State Small Business Credit Initiative:

Opportunities for Community Development Financial Institution Loan Funds

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Executive Summary

State Small Business Credit Initiative (SSBCI) credit support programs present an opportunity for community development financial institutions (CDFIs) to expand their lending to eligible small businesses, including to underserved small businesses and non-profits and through credit to support certain small construction projects.[2] States, territories, and Tribal governments have created programs poised to support billions of dollars in CDFI lending and are actively seeking CDFI partners. This paper summarizes how jurisdictions may partner with CDFI loan funds through their SSBCI programs and provides examples of transactions and promising models. More information about SSBCI funded capital programs can be found here: https://www.treasury.gov/ssbci/programs.

I. Introduction

Under the SSBCI Capital Program, Treasury allocated funding to states, territories, and Tribal governments to operate small business financing programs meant to expand access to capital for small businesses, with an emphasis on reaching underserved businesses. Participating jurisdictions use the funds for a variety of small business financing programs, including loan guarantee, loan participation, collateral support, and capital access (portfolio insurance) programs. Eligible borrowers include small businesses and non-profits, and eligible uses range from certain construction loans (including a unique program for small commercial real estate developers), to more conventional equipment and working capital loans.

As of June 15, 2023, 46 participating jurisdictions are implementing 78 individual SSBCI supported lending programs targeted for deployment or administration by or with CDFIs, totaling $3.4 billion or 64% of all SSBCI-supported lending programs. Most other lending programs are also open to participation by CDFIs as lenders.

ADVANTAGES FOR CDFI LOAN FUNDS

Participating in SSBCI can support a CDFI's mission of expanding economic opportunity for underserved communities and businesses, by enabling the CDFI to underwrite larger and more challenging credits while lowering the CDFI's lending risk.

Other advantages include:

- Access to reasonably priced loan capital,
- Portfolio risk management and risk-sharing,
- Increased visibility in the participating jurisdiction's community development ecosystem, and

1 Community Development Financial Institution (CDFI) certification is a designation given by the CDFI Fund to specialized organizations that provide financial services in low-income communities and to people who lack access to financing. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions like loan and venture capital funds. This document is designed to provide information relevant to CDFI loan funds. Treasury anticipates publishing information relevant to other types of CDFIs in the future. CDFI certification is not a requirement for financial institution participation in SSBCI.

2 This paper focuses on SSBCI capital programs. Treasury also administers an SSBCI Technical Assistance Grant Program. CDFIs and jurisdictions may also wish to think about ways in which CDFIs might partner with jurisdictions to support technical assistance programs.

- Availability of a wide range of flexible programs designed to suit different lending markets, financing needs, and risk tolerances with a special focus on meeting the needs of underserved communities.

WHY JURISDICTIONS WANT TO WORK WITH CDFI LOAN FUNDS

Under SSBCI, participating jurisdictions have developed strategies to expand access to capital for underserved businesses and very small businesses (VSBs), which are defined as businesses with fewer than 10 employees. This focus on underserved businesses and VSBs has led to partnerships with CDFIs because:

- CDFI loan funds have a long and distinguished history of supporting underserved communities, as well as very small businesses, and
- CDFI loan funds serve non-traditional and underserved borrowers that conventional financial institutions often have a hard time reaching.

II. CDFI Loan Fund success stories

As participating jurisdictions and their lending partners launch and grow their SSBCI programs, many early CDFI successes have emerged. These include CDFIs that were active in the prior version of SSBCI that was in place from 2010 through 2016, as well as CDFI lenders new to SSBCI. SSBCI-supported transactions can encompass a wide range of borrower types, projects, and programs. The following are just a few recent examples:

Community First Fund (Pennsylvania): restaurant expansion

A Lancaster, Pennsylvania restaurant has been a Community First Fund borrower since 2013, when the CDFI made its first loan to the start-up enterprise. Following the restaurant's successful pivot during the COVID-19 pandemic, Community First worked with the business owners to relocate from leased space and find a new location with more visibility and parking. In 2022, Community First made a $1.4 million loan supported by the PA-SSBCI Revolving Loan Fund LPP that allowed the entrepreneurs to purchase a vacant restaurant building in a downtown Lancaster Community Revitalization & Improvement Zone. Community First worked closely with the borrower and the city to provide a broad range of technical assistance. The transaction fulfilled the dreams of the owners to expand their business while contributing to the rejuvenation of Lancaster's city center.

Pennsylvania has allocated $125.8 million to the PA-SSBCI Revolving Loan Fund LPP and partnered with 27 community economic development organizations and CDFIs through loan participations. Community First CEO Daniel Betancourt had this to say about the program:

"If Community First were asked by a foundation or group of impact investors to design the best possible program for helping small businesses and building the CDFI ecosystem, we would create SSBCI."

MoFi (Montana): early childhood education center

Through the Montana SSBCI Loan Participation Program, MoFi used SSBCI dollars to co-fund, with the Bank of Bozeman, a $1.7 million expansion of an established early childhood education center by supporting the center's purchase of two new buildings. Childcare businesses often have difficulty finding traditional financing opportunities; in addition, at the bank's standard interest rate, the client was not able to cover the debt payments. Using funding from the Montana's SSBCI program, MoFi bought 50% of the project loan at a low fixed rate. The borrower received a more affordable blended rate than the bank could provide on its own, helping the business grow and helping to meet the childcare needs of the community.

"The State Small Business Credit Initiative is a perfect example of how the federal and state government, combined with local lending institutions, can come together to help small business owners in Montana and elevate the economies in their communities," said Dave Glaser, President of MoFi. "MoFi is pleased to assist in helping entrepreneurs, who may have not been able to get the financial support that they needed to pursue their business ambitions."

MoFi was an active participant in the prior version of SSBCI and since the launch of Montana's current SSBCI program in August of 2022, MoFi has partnered with banks to provide financing for a variety of small businesses across the state including:

- *Supporting an assisted living and memory care facility;*
- *Enabling the owner of a long-standing auto mechanic shop to purchase the building where he has operated for many years; and*
- *Allowing a personal trainer to purchase equipment and start her own training business.*

Partner Community Capital (West Virginia): local food enterprise

Partner Community Capital (PCAP) partnered with a West Virginia-based regional bank to provide a $500,000 loan to a third-generation family-owned, wholesale specialty meat and seafood distributor and processor of locally-raised livestock in Charleston, West Virginia, using collateral support obtained through the state's SSBCI collateral support program. The business also recently started a butcher apprenticeship program.

To date, PCAP has supported loans to businesses in the consumer services, retail, tourism, wholesale distribution, and food sectors, including equipment loans, working capital lines of credit, and loans for owner-occupied real estate purchase or construction. PCAP (formerly known as the Natural Capital Investment Fund) was also active under the prior version of SSBCI in West Virginia, where it participated in loan and technical assistance program design as well as implementation. Marten Jenkins, PCAP's President, has been encouraged by the broadening roster of bank partners, especially West Virginia-based community banks that are new to SSBCI. PCAP currently has a pipeline of SSBCI-related loan requests, nearly all with community banks from all over the state.

Propel Nonprofits (Minnesota): health education and support provider

This Twin Cities CDFI closed its first SSBCI-supported loan in April of 2023, which consisted of a working capital loan to a start-up chemical dependency health education and patient/family support practice with a sizeable contract to provide services, but in need of operating funds to stand up office infrastructure and manage through its early reimbursement cycles. Propel partnered with Minnesota's loan guarantee program, which provided an 80% loan guarantee. Kate Barr, Propel's Executive Director, confirms that "the loan would not have happened in the full amount needed by the borrower, but for the SSBCI loan guarantee program coming in to make it all work" and considers the program structure best suited for Propel based on its relative simplicity. Kate is excited about the ability to deploy support for nonprofits under the SSBCI loan guarantee program, sharing that the organization has multiple additional transactions for its nonprofit client base in the works.

REDF Impact Investing Fund (California): lending to social enterprises that provide jobs to people breaking through barriers to employment

In 2023, REDF Impact Investing Fund provided a line of credit to a Riverside, California-based nonprofit organization that offers training and employment opportunities in the California Conservation (Fire) Camps Program for justice-involved individuals interested in pursuing careers in the forestry sector. Both cofounders of the nonprofit participated in fire camps while incarcerated and created the organization so others would have a pathway to gainful employment upon release. The REDF line of credit will provide cash flow timing support for the nonprofit's operations while it awaits reimbursement from key contracts, enabling it to hire additional crews and create more jobs for people with criminal justice involvement. REDF's partner Financial Development Corporation (FDC), California Southern, provided an 80% loan guarantee through the California Infrastructure and Economic Development Bank (IBank) Small Business Loan Guarantee Program, which is the state's SSBCI supported loan guarantee program.

With REDF's focus on financing underserved entrepreneurs, credit enhancements such as the loan guarantee program are an essential tool in structuring viable transactions.

Calvert Impact: fund model implemented in several states

Calvert Impact (CI), a nonprofit intermediary of investor capital to organizations in under-resourced communities, has designed an innovative fund model in which partnerships with CDFI loan funds play a critical role. In the CI fund model, state SSBCI funds are matched by private capital, pooling funds in a special-purpose funding vehicle to purchase loan participations from CDFIs, while the originating CDFIs retain a portion of each loan and continue to service the loans.

A state-specific version of the CI model is included in four states' approved SSBCI programs: New York, Nevada, New Jersey, and Washington. To date, the states have allocated over $150 million in total to their programs based on the CI model. Two of the four states (New York and Washington) had initiated similar existing programs in response to the economic impacts of the COVID-19 pandemic, while the programs of the other two states are new.

The two states operating CI model programs that predated the current SSBCI report approximately 5,500 loans made through those existing programs as of March 2023. The precursor state CI model programs typically lend to VSBs with an average loan size of $65,000 and a high representation (over 80%) of underserved businesses. While some state CI model programs allow loans up to $250,000, all jurisdictions project a continued high proportion of capital will be used to support underserved businesses and communities, thanks to the participation of CDFIs.

Five to twelve CDFI lenders participate in each of the state CI model programs. CI identifies four key benefits to participating CDFIs: increased liquidity, risk sharing/mitigation, lower customer acquisition and marketing costs, and revenue diversification.

Citizen Potawatomi CDC: Native CDFI administering a lending program for Tribal members and other Native entrepreneurs

Citizen Potawatomi Community Development Corporation (CPCDC), a Shawnee, Oklahoma-based Native CDFI with twenty years of experience making loans to Native small business owners, will administer an $8 million loan participation program on behalf of the Tribe, Citizen Potawatomi Nation (CPN). CPCDC plans to use SSBCI LPP funds to support participations of up to 50% in business loans to CPN Tribal members and other Native entrepreneurs across Oklahoma, which it will pair with funds from private sources including loans from other Native CDFIs and financial institutions. The program allows for loans of $50,000 up to $3 million.

Small business lending is CPCDC's core activity; the organization engages in a wide range of transactions including lending to other Tribes, and it serves Native Americans statewide. It is already a seasoned participating lender through multiple models and drew on this expertise to support CPN's SSBCI application and program structure. CPCDC's CEO and Director, Cindy Logsdon, considers that SSBCI represents a real opportunity to build scale and increase the capacity of Native CDFIs, including the ability to work with smaller Tribes, to help meet the capital needs of Native entrepreneurs and communities.

III. Programs with opportunities for CDFI participation

Each participating jurisdiction elects how to allocate SSBCI funds across its own unique mix of programs to best pursue its economic development goals and fill the needs of its small businesses, communities, and partners. CDFIs play a critical part in participating jurisdictions' plans to meet these goals. Plan designs identify a variety of roles for CDFIs, including lenders, program administrators, and business advisors.

> To learn how CDFIs may participate, visit the website of your jurisdiction's SSBCI program or contact the program administrator. More information about SSBCI funded capital programs can be found here: https://www.treasury.gov/ssbci/programs.

There are four basic types of SSBCI lending programs:

Figure 1. SSBCI Loan Program Types and Features

Type of Program	How it Typically Works	Typical Uses	Typical Borrowers
Capital access program (CAP)	Provide portfolio insurance in the form of loan loss reserves to help protect lenders from losses	Working capital	VSBs, including independent contractors and sole proprietors
Loan guarantee program (LGP)	Provide repayment guarantee for a portion of a loan in the event of default in accordance with participating jurisdiction program requirements	Lines of credit, working capital, asset purchases, commercial real estate	Established businesses, start-ups with strong mitigants, or turnaround situations
Collateral support program (CSP)	Supplement collateral when borrowers do not otherwise meet loan-to-value ratio requirements	Asset purchases, commercial real estate; gap financing	Established businesses with good cash flow but a collateral shortfall
Loan participation program (LPP)	Provide debt to share lender risk, encourage senior lenders to increase loan size, and/or reduce borrower interest expense	Asset purchases, commercial real estate	Established businesses with documented cash flow or collateral shortfall

EXAMPLE PROGRAMS

Capital Access Programs

CDFIs participated extensively in CAP programs in the first SSBCI, accounting for the majority of CAP-supported loans. CDFIs in California, New York, Minnesota, and other states primarily enrolled microloans with an average balance under $20,000. Twelve states have proposed CAPs for the current iteration of SSBCI, including Texas, which has allocated more funding to a CAP program than any other state.

Loan Guarantee Programs

CDFI loan funds in ten states across the country participated in the first SSBCI's LGP programs, supporting a wide range of borrowers, from micro- and small businesses to larger community health service and manufacturing enterprises. Over fifteen states and territories have proposed LGPs for the new SSBCI which specifically target CDFIs as primary or eligible lenders. These include large programs for general lending, as well as more focused initiatives such as New York's new Contractor Financing Revolving Loan Fund and Bonding Assistance Program.

Collateral Support Programs

CDFI participation in CSP during the first SSBCI was somewhat lower than for other loan programs, and in some jurisdictions was limited to depository CDFIs due to state requirements. Those CDFI loan funds that did participate in CSPs in the first program achieved strong lending deployment, centered in Colorado, Kentucky, Ohio, and California. For the new SSBCI, twenty jurisdictions have proposed CSPs across a diverse group including states, territories, and Tribal governments. The largest single CSP is being implemented by Florida as its central lending program, with a strategy that targets active participation by CDFIs and other community-based lenders.

Loan Participation Programs

LPP programs were the most common structure employed by CDFIs during the first SSBCI, due in part to their relative operational simplicity and flexibility for lending partners, making up nearly one-half of CDFI loan disbursements by dollar amount. LPPs also lead in the number of unique programs proposed by jurisdictions under the new SSBCI, including several identifying CDFIs as key lenders to microenterprises. One such program is the Mississippi CDFI Small Business Loan Fund Program, which provides funds for loan participation purchases up to 50% through loans which it makes to individual CDFIs. Another example is Louisiana's Micro Loan Program, which aims to identify CDFIs and other mission-driven lenders established in their communities and well-positioned to serve local microentrepreneurs. Georgia is offering two distinct LPP models: the Georgia Loan Participation Program, through which it will purchase participations and offer enhanced risk mitigation for CDFI lenders; and the Georgia CDFI Program, which will fund companion loans offered by enrolled CDFIs alongside loans made by bank lenders. Yet another illustration is Montana's LPP, in which the state will use SSBCI capital to participate in loans originated by a network of approved CDFI and RLF lenders, which will subsequently receive a portion of funds as a capital grant at the end of the program. These are only a few examples of numerous other LPP programs specifically designed to partner with CDFI lenders.

Jurisdictions have also created a variety of innovative lending initiatives for specific industry sectors. For example, these two programs, both open to participation by CDFIs, seek to finance elements of the clean energy economy: New Jersey's Clean Energy Business Financing LPP targets loans to enterprises developing and marketing clean energy business technologies, while Illinois's Climate Bank Finance LPP aims to foster business growth in the climate transition sector.