

Date: November 30, 2012

To: Councilmember Sally Clark
Councilmember Tom Rasumussin
Councilmember Richard Conlin
Councilmember Jean Godden

CC: David Yeaworth, Legislative Assistant to Councilmember Clark

From: Wayne Lau, Executive Director

Re: Program Report for Rainier Valley Community Development Fund YTD 2012

Strategic Plan Overview

The CDF is meeting its goals and objectives in our Strategic Plan for 2012. The CDF has put out over \$23 Million in business and real estate loans, all of which have had a positive impact on our community. We have two more business loans which have been approved (one funded partially with CDBG funds) which will be closed before year-end 2012.

The CDF has continued to implement and strengthen our accounting, internal procedures and delivery systems. This is addressed concerns as to transparency and accountability. This critical step is necessary to provide accurate and consistent management reports and loan accounting statements to borrowers.

Deployment of remaining CDBG Allocation

During 3rd Quarter 2012, we funded another \$2,675,000 in a CDBG eligible project. The CDF is confident of meeting our goal to disburse the remainder of approximately \$8.2 Million of CDBG monies allocated to our community, by sometime in the 3rd Quarter 2013.

We are doing underwriting and due diligence on two loans which anticipate CDBG of \$6 Million by end of 2nd Quarter 2013. Thus, we will have used up all of our allocation of CDBG funds through 2012, with another \$2 Million allocated for 2013. Although we have 3 years to deploy this allocation, we intend to fund the remaining allocation by 3rd Quarter 2013, as stated above.

Through our outreach efforts and publicizing the loan programs we have available, our business loan prospects pipeline has been very active. In the anticipated approval and closing of five business loans, we will utilize the remainder of our CDBG allocation. At least three of these business loan prospects will

be relocation to the Valley, thereby bringing new jobs and services to the community. The other two will expand their existing business through upgrade of equipment and their premises.

2013 Work plan

We have submitted a proposed 2013 Work plan for the RVCDF.

Our focus and drive will be to continue our outreach efforts in order to deploy not only the balance of our CDBG allocation, but also to deploy the \$6 Million of revolve funds.

As we anticipate the deployment of all of the \$50 Million of CDBG, we are planning major community and media events which will highlight and celebrate the accomplishments of the Fund. Perhaps the CDF had not effectively broadcast our accomplishments and the resultant positive economic impact over the past years; we intend to remedy this in 2013.

The other major program for us in 2013 will be leading the Community Cornerstones Neighborhood Equitable Transit Commercial Stabilization portion of the HUD Challenge Grant program. The RVCDF Board has reviewed and approved the contract with the City to fund a Business Case Manager. During the summer, the Steering Committee conducted interviews and we have selected a candidate; a job offer has been made, and this person will start in January, 2013. The Business Case Manager will be facilitating business technical assistance along the corridor from Graham to Othello, and working with other collaborator organizations and providers to deliver these services.

Short and Long Term Sustainability

One of the first tasks when I joined the organization was to develop a five year plan for years 2012 – 2016. WE have made projections for deployment of CDBG and revolve funds, return of capital (loan repayments), and operating budget. The plan will be updated at the end of 2012, but the basic template and assumptions have not substantially changed.

The projections show that if we meet our objectives for deploying the balance of the CDBG monies by end of 2013, we can create a loan portfolio and investment income which will more than meet our operating expenses.

Additionally, we currently have over \$6 Million in revolve funds. The CDF has considerably more latitude as far as types of projects and businesses which are funded by Revolve funds. This will be a crucial source of capital for our community. This organization has advantages of 1) market knowledge and network in this community 2) more timely response to funding requests, and 3) ability to work with business if they encounter stresses and challenges to their profitability and repayment ability.

We are assuming a loan portfolio with earning assets of \$20 Million, which will generate interest and fee earnings of at least \$850,000; this number will fund our operating expenses. Our total potential capital for lending and economic development could grow to over \$26 Million.

For 2013, we have allocation from the City's General Fund which will pay for most of the year; the 2013 budget has been reviewed and approved by our Board at the November 27 Board meeting. We also anticipate the funding for the Community Cornerstones HUD grant beginning in 2013 which will pay for

the salary of the additional staff member who will be doing the outreach for the business technical assistance.

Per the terms of our Trust Agreement, we can build our operating reserve by taking up to 30% of the current year's fees, loan payments and principal repayments to build a reserve. In 2012, we had loan principal repayments of \$3.2 Million. We also will have monthly loan payments of \$55,000. Together, these funds will enable us to build an operating reserve that will sustain us through the end of 2015 (2013 will be funded mostly by remaining General funds, and 2014 and 2015 from operating reserve, loan payments, and principal repayments).

Plans for balancing commercial business lending and real estate

As the CDBG funds get fully deployed in large real estate loans, the CDF will shift more to providing funding for business enterprises.

We intend to work closely with OED, the Rainier Chamber, and other groups to continue promoting the Rainier Valley as an attractive locale in which to move a business or expand a business

We already are experiencing a noticeable uptick in inquiries and interest for CDF business credit. We also are negotiating with businesses who want to purchase property here because they anticipate long-term occupancy and desire to control their occupancy costs. With our revolve fund growing from repayments on our CDBG loans, we will have ample capacity to service those needs.

Current Portfolio Performance

We have strengthened our loan servicing and accounting systems so that we can effectively monitor our loan portfolio performance. This also enables staff to decisively deal with potential loan workout situations.

We have been realistic in recognizing that certain loans made prior to 2012 have very little possibility of performing and repayment. By the end of 2012, the CDF is prepared to charge off approximately \$500,000 of business loans, which are comprised of six businesses.

We are confident of the remaining portfolio and the likelihood of satisfactory performance. In the last session to this Committee, we highlighted that ALL of our real estate loans have performed, and we have received over \$7 Million in loan repayments (loans fully paid off). This is despite the challenging economy over the past several years.

Taking into the anticipated charge-offs over the history of the lending phase of this organization, we have a loss rate of about 5%, which is well within the acceptable range of loss for this size of portfolio and the risk characteristics of our type of lending. Moving forward, it is our goal to reduce this to less than 3% of the average portfolio outstanding. This loss ratio is accomplished through stronger underwriting, strict loan documentation and collateral control, and prompt follow-up when loans show some stress in repayment.

In summary, the RVCDF is confident and poised to take a strong leadership role in the Rainier Valley for 2013. Overall, the economic indicators, particularly for the City of Seattle, appear to be favorable. There has been much attention directed at other areas of the City in terms of pending commercial

development and infrastructure investments. The CDF will work diligently to promote the Rainier Valley and keep this vibrant neighborhood at the forefront; our successful completion of the deployment of our CDBG funds, with the resultant positive economic effect will be a tremendous story we can tell.