

business

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Fund helps businesses make things happen

● **Outstate small-business owners often can't get sufficient loans, but the Minnesota Community Capital Fund hopes to make up the difference.**

By THOMAS LEE

When Michelle Finholdt needed money to relocate her child-care business in Red Wing, she turned to the local Wells Fargo Bank.

The bank, however, could offer only about half the \$600,000 to \$700,000 that Finholdt needed to open a new Under the Rainbow Child Care Center. She eventually found three other lenders to make up the difference.

"To get all [the loans] together was difficult," Finholdt said. The lenders had "all given the maximum of what they could lend out. I would have preferred to have just one loan. But I definitely needed all four sources to make ends meet."

For Finholdt and other small-business owners who live in outstate communities, borrowing money can be a tricky affair. Banks in small towns have only so much money to lend, which means small-business owners often must look elsewhere for financing.

That's where the Minnesota Community Capital Fund steps in. Founded in 2003 by the Northland Institute, a Minnetonka-based nonprofit that focuses on rural economic development, the \$3.3 million fund provides additional loans to outstate businesses unable to get enough financing from local lenders such as banks.

For instance, the fund loaned Finholdt \$64,000, a small amount compared with the \$330,000 she received from Wells Fargo but enough for Finholdt to get her business up and running.

What's novel about the funds is how they obtain capital and distribute loans, said Scott Martin, president of the Northland Institute.

The funds pool together economic development money from cities, foundations and civic organizations. A small business can get a loan that is up to 10 times the amount its corresponding community put into the fund.

For instance, if Moose Lake contributed \$25,000 to the fund, then a small business in Moose Lake could be eligible for a \$250,000 loan.

"These towns had some money, mostly little pots of revolving loan funds, but they didn't really have enough money to make a difference," Martin said, and some lack the necessary skills and resources to make sound loans.

Northland sells the loans to Minneapolis-based Community Reinvestment Fund USA, which in turn resells the loans on the secondary market to institutional investors such as pension funds. Although Northland administers the loans, the funds ultimately are controlled by a board of directors made up of the contributors to the pool.

Using public money for economic development can sometimes be politically perilous, but the funds "seem to be carefully structured and managed," said Lee Munnich, director of the state and local policy program at the University of Minnesota's Humphrey Institute of Public Affairs.

So far, the Minnesota Community Capital Fund has made about 42 loans worth \$10 million to hospitals, car washes, fitness centers and other businesses. The fund has been so popular and successful that the Northland Institute launched the Twin Cities Community

Capital Fund to assist businesses and smaller cities in the seven-county metropolitan area. The \$2.4 million Twin Cities Capital Fund is reviewing its first loan applications.

"When we make a loan, we never have to worry about running out of money," Martin said. "Now even the smallest community in Minnesota has access to national capital markets."

Martin said the funds also help banks by helping them manage their risk. Often a bank would be reluctant to

loan money to a small business unless it had a lending partner, he said.

"Banks that are unprepared or unwilling to make a loan commitment of this amount will ask us, 'Will you come in and fill the gap?'" Martin said. "We are not here to compete or replace bank lending. We are here to complement it."

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