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Texas Association of Community Development Corporations Slideshow

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A photograph of three people—two women and one man—smiling and eating white popsicles. They are in a kitchen or food preparation area. The woman on the left wears a grey knit beanie and a dark puffer jacket. The woman in the center has dark hair and is wearing a black t-shirt with a graphic. The man on the right has grey hair and is wearing a light blue button-down shirt. In the foreground, there is a metal tray filled with many more white popsicles. The background shows kitchen equipment, including a fire extinguisher and a door.

STRENGTHENING THE SMALL BUSINESS MOVEMENT

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SUPPORTING SMALL BUSINESSES SINCE 1984

- **Capital Impact Partners**
 - Loans from \$500,000 up to \$10 million for working capital and real estate purchase, construction, and rehabilitation
- **CDC Momentus Direct**
 - SBA 504 and Owner Occupied Real Estate Lending to \$5 million
- **CDC Smart Growth**
 - SBA and Microloans from \$10,000 to \$350,000



Introduction to **Capital Impact Partners**

CDFI - Community Development Financial Institution

- **History**

- Founded under National Cooperative Bank

- **Mission**

- Supports Community based businesses

- **Lending**

- Loans

- **Programs - Technical Assistance**

- Ancillary Support



FINANCING OPTIONS



ACQUISITION LOANS
to purchase land and buildings



CONSTRUCTION LOANS
to finance from-the-ground-up
construction and renovation
projects



WORKING CAPITAL LOANS
to finance operating cash
flow needs

- **Loan Products:**

- Real Estate
- Construction
- Working Capital
- Lines of Credit

- **Loan Sizes:**

- \$500,000 to \$10 million

- **LTVs (Loan to Value) and Advance Rates:**

- Real Estate: 90%
- Receivables: 80% up to 90 days
- New Equipment: 80% of invoice amount/Used equipment - 50%
- Terms: up to 10 years, real estate amortization up to 25 years





State Guarantee Programs

- Originally created under the State Small Business Credit Initiatives Act (SSBCi)
- Each State has its own set of eligibility requirements and program criteria
- Momentus Capital currently participating in the following State SSBCi:
 1. Capital Impact (California and Texas)
 2. CDC Smart Growth (California and Texas)
 3. CDC Momentus Direct (Georgia and Washington DC)



TSBCI - Texas State SSBCI

- **Programs**

- Loan Guaranty Program(LGP)
- Capital Access Program (CAP)

CIP and CDC only participate in the LGP

- **Purpose**

Help facilitate lending to Borrowers that may not otherwise qualify for capital due to:

- Limited cash flows or lack of collateral
- Also supports women, minority, veteran owned (51% minimum ownership) who have not been able to obtain capital elsewhere

- **Eligibility**

A corporation, partnership, sole proprietorship, or other legal entity that is domiciled in Texas or,

- Has at least 51 percent of its employees located Texas
- Formed as a for profit enterprise is independently owned and operated
- Has fewer than 500 employees as a small business enterprise
- Has fewer than 10 employees as a Very Small Business (VSB)



TSBCI (continued)

- **Ineligible**

- Nonprofits
- Cooperatives
- ESOPs

- **Allowable Fee Structures**

- \$750 for loans \$25,000 or under, or
- 3% for loans above \$25,000 based on the amount of the guarantee, paid by the Borrower
- Maximum interest rate equivalent to the maximum rate charged by the National Credit Union Administration (NCUA), currently 18%

- **Uses**

- Start-up costs
- Working capital
- Franchise fees
- Acquisition of equipment, inventory, or services used in the production, manufacturing, or delivery of a business's goods or services, or in the purchase, construction, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes.
- Purchase of intangible assets except for goodwill
- Refinancing Enrolled Loans are allowed



TSBCI (continued)

● Ineligible Uses

- Purchase of goodwill
- Purchase of assets for passive real estate investments
- to repay delinquent federal or state income taxes unless the Borrower has a payment plan in place with the relevant taxing authority
- to repay taxes held in trust or escrow (e.g., payroll or sales taxes)
- to reimburse funds owed to any owner, including any equity investment or investment of capital for the business's continuance;
- to purchase any portion of the ownership interest of any owner of the business, except for the purchase of an interest in an employee stock ownership plan



Project Evaluation

- **Underwriting and Credit Approval:**

- Loans will follow the general underwriting guidelines and credit approval processes currently in place for CIP and CDC
- All owners of the business with 20% or more ownership will be required to provide corporate and personal guarantees

- **When to consider the Guaranty (loans with the below characteristics):**

- Lack of secondary source of repayment (weak guarantors, high LTV, etc.)
- Lack of tangible collateral (non real estate loans)
- DSC less than 1.10x
- Real estate LTV in excess of 90%
- Personal guarantors with limited liquidity
- Startups



Project Evaluation (continued)

Financial Analysis

- **Cash flow and Net Income**
 - Positive always helpful
 - Projected sales and net income
 - How are ongoing expenses managed
- **Cash on hand - minimum 60 days**
 - Sufficient to meet short-term emergencies
- **Assets**
 - Short-term vs. long-term
- **Liabilities**
 - What do these consist of? (debt/payables/deferred items)
- **Liquidity**
 - Cash and other instruments available to help in meeting debt
- **Leverage**
 - Other debt, member loans
- **Equity**
 - Positive returns back to owners



Project Evaluation (continued)

Product/Loan Purpose Analysis:

- **Housing/Real estate: Valuation through appraisal**
 - As/Is Valuation
 - As/Complete if construction or rehab is involved
- **Equipment**
 - Usually valued through invoices, can get an appraisal for existing equipment purchases with a business acquisition
 - Liens are usually placed on equipment financed based on the serial number
- **Inventory: Turnover, Perishable**
 - Valuation based on balance sheet
 - Perishable items (food, frozen items) should have turnover of 60 days or less, non-perishable items (furniture, toys) 90-120 days is fine, inventory over 120 days old may be considered stale
- **Receivables: Turnover, Agings**
 - The shorter the turnover (receivable days), the faster the payment
 - No advances on receivables over 90 days old



Differences with CA State Guarantee Program

Key Differences between the Programs:

Category	Texas	California
Amount	Max guarantee \$4MM	Max guarantee \$5MM
Eligibility	For Profit Small Businesses with Owners as Personal Guarantors	Nonprofits & Cooperatives are eligibles with no personal guarantees required CA much more real estate friendly in project eligibility with owner occupied projects supported under the program as long as the Borrower occupies 60% of the pace
Eligible Purposes	Texas supports working capital, start up costs, and place of business acquisition, construction, and rehab	CA also supports financing goodwill, new construction (ground up), predevelopment lending with a committed source of takeout, ownership buyout in a business (not ESOP conversion), acquisition of land

TSBCI Financing Tips for Borrowers

- Stabilize revenue sources and cash
- Define product or service which will be responsible for loan repayment
- As owners, understand the responsibilities behind personal guarantees
- Sometimes debt isn't the answer - focus on technical assistance or financial reporting management
- Work with partners who understand small businesses, including fluctuations in business cycles and ownership structures



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Q&A





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Thank You!

Please feel free to reach out to
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