

Western SWET Forum

Why We Cannot Get Financing and What We Can Do About It



Northern California Community Loan Fund

November 15, 2017



Our Mission

Investing in Opportunity, Together

- ❖ NCCLF promotes economic justice and alleviates poverty by increasing the financial resilience and sustainability of community-based nonprofits and enterprises.
- ❖ Through flexible financial products and sound advice, we create opportunities to make socially responsible investments that revitalize Northern California communities.



Impacts

1987 – Mid 2017



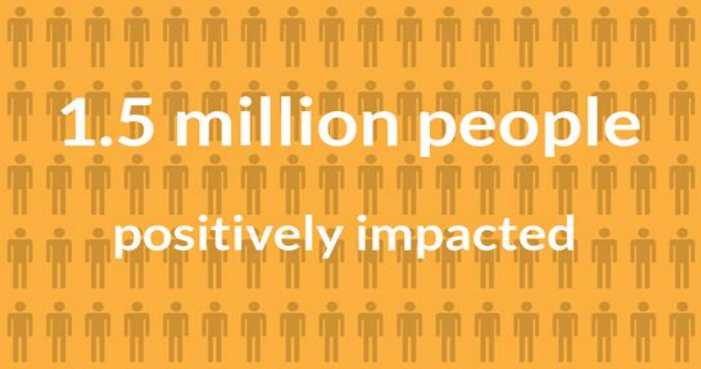
46 counties
throughout Northern & Central California

3,800



nonprofits, co-ops, & mission-driven businesses

1.5 million people
positively impacted



\$113 million in New Markets Tax Credits deployed



7,100 homes
created or maintained




22,700 jobs
created or maintained



\$312 million invested & \$1.9 billion leveraged
to benefit low-income communities



2.7 million sq ft of community facilities developed



Educational workshops
for 2,450 organizations





Impacts

2017 Results

- **Loans Closed: \$21.6M to 26 Borrowers**
- **542 housing units created/preserved**
- **122,621 SF of community facility development**
- **645 jobs created/preserved**



Our Programs

Lending
&
NMTCs

Consulting

Socially
Responsible
Investing

Policy



Loan Products

Real Estate Loans

- Pre-development
- Acquisition, Construction
- Refinance
- Term

Working Capital Loans

- Business expansion
- Inventory purchase
- Equipment

Lines of Credit

- Cash flow management
- Short-term financing

- **Up to \$3 million (more through participations)**
- **Term:** Up to 10 years
- **Amortization:** Up to 25 years
- **Lines of Credit:** 12 months (renewable)
- **Rate:** Negotiable but generally between 5.5% - 6.5%, fixed
- Secured by real estate or UCC-1

Underwriting Loans

UNDERWRITING.....!

What does “Underwriting” mean?

- Identification, Investigation, Analysis:
 - Facts
 - Conditions
 - Rules, laws, regulations
 - Financial considerations
 - Feasibility
 - Risks / Mitigants



Underwriting Loans

- **Determining Ability to Repay**

- Financing structure
- Lien position
- Borrower
- Collateral
- Credit support &/or credit enhancement
- Documentation





Financing Biomass Project Development

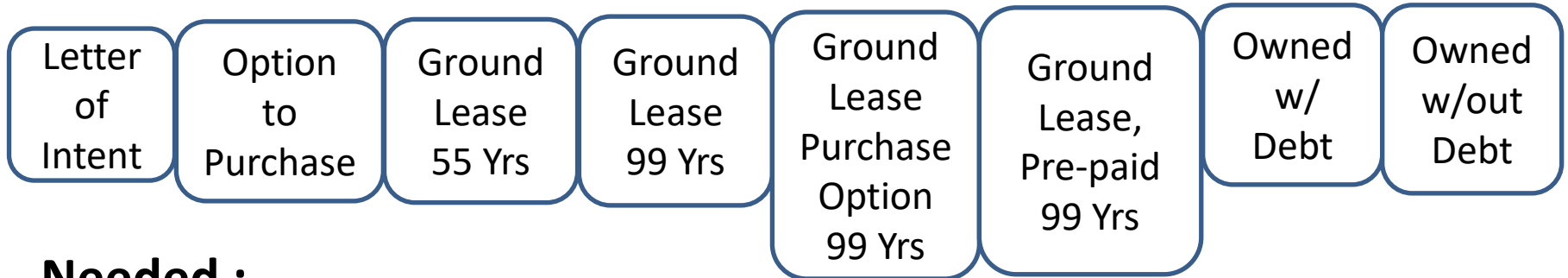
Site Control Risk

High Risk

Low Risk

Unfinanceable

Financeable



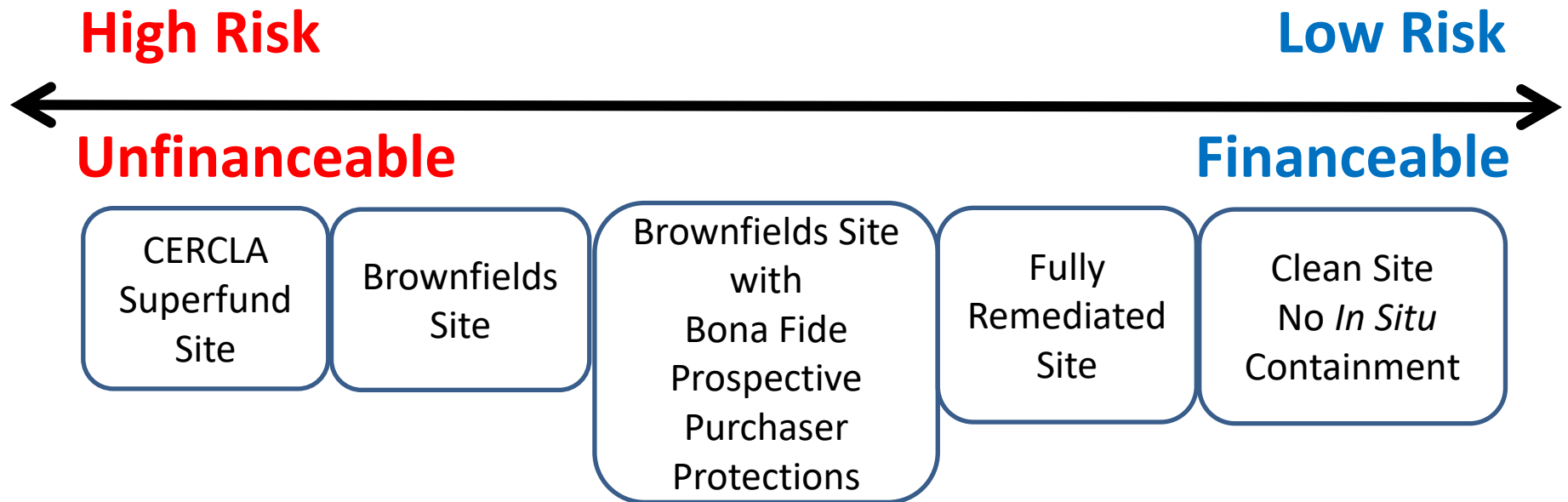
Needed :

- Early-stage Predevelopment Financing
- Patient Low-Cost Equity
- Flexible Debt/Mezzanine/Equity Structures
- Credit Support/Enhancement



Financing Biomass Project Development

Environmental Risk



Needed:

- Government Grants/Loans
- Early-stage Predevelopment Financing
- Credit Support/Enhancement



Financing Biomass Project Development

Site Entitlement/ Development Risk

High Risk

Low Risk



Unfinanceable

Financeable

No
Entitlements/
No Site Plan

Zoning/
Entitlement
Acquisition
Underway

Fully
Entitled
Site

Completed
Site Plan

Needed:

- Government Grants/Loans
- Early-stage Predevelopment Financing
- Credit Support/Enhancement

Financing Biomass Project Development

Repayment Risk

Full Recourse

Less Recourse

Cash &/or
Securities
Collateral

High-quality
Property
Collateral

Corporate
Loan
Guaranties

Government
Loan
Guaranties

Personal
Loan
Guaranties

Power
Purchase
Agreement

Needed:

- Patient Low-Cost Equity
- Flexible Debt/Mezzanine/Equity Structures
- Fixed-rate, long-term debt
- Credit Support/Enhancement

*Early stage lending needs most amount “credit support” and/or
“credit enhancement”*



Financing Biomass Project Development

Feedstock Price/Availability Risk

“De-risking the Biomass Supply Chain”*

Future Feedstock Price Variables

- Fuel for Transport Vehicles
- Labor
- USFS/Private Owner Agreements
 - Contract Length
 - Terms
- Merchantable Timber Prices
- Weather
- Wildfire Risks



Financing Biomass Project Development

Feedstock Price/Availability Risk

- **NEEDED:**
 - Risk transfer or mitigation mechanisms to reduce feedstock price/availability uncertainty
- **HOW:**
 - Derivatives/hedge products
 - Insurance
- **ANALOGOUS TO:**
 - Weather Insurance
 - Catastrophe Reinsurance/Bonds



Financing Biomass Project Development

Feedstock Price/Availability Risk

What is a “Derivative”?

- Category of securities—many types/ applications
- Contract between 2 or more “counterparties”
 - Stock options—Puts and Calls
 - Commodities Futures – Crops, Pork Bellies, Cattle, Oil
 - Interest Rate Swaps

Financing Biomass Project Development

Needed for Financing Biomass Projects

- Government Grants/Loans
- Early-stage Predevelopment Financing
- Flexible Debt/Mezzanine/Equity Structures
- Patient Low-Cost Equity
- Fixed-rate, Long-term Debt
- Investment Tax Credits
- Credit Support/Enhancement
- Risk Mitigation Mechanisms for Feedstock Price and Availability



Financing Biomass Project Development

Early-stage Predevelopment Financing

Status: Very Difficult to Find

- **WHY?**
 - Difficult to underwrite
 - Very high risk to lender
 - Little or no collateral
 - Few or no sources of repayment





Financing Biomass Project Development

Patient Low-Cost Equity

Status: Difficult to Find

- **WHY?**
 - High risk of achieving acceptable return
 - Long delay in payback
 - Credit support requirement

Financing Biomass Project Development

Flexible Debt/Mezzanine/Equity Structures

Status: Difficult to Create

- **WHY?**
 - Complicated structure
 - Requires borrower sophistication
 - Requires risk-tolerant investors seeking high returns



Financing Biomass Project Development

Fixed-rate, Long-term Debt

Status: Difficult to Find

- **WHY?**
 - Difficult to underwrite
 - Specialized collateral
 - Multiple sources of repayment unclear





Financing Biomass Project Development

Investment Tax Credits

Status: NMTCs available, for now

- Advantages
 - Debt that converts to equity after 7 years
- Disadvantages
 - Complicated,
 - Expensive



Financing Biomass Project Development

Credit Support/Enhancement

Status: Difficult to Find and Use

- **WHY?**
 - Program requirements inflexible
 - Difficult for loans to qualify
 - Additional fees





Financing Biomass Project Development

Feedstock Price/Supply Risk Mitigation

Status: Does not yet exist

- **WHY?**
 - New derivative/insurance concept
 - Requires attention from specialized hedge funds/reinsurance companies



Financing Biomass Project Development

How to Increase Pace of Biomass Financing?

Who Can Do More?

- CDFIs
- Impact Investors
- Crowdfunding

**Needed: Special-purpose financing entity
focused exclusively on biomass sector**

QUESTIONS?





Contact Information

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