How the capabilities, tactics and mission of The Progress Fund saved the Levi Deal Mansion Bed & Breakfast, preserving a key asset to a growing trail economy.

A Unique *Deal*

Summary

Community Development Financial Institutions occupy a unique position along the spectrum of organizations involved in energizing local economies. CDFIs have resources of their own and knowledge of government and philanthropic institutions, allowing them to play a capitalization role akin to that of banks. With social missions and networks in towns and neighborhoods, they also bear similarities to community development corporations.

The Progress Fund adds to that mix a toolbox of tactics that includes the Trail Town Program®, a first-in-the-nation effort to capitalize on a cycling and hiking trail to spur development. The Trail Town Program® is one of several focused initiatives of The Progress Fund, which builds the tourism economy in rural

The Progress Fund

By the staff of The Progress Fund - A Community Development Financial Institution

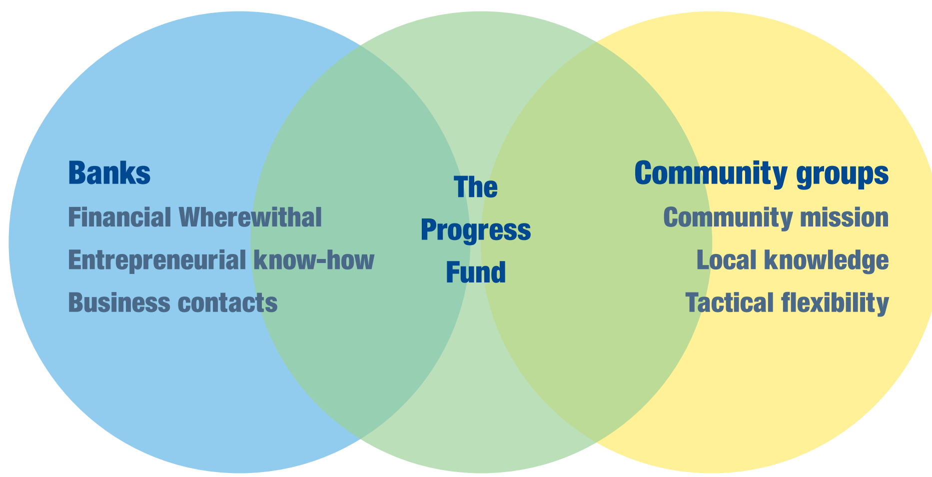
425 West Pittsburgh Street | Greensburg, Pennsylvania 15601
p: 724-216-9160 | f: 724-216-9167 | progressfund.org | dkahley@progressfund.org

and small-town Pennsylvania, West Virginia, western Maryland and eastern Ohio. The Trail Town Program's goals, plus the desire to protect a substantial investment, provided the drive to save the Levi Deal Mansion Bed & Breakfast.

The Levi Deal posed a set of challenges, risks and opportunities for The Progress Fund. The Progress Fund had loaned money to the first owners, but its debt was subordinate to that of a bank that eventually initiated foreclosure. The Progress Fund saw the bed & breakfast as an irreplaceable asset pivotal to one of its primary thrusts, the development of businesses along the Great Allegheny Passage trail. It faced the possibility of seeing the asset fall vacant or pass into another, less desirable use. It also faced the total loss of a substantial loan. On the plus side, it knew the B&B could be successful with highly focused, on-site ownership.

The Progress Fund has a distinct mission, a degree of community savvy, a nimbleness that provides tactical flexibility, meaningful financial wherewithal, on-staff entrepreneurial know-how, and a network of business contacts – a combination that few banks or community development corporations can boast. It had to draw on all of these qualities as it exerted pressure on a bank, temporarily operated the Levi Deal, and invested substantial money in a preferred new owner to save the community asset.

The Progress Fund is a vigorous non-profit loan fund that creates jobs and improves communities by providing entrepreneurial coaching and capital to small businesses in the travel & tourism industry. The Progress Fund serves 40 counties of Pennsylvania, the State of West Virginia, western Maryland, and eastern Ohio. The Progress Fund was founded in 1997. By mid-2011, it had made 361 loans totaling more than $38.7 million to 212 enterprises, creating or preserving more than 2,508 jobs.

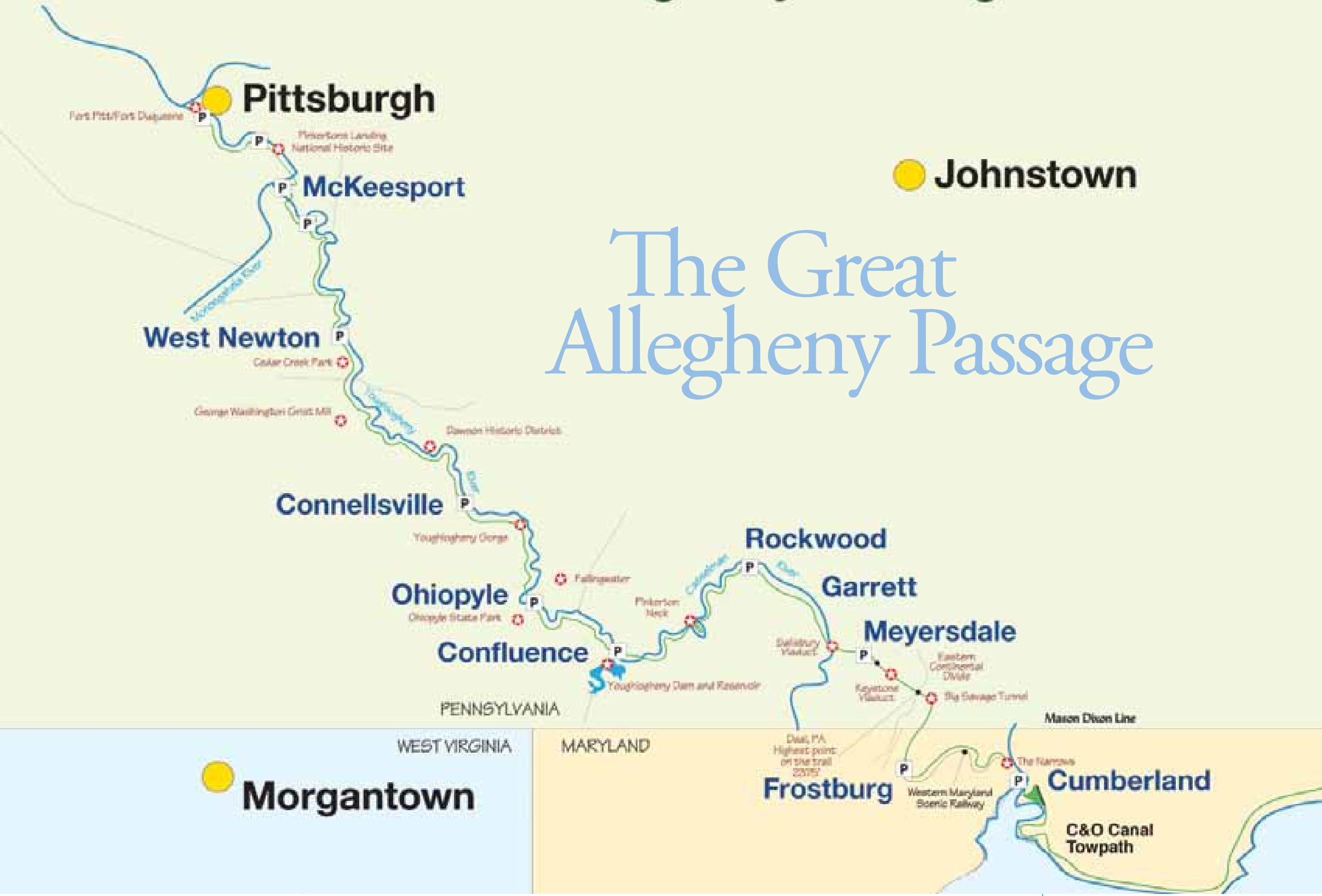


Trails to higher ground

The Progress Fund, along with the Allegheny Trail Alliance, launched the Trail Town Program® in January 2007. Both founding organizations concluded that the 135-mile Great Allegheny Passage from Pittsburgh, Pennsylvania, to Cumberland, Maryland, would be an important driver of rural tourism growth across a broad and economically fragile swath of both states. The pioneering Trail Town Program® aims to spur economic development around that long-distance hiking and cycling path.

The Progress Fund assembled the start-up capital, took the concept to towns along the Great Allegheny Passage, and staffed the Trail Town Program®. Years of data collection of the Passage, starting before the launch of the program, proves the hypothesis that trails can drive development.

The Great Allegheny Passage



Annual direct spending attributed to Great Allegheny Passage trail users

2002	**$7.26 million**
2008	**$40.8 million**

Source: 2007-08 Great Allegheny Passage Economic Impact Study, by Campos, Inc., for The Progress Fund

The estimated 800,000 trips taken annually on the Great Allegheny Passage result in $7.5 million in wages alone, according to an economic impact study conducted for The Progress Fund. From 2007 through 2010, 61 new trail-related businesses opened and 19 closed, meaning a net gain of 42 businesses. Another 12 businesses expanded operations and five changed hands during the same period.

Trails work best as economic generators when there is quality, overnight lodging. Overnight trail users spend an average of $98 a day, versus $13 a day for local day users. While just 6% of local trail users have annual household incomes of more than $100,000, a full 35% of trail users who book overnight stays have six-figure household incomes.

Bed & Breakfasts are the most preferred form of lodging for trail users.

Lodging preferences by trail users, ranked highest to lowest.

- Bed & Breakfasts
- Cabins/cottages
- Hotels
- Motels
- Resorts
- Country inns
- Primitive camping

Source: 2006 User Survey by The Progress Fund and Allegheny Trail Alliance

"If a visitor starts planning a long distance trail ride, but can't find a good place to sleep one night, the trip might end before it starts," says David A. Kahley, President & CEO of The Progress Fund.

The Levi Deal: An asset at risk

Meyersdale, Pa., known as the Maple City, is 59 miles from Connellsville, Pa., in one direction, and 32 miles from Cumberland, Md., in the other. Within a short bicycle ride along the Great Allegheny Passage are the Eastern Continental Divide, the Mason-Dixon Line, the Big Savage Tunnel, the Cumberland Narrows gap in the mountains, and several dramatic viaducts that provide outstanding views.

The century-old Levi Deal Mansion, now a bed & breakfast, is the only full-service lodging in its class in Meyersdale. Named for the timber baron who built it, the mansion is architecturally grand and well-maintained. From a business standpoint, it was nearly fully occupied during the summertime riding season, and booked solid on weekends from March into November. Despite that enviable occupancy profile, it nonetheless was financially undermined when its off-premises owners became overextended.

A bank had started foreclosure proceedings, jeopardizing the finest lodging option on a key stretch of trail. The Levi Deal was slated for sheriff's sale, which would have transferred it to the highest or first bidder. That would have also wiped out other liens, including the $115,000 owed to The Progress Fund, because that debt was subordinate to the bank's lien.

There was talk of a potential buyer whose intention was to turn the Levi Deal into a private vacation home. The Progress Fund was in touch with a different potential new owner who wanted to operate the bed & breakfast, but the debt load made the finances impossible.

There was a real possibility that The Progress Fund's $115,000 outlay, and a key hospitality business, would simultaneously evaporate. The Levi Deal could have ended up empty, or removed from the growing, trail-spurred tourism economy of Meyersdale. A key trail segment would be bereft of a preferred lodging option, removing the most economically stimulating trail users from its economy.

"It would've been the missing front tooth in the middle of the trail's welcoming smile if we had lost one of our best accommodations," says Mr. Kahley.

That it did not go that way is the result of six characteristics of The Progress Fund – traits not generally found in one package in either a bank or a community group, or even a typical CDFI.

Six characteristics of The Progress Fund that saved the Levi Deal

A bank concerned with cutting its losses planned to sell the Levi Deal to the highest, or first, bidder. The community didn't have tools or resources to change the outcome.

The Progress Fund, though, was able to buy the bank's first position lien, keep the B&B open and operating, and sell the building and provide all the financing for a new owner. This happened only because The Progress Fund features three characteristics common to banks, and three characteristics common to community groups.

#1 Mission: The Progress Fund's mission is to create jobs and improve communities by providing capital and entrepreneurial coaching – not, in itself, unusual for a CDFI or community development corporation. The Progress Fund, however, pursues that mission using an unusual toolbox of tactics, including the Trail Town Program®. That program reflects The Progress Fund's confidence that the Great Allegheny Passage has the potential to revitalize communities along its length, if the proper degree of capital and expertise is available.

Ms. Dofner and Mr. Dedolph have embraced, and been embraced by, the community, moving on site and joining local organizations.

Small, tourism-related businesses in rural towns have traditionally been marginalized by conventional banks, and have not typically had a chance to develop indigenous business expertise. The Progress Fund recognized that the foreclosure of the Levi Deal by a bank, and the elimination of an entrepreneurial opportunity from Meyersdale, would run counter to its mission.

#2 Local Knowledge: The Progress Fund, through its Trail Town Program®, had made several investments in Meyersdale. The Maple City was recognized as one of eight towns along the Great Allegheny Passage that were poised for growth and therefore targeted for investment.

Much as a community development corporation would, The Progress Fund understood the dynamics of both Meyersdale and the trail. It recognized the Levi Deal as a centerpiece of the town's economy, and a crucial amenity for higher-end trail users.

#3 Tactical flexibility: Banks, or even traditional economic development programs with set guidelines for investment, might not have the agility to use their resources to address a problem like the imminent foreclosure of the Levi Deal. Community development corporations and CDFIs tend to be more nimble, and this characteristic of The Progress Fund allowed it to hatch a bold plan.

The Progress Fund approached the bank about buying its note – an unusual move for a subordinate lien holder. Its intention: Not just to own, but to operate the bed & breakfast during the ensuing high season without any interruption.

This plan to temporarily own and manage a business would have been inconceivable for a bank, and difficult for all but the most well-staffed community development corporations. The Progress Fund would then finalize the transfer to new owners, who would take over in the more manageable off-season.

Mission, community savvy, and tactical flexibility – characteristics common to community development corporations, and shared by some CDFIs – allowed The Progress Fund to develop a plan to save the Levi Deal. It would take features more reminiscent of banks to bring the plan to fruition.

#4 Financial wherewithal: With foreclosure in process, The Progress Fund couldn't convince the bank to even engage in a conversation about the future of the Levi Deal. Then Chief Financial Officer Karen Post noted that The Progress Fund had significant deposits at that bank – deposits that could easily go elsewhere. In no uncertain terms, she pointed that out to a local bank manager, finally spurring interest in discussing the note purchase.

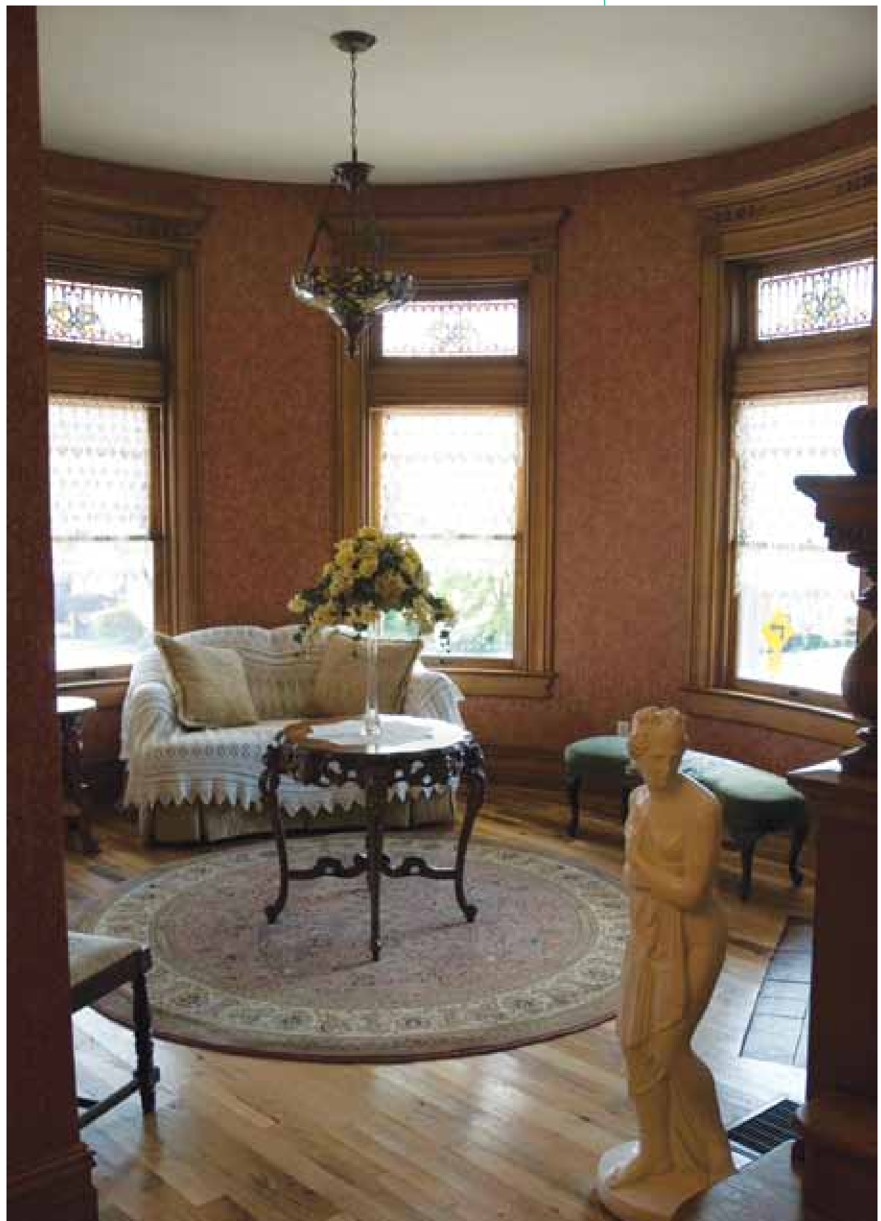
"Until we threatened to withdraw those funds, the bank would not come to the table," said Mr. Kahley.

Thus engaged, the bank sold its note to The Progress Fund for $275,000 – a discount of more than $50,000 from their earlier best offer. "Instead of accepting our losses,'" said Mr. Kahley, "we doubled down." As the lone note-holder, The Progress Fund then convinced the struggling owner to sign over the deed without foreclosure.

#5 Entrepreneurial know-how: The Progress Fund's staff, including Ms. Post, have entrepreneurial spirit. To prevent a shut-down in the bed & breakfast's business, Ms. Post stepped in to handle the books and oversee operations for six months that included the high summer season.

The Progress Fund used that time to develop a full picture of the business's revenue potential and expenses, gaining an understanding similar to, but much deeper than, a bank or venture capitalist would prior to making a loan or investment. It learned that savings could be achieved through investing in a more efficient HVAC system, among other measures. The Progress Fund also incorporated locally grown food into the Levi Deal's menu, in keeping with another tactic in its development toolbox, the Produce Grown Here program for marketing local agriculture.

Maintaining 85 percent occupancy, The Progress Fund ran the Levi Deal profitably.



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#6 Business contacts: While operating the Levi Deal, The Progress Fund used its relationships with other tourism-oriented businesses and organizations to market the bed & breakfast. Much as a sophisticated bank or venture capital fund would, The Progress Fund used keiretsu – a recognition of potential synergies between different organizations – to deepen the bed & breakfast's business network.

Meanwhile The Progress Fund worked with Janis Dofner and Michael Dedolph, a husband-and-wife team of urban professionals looking for a way to go rural and join the trail economy. The Progress Fund loaned the couple $405,151 – enough to buy the building, transform a ball room into an owners' apartment, and improve the HVAC system.

Take away any characteristic of The Progress Fund, and the deal wouldn't have been done. Without its devotion to mission and its community savvy, there would have been no recognition of the bed & breakfast's importance. Dogmatic adherence to lending guidelines, or knee-jerk resistance to owning and operating an asset, would have doomed the Levi Deal to foreclosure. The Progress Fund's resources made it possible to get the bank's attention, buy its note, and finance new owners. And on-staff business expertise allowed it to improve the bed & breakfast's bottom line during a transition period.

Successful transfer to new ownership

Ms. Dofner and Mr. Dedolph have embraced, and been embraced by, the community, moving on site and joining local organizations. They've restored the ornate railing to the wrap-around porch, and continued the trend toward sustainability with efficiency improvements and purchases of locally grown and made food.

The Progress Fund turned a potential six-figure loss into a moneymaking transaction, replacing a non-performing loan with a performing one. It achieved both its core mission and the goals of the Trail Town Program®, ensuring that an anchor of the $40 million-a-year Great Allegheny Passage economy did not close its doors for even a day.

Meyersdale retained a community fixture that has offered sanctuary to both tourists, cyclists, and family members returning home for weddings, reunions and holidays. The town's ties to the trail economy remain strong, sustaining and creating opportunity for eateries, clothing and equipment suppliers, and shuttle services. Ms. Dofner and Mr. Dedolph have added dinner service to the Levi Deal's offerings, adding a high-end evening dining option that both trail users and locals previously lacked in Meyersdale.

"It would've been a real loss for the trail and for Meyersdale if the bed & breakfast had closed," says Amy Camp, the Trail Town Program® manager. "The fact that the Deal Mansion is there, and it's easily accessible from the trail, is really important to the local economy."

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