

## Small Business Case Study: Sawyer and Co.

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*Exterior of renovated restaurant in East Austin.*

**Location:** Austin, Texas

**Year of Section 108 Guaranteed Loan Closing:** 2013

### Key Numbers

**\$519,000** Section 108 guaranteed loan

**\$1.3** million total project cost

**45** full-time jobs created

**3,100** square feet of prime real estate renovated

### Partners

**Eastern Diner, LLC:** Developer and restaurateur

**City of Austin:** Borrower of Section 108 loan funds

**Community Initiatives Development Corporation (CIDC):** Non-profit consultant that provided initial Section 108 program development and underwriting review for the City

**American Bank of Commerce:** Senior lender that provided construction and permanent financing

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### City of Austin's Family Business Loan Program (FBLP) Details

The City of Austin launched a loan program in 2012 using Department of Housing and Urban Development's (HUD's) Section 108 Loan Guarantee Program to provide low-cost debt and other available resources with the mission to enable existing local businesses to expand and create jobs, revitalize communities, increase the tax base, and enhance the overall quality of life for Austin residents. The program utilizes Section 108 loan funds to provide below-market interest rates and more flexible repayment terms and lower equity requirements than traditional lenders offer.

As of March 2019, the City had closed 22 loans totaling more than \$4,900,000 in Section 108 capital. Sixty eight percent of loans have been made to women- and minority-owned businesses.

- **Average loan size:** \$259,188
- **Average interest rate on loan to business/developer:** 3.71%
- **Private lender dollars leveraged:** \$14,443,641
- **Total jobs created/retained as of March 2019:** 266

### Project Description



*Interior of renovated restaurant (left). Announcement of the partnership with the City (right)*

The City of Austin leveraged \$519,000 in Section 108 loan funds from its Family Business Loan Program (FBLP) in 2014 to fill a financing gap in the redevelopment of an iconic East Austin eatery. Originally opened in 1948 under the name of Arkie's Grill, the restaurant served people from all segments of Austin's cultural life. When the restaurant closed its doors in 2012, the City's East Side, a historically Latino neighborhood, lost an important gathering place for working class workers, politicians, and professionals alike. After closing, the 3,100 square-foot building sat vacant for two years, despite its location on one of the main roads greeting visitors to Austin arriving from the airport or traveling downtown. Use of the Section 108 loan funds enabled Eastern Diner, LLC to purchase and redevelop the unoccupied building into Sawyer & Co., a vibrant, modern Cajun-style restaurant. The new restaurant, which opened in 2014, is named after Arkie's original owner, Faye "Arkie" Sawyer, and it is designed in a retro style in honor of the original eatery. The project has generated 45 jobs and has spurred the redevelopment of surrounding properties now looking to capitalize on the area's enhanced aesthetic.

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## Loan Features

The \$519,000 loan was fully amortized over a 20-year term and leveraged an additional \$635,000 in private financing. The Section 108 funds were used to partly refinance a high-cost first mortgage. This refinancing freed up additional cash flow and raised the debt coverage ratio, which allowed the developer to qualify for additional private financing to complete the project. The City has a first lien on all receivables and inventory and a second lien on all machinery and equipment, which is subordinated only to the private lender. The City also took a second lien on the developer's rental property.

## Sources & Uses

SOURCES <sup>1</sup> :		USES:	
Owner Equity	\$156,445	Building/Land	\$465,000
Private Lender Financing	635,161	Construction Hard Costs	475,605
HUD Section 108 loan	519,000	Furniture, Fixtures & Equipment	131,000
		Soft Costs/Other	239,001
<b>Total</b>	<b>\$ 1,310,606</b>	<b>Total</b>	<b>\$ 1,310,606</b>

## Community Benefit

The project met the Section 108 national objective requirements through the creation of jobs for low- and moderate-income (LMI) individuals. Since the census tract where the restaurant is located qualified as a high-poverty census tract, the 19 full-time equivalent (FTE) jobs expected to be created by the project could be automatically classified as LMI jobs under HUD's presumptive benefit criteria without requiring income documentation from those hired. As of June 2018, the project had exceeded expectations and had reported creating 45 new FTE jobs.

Additionally, the project has stimulated economic development and the creation of additional indirect jobs beyond the staff directly employed by the restaurant. The restaurant supported the revitalization of East Cesar Chavez Neighborhood, one of Austin's highest poverty neighborhoods. The project's imaginative reuse of an iconic location helped eliminate urban decay and provided job opportunities within walking distance for neighborhood residents.

## Why 108?

The Section 108 Loan Guarantee Program provided access to a low interest rate and flexible terms that were necessary for long-term viability and wealth-creation. Additionally, the loan structure offered by the Section 108 program allowed the owner to continue to control the business's real estate in addition to operating the restaurant. According to Sawyer & Co.'s owner, restaurant operators are often forced to sell a portion of their business in order to acquire real estate. By having the flexibility to pay over a longer term and leveraging Section 108 funds to secure additional private lender financing, the owner/operator could preserve the project's limited initial cash flow to secure the total financing needed to own the building and execute the restaurant project.

The City of Austin prioritized its use of the Section 108 loan pool on locally owned projects that would create jobs, particularly in LMI areas. In addition, seeking projects that would generate income to repay

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<sup>1</sup> As reported in the 2013 project application letter from Owner/Applicant.

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the Section 108 loan was a key priority. The Section 108 loan filled a financing gap in this project, allowing for renovation of an iconic East Austin eatery into a re-imagined food destination while preserving the essence of the original business's mantra: "...where friends, fair prices, and good food meet."

### Lessons Learned: Key Takeaways

- The Section 108 program has become an important tool to combat local business displacement as a result of the rising cost of commercial space. The program provides opportunities for business owners to own their properties, which insulates them from displacement due to rising lease rates.
- CIDC was key to the initial development of Austin's Section 108 loan program and ongoing underwriting support, allowing the City to scale the program to meet City-wide demand.
- Contracting with outside legal counsel is optimal, if possible, due to varied demands of a City's legal department and a business's need to close loans in a timely manner.
- Pursuit of smaller loans ranging between \$400,000 to \$600,000 as opposed to one large, all-in project has enabled the City to broaden its impact over a larger area and reduce overall repayment risk, while magnifying job-creation results.
- Cities operating a Section 108 loan pool program should understand the expertise and resources needed to manage the loans long term. It is important to decide up front how they will commit the necessary resources (whether internal or external) to service loans.

### Learn More

[Sawyer and Co.](#)

[Austin Texas Family Business Loan Program](#)

#### HUD Section 108 Eligibility:

**National Objective:** Activities benefiting LMI persons, specifically job creation or retention activities where the jobs qualify for presumptive benefit under [24 CFR 570.208\(a\)\(4\)\(v\)](#).

**Eligible Activity:** Assistance to a for-profit business for a special economic development activity under [24 CFR 570.703\(i\)\(1\)](#), pursuant to [24 CFR 570.203\(b\)](#).

**Public Benefit Standard:** Projected to meet the individual standard at [24 CFR 570.209\(b\)\(3\)\(i\)\(A\)](#) of one FTE job per \$50,000 in Section 108 assistance by creating 19 FTE jobs for \$519,000 in Section 108 funds.