

# Small Business Lending

LISC Small Business Lending 2022



LISC

# Debt as an Essential Tool for Business Growth and Stability

Debt has an important role to play, particularly in real estate projects. Not all debt is bad, nor is all debt is good

## Consider Debt When

- It is for a special one-time cost, particularly when that is tied to business improvement or growth
- It enables you to stretch a large one time expense (such as the purchase of a building) over several years
- It will put your business in stronger long-term position operationally and financially
- It helps you to secure other types of funding
- It allows you to get started on a project while continuing to raise funds through other sources

## Avoid Debt When

- It is needed to help cover basic operating expenses on an ongoing basis
- There is no clear pathway for repayment
- It will over-leverage your business, placing you in a bad financial position long term
- You would only qualify for debt at very adverse terms

- ✓ A lender who understands your industry and can help you assess the amount of debt you can comfortably take on
- ✓ Opportunities for interest only period up front during ramp up
- ✓ Competitive rates and terms
- ✓ Reasonable fees

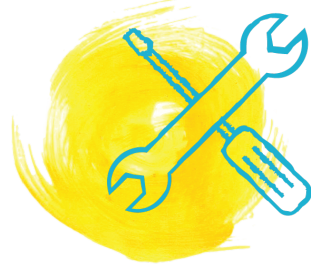
# A Common use of Debt is Tied to Facility Acquisition and Construction

*This has unique industry challenges*



## Tight Operating Margins

Child care has tight operating margins. Many sources are reimbursement based adding additional challenges. These tight margins can make qualifying for debt tricky, especially if the lender is not familiar with the child care industry



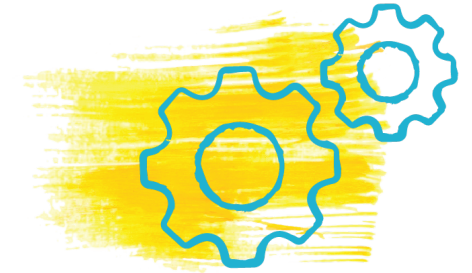
## High Development Costs

Due to specialized nature of space and unique locational requirements it is more expensive than typical commercial construction, this can create issues when lenders are underwriting loans and looking at things like “loan to value”.



## Regulations

Child Care spaces must comply with many regulations. This adds time and cost to projects making piecing together funding, including debt even more challenging



## Overall Complexities

Your work is hard and these projects are complicated. Ideally look for a lender who can be a partner to you in this work over the long haul, including providing technical support along the way.

# Assess Organizational and Financial Readiness

This includes doing an honest assessment of how “ready” your business is – this is a critical step!!

**Organizational Readiness means your business is:**

- FINANCIALLY STABLE enough to take on the risk associated with debt
- Able to EFFECTIVELY MANAGE its existing program and obligations along with any new demands

**Loans often require collateral which may be:**

- REAL ESTATE or other tangible assets either at the site attached to the loan or occasionally through another site
- PERSONAL GUARANTEES attaching personal assets to the business debt



# Be Ready to Answer Lots of Questions and Provide Lots of Information

*Try to view this as an opportunity!*

**Be ready to think and talk about, and eventually put down on paper things like:**

- The difference between what you may have seen as being fiscally strong versus what a lender may expect to see
- Questions not only about your finances looking back but about your projections over multiple years moving forward – your history, combined with your projects work together with other variables to help a lender determine the amount of debt you qualify for (which may be different than the amount you need)
- Lots of detailed questions about your project and plans



## LISC Economic Development Lending

Through our [suite of commercial and small business loan products](#), LISC provides financing to developers and small businesses located in underserved neighborhoods and rural communities where we work.

We strategically support businesses in low- and moderate-income communities, and businesses owned by veteran, woman, and minority entrepreneurs.

# LSC Economic Development Lending Products

	Permanent Working Capital	Acquisition/ Leasehold Improvement/ FF&E Loans	Maker Space Loans	Commercial Real Estate Loans
Purpose	Working Capital	Leasehold Improvements, Remodel/Expansion, FF&E	Acquisition, Construction	Acquisition, Construction
Investment Amount	\$100,000-\$500,000	\$100,000-\$500,000	\$100,000 & Up	\$100,000 & Up
Interest Rate (Subject to loan type, term, and collateral)	7.4% -8%	6.4% -8%	6.4% -8%	6.4% -8%
Term (Years)	Up to 5	Up to 7	Up to 10	Up to 10
Collateral	UCC on business assets	UCC on business assets, 1st lien on equipment, Leasehold mortgage > \$350, 000	Mortgage on property	Mortgage on property
Personal Guarantees	Required	Required	Required	Required

# Economic Development Lending Portfolio (as of 1.2022)

**Total # of Loans:** 195

**Total \$ Outstanding (LISC):** \$142 MM

**Average Loans Size:** \$1 MM

**Average Loan Term:** 75 months

**Interest Rates:** Starting at 7%

**Project Types:** Commercial/Industrial, Small Business, Community Facilities, % of Mixed Use

**Loan Uses:** Acquisition, Construction, Leasehold Improvements, Working Capital







# Small Business Lending Portfolio

(as of 1.2022)

---

**Total # of Loans:** 63

**Total \$ Outstanding (LISC):** \$25.1 MM

**Average Loans Size:** \$427,000

**Average Loan Term:** 71 months

**Interest Rates:** Starting at 7%

**Project Types:** Small Business

**Loan Uses:** Acquisition, Construction, Leasehold Improvements, FF&E, Working Capital

**Socio-economic demographics:** 68% minority business owners and 54% women-owned

# Borrower Story: Beautiful Beginnings Case Study for using Debt

## PROJECT DETAILS

<b>Year Completed</b>	Phase 1 - 2007 Phase 2 - 2016
<b>Construction Type</b>	Phase 1 - Adaptive reuse of existing commercial building Phase 2 - Interior expansion of existing child care center
<b>Total Development Cost</b>	Phase 1 - \$1,200,000 Phase 2 - \$100,000
<b>Sources of Funds/Capital Stack</b>	<ul style="list-style-type: none"> <li>▪ LISC Predevelopment Grants</li> <li>▪ LISC Loan</li> <li>▪ Private Funding</li> </ul>
<b>Square Footage</b>	Phase 1 - 14,014 SF Phase 2 - 2,000 SF
<b># of Children</b>	Phase 1 - 137 Phase 2 - 72
<b># of Classrooms</b>	8 infant/toddler classrooms 4 preschool/pre-k classrooms 2 school age classrooms
<b>Construction Cost/Child</b>	Phase 1 - \$8,759/child Phase 2 - \$1,388/child
<b>Construction Cost/SF</b>	Phase 1 - \$85/SF Phase 2 - \$50/SF



# Borrower Story: Oliver Day

Eve and Tony Furtado purchased Oliver Day School in September 2017. Eve had worked at Oliver Day prior to that as the Education Coordinator, and now carries on its tradition through her strong ownership. This includes their recent expansion to a second location.

The \$420,000 loan from LISC, helped Oliver Day to fund renovations and equipment for their second location. They had an extensive waitlist at their current facility, and given the 15-minute proximity between locations, were able to fulfil needs for families that could utilize either location, or that would be specific to this new space.

Eve and Tony were intentional about finding a location that was well suited to be fitted out as a daycare. They worked with the GC and LISC to stay within budget, while building a quality facility.



# What Should The Borrower Expect?

---

- Individual Credit Search
- Background Searches, including CLEAR
- Request for documents
  - Personal Tax Return (3 yrs)
  - Business Tax Return (3 yrs)
  - Business Tax Return of Affiliate Company \*If applicable (3 yrs)
  - Interim Financial Statements (P&L and Balance Sheet)
  - Personal Financial Statements
  - Business Debt Schedule
  - Articles of Incorporation (Corporation) or Organization (LLC)
  - W-9
  - IRS / EIN Determination Letter
  - Lease Agreement
  - Contracts / Quotes for Leasehold Improvements/FFE
- Full Personal Guarantee On The Loan



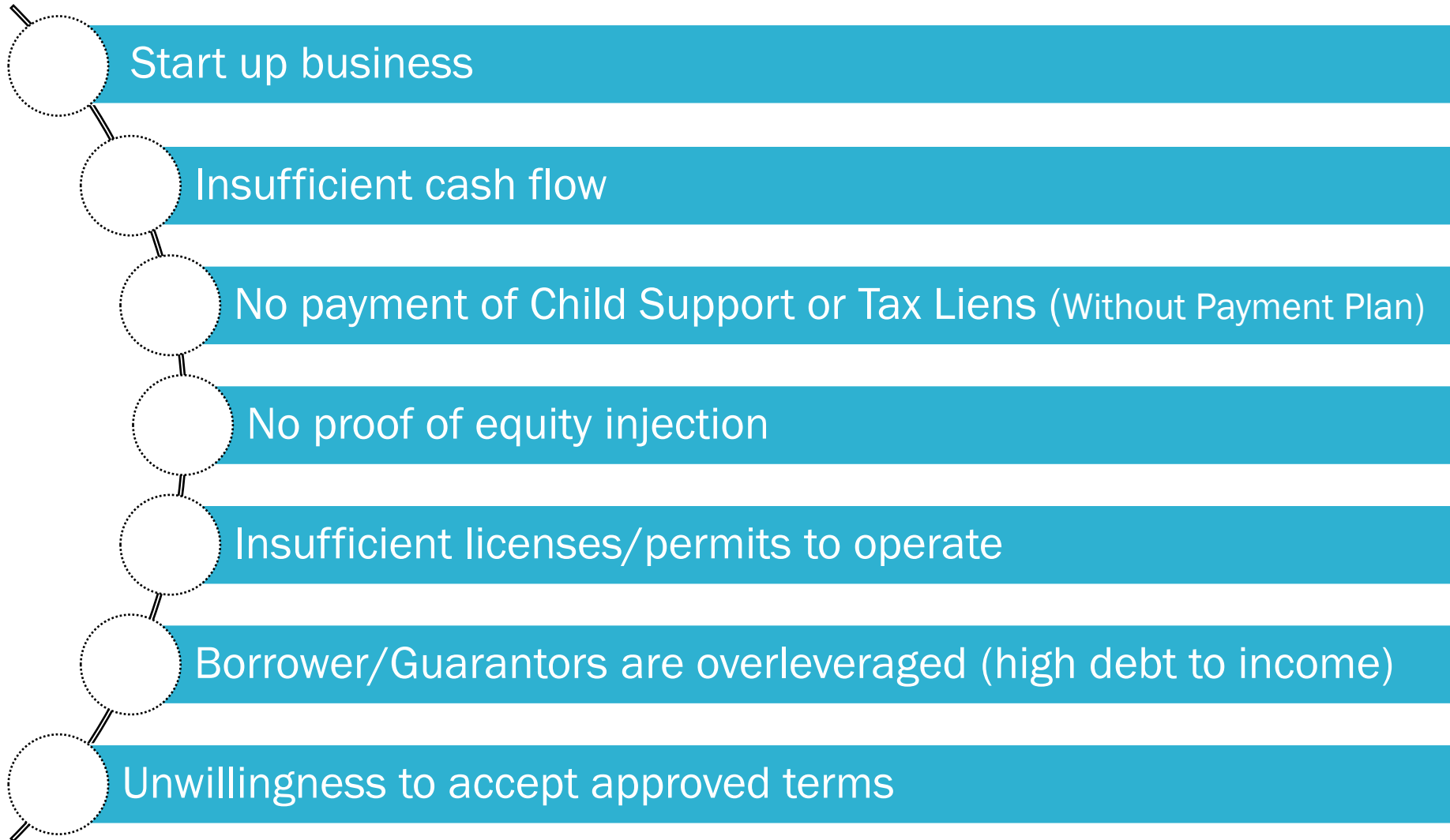


**General Criteria for LISC  
EcDev Products**

Category	Criteria
Time in Business	2 years
Minimum Annual Business Revenue	\$100,000
Global DSCR	1.2 X
Equity Injection	>10%
Credit Score Requirements	> 600 (Small Business) > 650 (Maker Space and RE)
CLEAR Score	< 50 pass / 51-99 needs further review / > 100 does not pass
Credit Enhancement	% determined by loan type
Legal Organization	Borrower must be a business entity Principal owners must be US citizens or legal permanent residents
Geographic Location	Located in LISC Priority Community or LMI census tract

Category	Criteria
Foreclosures (years since)	4 years
Delinquencies/Collection	Medical account only (<\$5,000) - OK with explanation
Charge Off Limits	Auto decline
Judgements	Auto decline unless proof of satisfaction + 3 years since satisfied
Student Loans	Must be on payment plan for any delinquent account
Late Child Support	Auto decline
Tax Liens	Allowed, with proof of payment plan
90 Day Late Payments	Allowed, with proof of payment
Late Auto Payments	Auto decline unless paid and documented
Late Mortgage Payments	Auto decline unless proof of satisfaction + 3 years since satisfied

# Conditions For Decline

- 
- Start up business
  - Insufficient cash flow
  - No payment of Child Support or Tax Liens (Without Payment Plan)
  - No proof of equity injection
  - Insufficient licenses/permits to operate
  - Borrower/Guarantors are overleveraged (high debt to income)
  - Unwillingness to accept approved terms



**UW Criteria: LISC Economic  
Development Products**

	<b>Permanent Working Capital</b>	<b>Leasehold Improvement/FF&amp;E Loans</b>
<b>Time in Business</b>	2 years	2 years
<b>Loan Size Standards</b>	Loan amount no greater than 15% of actual sales of most recent fiscal year; or 80% Accounts Receivable	N/A
<b>Financial Trend Requirements</b>	Positive historic financial performance (sales growth, profits)	Positive historic financial performance (sales growth, profits)
<b>Annual Revenue Minimum</b>	Annual revenues no less than \$100,000	Annual revenues no less than \$100,000
<b>Business DSCR</b>	1.2x	1.2x
<b>Revenue Diversity</b>	No more than 70% of sales from one vendor/source	No more than 70% of sales from one vendor/source
<b>Credit Score Requirements</b>	>600	>600
<b>Disqualifying Businesses</b>	No sin business	No sin business
<b>Geographic Location</b>	Located in LISC Priority Community or LMI census tract	Located in LISC Priority Community or LMI census tract
<b>Persistent Poverty Area (Y/N)</b>	Yes	Yes
<b>Minimum Equity</b>	N/A	10%
<b>Personal Debt to Income</b>	≤ 40%	≤ 40%
<b>Business Type</b>	Home-based, retail/commercial space only	Retail/commercial space only





**UW Criteria: Maker Space and Commercial RE Loans**

	Maker Space Loans	Small Business Commercial Mortgage Loans
Time in Business	<ul style="list-style-type: none"> <li><input type="checkbox"/> If developer/CDC: borrower must have established track record with at least one similar project completed successfully</li> <li><input type="checkbox"/> Tenant profile: ideally existing business (at least 1 year), can be home-based moving to maker space</li> <li><input type="checkbox"/> Tenant portfolio: at least 1/3rd of the space should be rented to established businesses (at least 2 years in operation outside of home-based setting)</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> If developer: borrower must have established track record with at least one similar project completed successfully</li> <li><input type="checkbox"/> Anchor tenant profile: at least 3 years in operation</li> </ul>
Loan Size Standards	<ul style="list-style-type: none"> <li><input type="checkbox"/> Underwriting to emphasize demand analysis, vacancy rates, secondary repayment/exit strategy (can space be repurposed and do prevailing market rents support debt service)</li> <li><input type="checkbox"/> Capitalized debt service reserves required/recommended</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Anchor tenant (any tenant accounting for 25% of projected total rental income) lease term must exceed loan term</li> <li><input type="checkbox"/> Underwrite anchor tenant(s) based on 2 years business and personal tax returns and financial statements</li> </ul>
Financial Trend Requirements	<ul style="list-style-type: none"> <li><input type="checkbox"/> Track record/underwriting of developer's existing projects</li> <li><input type="checkbox"/> Positive historic financial</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Track record/underwriting of developer's existing projects</li> <li><input type="checkbox"/> Positive historic financial performance</li> </ul>
Annual Revenue Minimum	N/A	N/A
Business DSCR	1.10x	1.10x
Revenue Diversity	Debt service reserve – 3 months Operating reserve – 3 months	N/A
Credit Score Requirements	>650	>650
Disqualifying Businesses	Sin business	Sin business
Geographic Location	Located in LISC Priority Community or LMI census tract	Located in LISC Priority Community or LMI census tract
Persistent Poverty Area (Y/N)	Yes	Yes
Minimum Equity	10%	10%
Personal Debt to Income	N/A	N/A
Business Type	Retail/commercial space only	Retail/commercial space only

# Funding Opportunities

# Planning and Capital Grant Opportunities

**EARLY FEASIBILITY, PLANNING GRANTS** allow qualified organizations to secure professional services to plan for and assess the feasibility of both indoor and outdoor facility projects. Qualified services might include things such as architectural services, landscape/playground design services, engineering studies, and environmental surveys.

## AVAILABLE SOURCES

### LISC Planning Grants

- Small, competitive pool of private funds

### Preschool Development Grant (PDG)- federally funded planning grants

- Competitive application for child care providers with a demonstrated commitment to providing early childhood care and education for low-income families with a public subsidy; due to the rules and regulations of federal funding, organizations will also need to have a DUNS number and an active SAM.gov registration

### City of Providence Early Learning Infrastructure Support Program

- Competitive application for Providence-based providers, opening early 2023

**CAPITAL IMPROVEMENT GRANTS** allow qualified organizations to use funds for renovations to address issues related to licensing compliance, health and safety and physical space barriers to quality improvement and/or expansion of quality programming through procurement

## AVAILABLE SOURCES

### City of Providence Early Learning Infrastructure Support Program

- Competitive application for Providence-based providers, opening early 2023

### Early Childhood Care and Education Capital Fund

- Competitive two-step application process (submission of a Letter of Intent and if moved forward, a detailed application)
- Wave 2 is currently open with Letters of Intent due no later than **Friday, March 24, 2023** and should your LOI be approved, a completed application will be due no later than **Friday, April 21, 2023**.

# LISC Loans and Recoverable Grants

## Recoverable Grants

A **very competitive pool** of recoverable grant funds are available to qualified organizations that are looking to expand quality child care or early education programming for low-income families. Recoverable grants, which typically range in size from \$10,000 – \$100,000 can be used to support pre-development costs, such as an option on a site, architectural drawings, environmental and engineering review, legal and project management fees.

## Loans

- Eligible Borrowers: Nonprofit and for-profit early childhood program operators; community development corporations and other mission-driven development organizations providing space for early childhood centers. Priority to projects in LISC sites.
- Interest Rate: 5-8%
- Product Term:
  - Predevelopment: 2 years
  - Acquisition: 3 years
  - Construction: 3 years
  - Mini-Perm: 7 years
  - Permanent: 20 years
- Loan Fees: Up to 1.5% of loan amount plus legal fees

# Resources

# Online Workshops

**LISC**  
Rhode Island

[Online Workshops for Child Care Service Providers](#) [Transcript](#) [Log In](#)


## Welcome to our Online Workshops!

These sessions are intended to give you a new and engaging way to access information and learn more about the physical environment of child care spaces at your own convenience. These self-guided, interactive workshops have been developed for child care center directors, owners, education coordinators, facility managers, school leaders, architects, landscape designers, and individuals working to support centers and schools in their continuous quality improvement efforts. We hope you enjoy learning more about the importance of space! Thank you.

### Tutorial Training


For more information about our workshops and how to navigate them, please enroll in this brief tutorial.

[CLICK HERE TO BEGIN](#)




**Child Care Center Playground Safety**

[Learn More](#)



**Development & Financing**

[Learn More](#)

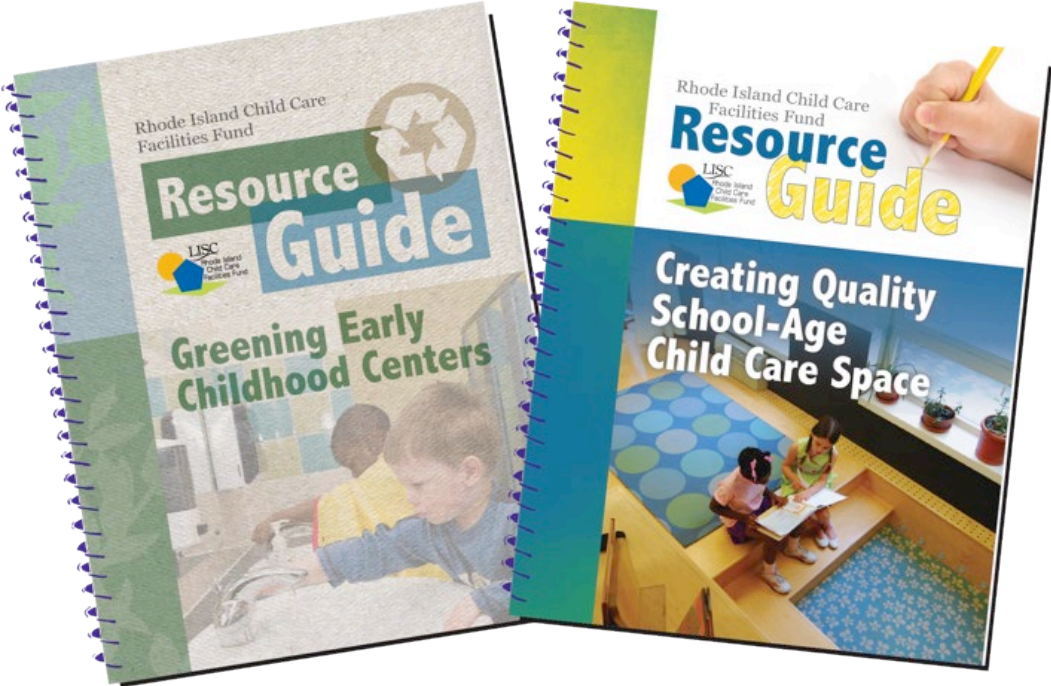


**Creating Quality School-Age Child Care Space**

[Learn More](#)

<http://training.rilisc.org>

# Nationally Published Resource Guides

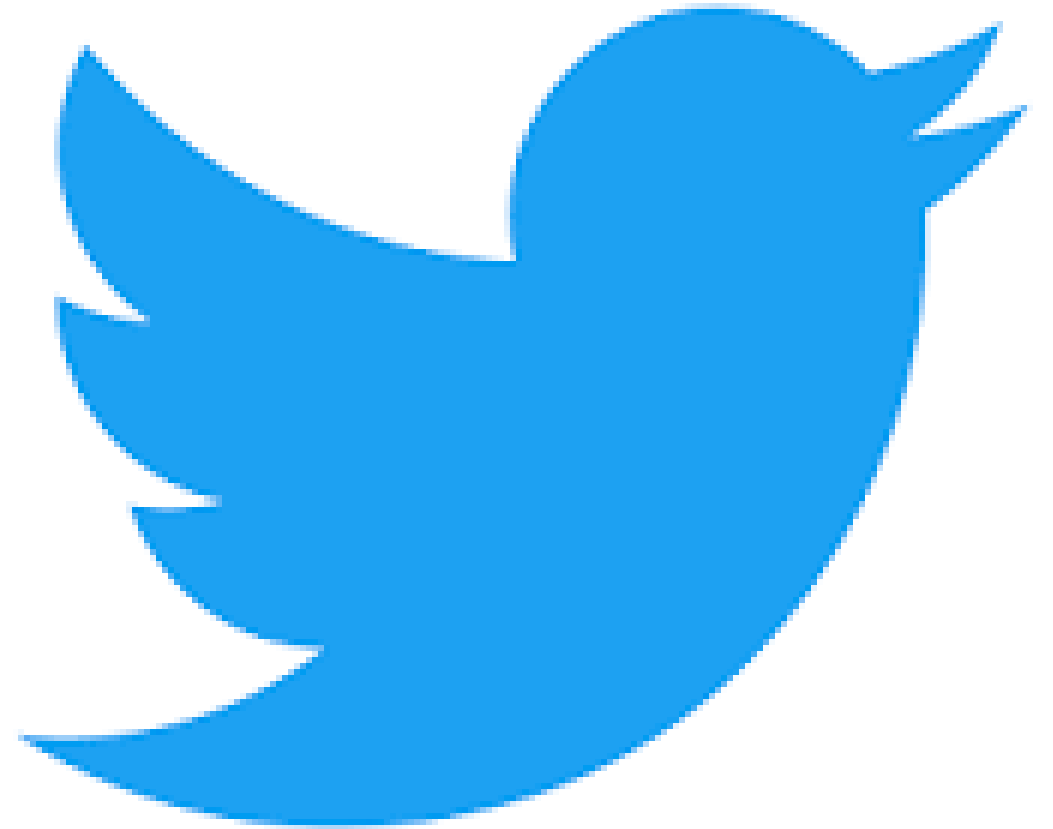






## Follow Us on Twitter

Did you know that your favorite Child Care and Early Learning Facilities Fund is on Twitter? Follow us and feel free to tweet at us **@LISC\_Childcare**





Questions?  
Comments?



LSC