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# RURAL COMMUNITY DEVELOPMENT

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**Sept. 5<sup>th</sup>**

*Hale County Business Expo*

**Sept. 9<sup>th</sup>**

SET Meeting in Tulia at Swisher Electric Coop.

**Sept 12th**

USDA Open Meeting on Equip priorities 9:30

USDA Building Plainview

**Sept 29<sup>th</sup>**

Farm Bill Meeting 8:30 till 11:00 Ollie Liner Center

**October 8<sup>th</sup>**

Dairy Expo in Palmer County

## What is the Kansas PRIDE Program?

The Kansas PRIDE program is a volunteer, grassroots effort to improve the quality of life in local communities. Each Kansas community is unique and shares a common bond: a rich heritage based on self-reliance and community pride. Since 1970, the Kansas PRIDE program has assisted and encouraged communities to prepare for the future by building on their past and forming a vision of the future. The goal of PRIDE is to help maximize community and economic development efforts by encouraging all groups to coordinate and work collaboratively for community betterment.

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For over 40 years, the PRIDE program has grown and evolved, like our Kansas communities, to help meet their ever changing needs. The constant challenge to remain viable and provide a high quality of life can be achieved through the comprehensive PRIDE approach. PRIDE involvement can cover a wide range of activities to meet commonly identified community needs. Through participation in the community development planning process, Kansas communities have worked to involve youth in community betterment projects, retain grocery stores and cafes, develop community celebrations, implement recycling programs, establish food pantries and social services, and a myriad of other projects to improve the local quality of life.

The Kansas Department of Commerce, K-State Research and Extension, and private sector companies and associations, which operate in Kansas, partner together to make the PRIDE program successful.

To learn more about the Kansas PRIDE Program, we invite you to look through the resources and links available at this website, or contact PRIDE Staff.

All PRIDE community groups are organized with the best interests of their community in mind, and are organized to tackle projects for community betterment. Please take a moment to review the different levels of enrollment:

- *Enrollment Options - Tier 1*
- *Enrollment Options - Tier 2 (COE Application)*
- *Enrollment can be completed by visiting the "Enrollment" button on the left menu pane.*

Once a community has enrolled, it is required that the community make any local government entities aware that the community is now part of the PRIDE Program. This can be done by completing a resolution form. The resolution number section of the enrollment form can be completed at any time after enrollment by updating your enrollment information.

- *Resolution Form*

Those communities that wish to apply as a STAR community must complete a STAR self assessment form. Becoming a STAR community brings your community one step closer to a planning/assessment process that can lead to a community becoming a Community of Excellence. Communities of Excellence are PRIDE Communities that are eligible for Partners in PRIDE grants provided by Kansas PRIDE, Inc.

- *STAR Self Assessment Form*

### ***Benefits of Participating in Kansas PRIDE***

- Structure to organize and implement community development efforts.
- Technical assistance and training.
- A vision for the community's future.
- A plan to initiate goals and promote PRIDE to the public.
- Team approach to address community needs through an action plan.
- Self-assessment for better understanding of existing conditions and resources.
- Identification of regional, state, and national resources.
- Quantifiable measurements of successes.
- Evaluations on-site by community development professionals.
- Recognition of achievements. Sustainability of community improvement efforts.

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*The Kansas PRIDE Program* affords many opportunities for funding, recognition and education, as well as serves as a vehicle to connect communities with the resources that are needed for community betterment. Partners in PRIDE Grants and Get It - Do It! Grants are available exclusive to PRIDE Communities by Kansas PRIDE, Inc. Recognition comes in the form of awards presented at the local level but recognized at our annual educational event, Day of PRIDE. These opportunities can be explored in the left hand menu pane.

### **PRIDE Impact**

In 2012...community volunteers invested 94,833 hours on various PRIDE Initiatives, completing 1,178 projects. Youth were involved in 93 projects, and more than \$474,271.95 were invested in our projects through private and public funding. It truly is amazing what can be done with a small amount of money and volunteers.

- Pam Stone, Kansas Gas Service, Ex Officio of Kansas PRIDE, Inc.

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## ***Vibrant communities with a positive future***

### **Partners In PRIDE Spotlight: Iola PRIDE, Downtown Beautification Project**

The Iola Community Involvement Task Force/PRIDE (CITF/PRIDE) is proud to announce the completion of their Downtown Beautification project as of July 16<sup>th</sup>, 2014. A total of \$3,313.37 was spent on the project, but they were also awarded \$1500.00 from Kansas PRIDE through a Partners in Pride (PIP) grant. They hung 16 signs on the decorative light fixtures around their downtown square that had historical photo-graphs and facts about Iola. Then they continued the project by hanging historic sign plaques on historic buildings around the square. The information on these plaques includes the name of the original business housed there as well as the year the building was built.

Their project was a success and members of the group grew in their personal relationships as well as in their relationships with local businesses. This has since had an influence on local businesses and their desire to mind their store fronts. The historical plaques have also been a point of interest of those passing through the town, and a teaching tool for summer programs. They are very proud of this accomplishment and are very grateful to the PIP Grant Committee for helping make this all possible for the City of

Iola.

## Community of Excellence Applications Due October 15, 2014

If your community has enrolled as a STAR community, or your community has recently engaged in a strategic planning process, we encourage you to apply for Community of Excellence status. Communities of Excellence are eligible to apply for Partners in PRIDE grants. For more information, visit our website at: [kansaspride-pro-gram.ksu.edu/p.aspx?tabid=36](http://kansaspride-pro-gram.ksu.edu/p.aspx?tabid=36)

## Partners in PRIDE Grants Due August 15, 2014

If you are designated a Community of Excellence, and do not have a current PIP grant that you have yet to close, you are likely eligible for applying for a PIP grant! Visit <http://kansasprideprogram.ksu.edu/p.aspx?tabid=31> for PIP guidelines and application. Please email us at [PRIDE@ksu.edu](mailto:PRIDE@ksu.edu) for any questions concerning eligibility.

## Events Calendar

Check out our [Community Events Page](#) for what might be going on in your area this quarter!

**August 15, 2014—Partners in PRIDE Grant Applications are Due**

**October 15, 2014—Community of Excellence Essays are Due (contact [PRIDE@ksu.edu](mailto:PRIDE@ksu.edu) for more information)**

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## **USDA PARTNERS WITH COMMUNITY, FARMERS MARKET IN EASTERN KENTUCKY: TO FEED KIDS AND HELP FARMERS**

Posted by Katherine Belcher, USDA Rural Development, Kentucky,

Staff of the Letcher County Farmers Market and Kentucky Department of Education proudly highlight the kitchen that serves meals to children in Whitesburg as part of the USDA Summer Food Service Program. This week marks the 15th annual National Farmers Market Week and USDA is celebrating the achievements of the more than 8,700 markets across the county. In rural eastern Kentucky, over the summer, a remarkable thing happened in the small community of Whitesburg. Local, state and federal officials all worked together to create the first-ever USDA “Summer Feeding Site” for children to be held at a local farmers market in Kentucky.

The Summer Feeding Site project that was launched in Whitesburg is part of USDA’s Summer Food Service Program that provides free meals to children from low-income households. Over the summer break, many of these kids and teens are in danger of not eating properly or going hungry because they don’t have access to school meals.

Children participating in Whitesburg’s Summer Feeding Site program enjoyed healthy meals like breakfast wraps, fresh eggs and fruit smoothies that were served from a mobile

kitchen donated by the Mountain Shrine Club. Local growers provided most of the food items for the meals.

Letcher County is a persistent poverty county in the Appalachian region where residents are at higher risk for health concerns such as obesity, and approximately 60 percent of children are eligible for free or reduced price school lunches. The county is one of the areas targeted for assistance through USDA's StrikeForce for Rural Growth and Opportunity Initiative to combat the effects of rural poverty. It is also part of the Obama Administration's Promise Zone Initiative to increase Federal investments in economically distressed regions.

USDA Rural Development partnered with a variety of public and private local, state and federal agencies to help fund and start the new summer meals program in Whitesburg. In addition to providing local children with healthy meals, the program also benefitted agricultural producers in the region. The team members who helped launch this new program are working to enable more farmers markets across Kentucky to become summer feeding program sites. Visit USDA Rural Development's website to learn more about how our financial programs can help support local or regional foods projects in rural areas.

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## Critical Bank–Nonprofit Partnerships for Expanding Rural Lending

Imagine as a commercial loan officer having the ability to say “yes” to commercial loan customers and small business borrowers even if they do not fit your bank's lending guidelines. Since 1994, 33 banks have been able to say “yes” by working with Northern Initiatives, a community development financial institution (CDFI) serving northern Michigan and Wisconsin. The banks maintain relationships with business customers through deposit and cash management services while also entering into partnerships with us to help grow those same businesses. Partnerships are happening more and more in rural Michigan. The partnerships can be between a CDFI, like Northern Initiatives, and a community, regional or national bank or federal savings association that works in the CDFI's corresponding service area.

When Northern Initiatives was formed, our founders considered a community perspective raised by urban studies author Jane Jacobs. Jacobs wrote about rural areas needing connections to urban centers to acquire three critical needs that are less available in rural places: 1) access to capital, 2) access to information, and 3) access to markets. In 1992, our founders created the nonprofit organization, originating out of Northern Michigan University. The founders wanted Northern Initiatives to do the following:



- Serve rural communities to help make them vibrant and prosperous.
- Value the rural communities and the businesses served beyond “just the numbers.”
- Take innovative approaches to funding small business owners' capital needs by having the ability to tap multiple resources and combining public and private funding and grants.

- Offer business development services to our customers, ranging from marketing to manufacturing efficiencies to financial management of operations.

Owning and running a business is an enormous challenge. That challenge increases in rural settings. Rural locations often mean longer distances to large markets, isolation of entrepreneurs, and seasonality of many rural products. Rural infrastructure is substantially different from urban infrastructure. Low-density/rural areas are often the last served with utility grid improvements, including the expansion of high-speed broadband infrastructure. These are also places where two-lane highways are far more prevalent than interstate highways. These elementary aspects of business operations continue to be absent in significant areas of rural Michigan and Wisconsin.

In addition, rural families seem to be more sensitive to economic downturns. Rural incomes tend to be lower than many states' median household incomes, often as much as 20 percent lower. Income limitations can spill over to affect the equity needed to start a business, collateral to pledge toward a loan, and sometimes credit quality, such as when a family is subject to the temporary loss of a spouse's income or medical costs derived in periods without medical insurance. Finally, rural areas in Michigan and Wisconsin have been subjected to the boom and bust of extractive industries, including mining and timber production. The local economies in rural Michigan and Wisconsin need to diversify to better support business resiliency and reduce dependency on singular dominant industries.

Northern Initiatives offers an array of loan products to small businesses. We have made around 700 loans, with our current portfolio containing more than 160 loans. Loans typically range between \$25,000 and \$250,000. We have also made loans as small as \$4,000 and as large as \$1.8 million, depending on the deal. We can serve as a primary lender or work in cooperation with a community bank to make loans. That means that we can act as a customer source, a co-lender, or a subordinated lender. We price our loans at or near bank rates, depending upon collateral offered and credit risk.

## **Types of Loans**

**Microloans:** These are loans of less than \$50,000. They are often associated with new businesses and start-up loans. Terms for microloans are usually three to six years, and rates are in the range of 7.5 percent to 10 percent. Microloan borrowers can be eligible for technical assistance, which can include assistance in creating an accounting system, Web site development, e-commerce applications, and even marketing assistance. Bank of America, one of our bank partners, has contributed capital grants to support the loan-loss reserve requirements of our microloan program.

**Small business loans:** U.S. Small Business Administration (SBA) Community Advantage 7(a) Loans are loans up to \$250,000, guaranteed by the SBA. The loans can be for terms of 10 years or longer, with interest rates that are lower than microloan rates. To make a Community Advantage Loan, we need a first position on collateral that has value exceeding the loan amount and a borrower who does not currently have other guaranteed loans.

**Other small business loans:** We have the resources in the form of a loan fund to make loans that range in size from \$50,000 to \$500,000. Each loan is made through bank referral or in conjunction with a community bank. In the latter case, we can share in the collateral with a bank or take a subordinated position. Loans of this nature are often set with a note term of three to seven years, supported by a longer amortization period and a balloon payment. About 70 percent of our capital has come from federal sources, including the U.S. Department of Agriculture (USDA), the U.S. Treasury Community Development Financial Institutions Fund,

the SBA, and the U.S. Department of Health and Human Services Office of Administration for Children and Families Office of Community Services Fund.

In many instances, we receive loans as a financial intermediary that we can relend to borrowers. A recent example of this process is the USDA Intermediary Relending Program (IRP). The IRP finances business facilities and community development projects in rural areas with a population of 25,000 or less. This financing is achieved through loans made by the USDA to intermediaries like Northern Initiatives. The loans are used to establish or fund revolving loan programs to provide financial assistance to the borrowers, to be used for community development projects, establishment of new businesses or expansion of existing businesses, and saving or creation of jobs in rural areas.

The IRP is a competitive funding program through which successful applicants can borrow money for 30 years at 1 percent interest. The IRP low-interest loan is put into a fund, and this fund enables us to play the role of intermediary, making loans to rural businesses using these low-cost borrowed funds. The business loans are repaid with interest by the borrowers. Private contributors have also used our capacity as an intermediary. Our private contributors include Wells Fargo Bank, through an Equity Equivalent Investment; the Kellogg Foundation; Trinity Health Services; Mercy Investments (the Sisters of Mercy); the Basilian Fathers; the Opportunity Finance Network; and Starbucks.

**USDA Business and Industry Loans:** We have been granted the authority to make USDA Business and Industry Guaranteed Loans (B&I). A loan size for us would typically be less than \$2 million.

Historically, around 40 percent of the loans were made to start-ups, and the same percentage went to women-owned businesses. Losses in the portfolio have averaged under 4.8 percent per year since lending began in 1994. The latest recession in Michigan lasted most of the decade between 2001 and 2010. The period that bracketed the recession years of 2007–2009 brought about three of the four highest-loss years in our 18-year history. The total amount of outstanding loans is a little over \$7.2 million. Current (2012) past-due loans are at 0.36 percent, and the loan loss reserve is a shade under 8.5 percent.

Our risk rating is based on a seven-point scale, and, notably, we have no 1s, 2s, or 3s, as those are the A and B customers of banks. At our latest rating, 87 percent of our loans were risk rated 4 or 5, with another 13 percent in the criticized assets classification of 6 or 7.

## **Borrower Initiatives**

I began this article by asking commercial lenders to imagine saying “yes” to more customers. Here are three examples of customer transactions that illustrate how commercial loan officers did just that thanks to our partnerships.

Border Grill was an idea for a casual Mexican fast-food restaurant in 1997, looking for a home. Dan Torres wanted to take his franchise experience gained in the southwestern United States and apply it to his own restaurant ideas. Working with a lender at MFC First National Bank, now Wells Fargo, we provided subordinated debt financing. The loan supported the opening of Torres’s first restaurant in a location where two previous restaurants had failed. The concept was so successful that, 15 years later, the Border Grill has three locations. Range Bank and Northern Initiatives collaborated multiple times to help Torres’s business grow from a small family-owned business to a business with nearly 100 employees.

Garden Bouquet and Design’s owner, Kim Smith, distinguished her business by incorporating locally grown

products into her bouquets and featuring local artists in her shop. Smith was unable to obtain bank financing to expand her business into downtown Marquette, Mich., the largest city in our entire 51-county service area, with a population of 20,000. A community banker referred Smith to us. Smith qualified for a loan to acquire and renovate a building with retail space on the first floor and an apartment upstairs that could provide rental income. Since 2008, Smith has successfully operated in her downtown location.

Jewelry maker Beth Millner is a graduate of the Art and Design Program at Northern Michigan University. Her distinctive jewelry collection helped her attract customers at art fairs and farmers' markets. In spring 2012, River Valley Bank approached us about sharing in the financing of a building for Millner's growing business. The new retail location is helping Millner to advance her customer base and sales.

## **Referring Banks**

More than 25 banks have referred prospective loan customers to us. A strategy that goes along with a referral is that it allows the bank to retain a deposit relationship. This relationship helps the bank stay connected to a borrower who is becoming seasoned and may in the future be in the bank's portfolio.

Why do banks choose to work with us? Along with Northern Michigan University, our other founding partner was ShoreBank in Chicago. From day one, bank discipline and bank-like systems were built into our DNA. Banks appreciate working with us because we can speak their language, our systems resemble their systems, and we follow credit rating, portfolio quality, and risk rating systems that resemble their systems. Our customers are accustomed to bank practices and requirements, and are versed in pledging collateral and making personal guarantees.

## **Types of Borrower Support**

An important dimension associated with a Northern Initiatives loan is our effort to assist customers to become stronger financial managers and equip their small businesses with business resources and systems. This can take the form of QuickBooks installation, marketing assistance, Web site development, and other forms of business development services that our customers need. We employ four people who provide technical assistance, training, and consulting designed specifically to aid small business learning and development.

Continuing to make capital available to our customers is a high priority for us. One tool we use is a revolving loan fund that sustains itself through borrower repayments. To keep the revolving nature working means shorter loan terms, typically in the three- to seven-year range. Recently, working with the SBA has helped. In 2011, the SBA began guaranteeing loans up to \$250,000 to qualified CDFIs. In May 2011, we qualified to make these loans. Since we qualified, we have closed 11 approved 7(a) Community Advantage loans, and three more loans are in the works. We sold our first loans into the secondary market at the end of 2012. The sale will help replenish the revolving fund.

The Kellogg Foundation of Battle Creek, Mich., has supported us in this endeavor. The foundation made a \$2 million program-related investment to us to help fund these loans until we can bundle and sell them. In addition, Bank of America is providing a capital grant in support of the loan-loss reserve associated with the non-guaranteed portion of the loans we made.

The ability to package and sell loans will help us reach our self-sufficiency goals. It also will allow us to retain a servicing fee on the package. The loan packages to date are composed of loans that have come to us from



bank referrals.

## **Banks as Key Partners**

Banks are critical partners with Northern Initiatives in five ways. First, banks refer customers who do not fit the banks' lending guidelines. Loan officers look to us when they believe a customer meets our criteria and is a sound credit prospect. Second, banks collaborate with us on loans. More than one-third of our loans have been made in partnership with banks. Typically, these loans would involve a credit that the lender likes and has faith in, but the borrower is short on collateral, there is market uncertainty, or the business had previous-year losses. There are endless situations that can create circumstances where finalizing the deal can be helped by partnering with an alternative lender in a second position. Sharing in the risk of aiding a business to launch or grow is where a subordinate partner can help. Together, the bank and Northern Initiatives can provide the capital necessary to support a deal getting done and making small business growth possible.

Third, banks can contribute to capital. Wells Fargo Bank and Bank of America have contributed to our loan funds. Fourth, banks will soon be able to purchase our 7(a) loan packages. The loan packages will offer guaranteed loans and most likely fit the parameters of rural lending for Community Reinvestment Act consideration.

Finally, we actively participate in opportunities to learn from and work with bankers. We are an associate member of the Michigan Bankers Association, and we regularly attend the seminars of the Federal Home Loan Bank of Indianapolis. During the past year, we have been a part of the Goldman Sachs "10,000 Small Businesses" CDFI growth collaborative. This network of 21 CDFIs from across the country is a learning network for organizations that show a pattern of growth in their small business lending.

During 2013, we are bringing out a referral program specifically tailored for community banks. The program is designed to facilitate and make it convenient for rural lenders to be able to support their prospective borrowers, particularly those they are unable to directly serve.



*Dennis West, President, Northern Initiatives*  
Northern Initiatives With a loan from Northern Initiatives, Kim Smith was able to purchase and restore a building for her flower shop in Marquette, Mich.

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# GARY CROSS

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*Our focus with this newsletter is to provide an inter-communication platform in Hale County to offer educational training opportunities and education Information on rural development issues and projects affecting our community.*

*Educational programs of the Texas A&M AgriLife Extension Service are open to all people without regard to race, color, religion, sex, national origin, age, disability, genetic information or veteran status.  
The Texas A&M University System, U.S. Department of Agriculture, and the County Commissioners Courts of Texas  
Cooperating*