



CLIMBER DLC Loan Memo

Borrower:	First Southwest Community Fund	Request Date:	June 27 th , 2023
Address:	720 Main Street Alamosa, Colorado 81101	Officer:	J. Vause
Entity Type:	Nonprofit Corporation	Funding Source:	CLIMBER Funds (State and Investor)
Staff Size:	4	Loan Amount:	\$750,000
Service Area:	Rural Colorado	Loan Term:	Ten Years
		Interest Rate:	2.5%
Written Procedures:	Confirmed	Borrower Fee:	\$0

I. Description of Transaction:

Purpose:

First Southwest Community Fund (FSWCF) is requesting a \$750,000 loan from CLIMBER DLC. \$250,000 of these funds will be used to make loans and lines of credit to eligible borrowers that meet CLIMBER DLC requirements. As an exception to policy, \$500,000 of these funds will be used to repay a bridge loan from First Southwest Bank that is being provided to enable FSWCF to fund a loan to a CLIMBER eligible business applicant that was closed on June 16, 2023. See the Exception to Standards section below for full details.

These funds will be made available via tranche 2 funding when those become available. The 10-year term length and 2.5% interest rate referenced above are the anticipated terms that will be available for CLIMBER DLC as part of tranche 2. If our final terms with program investors change and impact CLIMBER DLC loan terms, the loan to FSWCF will be made at those terms.

Collateral:

CLIMBER DLC loan will be unsecured.

Exception to Standards:

FSWCF is requesting an exception to the use of funds policy for CLIMBER DLC loans. Rather than use all CLIMBER funds to make new loans to CLIMBER eligible borrowers, FSWCF is requesting that \$500,000 of CLIMBER loan be used to pay off a bridge loan being provided by First Southwest Bank. This bridge loan is being provided on approximately June 29th, 2023 to enable FSWCF to fund a CLIMBER-eligible loan to a CLIMBER-eligible borrower that was closed on June 16th, 2023. FSWCF staff approved and closed that loan with the mistaken understanding that they still had access to CLIMBER funds. This is not the case as the organization has either fully deployed or returned all funds from their first two CLIMBER DLC loans. If approved, \$500,000 in CLIMBER funds would not go directly to the borrower but would instead be used to repay the bridge loan from First Southwest Bank. FSWCF will be required to register the business loan as a CLIMBER loan once they've received the DLC capital. CHFA staff is supportive of this one-time exception to policy given the circumstances.

II. Business Background

Lender Overview:

First Southwest Community Fund (FSWCF) was created in 2015 by First Southwest Bank to provide risk mitigating gap funding. FSWCF is a nonprofit corporation headquartered in Alamosa but serving rural Colorado in its entirety. FSWCF has a primary mission of supporting tangible economic opportunities throughout rural Colorado by making much needed non-traditional loans available to emerging and existing businesses, which in turn create, retain, and grow jobs. Oftentimes, it is the FSWCF loan that enables a bank to get to a 'yes' while staying within the parameters of its loan policy. By promoting economic development in distressed communities, FSWCF helps create and retain jobs while encouraging the development of critical community infrastructure.

FSWCF provides a range of programs and funding opportunities, including: 1) The Socially Disadvantaged Farmers Fund, 2) Rural Women-Led Business Fund, 3) Intermediary Relending Program, 4) Fortaleza Fund, 5) Innovative Onwards Fund, 6) Creative Arts Loan Fund, 7) Food Truck Loan Fund, 8) Construction Capital Fund, 9) San Juan Regional Loan Fund, 10) Launch Fund, & 11) New Pioneers Fund. Through these funds FSWCF supports a wide range of entities, including both start-ups, existing businesses, and nonprofit organizations.

This is FSWCF's third CLIMBER DLC request.

Management:

FSWCF is led by a competent team of professionals and overseen by an experienced 6-member Board of Directors. Azarel Madrigal serves as Executive Director and is supported by a four-member team. Sherry Waner serves as Chief Development Officer (CDO) and has served in banking for over 25 years. Sherry Waner also serves as the CDO for First Southwest Bank. Kent Kurtis serves as President on FSWCF's Board of Directors and acts as CEO of First Southwest Bank.

III. Financial Analysis

FSWCF provided audited financial statements for 2020-2022.

Revenues & Expenses/Profitability:

FSWCF's primary sources of revenue include grant revenue, contributions, and interest and fee revenue generated by their loan portfolio. Expenses include program expenses, interest expenses, salaries, and professional services. FSWCF has reported a positive change in net assets in two periods under review with a \$75K loss in 2021.

	2020	2021	2022
Grant Revenue	3,832,938	446,032	486,067
Contributions	314,239	69,124	82,916
Interest & Fees	208,928	341,120	381,036
Total Income	<u>4,356,105</u>	<u>856,276</u>	<u>950,019</u>
Interest Expense	67,133	39,289	81,743
Provision for Loan Loss	98,294	196,115	187,610
Grant Pass Through	3,548,473	182,593	97,880
Salaries & Prof. Serv.	79,848	287,810	336,550
Other	113,826	225,637	236,571
Total Expenses	<u>3,907,574</u>	<u>931,444</u>	<u>940,354</u>
Change in Net Assets	448,531	-75,168	9,665
CHFA Debt Service	18,750	18,750	18,750
Total Debt Service	18,750	18,750	18,750
DSCR	23.92	(4.01)	0.52

Liquidity/Working Capital/Leverage

FSWCF ended 2022 with \$1.2M in positive net assets. Of that, \$1.1M had donor restrictions and \$53k had no restrictions. Loan receivables represented \$11M of the organization's \$19.3M of total assets, along with \$102k in unrestricted cash accounts, \$8.1M in restricted cash accounts, and \$58k in receivables. FSWCF's has \$18.2M in liabilities, all of which are funding sources for their existing loan programs.

Portfolio Review:

FSWCF provided the required details regarding their loan portfolio for the past three years. The organization's portfolio has grown each year since 2020, increasing from \$7.3M to \$16.7M. Despite this growth the organization has seen relatively low charge offs, reporting 11 losses for \$132K in the 3-year period under review. FSWCF confirmed that the organization does have written policies in place and those policies appear to be effective in ensuring the organization does prudent lending.

First Southwest Community Fund Loan Portfolio					
Year	End of Year Portfolio Size	Number of New Loans	Dollar Amount of New Loans	Number of Charge-Offs	Dollar Amount of Charge-Offs
2020	7,316,760	109	3,197,650	4	119,912
2021	13,546,940	138	6,230,180	0	0
2022	16,688,760	50	3,141,820	7	112,946

Primary and Secondary Source of Repayment:


The primary source of repayment will be from repayments FSWCF receives from its borrowers. The secondary source of repayment would be from FSWCF's other revenue sources should the organization fail to recover 80% of its CLIMBER portfolio from its borrowers. There is no collateral securing the note to provide an additional source of repayment.

Loan Officer Recommendation

This loan request complies with CLIMBER DLC eligibility requirements and program guideline requirements. FSWCF successfully demonstrated it is an experienced lending institution and that there is a reasonable expectation that they will repay at least 80% of the loan amount.

CHFA recommends approval.

IV. Signatures

DocuSigned by:

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6/27/2023

Justin Vause, Commercial Loan Officer

Date

Oversight Board Approval

The CLIMBER Oversight Board will review FSWCF's CLIMBER DLC request during a June 2023 board meeting.