



Seedco Financial
Innovations in Community Lending
>> FALL 2007

The Seedco Financial Newsletter

I am pleased to present the first Seedco Financial newsletter, which we plan to publish bi-annually. Our goal with this new endeavor is to keep our stakeholders apprised of activities that we believe have growing importance for our field. In this issue, we feature selected projects in three of our sites-- [Alabama](#), [Tennessee](#), and [New York](#).

With support from the [Home Depot Foundation](#), we have been able to introduce affordable housing green building techniques in Alabama for the first time. In Tennessee, with the aid of a \$1.2 million Financial Assistance Award from the [CDFI Fund](#) of the [U.S. Treasury Department](#), we have been developing strategies for commercial redevelopment and small business support, financing for working capital for nonprofit human services organizations, and lending initiatives for affordable housing. Although still in their earliest stages of development, these efforts form the foundation upon which we will be expanding over the next two years. Finally, we offer a brief update on our highly effective arts business program in New York City, which also will be expanding over the coming months. Besides our increased lending capacity, the key to this is a technical assistance component that is being funded by the [American Express Foundation](#), [New York's Empire State Development Corporation](#) and the [Carnegie Foundation](#). We'll talk more about this expansion in the next newsletter.

I hope you find this issue of our newsletter informative and as always we welcome your comments and questions.

William Grinker
President and Chairman
Seedco Financial Services, Inc

GOING GREEN IN ALABAMA

As soon as Frank Dominick heard about Seedco Financial's Alabama Green Affordable Housing Grant Program, he knew he wanted to be part of it. Dominick is the founder and Executive Director of Outreach, Inc., a nonprofit company in Birmingham that builds and renovates affordable homes for families that earn too much to qualify for public housing or Habitat for Humanity but too little to afford market prices.

Dominick was no stranger to "green building"—creating structures that are environmentally sound and resource-efficient. Early in his company's history, Dominick used adobe blocks to build a 3,300-square-foot medical clinic and community center. Eighteen thousand chunks of adobe later, he concluded that the technology wasn't commercially viable on a large scale, but his interest was piqued.

So Dominick paid attention when he heard that Southface Energy Institute, a nonprofit firm in Atlanta that specializes in economically and environmentally sustainable building, had developed something called the EarthCraft House.™ EarthCraft is a rating and certification process for green housing design, construction, and renovation. Here's how it works:

- Choices about materials and design are assigned points based on how the choice affects the home's energy efficiency, durability, indoor air quality, waste management, and water conservation.
- Greener design elements carry more points, but builders can use any combination of techniques and materials as long as they add up to at least 150 (out of 400) points.
- Southface then will train builders in the EarthCraft approach, review designs, and inspect and certify completed homes. Free information is available at www.Southface.org.

Five organizations received Alabama Green grants in 2007:

- Alabama A&M University Community Development Corporation (Huntsville) is rehabbing three units;
- Formation Methods (Birmingham), a small for-profit development firm, will begin building seven new units in late summer;
- Neighborhood Housing Services (Birmingham) plans to rehab one unit;
- Lighthouse CDC (Grand Bay) will construct one unit; and
- Outreach, Inc. (Birmingham) has built and certified four single-family EarthCraft homes and has four more under construction.

The problem for Dominick and many other builders was that it costs slightly more to build green—roughly 1% to 3% above conventional costs. But when Seedco Financial created Alabama Green, a pilot program that helps small-scale and "emerging" developers build affordable homes that meet EarthCraft's standards, Dominick jumped at the chance. The program, funded by a \$150,000 grant from the Home Depot Foundation, gives participants a \$3,750 grant for each housing unit, which covers the added costs of green building materials, inspection, and certification fees. Seedco Financial also holds workshops and provides individualized technical assistance to help participants incorporate the principles of green building, and get their projects off the ground.

Seedco Financial expects program participants to complete another dozen units in 2007 and another 20 in 2008, according to Rayanthnee Patterson, Senior Program Associate in Seedco Financial's Southeast Regional Office.

"The builders who were awarded grants are working with low-to moderate-income families. They believe they're adding value to the houses as well as helping the families maintain their homes."

Rayanthnee Patterson,
Senior Program Associate
Seedco Financial



LEARNING WHAT IT MEANS TO BE GREEN

Alabama Green kicked off with two workshops led by Southface contractor Joe Cooper. More than 70 small developers, builders, contractors and subcontractors, and architects came to learn about green building—from laying foundation to installing windows, insulation, heating/cooling, and landscaping—and the EarthCraft certification process.

Some of Cooper's tips involve making the "envelope" (insulation, windows, and sheathing) tight—that is, controlling the air that flows into, out of, and around the house. Other techniques include using less lumber to frame corners; installing Energy Star-approved windows and water-conserving toilets; and choosing the right size appliances. "In the humid Southeast, an oversized air conditioner will cool air quickly but not remove the moisture, resulting in poor indoor air quality and, potentially, mold," Cooper says.

MAKING THE GRADE

After the workshops, Seedco Financial invited participants to apply for a grant to continue working with Southface. Five developers submitted their plans to Southface for review and together, Cooper and the builders figured out how green the completed buildings would be. That's where the EarthCraft point system came into play.



"Air infiltration and duct leakage are the two biggest energy penalties, so construction techniques that control them earn the most points," Cooper explains. A builder can earn up to 35 points for designing a tight envelope and 20 points for having tightly sealed ductwork. If a plan doesn't earn at least 150 points, Cooper will recommend changes.

After the approved structures are framed but before they have interior walls, Cooper will suggest additional improvements. An EarthCraft inspector conducts the final test of air-tightness after walls, windows, and doors are installed.

EVERYONE WINS

For Seedco Financial, the move into green building flowed naturally from a conviction that access to affordable homeownership is a key to helping low-wage workers build equity and wealth. Anything that makes housing more affordable is a potential tool for Seedco Financial, but green building is an especially good fit because it addresses the long-term operating costs. "An EarthCraft home in the Southeast consumes 20-30% less energy than a conventional house and reduces the energy bill by about the same amount," says Gray Kelly, director of Southface's EarthCraft Multifamily Program. "Those savings mean a lot to low-income families, who spend a higher portion of their income on basic needs."

For small-scale builders, developers, contractors, job site superintendents, and installers, Alabama Green teaches them the skills needed to meet green-building requirements. Because energy efficiency is directly related to the quality of construction, adherence to those expectations could make the builders more competitive in a tight marketplace. "The fact that green-built houses are not just healthier and safer but stronger should have a gut appeal to builders," says Seedco Financial Vice President Edwin Hong. "And if the small-scale developers are getting it, and if we can help them overcome the up front financial costs of building green, we'll have come a long way."

"When you pay a utility bill the money leaves the community, but if you reduce utility costs the money stays in the homeowner's pocket and benefits the community as well."

Gray Kelly, Southface Energy Institute

Hong hopes to grow the program to include more small builders in Alabama and expand into Tennessee. Seedco Financial also is developing an initiative to finance larger developers' debt at low interest rates so they can upgrade existing units and build new ones to green standards. The plan, as with Alabama Green, is to get developers and builders hooked on green building. "If, over time, they realize savings from using our loan product to achieve substantial long-term savings on operating costs, they will come to trust green building," Hong says.

SEEDCO FINANCIAL IN TENNESSEE

It has never been easy for nonprofits or small companies to get loans for start-up, new projects, or expansion. In a conservative lending environment, however, it can be downright impossible to finance a worthwhile but “risky” commercial endeavor like developing affordable housing or delivering human services.

That was the case in Tennessee when Seedco Financial began working to prove that many different types of borrowers who are shut out of the mainstream market can repay their loans—and revitalize underserved, low-income communities—when lenders offer creative products, reasonable terms, and technical assistance tailored to specific locales and sectors.

Seedco Financial’s Tennessee projects, each of which is tailored to the specific needs and priorities of local communities, include:



- Commercial corridor redevelopment
- Loan funds for small businesses
- Affordable housing development
- Support for nonprofit organizations that provide human services

In Memphis, a major part of Seedco Financial’s work centers on creating effective economic development strategies to revitalize distressed neighborhoods. A \$1.17 million grant from the CDFI fund has enabled the organization to launch several initiatives such as assisting in the rebuilding of the South Main corridor in downtown Memphis.

Through its Empowerment Reinvestment Fund subsidiary (a federally certified Community Development Entity), Seedco Financial invested \$15.5 million of New Markets Tax Credits in the

development of a new hotel that anchors the area. In return, the developer and owners of the Westin Beale Street Hotel agreed to recruit Memphis residents for 200 new hotel jobs. The hotel trained the workers in hospitality skills; Seedco’s workforce development partners supplied training in soft job skills.

Seedco Financial has made resources available to developers to rehab other commercial properties. Its \$1,475,000 financing of the Lee’s Landing project, which consists of 14,504 square feet of new retail space that will house three high-profile food/music/entertainment offerings is part of the commercial buildout of the Beale Street Historic District/South Main area. The vision of the Performa Entertainment Real Estate Inc., the company behind the Lee’s Landing project, was to expand Beale Street’s restaurant and music industries in tandem with the opening of the new Beale Street Hotel. “We’re happy to have helped facilitate this initiative, which will generate 300 new jobs created by the new venues for low-income residents,” noted William Grinker, President of Seedco Financial.

The Small Business Opportunity Loan Fund, is also important in Memphis, where more than 90 percent of small businesses have fewer than 50 employees. Seedco Financial capitalized this fund with a \$500,000 matched investment in Southeast Community Capital Corporation, a local lender that specializes in small businesses. The loans fill a cash gap for borrowers, enabling them to function while they find other financing or while a real-estate project is under construction.

“I’ve been surprised by how many small businesses are out there that really don’t have formal systems in place.”

Meredith Hennessy
Program Manager

Many of the small businesses that seek these loans lack the collateral, credit scores, debt history, or formal business structures needed to qualify with traditional lenders. They may not be incorporated or have a conventional bookkeeping system, audited financial statements, future cash



flow projections, or a structure for providing employee benefits. “If an applicant has such issues to resolve, we start by connecting him or her with appropriate resources to help the business become “loan-ready,” says Meredith Hennessy who helps oversee Seedco Financial’s work in Tennessee.

The Affordable Homeownership Development Loan Fund

helps local, nonprofit organizations and community development corporations in economically distressed neighborhoods that operate on a small scale, building perhaps two or three houses at a time. The typical borrower receives a construction loan of \$50,000 to \$200,000 at below-market rates, to cover building costs until the house is sold at a price affordable to low-income residents.

Five local developers have become regular participants in this loan fund, which Seedco Financial capitalized with over \$1 million with the help of local or regional banks including Bank of Bartlett, InSouth Bank, and Regions Bank. These funds were matched with Program Related Investment resources from the Ford Foundation.

The Loan Fund is a way for Seedco Financial to broaden its response to Memphis’s issue of affordable homeownership. Affordable housing priorities in other Tennessee communities differ. For example, a recent project in Chattanooga, developed by the nonprofit, 28th Legislative Community Development Corporation, created both affordable housing and retail space using a \$565,000 investment by Seedco Financial in partnership with Regions Bank (\$1.2 million) and the Chattanooga Community Development Financial Institution (\$565,000). The investment provides gap financing for a \$2.5

“Without Seedco Financial there wouldn’t be anyone financing affordable housing at low-interest rates, especially for nonprofit developers. Commercial lenders don’t generally make these kinds of loans.”

Meredith Hennessy

million project that will create a two story, 21,000-square foot, multiuse building in downtown Chattanooga. The new building will house eight residential condos and up to eight retail units.

With growing investment resources, Seedco Financial will support more affordable housing development. Seedco Financial recently concluded a \$50 million investment agreement with the General Board of Pension and Health Benefits of the United Methodist Church, of which \$15 million is committed for investment into affordable and special needs housing projects in underserved areas. “Tennessee is a primary target for our affordable housing initiatives,” says William Grinker. “Putting these new resources together with our experience with green building in Alabama should provide an important new set of tools to increase supply in this area.”

In Nashville, Seedco Financial is starting its program activities by focusing on the needs of the nonprofit human services agencies in Nashville and Davidson County. Seedco Financial’s lending connects nonprofit organizations not only with working capital and funds for facilities development, but also technical assistance on how to develop facilities, expand programs (thus creating new jobs as well as more services), and manage debt effectively. Tennessee’s Center for Nonprofit Management, Seedco Financial’s partner in this program, will offer workshops and one-on-one counseling to participants.

“Our diverse work in these Tennessee cites has provided us with a blueprint for moving forward,” says William Grinker. “Using our varied lending and technical assistance products in combination enables us to have greater impact in our communities. Over the next months, we will expand our efforts to support small businesses, increase affordable housing investment in Memphis and Chattanooga, and implement our new Human Services Loan Fund in Nashville and Knoxville. We will launch our Green Affordable Housing Program in Tennessee. And we will deepen and expand our effective and creative buildout strategies that impact whole neighborhoods at a time.



ARTBUSINESS: HELPING NEW YORK ARTS ORGANIZATIONS SURVIVE AND GROW

When Big Apple Performing Arts (BAPA) experienced several years of operating losses, the nonprofit organization struggled to find a source of working capital to help it weather a challenging financial period.

Seedco Financial was willing to step in and provide an affordable loan to BAPA, the umbrella organization for the New York City Gay Men's Chorus and other groups. The \$50,000 loan provided working capital and Seedco Financial helped BAPA to develop a financial stabilization plan.

"Banks and other conventional sources of capital were not willing to provide us with the loan that we needed, but Seedco Financial was there for us," said David Edelman, executive director of BAPA. "Their knowledge of nonprofit arts organizations, their assistance in helping us develop a stabilization plan, and their below-market rate loan were a true blessing. Seedco Financial's assistance gave us the breathing room we needed and helped position us for future growth."

Since its launch in February 2005, Seedco Financial's *ArtBusiness* program has served almost 300 arts nonprofits and small businesses:



- 250 organizations received business consulting and technical assistance
- 25 organizations received over \$2 million in below-market rate loans

The *ArtBusiness* program supports nonprofit arts organizations throughout the city and provides assistance to for-profit arts businesses in low-income communities. The program's mission is to nurture worthy arts organizations and help them grow. "Many nonprofit arts groups and small arts businesses need capital to stabilize their finances during rough times or to expand, but they have trouble getting access to affordable capital," said Malini Nayar, Senior Financial Services Officer. "First time and repeat borrowers also may need help. Seedco Financial's *ArtBusiness* is filling these needs."

Under *ArtBusiness* guidelines, for-profit arts organizations in emerging creative communities in low-income census tracts such as Chinatown and the Lower East Side, Long Island City, the South Bronx, Jamaica and Harlem can receive loans between \$25,000 and \$200,000 — for working capital financing, start-up costs, renovation costs and equipment purchases. Small and medium nonprofit arts organizations can receive loans as large as \$1.5 million.

William Grinker concludes that, "our experience with *ArtBusiness* in New York City is providing the basis for customizing and launching similar ventures in New Orleans, Memphis, and Denver. The sites are learning from one another what works best for each geographic area. Stay tuned for more exciting developments."



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The Seedco Financial Newsletter is published by Seedco Financial Services, Inc., a fast-growing national nonprofit lender with a capital pool of \$190 million. With offices in five states, it works with local partners to provide financial and technical resources to assist in the development or rejuvenation of low-income communities. Seedco Financial's financing usually consists of tax credits, below-market lending, or other financing mechanisms that support community economic development initiatives.

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