THE KRESGE FOUNDATION

Social Investment Practice Case Study



Detroit Development Fund

detroitdevelopmentfund.com



The Entrepreneurs of Color Fund addresses a key barrier to racial equity by improving access to capital in Detroit through small business loans to minority-owned businesses in the city. The EOCF provides minority entrepreneurs loans starting at \$10,000 and averaging \$75,000. Loan proceeds can be used for working capital, equipment purchases, or contract finance. Kresge's investments supported the second round of funding, which will greatly expand the capacity of the fund to serve more entrepreneurs and create hundreds of jobs. Detroit Development Fund provides wraparound services to borrowers, including business consulting, marketing and capital-raising services.

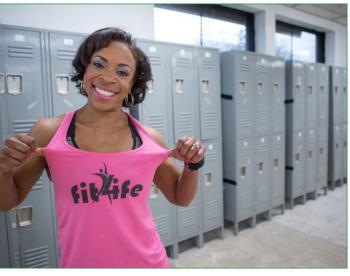


Photo: Detroit Development Fund

Why Was This Needed?

There are 50,000 minority-owned small businesses in Detroit, making it the fourth largest city for minority entrepreneurship in the country. However, these entrepreneurs often struggle will access to growth capital. The problem's root lies in the banking industry's historic discrimination practices and has become a self-fulfilling prophecy where these businesses are so starved for capital that they become financially unstable, making them difficult to lend to... and the cycle is perpetuated. This Fund stops the cycle by providing loans to business owners who would otherwise be deemed too risky to invest in.

Impacted Location



Detroit, Mich.

Year Approved

2018

Type of Transaction

Programrelated loan and guarantee Kresge Program

Detroit Program

Amount of Investment

\$1.4 million guarantee

Grant Support

n/a

Term of Investment

7 years



Photo: Detroit Development Fund

About the Borrower

Detroit Development Fund (DDF) is a Community Development Finance Institution that provides financing to small business owners, developers, building owners, contractors, and home purchasers who cannot raise the capital they need from traditional financing sources. DDF delivers its products to the people and communities in the city of Detroit with the goal of creating economic equity and a healthy environment. The organization's stated mission is "to improve the quality of life in underserved Detroit neighborhoods and for Detroit residents." DDF was established in 1996 with assistance from Shore-Bank Corporation to help revitalize an economically distressed target area in Detroit's far eastside neighborhoods. After several years of providing down payment assistance and credit counseling, the organization launched a small business loan fund in 2001 and in 2002 began managing the Detroit Community Loan Fund LLC (DCLF), a private for-profit entity in which DDF is a minority investor. Between these two funds, DDF focused on providing loans averaging \$250,000 to small businesses, contractors, and developers.

Impact Measure

Loans to 300 businesses owned by people of color or employing predominantly people of color based in Detroit.

Key Partners:

JPMorgan Chase, Liberty Bank, Fifth Third Bank, Ralph Wilson Foundation, Kellogg Foundation

Key Considerations



Aaron Seybert Social Investment Officer Social Investment Practice

- » The first Detroit Entrepreneurs of Color Fund launched in 2015, and DDF successfully lent or approved \$4.5 million in capital to more than 47 businesses, resulting in 572 new or preserved jobs and neighborhood revitalization.
- » In the first round of the fund, minority-owned businesses represented 96% of the portfolio and 49% were women
- » Most borrowers in the fund are small contracting firms working on single family and multifamily construction projects.
- » The Fund attempts to address historic barriers to capital for minority owned firms and supports the community development ecosystem by bringing additional capacity to a core Detroit CDFI.
- » The Entrepreneurs of Color initiative represents the collective action of numerous funders focusing resources on a specific group of borrowers.
- » The guarantee will provide a 20% second loss protection to Liberty Bank, while the \$600,000 loan provided second-loss protection to Fifth Third.



