previous RLF provided an opportunity for something new to be developed by the partners. The Grow Modesto Fund adopted a minimal paperwork and quick decision-making approach which resulted in the closing of more loans during the project period than had closed in the previous RLF's four-year existence. By infusing the City's Community Development Block Grant dollars with additional Fresno CDFI funds as well as a new brand and a new purpose, the Grow Modesto Fund addressed the marketability issues that confronted the City's old loan program and increased visibility in the community.

Ultimately, the Grow Modesto Fund's sustainability depends on the success of its portfolio borrowers. A successful business owner is more likely to repay their loan. Due to the

short timeframe, the project was unable to determine whether the strategies employed by the Fund to provide ongoing technical assistance to the portfolio resulted in higher borrower success. Over time, increases in borrowers' revenue and income as well as job creation will point to long-term borrower – and therefore Fund sustainability.

Results

The project results indicate that progress has been made toward the goal of increased access to capital in the target community. A new \$500,000 revolving loan fund was established and Fresno CDFI's portfolio of loans to Modesto-based businesses grew by \$187,000 to \$254,452 at project end. 42 new referral partners were added to the Fresno CDFI's contact relationship management database, increasing Fresno CDFI's referral base in the region. Because 100% of the inquiries into the Grow Modesto Fund came from referrals from local partners (as opposed to direct CDFI staff outreach), development of this network of referral partners in the Modesto area was an important indicator of future loan activity and led to good turnout at planning meetings and at the kickoff press conference event.

Despite delays that pushed activities and outputs back several months and prohibited any deployment of the new CDBG funds, loan pipeline development activities were initiated in earnest. Figure 2 demonstrates that inquiries from Modesto entrepreneurs went from a trickle of one or two a month to five in June, 14 in July, and 11 in August, applications from Modesto entrepreneurs, also averaging about one per month, jumped to five in August. Four loan applications were approved during the six-month project and at project's end, five loan requests remained open, pending approval or denial.

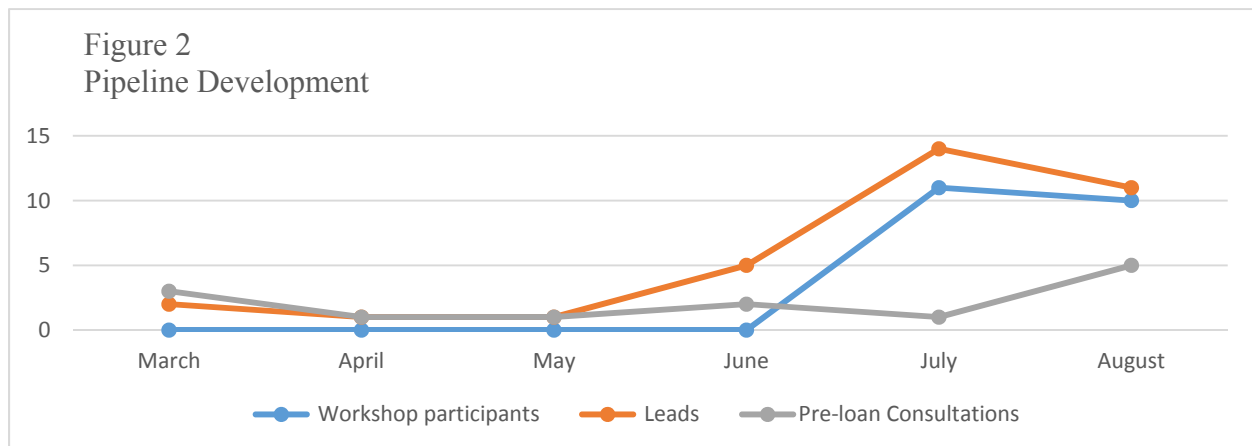


Figure 2 - Pipeline Development

The loan activity that took place under the project was far and above any prior loan activity from the region, but were entrepreneurs receiving the technical assistance they needed to be successful? Results pertaining to this question are somewhat mixed (in part due to the delayed implementation) yet there are good indicators that Modesto's low-income entrepreneurs' access to technical assistance did improve as a result of project activities.

By the end of the project, 21 entrepreneurs had attended a loan readiness workshop. Of those, 17 entrepreneurs received pre-loan consultations and loan application assistance, either from the Alliance or CDFI, and results from the pre- post-survey conducted with workshop participants demonstrated increases in confidence around business finance concepts covered in

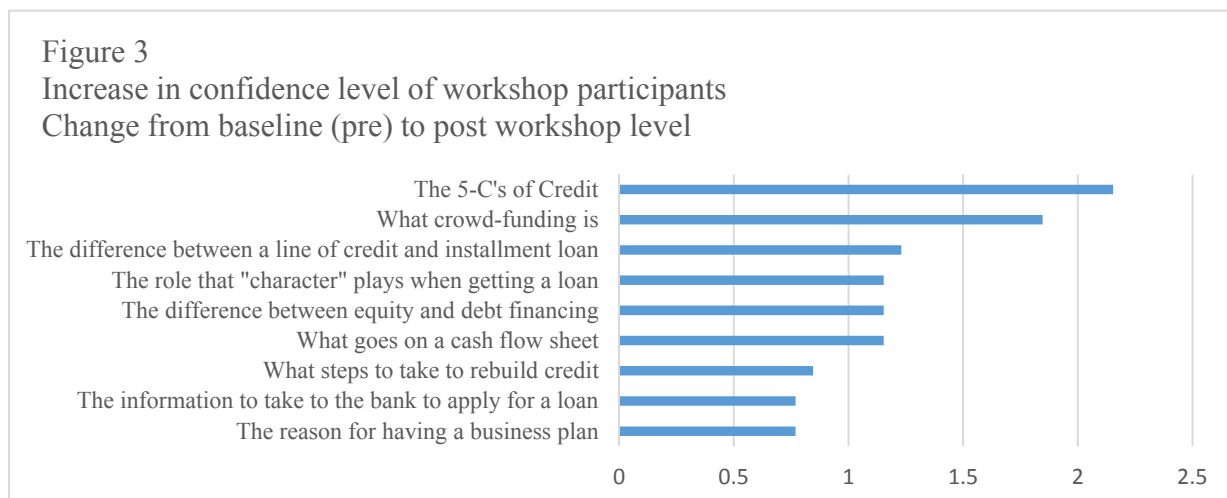


Figure 3 - Increase in confidence level of workshop participants

the workshops. Figure 3 details the nine concepts on the survey for which participants were asked to rate their level of confidence.

While these outputs do signal increased access to technical assistance and improved loan readiness, the strongest indicator toward this goal was the initiation of the post-loan technical assistance contract between Fresno CDFI and the Alliance (see Post loan TA Contract Scope of Work in Appendix G). To the author's knowledge, this arrangement involving compensation for services rendered by a small business development center is unprecedented in the community development finance industry. As of the end of the project, six of the nine borrowers in the Grow Modesto Fund had met with a small business consultant under the contract. Post meeting reports from the Alliance consultant offered Fresno CDFI management insight in understanding the health of the Modesto portfolio. According to the reports, all but one business are on solid footing with indicators showing strong likelihood of repayment. One business received a "C minus" for likelihood of repayment, indicating to Fresno CDFI management that this borrower will require additional follow-up and possibly loan modification in the future.

As the reports indicate, none of the borrowers had reported semi-annual financials by project end, making the financial analysis of the businesses impossible. This difficulty of collecting financial reports is common across Fresno CDFI's portfolio and points to a need for its management to devise additional strategies for improving borrower financial reporting compliance.

Lessons learned:

Because at its essence this project was about developing a collaboration to more effectively reach entrepreneurs in a target community relatively distant from the host agency, it was dependent upon the local partners for many of the deliverables. This approach requires a high level of flexibility, communication, and trust. Partners' timelines and expectations do not necessarily line up and despite best efforts at getting these aligned, there were just too many variables for everything to play out according to the timeline that was initially planned. Communication was critical to keeping everyone on the same page and maintaining buy-in. The delay in getting the City of Modesto to sign the funding contract and a delay on Fresno CDFI's part in commencing the post-loan technical assistance contract with Alliance SBDC were both examples in which issues outside of the project coordinator's control took priority. The trust and commitment established early in the project's development, as well as a high level of communication between the partners, enabled the project to continue despite the delays.

In addition, technical assistance in the form of workshops and consultations doesn't necessarily result in loan applications, at least not right away. Entrepreneurs are at varying stages of readiness for capitalization and workshop participation doesn't necessarily speed up the process. In fact, none of the workshop participants went on to apply for a loan as was expected. Most of the consultations and enrollments came from publicity around the new Fund rather than from the TA sessions. It is likely that as more time passes some of these entrepreneurs who participated in the workshops will become ready to apply for funding.

Finally, the lack of participation in the Spanish-language workshops was an indicator that promotions were not reaching the intended target population. The distance between the host agency and the target community led to an over-reliance on existing promotional channels rather

than the development of new ones. Prior to the project's start, the partners had acknowledged their inability to break into the Spanish-speaking entrepreneurial community and despite it being a major focus of the project research and design, few connections were actually developed in this community during the course of the project.

Conclusion and Recommendations

Despite the fact that the Grow Modesto Fund is still at the beginning stages, the outputs achieved by the project indicate that success was achieved in increasing access to capital and technical assistance for Modesto's entrepreneurs. The marked increases in inquiries and pre-loan consultations towards the end of the project demonstrate that project activities resulted in increased loan deployment potential for Fresno CDFI. The strong increase in the number of referral partners in the region points to improved access to capital for future entrepreneurs who may be denied by another financial institution and need a referral to the Fund.

Considering the relatively short implementation time, this CED project's goals may have been too aggressive. The time it would take to develop the partnerships and contracts that form the structure of the Grow Modesto Fund was underestimated. Limiting the scope of the project (i.e. to just technical assistance or capital access) would have allowed for more focus on specific elements of the project with potentially stronger results. However, while the comprehensive approach taken was challenging, the coupling of technical assistance with capital access was a critical component to the project and essential to the long-term success of the Fund and its clients.

The ultimate goal of the Grow Modesto Fund was to develop strong and stable businesses that provide income to their owners and jobs in the community. Through the project's formative work of developing and implementing the funding and technical assistance contracts between project partners, a foundation has been established for the partners to continue the work of providing technical assistance services and loan deployment. Because of the favorable results achieved by the project, I will be recommending the replication of the Grow Modesto Fund design in other relatively distant communities in Fresno CDFI's service region.

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Appendixes

Appendix A – Modesto Bee Article: “City Unveils Grow Modesto Fund”

9/12/2015

City unveils Grow Modesto Fund | The Modesto Bee

NEWS

AUGUST 26, 2015

City unveils Grow Modesto Fund

HIGHLIGHTS

Program has \$500,000 to lend to small businesses

Program targets low- to moderate-income areas

Goal is to attract more capital to area



1 of 2



9/12/2015

City unveils Grow Modesto Fund | The Modesto Bee

BY KEVIN VALINE

kvaline@modbee.com

Officials will unveil on Thursday the Grow Modesto Fund, a \$500,000 program to provide loans to small businesses that can't get conventional bank loans.

The fund is a partnership among Modesto, the nonprofit Fresno Community Development Financial Institution and the Stanislaus Business Alliance. The city and the FCDFI are providing \$250,000 each, and the alliance's Small Business Development Center is serving as the program's point of contact and providing the businesses with other assistance, such as help with marketing and a business plan.

Modesto's funding is coming from part of the federal Community Development Block Grant funding it receives. The FCDFI is funded in part by the federal government and banks.

Officials will hold a 9 a.m. news conference at Signs and Banners Express, 521 Winmoore Way, Suite E, to publicize the program. The FCDFI lent the business \$20,000 in April. FCDFI business development manager Jeremy Hofer said the loan was not part of the Grow Modesto Fund, but the business is receiving assistance from the alliance through the Grow Modesto Fund.

Adriana Parra said she and her husband, Ramiro Laiton, founded Signs and Banners Express in 1999 and its main product is producing vinyl wraps or banners that go on the sides of trucks.

She said Signs and Banners Express could not get a bank loan because it went through a rough patch during the recession. But she said the business has taken off since receiving the SBA loan and help from the alliance. She said orders are up 40 percent and she is about to quit her other job so she can work full time in the family business. "Right now," she said, "we are pretty, pretty busy. My husband is working 16-hour days."

Community Development Financial Institutions are certified by the U.S. Department of the Treasury and work in market niches underserved by traditional financial institutions, according to a city staff report.

Hofer said the Fresno Community Development Financial Institution serves 12 counties, including Stanislaus, and has lent about \$12 million since its inception in 2008. He said the FCDFI has written off less than 2 percent of what it has lent and has a default rate –

9/12/2015

City unveils Grow Modesto Fund | The Modesto Bee

that's when a business is 90 or more days behind in its payments – of less than 5 percent.

He said those percentages are higher than those of a conventional bank, but he said the FCDFI works with clients who have more financial risk. He said that's why FCDFI interests rates are 7 percent to 9 percent, while a bank would charge 6 percent to 6.5 percent for a business loan.

Hofer said the Fresno Community Development Financial Institution focuses on low- to moderate-income communities and its funding can make a huge difference. He said it can help a family-owned small business prosper and hire employees who gain skills and experience as well as a paycheck. "The economy is built on small businesses," Hofer said. "This is economic development from the grass roots."

Hofer said having the alliance as part of the partnership is critical because of the help it will provide to the small businesses and startups. He said that kind of help typically is not available from a bank.

Alliance Small Business Development Center director Kurtis Clark said the hope is that the Grow Modesto Fund will attract investment from banks and other institutions so it can make more loans and that it will inspire other Valley cities and counties to start their own funds. He said Valley small businesses and startups need access to more financing.

"In the long term," he said, "we are trying to get more capital into the San Joaquin Valley."

The loans from \$5,000 to \$300,000 are for startup and existing businesses for working capital, equipment, office improvements and to refinance business debt, according to a Modesto news release. The program is for Modesto-area businesses and startups. Those interested in applying for a loan can call the alliance's Small Business Development Center at 209-567-4910.

Kevin Valine: 209-578-2316, kvaline@modbee.com



MORE NEWS

Appendix B – Six Month Budget

Grow Modesto Fund 6 Month (actual) Budget									
<i>Starting Portfolio:</i>		March	April	May	June	July	August		
Deployment	67,664	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Project	End Total
Starting # of Loans	3	3	4	6	8	8	8	3	
Loans Deployed		1	2	2	0	0	1	6	
Ending # of Loans		4	6	8	8	8	9	9	
Starting Balance		67,664	86,818	165,733	248,661	245,553	242,483	67,664	
Modesto CDBG		0	0	0	0	0	0	0	<i>Ave Loan Size:</i>
CDFI Other Funds		20,000	80,000	85,000	0	0	15,000	200,000	33,333.33
Total deployment	<i>Est. repay rate (annual):</i>	20,000	80,000	85,000	0	0	15,000	200,000	
Repayment (estimate)	<i>15%</i>	846	1,085	2,072	3,108	3,069	3,031	13,211	
Modesto CDBG Balance		0	0	0	0	0	0	0	
CDFI Other Funds Balance		86,818	165,733	248,661	245,553	242,483	254,452	254,452	
Total Ending Balance		86,818	165,733	248,661	245,553	242,483	254,452	254,452	
Required Loss Pool	<i>4.50%</i>	3,907	7,458	11,190	11,050	10,912	11,450	11,450	
Income									
Fee income	<i>2%</i>	400	1,600	1,700	0	0	300	4,000	
Net Interest income	<i>7%</i>	395	506	967	1,451	1,432	1,414	6,165	
All Income		795	2,106	2,667	1,451	1,432	1,714	10,165	
Expenses									
Provision for loss pool	<i>To maintain 4.5% loss reserve</i>		3,551	3,732	(140)	(138)	539	7,544	
									<i>FTE - 24 weeks x 37.5</i>
Staffing hours - CDFI	<i>See activity costing / Staff cost/hr:</i>	27	19	28	15	31	56	174	19.33%
Staffing Cost - CDFI	<i>\$50</i>	1,350	925	1,375	725	1,550	2,775	8,700	
Milage & food	<i>\$125</i>	125	125	125	125	250	375	1,125	
Income (loss)		(680)	(2,495)	(2,565)	740	(229)	(1,974)	(7,203)	

Appendix C – Activity Monitoring Tool

Grow Modesto Fund Activities Tracking								
		March	April	May	June	July	August	
		Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Total
Pipeline Activities	Hrs/activity (for staff costing)	Q1 Financial Reporting			Q2 Financial Reporting			
Advisory team meetings	8	1	1	1	1	1	1	6
Workshops	10	0	0	0	0	1	2	3
Workshop participants		0	0	0	0	11	10	21
Leads	0.5	2	1	1	5	14	11	34
Applications/enroll - CDFI	3	3	1	1	2	0	5	12
Applications/enroll - Alliance	0	0	0	0	0	0	5	5 14.71%
Loan approval	4	2	0	0	0	1	1	4 23.53%
Loan denial	3	0	0	3	0	0	0	3 17.65%
Loans Deployed	4	1	2	2	0	0	1	6
Post-loan TA Activities	Alliance Contract							
Alliance Contract			Q1 Review			Q2 Review		
Loans in Portfolio (mo end)		3	4	6	8	8	8	8
Quarterly rptng		1	2	2	2	2	3	3
Semi-Annual rptng		2	2	3	4	4	4	4
Annual Rptng		0	0	1	2	2	2	2
Post loan TA Enrollments		3	4	6	8	8	9	9
Post loan TA Events	Includes loan closing	1	2	2	0	0	7	12

Appendix D – Pre-Post Workshop Evaluation Tool

Capital Access Workshop Evaluation

Pre / Post

Name _____

Date of Workshop _____

Directions: For each of the items below, please ask yourself: How confident would I be if I were asked to explain each of the following business and financing concepts to another person who does not know anything about the concepts?

Please use the following scale when considering each concept:

1 = Not at all confident. You have no idea how to explain the concept to a new person

2 = You would have some difficulty describing the concept. You could provide only little info

3 = You can say something about the concept, but you really are not certain if it is complete

4 = You are able to describe the concept in some detail and you are reasonably sure it is accurate

5 = Confident. You would be able to accurately describe the concept to another person. You know that the explanation that you have provided is correct.

Level of confidence...**Today, I feel confident that I can explain...****None****Full**

The reason for having a business plan	1	2	3	4	5
The information to take to the bank to apply for a loan	1	2	3	4	5
The role that “character” plays when getting a loan	1	2	3	4	5
What goes on a cash flow sheet	1	2	3	4	5
What steps to take to rebuild credit	1	2	3	4	5
What crowd-funding is	1	2	3	4	5
The 5 C’s of credit	1	2	3	4	5
The difference between a line of credit and installment loan	1	2	3	4	5
The difference between equity and debt financing	1	2	3	4	5

Please include any other comments about how we might improve this workshop in the future:

Appendix E – Project Promotions

¿En dónde está el dinero?

Préstamos a Empresas

Buscando capital para iniciar o ampliar su negocio?

Jueves, 13 de Agosto
6:30 pm - 8:00 pm

En este curso usted aprenderá sobre:

- \$ SBA, líneas de crédito, y microcréditos
- \$ Oportunidades de Emprendimiento
- \$ Preparación para una solicitud de préstamo y Más!

Regístrese hoy!
<http://tinyurl.com/ofjqchd>

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Kirk Lindsey Center
1020 10th St, Ste 102 Modesto, CA 95354
(209) 386-1008 | butlerj@stanalliance.com







El Centro de Desarrollo de la Alianza de Pequeños Negocios es una filial de la Red regional de UC Merced Centro de Desarrollo de Pequeños Negocios y está parcialmente financiado por: La Alianza Stanislaus negocios: Universidad de California, Merced; y la Administración de EEE.UU. Pequeños Negocios. Se trata de un programa de colaboración en el marco del Acuerdo de Cooperación actual con la Administración de Pequeños Negocios de Estados Unidos y la Universidad de California en Merced. Se harán adaptaciones razonables, previa solicitud, para las personas con discapacidades.

 **Fresno CDFI**
Published by Jeremy Hofer [?] · 3 August · Edited ·

Modesto, 13 de Agosto: Aprenda sobre prestamos de SBA, líneas de credito y microcreditos y preparese para una solicitud y regístrese hoy!



Modesto: Access to Capital Workshop (Spanish) | Fresno Community Development Financial Institution

FRESNOCDFI.COM

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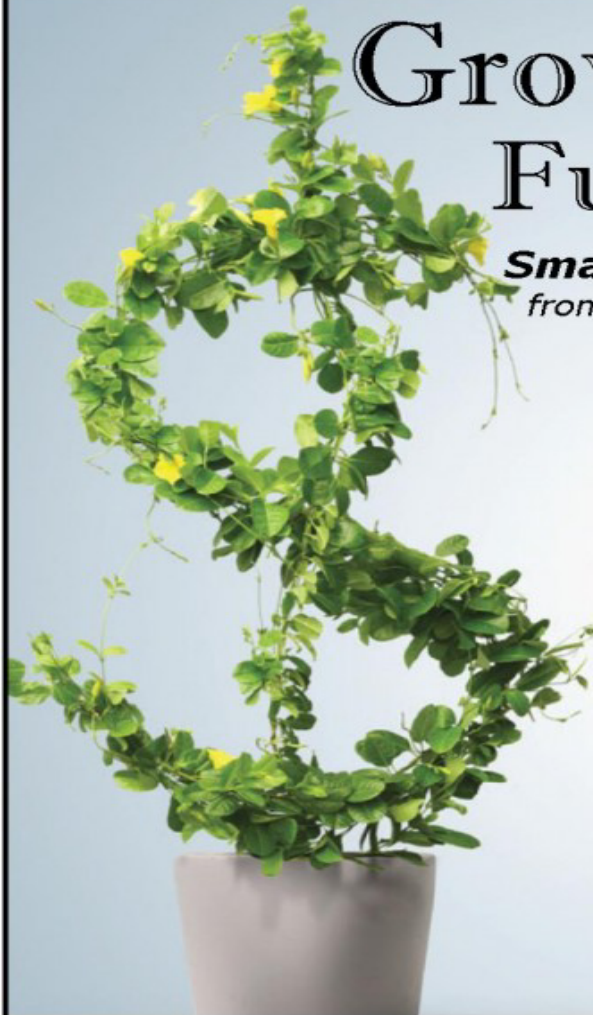
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Appendix F - Post Loan TA Consultant Reports (6)

Recycled Rubber Mat and Playground Material Manufacturer

Client appears to be a very forthright open person that gives the impression he is in charge of the business he operates. I was very pleased with the meeting we had. Business has evolved over recent years, well before the drought, to a business that designs and installs playground equipment. Loren designs the layouts, produces the mulch for the surface which is a rubberized ground product that is produced in his Modesto plant and does the installation. The customized metal playground equipment is manufactured by Miracle Recreation Equipment which has been in business since 1927.

Client stated his business has been good through the recession and has really improved significantly in the past three (3) years. Today the company has a 30+ job backlog and the company is expected to gross between \$800,000 & \$1,000,000 in revenue with a 5% solid net income. Client also stated loan he received was very 'timely' and that cash flow is quite good.

The raw rubber product comes from a recycler in Hollister and the Modesto plant refines it, colors and packages it. Client is very optimistic about his company's growth especially due to the drought conditions throughout the West. In discussing this growth, Client reemphasized his commitment to solid management and controls and stated he can grow to \$1.5M or \$2M and maintain the manageable company he prefers. I rate him as an A+ for potential repay.

Softball Training Academy

Client making exceptional progress in new facility and client base continues to grow. Her cost of the new facility will be very comparable to what she was paying in rent previously.

The new facility has made it possible to expand her hours, i.e. Saturdays, because of proximity and improved child care available. The Alliance is also supporting her efforts to expand her client base.

Have not been able to have a completed current financial statement, however, client is active in making the changes that will provide such info.

I rate her as an A+ for potential repayment.

Sign and Banner Making Business

Client is making exceptional progress in putting the proper steps in place to effectively grow their business. They have hired a key design person that has experience on one of their most important graphic programs. Also, client has quit her full-time job to support her husband in the business and is a skilled accounting person. This will be an immediate improvement of collections and allowing him to concentrate on what he does best – creativity customer contact.

I rate her as an A+ for potential repayment.

Pre-School Business

Had a very informative meeting with client, the principal owner along with his wife. Reviewed the revenue structure, the private pay verses the numbers that qualify for

county assistance and rough breakdown of those attending 3 days, 4 days & 5 days. Client indicated they are growing and now are preparing to expand. They have added 4 f/t & 2 p/t employees since January 2015. At this point we have not received a current financial statement and client has promised them in the very near future. I rate her as a B for potential repayment.

Mexican Restaurant Business

Conducted a very thorough and detailed meeting with client. Client had a key management employee sit-in our meeting even though client does quite well with English.

I was unable to obtain a current financial statement, however they do have a CPA routinely review their books. I was assured financial information will be available in the very near future. I was also able to determine the following:

Their POS system is detailed and provides an excellent record of specific sales activity. Info is download every night and put in an envelope for the CPA.

They report very positive cash flow and stated "it is not difficult to meet our monthly obligations".

Since January 2015 they have added 1 f/t & 6 p/t employees.

The internal controls that are so essential for a restaurant, i.e. ordering & accounting for key products (esp. meat & fish), routinely monitoring supplier prices and having a specific person doing HR, all seem to be in place.

The building is in great repair and one has a positive impression upon entering.

I rate her as an A+ for potential repayment.

Shoe Retail business

I have great concern about this client from a business standpoint as well as personally. I am very familiar with her operation and particularly her recent personal difficulties as well as losing one of her absolutely key vendors that allowed her winter sales because most clients were in Australia.

The vendor issue is very pivotal, however, she has been having administrative difficulties (late on sales tax and payroll) plus downloading sales revenues & reconciling it with her bank.

I rate her as a C- for potential repayment.

Appendix G – Post Loan TA Contract Scope of Work

This Agreement of Work is set forth following the Memorandum of Understanding (hereafter the “MOU”), dated and signed by and between Fresno Community Development Financial Institution (hereafter the “Fresno CDFI”) and Stanislaus Alliance (hereafter “Agency”), effective as of the latest date of the signed MOU attached hereto, with respect to the following procedures.

Agency representative or designated consulting staff shall provide post-loan technical assistance (TA) to Fresno CDFI designated borrowers located in the Agency’s service region. Post-loan TA shall include the following activities and be carried out according to the borrower’s level of need:

- Collection and review of financial statements
- One-on-one consultations (at borrower’s place of business or at Agency’s office)

Post loan TA Fresno CDFI borrowers shall be designated according to the following criteria:

1. Location – place of business must be located within Agency’s service area
2. Financial reporting loan covenants – depending upon regularity of financial reporting TA will be required quarterly, semi-annually, or annually.

Initiation of a new Post loan TA account will be initiated by Fresno CDFI in writing after client’s loan closing and will detail the following:

1. Client contact information
2. Client business description
3. Client financial reporting and other loan covenants
4. Expected number of hours of post-loan TA (annual)

Variances in allotted TA hours must be agreed upon in writing prior to Agency completing service. Time charged can only include travel to/from borrower and actual time spent on TA.

Post-loan TA hours will vary from client to client but will generally follow financial reporting covenants:

# financial reports / year	Report due date(s)	Hours Financial Consulting
Annual	60 days after fiscal year-end	2
Semi-Annual	60 days after fiscal year-end 30 days after 2nd quarter end	4
Quarterly	60 days after fiscal year-end 30 days after 1st quarter-end 30 days after 2nd quarter-end 30 days after 3rd quarter-end	8

Appendix H – Grow Modesto Fund Borrower Profiles

Client Name	Amount	Close Date	Start vs. Existing	Denied by bank?	Race	Gender	Low income?	Financial Reporting	Reporting Compliant?	Likelihood of Repayment
Auto Dealer Consultant	\$30,000.00	5/20/2015	Existing	Yes	White	Female	Yes	Semi	No	Pending
Food Truck	\$43,240.00	9/17/2014	Startup	Yes	White	Male	Yes	Semi	No	Pending
Preschool 1	\$20,000.00	6/11/2014	Startup	Yes	Black	Female	Yes	Quarterly	No	B
Preschool 2	\$15,000.00	8/4/2015	Startup	Yes	White	Female	No	Quarterly	N/A	Pending
Restaurant	\$8,205.00	11/3/2014	Startup	Yes	Hispanic	Female	Yes	Semi	No	A+
Retail Shoe Store	\$20,000.00	3/15/2015	Existing	Yes	White	Female	Yes	Quarterly	No	C-
Rubber Mat Manufacture	\$55,000.00	5/11/2015	Existing	No	White	Male	No	Annual	N/A	A+
Signs Manufacturer	\$20,000.00	4/15/2015	Existing	Yes	Hispanic	Female	Yes	Annual	N/A	A+
Softball Training Facility	\$60,000.00	4/3/2015	Existing	Yes	White	Female	No	Semi	No	A+
	\$271,445.0		44%	89%		78%	67%		none	