# USING THE SSBCI PROGRAM TO IMPROVE ACCESS TO CAPITAL IN UNDERSERVED COMMUNITIES

October 2014

SSBCI

# *Acknowledgements*

Through 2013, states report that SSBCI funds supported more than 3,500 new small business loans or investments of $1.5 billion in low- or moderate-income tracts. These loans or investments were 42 percent of the total number and 37 percent of the total amount of SSBCI-supported loans or investments. While these data are encouraging, Treasury sought a deeper understanding of how states use SSBCI funds to expand access to capital for underserved communities.

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# Table of Contents

# Using the SSBCI Program to Improve Access to Capital in Underserved Communities

## Purpose of the Report

As states implemented the State Small Business Credit Initiative (SSBCI) program, they developed a variety of strategies and approaches to increase the program's impact in underserved communities. To learn more about these strategies and approaches, the Department of the Treasury's SSBCI staff facilitated the creation of a working group focused on SSBCI in underserved markets.[1] This report summarizes the observations of the working group as to both common and unique approaches taken by state SSBCI programs in addressing their underserved markets. It also includes a series of case studies with examples of program features that have increased deployment of funds to those markets.

## Background on SSBCI in Underserved Communities

As part of its SSBCI application, each state detailed its plan for expanding access to credit to small businesses in four areas: (1) in low- and moderate-income communities, (2) in minority communities, (3) in other underserved communities, and (4) to women- and minority-owned small businesses. This requirement was intended to address capital access issues that often faced by business owners from or in underserved communities. For example, a recent issue brief released by the SBA Office of Advocacy documented that:

- Controlling for variables such as business credit scores, personal wealth, and revenues, minority small business owners, particularly African-American and Hispanic, are disproportionately denied credit;
- Minority small business owners are nearly twice as likely to feel discouraged from applying for credit when compared to non-minority owners and are denied credit at approximately 2½ times the rate of non-minority owners;
- Women are half as likely as men to start or acquire a small business with a business loan from a bank; and

[1] The states that are the subjects of the case studies in the appendix of this report are members of the working group and provided substantial time and assistance. Two states' SSBCI programs in particular – Georgia and Montana – provided assistance in fine tuning a set of questions pertaining to SSBCI and underserved communities and in developing a template for the case studies.

- The rate of home ownership is substantially lower among minority business owners, reducing a potential source of collateral or, through home equity, a source of relatively low-cost capital.[2]

Many states included rural areas as underserved communities, with a plan to focus on facilitating widespread geographic distribution of SSBCI capital within their states.

The SSBCI application's reference to underserved communities gave each state the latitude to identify specific underserved markets that reflect the state's priorities. This latitude is consistent with the flexibility of the SSBCI program in giving each state the opportunity to tailor their individual programs to that state's unique markets and conditions. Thus, states took a variety of approaches to expand access to credit. For example, some states built on existing state programs that focused on lending in minority, rural or low-income communities in their states. Others focused on partnering with Community Development Financial Institutions (CDFIs)[3] or local or regional economic development agencies. Several states developed marketing strategies that targeted specific underserved communities. Others developed finance programs or incorporated product features that would be particularly compelling to underserved communities, such as the smaller average loan sizes offered by capital access programs.

The attached case studies should be read in the context of two over-arching observations:

- ***<u>There is no single approach that applies in all states</u>.*** There is no one product feature, partnership, or strategy that will ensure increased access to capital in underserved communities. States define underserved communities differently, and what is effective in addressing one underserved market may not be as effective in addressing a different underserved market. States also differ in factors such as program design, demographics, business, banking, capital formation, philanthropic and small business environment. Economic and community development history, infrastructure, and strategies also vary from state to state. Additional differences among states include expertise of implementing staff members, strengths and weaknesses of regional and local economies and agencies, and stage of economic recovery. The case studies highlight approaches that have been successful in individual states and place that success in the context of that state's particular SSBCI products and environment.

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[2] U.S. Small Business Administration, Office of Advocacy. January 29, 2014. Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables, Issue Brief Number 3. Available at http://www.sba.gov/sites/default/files/Issue percent20Brief percent203 percent20Access percent20to percent20Capital.pdf. Hereinafter "Issue Brief 3."

[3] CDFIs are organizations that have the mission of serving economically distressed communities by providing credit, capital, and financial services that are often unavailable from conventional financial institutions.

- ***Programs in underserved communities are more likely to increase access to capital if the state's overall SSBCI program is successful.*** Product or program features that make a state's SSBCI program more attractive in underserved communities are most effective when a state's SSBCI programs and products are well-structured and address clear capital gaps, are easy to understand, are appropriately staffed, have access (either on staff or through consultants) to experienced lenders or investors, and are responsive to the needs of the state's lending and investing communities. While the potential to make loans that can help financial institutions meet their Community Reinvestment Act obligations may be helpful in marketing the SSBCI program, institutions still will require those loans to meet their credit and profitability standards. No one product or program feature will fix an otherwise poorly designed or executed product or program.

## Increasing Impact in Underserved Communities: Common Themes

Based on the attached case studies, some notable approaches to assist states in increasing access to capital in underserved markets are:

- ***Focus marketing on organizations active in underserved communities.*** All states interviewed emphasized the importance of having a systematic and thorough marketing outreach program to organizations that are active in supporting small businesses in underserved communities. For example, many states have African-American and Latino chambers of commerce or similar organizations that are advocates for small businesses in their communities. The number and focus of those advocacy organizations vary from state to state and locality to locality, but they are relatively easy to identify and catalogue. While it can be difficult and expensive to market directly to small businesses, intermediary groups can be effective conduits of information to local small businesses.

- ***An exclusive focus on underserved communities can give a state's SSBCI program a clear identity with borrowers and bankers.*** States can design and position their SSBCI program as one that primarily serves small businesses in underserved communities. For example, the Utah loan program's marketing materials and website state that the program targets small businesses located in low- and moderate-income neighborhoods and other underserved communities as well as women- and minority-owned businesses. Utah focuses its marketing efforts on groups and networks active in those communities. This gives the program a clear identity in the marketplace making it more likely to trigger an association with bankers between the program and borrowers from underserved communities. Such an approach, however, narrows the potential market and audience for the state's SSBCI program.

- ***Distribution and marketing networks can increase geographic dispersion.*** One of the strengths of the SSBCI program is that it allows states to build public-private partnerships. Taking advantage of this opportunity, several states marketed or distributed their SSBCI products through existing networks of development agencies, CDFIs, technical assistance providers, or similar organizations active in underserved communities. In many cases, these states were focused on making the SSBCI program easily accessible throughout the state, particularly in rural areas. In some cases, the network was pre-existing; in other cases, a new network was developed in response to the advent of the SSBCI program. For example, Network Kansas, which administered Kansas's SSBCI program, was the pre-existing hub and information broker whose mission is to connect entrepreneurs and small business owners with more than 500 business development organizations and educational institutions in Kansas. Marketing the SSBCI program throughout the state was a natural extension of Network Kansas' mission. On the other hand, West Virginia developed a new network of eight geographically dispersed organizations, primarily local or regional development agencies, through which that state distributed its SSBCI capital. Pennsylvania developed a similar distribution network of CDFIs through a Request for Qualifications (RFQ) process. The lesson from these states is that formal marketing or distribution networks can be useful tools in deploying SSBCI funds broadly but these networks are useful only to the extent their members are committed and effective. The type of entities that are effective network members varied from state to state. For example, Kansas found certified development companies to be highly effective network members; other states did not. Some states found small business development centers to be effective in reaching minority business owners; others did not. Any state that considers the use of a distribution or marketing network should inventory the strengths and weaknesses of potential network members in their state and consider financial incentives to encourage participation in the SSBCI program.[4] Distribution and marketing networks also require ongoing management and oversight, with regular communication and meetings and, particularly for distribution networks, compliance coordination.

[4] One incentive that varied among distribution networks is that some states (e.g., Montana and West Virginia) allocated their SSBCI capital to the first network members that identified and underwrote loans to qualified SSBCI borrowers, while other states (e.g., Pennsylvania) allocated capital among network members using an RFQ process. States using the former approach experienced relatively rapid deployment, while the latter approach slowed deployment but increased coverage throughout the state's underserved communities.

- ***Distribution networks can offer unique products.*** In developing their distribution networks, some states included organizations that offer products in underserved markets that many states found to be too costly to offer directly. For example, some of the CDFIs selected to participate in the Pennsylvania SSBCI program make very small loans to businesses.[5] These micro-loans carry high transaction costs relative to their size and are difficult to obtain from for-profit lenders.

- ***Linkages to formal technical assistance programs can reach borrowers in underserved communities.*** West Virginia, received funding from a foundation to provide SSBCI loan applicants, through third-party contractors, technical or operating assistance to help businesses apply for SSBCI funds or to improve their company's performance. Technical assistance is especially important to businesses in underserved communities that do not have a strong small business support network as well as to small business owners who are not experienced entrepreneurs.

- ***Choice of program administrator can increase program accessibility in underserved communities.*** States could designate a contracting entity to administer one or more SSBCI programs. Some states chose to have at least one program administered by a CDFI or other organization with an established history of successfully underwriting loans and providing capital in underserved communities.[6] By contracting with an organization already offering multiple programs in those communities, the marketing of the SSBCI program can piggyback on the organization's other efforts and thus be more consistent and sustainable over time. For example, the State of Washington chose to apportion part of its allocation to a direct lending program administered by Craft3. Craft3 is a non-profit CDFI that was founded in 1995 with the mission to strengthen economic, ecological, and family resilience in Pacific Northwest communities. It has a history of working in

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[5] The demand for smaller loans in underserved communities can be explained in part by the disparity in median household wealth. According to Issue Brief 3, the median net worth of African-American households in 2009 was 5% of the median net worth of white households, and Hispanic households were 6% of the white household median.

[6] States often face the administrative decision of whether to work with a single partner or network of partners in marketing and deploying SSBCI capital. A network of partners can provide broader and deeper geographic coverage, more product variety, and the potential to work directly with organizations based in underserved communities. On the other hand, networks can be difficult and expensive to maintain, and partners may be of varying strengths and weaknesses. Working with a single partner can be more cost effective and produce more consistent quality of work, but may, depending on the organization, lead to less depth and breadth of coverage. State should base their decision on whether to work with a single partner or network on the strengths and weakness of their state's existing organizations, resources, and development infrastructure.

underserved communities, with a diverse lending staff and substantial historical loan volume to minority, women, immigrant, veteran, rural enterprises as well as businesses in high poverty areas. The SSBCI program administered by Craft3 achieved both rapid deployment and substantial impact in underserved communities, including several loans in rural communities and to Native American-controlled enterprises. This structure also has the added benefit of potentially leveraging SSBCI capital at the fund (i.e., Craft3) level as well as the individual transaction level.

- ***Some programs contractually require outputs or establish goals with respect to underserved communities.*** Some states require contracting entities to achieve certain outputs in underserved communities. For example, equity investments by New York's SSBCI program are made through seven investment funds that were competitively selected. The limited partnership agreement with each of the seven selected funds requires that, by the end of the investment period, each fund must invest at least 12 percent of its allocation in beneficiary companies that at the time of the investment are either located in low- or moderate-income communities or employ individuals who reside in those communities. Instead of a contractual requirement, some states establish clear goals in their contracts with administering entities. For example, Craft3 has a best efforts obligation with the State of Washington to widely disperse SSBCI funds between the state's eastern and western regions, with at least 20 percent to minority- or women-owned enterprises.

- ***Industry focus can increase participation of minority- and women-owned businesses.*** Some states have increased their volume of lending in underserved communities by focusing at least part of their SSBCI program on an industry or market segment that has a relatively high percentage of rural or minority- or women-owned businesses. For example, Florida chose to focus one of its programs on its export industry, which includes a relatively high percentage of Hispanic-owned businesses. One of New York's SSBCI programs partially guarantees surety bonds for state and local government contractors, an industry that includes substantial and growing representation from both minority- and women-owned businesses. An industry-focused strategy, however, comes with an important caveat – such a focus means the number of potential borrowers will by definition be smaller than if the SSBCI program focuses on small business borrowers generally. An industry-focused strategy will be successful only if it defines a market that is large enough for SSBCI capital to be deployed on a timely basis and if the SSBCI product is designed to address specific capital gaps in that industry.

- ***Product features can help reach minority and women-owned businesses.*** Some states have developed product or program features that potentially increase their usage in underserved communities. Several states emphasized the importance of having no or low minimum loan amounts in their SSBCI programs, with minority- and women-owned or rural businesses frequently requesting smaller loan amounts. Some state programs, such as California's capital access program, have achieved substantial volume from the state's non-bank CDFI micro-lenders. Other states focused on designing programs that supported working capital loans, an attractive product for lower-wealth small business owners. Kansas has lower leveraging requirements for minority- and women-owned businesses. Other states emphasized the importance of flexibility in applying underwriting guidelines to loans in underserved communities, e.g., the ability to waive requirements for an otherwise creditworthy loan. Finally, other product features offered by one or more states include below-market interest rates and fees, larger amounts of subordinated debt, and lower owner's equity requirements.[7]

## Case Study Approach

The case studies in the Appendix illustrate the various approaches states have taken to increase access to capital in underserved communities using SSBCI. Each study focuses on the particular state SSBCI program that is most active in underserved communities, the means by which that program is delivered, the particular practices or product features that enhance access, other elements of success that the state has identified as being critical to its effectiveness, and specific SSBCI outputs in underserved communities in that state. Each state designed its SSBCI program to take advantage of their state's unique resources, environment, and opportunities. Taken together, the case studies provide a variety of tools that a state can consider using to enhance broader access to SSBCI resources.

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[7] States are mixed in whether they offer interest rate subsidies as a substantial incentive for borrowers in underserved communities. In the current low interest rate environment, a lower interest rate on smaller loans provides only marginal improvement in cash flow or in credit quality through improved debt service coverage ratios. Also, because that subsidy is relatively small, below-market rates are not as significant a driver of loan volume as when interest rates are higher. Some states, however, emphasized that subsidized interest rates can provide an important "attention-getter" when marketing the SSBCI program, particularly in rural areas.

# APPENDIX:

## State Case Studies

# Florida

## Summary

The Florida SSBCI program improves access to capital by allowing CDFIs to enroll smaller transactions in some of its programs. Florida's export guarantee program focuses on a specific market sector in which minority- and women-owned businesses are substantially represented.

## Description of the Florida Program

Florida received a $97.6 million allocation. Florida apportioned its allocation among a capital access program, a venture capital program, and the Florida Small Business Loan Support Program. The Loan Support Program includes several different products, including loan participations, loan guarantees, direct loans, SBA 504 bridge loans, and export loan guarantees. This case study focuses primarily on the loan participation and export loan guarantee programs:

- ***The Florida Loan Participation Program***. The typical loan participation ranges between 5 percent and 20 percent of the total required financing, with participations of up to 50 percent on an exception basis. Loan participations are targeted for transactions ranging from $250,000 to $5,000,000, and the maximum loan term is five years. Interest rates and fees are negotiable. The participation can be subordinated.

- ***The Florida Export Support Program***. This program typically guarantees lines of credit that are financing one or more foreign purchase orders from a Florida company. Guarantees are made up to $500,000, with larger transactions permitted in exceptional circumstances. The maximum term permitted is 12 months, and fees are negotiable.

## Program Delivery

The Florida Department of Economic Opportunity (DEO) is the state's lead agency for the SSBCI program. Enterprise Florida, Inc. (EFI) administers the venture capital, loan participation, loan guarantee, and direct loan programs. The Florida Export Finance Corporation (FEFC) administers the export guarantee program.

EFI is a not-for-profit partnership between Florida's businesses and state government and is the principal economic development organization for the State of Florida. EFI's mission is to diversify Florida's economy and create better-paying jobs for its citizens by supporting, attracting and helping to create businesses in innovative, high-growth industries. EFI's board of directors is chaired by Florida's governor and includes top business, economic development and government leaders from throughout the state. EFI originates and underwrites the loan participation program, primarily based on a review of the lead financial institution's underwriting analysis.

DEO and EFI market Florida's SSBCI programs through an established network of economic partner organizations. Network participants that were particularly effective in reaching underserved communities and minority-and women-owned businesses include the state's system of Small Business Development Centers, the Hispanic Business Initiative Fund, the Black Business Investment Fund, the state's Black Business Investment Corporations, community development corporations, the African-American Chamber of Commerce, the Rural Economic Development Forum, the National Association Women Business Owners, and the Urban League. DEO hired four consultants to act as regional marketing representatives for the state's SSBCI program, with a charge to focus on underserved communities. SSBCI information is disseminated through roundtables, one-on-one meetings, presentations, webinars, a web presence, and a quarterly newsletter.

FEFC is a not-for-profit corporation with a mandate to expand employment and income opportunities by supporting the export of goods and services from the state. FERC has been offering an export guarantee product since 1994. FEFC's board of directors includes the President of EFI, the Florida Secretary of State, the Florida Chief Financial Officer, a senior official of the U. S. Department of Commerce, and representatives of foreign and local banks. The SSBCI export guarantee program commenced March 2014.

**Aspects that Improve Capital Access in Underserved Communities**

The Florida SSBCI program has at least two notable features that improve access to capital in underserved communities:

- ***Allows Small Loans to Participate in the Program.*** Florida's loan guarantee and participation programs have a stated $250,000 minimum. EFI, however, has made exceptions for CDFIs that want to participate in the loan participation and loan guarantee programs, particularly for loans in underserved communities. This smaller loan size fits the needs of many of the state's minority-owned businesses.

- ***Targets a Specific Sector in which Minority- and Women-Owned Businesses are Substantially Represented.*** Florida recently modified its export guarantee program to allow a 90 percent guarantee rate, comparable to other government programs.

The program is positioned to be a bridge product for small and start-up companies that can potentially lead to loans made or backed by the Small Business Administrations (SBA) or Export-Import Bank or traditional bank loans. Based on data FEFC has gathered from previous applications for its export guarantee programs, much of the demand for small export guarantees comes from minority-owned businesses. Minority-owned businesses also represent a significant percentage of the Florida businesses participating in the export market.

**Outputs**

Data from the Florida SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Florida SSBCI programs have supported 61 loans or investments totaling $153.1 million.

- As of the same date, approximately 34 percent of the program's loans and investments (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).

- As of the same date, 14 of Florida's 55 transactions, or over 25 percent were made to women- or minority-owned businesses.

- Using the flexibility to make small loans, two of Florida's CDFIs have submitted nine applications to EFI for the loan participation program. These CDFIs focus on lending to African-American owned businesses. Of those nine applications, four had been approved as of December 31, 2013. These loans were either lines of credit to finance accounts receivable or working capital associated with construction contracts.

- In developing a modified export guarantee program that would provide up to a 90 percent guarantee, Florida reviewed eighteen businesses that were eligible to participate in the program and would qualify for SSBCI financing. Of those eighteen businesses, 33 percent were Hispanic-owned and 33 percent were women-owned. This validated Florida's assumption that the revised export guarantee program will increase its volume of lending to minority- and women-owned businesses.

# Georgia

## Summary

The Georgia SSBCI program improves access to capital in underserved communities through a network of experienced CDFI lenders.

## Description of the Georgia Program

Georgia received a $47.8 million allocation. Georgia apportioned its allocation among CDFIs, a loan participation program, a loan guarantee program, and a capital access program. This case study focuses primarily on the funding for CDFIs:

- ***The Georgia Funding for CDFIs Program***. The Georgia Department of Community Affairs (DCA) entered into a performance-based contract (in the form of a Program Participation Agreement) with CDFIs in the state. Those CDFIs market the SSBCI program, recruit potential bank participants and identify potential borrowers. Non-profit CDFIs may participate as direct lenders, with the State advancing the money to the CDFI, which then makes the loan directly to the small business. Repayments of loans are retained by the CDFI and revolved into new SSBCI-eligible projects in their communities. For-profit CDFIs may participate as loan originator or servicers, with DCA making the SSBCI loan directly to a small business, repayments being remitted to the State and revolved into new SSBCI-eligible projects, and the CDFI receiving a servicing fee. Loans can be for working capital, equipment and machinery, real estate, and other eligible activities under Treasury guidelines. The CDFI's loan may be subordinated. The CDFI's interest rate will be slightly lower than a bank rate for a similar product.

## Program Delivery

The DCA is Georgia's designated lead agency for the SSBCI program. The Georgia Housing and Finance Authority (GHFA) is the contracting entity that administers the program. GHFA is part of DCA, and all of its operations are performed by DCA personnel.

At the time Georgia's SSBCI application was submitted, there were more than twenty CDFIs in Georgia. CDFIs were chosen as a primary conduit for SSBCI capital due to their history and experience in mission-based lending as well as their location in, and service to, Georgia's underserved communities. DCA and GHFA collaborated closely with the state's CDFIs to develop an SSBCI credit support program that would increase access to capital for Georgia's underserved markets. DCA also reached out to many players in the small business and lending communities, with two of the most helpful being the Georgia

Department of Banking and Finance and the Georgia Bankers Association. The Georgia Department of Banking and Finance appeared with DCA at two DCA-sponsored SSBCI seminars, enhancing the credibility of the Georgia SSBCI program, and increasing the comfort level for banks and other private lenders.

**Aspects that Improve Capital Access in Underserved Communities**

The Georgia program has at least two notable features that improve access to SSBCI capital in underserved communities:

- ***The Program Provides Strong Incentives for CDFIs to Deliver SSBCI Capital to Underserved Communities.*** A delegated lending model allows CDFIs and private lenders to make key decisions in marketing, underwriting, and processing the loans, focusing on their existing clients and local businesses. The program also gives non-profit CDFIs the ability to retain SSBCI loan payments and revolve them into future loan projects in their communities. CDFIs can also earn and retain the interest and fees on loans to cover SSBCI administrative expenses.

- ***CDFIs Provide Full Geographic Coverage.*** Through six participating CDFIs, the state's SSBCI program is able to cover the entire State of Georgia, leading to geographic dispersion of loans.

**Other Elements of Success**

In addition to the program design and delivery system described above, other factors to which Georgia attributes its success in serving underserved communities include:

- ***Delivery through Experienced Partners.*** DCA has extensive experience in administering multiple loan and small business incentive programs, an active credit review team, and a staff with experience in both private sector lending and public sector financial monitoring. Georgia CDFIs also already had substantial infrastructure in place, including history and experience in providing technical assistance and financing to woman- and minority-owned businesses and small businesses in low-income and other underserved communities.

- ***Implementation of an Expansive Marketing Program.*** DCA created unique branding and a logo for the Georgia SSBCI program, separate from, but complementary to, the DCA branding and logo. DCA also developed a dedicated website offering program details, lender application packages, related links and news articles, and announcements for upcoming Georgia SSBCI learning opportunities. DCA sponsored two SSBCI training sessions in 2012, one in north

Georgia and the other in south Georgia. Because the DCA-CDFI partnership created an extensive marketing network, there have been frequent SSBCI presentations at local economic development events (chamber meetings, bank-sponsored lunch-and-learn series, etc.) throughout the state as well as one-on-one meetings with interested lenders.

**Outputs**

Data from the Georgia SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Georgia SSBCI program had supported 155 transactions totaling $88.6 million.

- As of the same date, approximately 46 percent of the program's loans, guarantees and investments (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).

- DCA collects and analyzes data on borrowers to measure loan activity to woman- and minority-owned businesses, low-to-moderate income business owners, businesses in low-to-moderate income areas, and businesses that are creating jobs for low-to-moderate income persons.

- For the year ending December 2013, the Georgia Funding for CDFIs program had provided 42 loans totaling $16 million in SSBCI funds to underserved businesses and communities. Cumulatively, the CDFIs generated 59 loans through the SSBCI program totaling $19.1 million, leveraging $79.6 million in private capital.

- SSBCI loans have been made to small businesses in 20 of the most economically challenged counties in Georgia based on unemployment and poverty rate.

# Idaho

## Summary

The Idaho SSBCI program improves access to capital in underserved communities by offering a simple product with no minimum loan size. The product is marketed through a bank network that has a strong presence in rural areas.

## Description of the Idaho Program

Idaho received a $13.2 million allocation. Idaho used its allocation for one program:

- ***The Idaho Collateral Support Program (CSP)***. The CSP pledges cash collateral accounts with participating lending institutions to enhance loan collateral for qualified small business borrowers who would not otherwise be able to obtain financing on acceptable terms and conditions. The CSP targets a variety of small business loan types and maturities, including operating loans, credit lines, bridge loans, construction loans, and mid- and longer-term loans. Collateral deposits are established on an individual loan basis and are available to cover loan losses in the event of default by the borrower. Upon loan maturity, deposits are returned to the CSP for recycling to other qualified small business borrowers. Initially, no fees were charged to provide the collateral support; the CSP subsequently implemented a small fee when supporting longer-term loans. The mission of the program is to expand economic opportunities in the state and to create and retain jobs in the State of Idaho.

## Program Delivery

The Idaho Department of Commerce is the state's designated lead agency for the SSBCI program. The Idaho Housing and Finance Association (IHFA) is the contracting entity that administers the CSP.

Although IHFA is a quasi-state agency, it is a self-supporting corporation that must generate revenue sufficient to cover the cost of its operations. The CSP is a new program for IHFA, but the organization was able to develop the CSP using its experience financing housing projects and its relationships with lenders. Because IHFA did not have substantial experience implementing small business financing programs, it hired an experienced banker to oversee and to implement the CSP.

The CSP was initially designed in consultation with Idaho's SSBCI Advisory Council, composed of key economic development players in the state, including the president of Idaho's bankers association, the director of the state's department of finance, and representatives of financial institutions (primarily banks). From the outset, IHFA planned to hire only one person to manage the program, and thus it was imperative that the program be streamlined and not require extensive staffing. Participating lenders are responsible for their own credit underwriting decisions and originating loans. IHFA's responsibility is ensuring compliance with CSP requirements, establishing and managing collateral support accounts, and reporting to Treasury.

**Aspects that Improve Capital Access in Underserved Communities**

The Idaho program has at least two unique features that improve access to SSBCI capital in underserved communities:

- ***No Minimum Loan Size Increases Relevance to Rural Markets.*** Because the program has no minimum loan size, it can support a broader range of small business borrowers in Idaho's lower-cost rural areas, where small loans are a larger percentage of overall business loan demand. The CSP has provided collateral support for several very small loans (e.g., $7,500).

- ***Statewide Marketing Focus Improves Geographic Coverage***. The CSP's marketing focus from inception has been to ensure widespread coverage throughout the state, particularly in rural areas. The Idaho Bankers Association hosted the program roll-out meeting, with all but three member banks participating. The Association's president personally called each member bank to encourage participation. The CSP's staff person traveled to all areas of the state to meet with banks at both the senior management and loan officer levels, focusing on getting the chief decision-maker to sign off on the program. After initial meetings, the CSP focused its marketing efforts on approximately twelve banks that have been the primary drivers of program volume. Active users of the program have primarily been community banks, which have also been the most effective at reaching rural areas of the state.

**Other Elements of Success**

In addition to having no minimum loan size and the marketing focus described above, another factor to which Idaho attributes its success in serving underserved communities is:

- ***Simplicity.*** Idaho believes that the key to its success in all areas, including underserved communities, is keeping its product and procedures simple and easy for bankers to understand. The program states that it will provide an answer to an application within three business days of receiving all information requested. Idaho does not re-underwrite the transaction. IHFA reviews the applications to determine if: (1) it is an eligible business loan, (2) it is an eligible small business, and (3) the amount of collateral support requested is reasonable. At closing, the financial institution provides a certification document and deposit account information. Post-closing, the financial institution provides a loan status report, and IHFA must be informed when any borrower is sixty days or more delinquent.

**Outputs**

Data from the Idaho SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Idaho SSBCI program had supported 142 loans totaling $94.4 million.
- As of the same date, approximately 23 percent of the program's loans (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).
- IHFA reports that, as of December 31, 2013, 25 percent of its collateral deposit accounts have been in the most rural areas of the state (those with populations of 10,000 or less).

# Illinois

## Summary

The Illinois SSBCI program has capitalized on prior relationships with community and regional banks as well as community-based support organizations to improve access to capital and provide credit to underserved communities throughout the state.

## Description of the Illinois Program

The Illinois Department of Commerce and Economic Opportunity (DCEO) received a $78.4 million allocation. DCEO apportioned its allocation primarily to two primary lending programs:

- ***Loan Participation Program.*** This program is designed to enable small businesses to obtain medium to long-term financing in the form of term loans, to help them grow and expand their businesses. DCEO participation is subordinated to the lender and has a below market interest rate. DCEO has segmented its Loan Participation Program into a series of sub-programs to appeal to different lenders and borrowers.

- ***Collateral Support Program.*** This program is designed to supplement loan collateral of small businesses and entrepreneurs to enhance the equity and loan collateral levels of these potential borrowers. The program supplies pledged collateral accounts to participating lending institutions.

## Program Delivery

The Illinois Department of Commerce and Economic Opportunity (DCEO) is the state's designated lead agency for the SSBCI program. Advantage Illinois is a program run by DCEO and designed to deploy SSBCI funds.

In its legacy programs, it was common for Advantage Illinois to use CDFIs as delivery channels, and they have continued to be valuable partners in reaching the underserved market. The program was marketed using a mix of directly calling on financial institutions and attending meetings arranged by community-based support organizations, chambers of commerce, etc. Advantage Illinois managers have found that meeting with partners face-to-face where they are located continues have been the best way to promote SSBCI programs.

At present, the delivery channel for SSBCI funds is primarily through financial institutions, in particular community and small regional banks. DCEO has also enjoyed a strong relationship with Chicago Community Loan Fund (CCLF) and Rockford Local Development Corporation (RLDC), both of which are CDFIs (see more below).

**Aspects that Improve Capital Access in Underserved Communities**

The Illinois program has two notable features that improve access to SSBCI capital in underserved communities:

- ***Outreach Targets Underserved Groups*****.** Advantage Illinois defines the underserved as anyone who is an ethnic minority (i.e., not Northern European), women, disabled (loss of one major bodily capability or mental disability), or a veteran (anyone discharged (other than dishonorably) from the U.S. military). Presentations are made throughout the state, focusing on African-American, Latino, and female economic development organizations like Woman's Business Development Center. The hiring of a Spanish-speaking staffer and the translation of pamphlets into Spanish is helping in outreach to the Hispanic community.

- ***Importance of Effective Partners.*** Advantage Illinois has a strong relationship with Northern Illinois Community Development Corporation (NICDC) and RLDC, which are deeply linked to the local minority communities and have strong relationships with local banks. When NICDC and RLDC learn about transactions that banks appear hesitant to support, they often pro-actively approach the banks to try to structure the deals in ways that makes the banks feel more comfortable (such as taking a subordinate position on collateral). CCLF and Green Choice Bank are becoming more active in developing such partnerships in Chicago and have been increasingly good referral partners for Advantage Illinois.

**Other Elements of Success**

In addition to the program design and delivery channels described above, other factors to which Advantage Illinois management attributes their success in serving underserved communities include:

- ***Flexibility in Complicated Transactions.*** Advantage Illinois believes that it is important to not give up easily on good deals. The transactions done through the program are often complicated in financing structure and time-consuming to close.

- ***Political Support.*** Illinois has been consistent in its support of underserved communities, providing the political will for the program to take on complex transactions. Political leadership in the state has publicly provided support and highlighted program successes. For example, Governor Quinn referenced the success of Urban Juncture – a complex transaction in the heart of Chicago's Bronzeville neighborhood – in his 2013 State of the State address. This sort of acknowledgement raises the visibility of the program and demonstrates the commitment of the state to the program's success.

**Outputs**

Data from the Illinois SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Illinois SSBCI program had supported 132 loans or investments totaling $273.3 million.
- As of the same date, approximately 29 percent of the program's loans and investments (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).
- DCEO reports that, as of December 31, 2013, 22.6 percent (by number) and 21.9 percent (by dollar) of its SSBCI loans have been to a minority-, women-, veteran- or disabled-owned business.

## Kansas

### Summary

The Kansas SSBCI program improves access to capital in underserved communities by focusing primarily on working capital loans and developing a strong network of experienced, geographically dispersed lending partners.

### Description of the Kansas Program

Kansas received a $13.2 million allocation. Kansas apportioned its allocation between a venture capital fund and a loan program. This case study focuses primarily on the loan program:

- ***The Kansas Capital Multiplier Loan Fund***. The Loan Fund makes a direct loan to a small business in an amount of up to 9 percent of matching private capital. Matching private capital can include loans from financial institutions, certified development companies and other private lenders as well as equity invested by the entrepreneur or angel investors. A common transaction is one in which the Loan Fund makes a working capital loan in conjunction with bank financing for new equipment or facilities. The Loan Fund's minimum loan is only $25,000, and the maximum is $500,000; interest rates are between 3 percent and 5 percent, depending on loan term. The purpose of this program is to help build an entrepreneurial environment in the state by cultivating resources to start and grow small businesses.

### Program Delivery

The Kansas Department of Commerce is the state's designated lead agency for the SSBCI program. The Kansas Center for Entrepreneurship (doing business as NetWork Kansas) is the contracting entity that administers the Loan Fund and Venture Fund.

NetWork Kansas is a 501(c)(3) non-profit organization established to further entrepreneurship and small business growth. With a network of more than 500 participants (described below), NetWork Kansas is designed to provide a central portal that connects entrepreneurs and small business owners with the appropriate business development organizations and educational institutions serving that market.

Network Kansas markets its SSBCI programs through its participating organizations statewide. Loans are underwritten, closed, and serviced under contract by one of the state's

Certified Development Companies (CDCs)[8] serving the area in which the borrower is located. Loans and investments are also approved by a NetWork Kansas review board.

**Aspects that Improve Capital Access in Underserved Communities**

The Kansas program has at least three unique features that improve access to SSBCI capital in underserved communities:

- ***Breadth and Depth of Delivery System Improves Geographic Coverage.*** With more than 500 partners statewide, NetWork Kansas used its pre-existing structure to develop a marketing network for the SSBCI program that reaches all corners and communities of the state. Partners in the network include the Kansas Department of Commerce, CDCs, University Centers of Excellence, state entrepreneurial centers, the Kansas Bioscience Authority (KBA), Main Street Kansas organizations, chambers of commerce, SBA, USDA, economic development agencies, and other non-profit organizations charged with assisting for-profit businesses in Kansas. Similarly, NetWork Kansas' use of the state's CDC network to underwrite, service and close loans gives the SSBCI program a local presence throughout the state. NetWork Kansas used a number of strategies to market to and through its partners, including brochures, electronic communication, press releases, and lender roundtables. Particularly active partners receive more in-depth communications, including FAQs, sample success stories, and statistical summaries of program outputs.

- ***Product Design Supports Working Capital Loans.*** The design of the Kansas SSBCI loan product is such that it is often used to finance working capital for small businesses, typically a higher-risk loan. Yet, working capital loans are a vital part of the financing needed by growing small businesses, and are often particularly difficult to obtain by a low-wealth business owner who lacks the resources needed to capitalize fully their business. The higher risk associated with that working capital loan, however, is somewhat mitigated by the substantial matching leverage required by NetWork Kansas from other private capital sources. This structure means that NetWork Kansas is making its higher-risk loan to a business that is also being fully underwritten by traditional credit or other capital providers, such as a bank that is financing new equipment or real estate for the business as part of the same transaction.

[8] Certified development companies are non-profit corporations certified and regulated by the SBA that work with participating lenders to provide financing to small businesses. CDCs are most commonly associated with their involvement with the SBA's 504 program, but many work with other loan programs as well, including SSBCI. Kansas has ten CDCs that work in the state.

- ***Product Design Targets Specific Underserved Markets.*** NetWork Kansas has implemented some specific incentives in its SSBCI program that benefit underserved communities. Under its Minority and Women Business Multiplier program, the state's SSBCI program will provide up to 20 percent of private capital in a deal. To be eligible for the incentive, the business must be certified (or at least eligible to be certified) by the Kansas Department of Commerce as a Disadvantaged Business Enterprise, a Minority Business Enterprise or a Women Business Enterprise. This is a new incentive, and NetWork Kansas made its first award in January 2014 through this targeted program.

**Other Elements of Success**

In addition to the program design and delivery system described above, other factors to which Kansas attributes its success in serving underserved communities include:

- ***SSCBCI Program Leverages Pre-Existing Network.*** The state's SSBCI program was built on an established delivery system (NetWork Kansas) with strong ties throughout the state. The CDC network in Kansas had pre-existing experience in identifying, underwriting and closing loans to small businesses throughout the state. The Kansas SSBCI programs were based in part on two financing programs previously operated by NetWork Kansas. Thus, crucial systems and links to underserved communities did not have to be built from scratch.

- ***Partners are Experienced Lenders.*** Some of NetWork Kansas' most effective marketing partners in underserved communities have been CDCs. Most of Kansas' CDCs are active in packaging and originating small business loans. Their experience means they are effective in identifying and screening potential transactions in underserved communities. Thus, it is important that marketing partners not only have a presence in underserved communities, but also be effective in understanding and communicating the SSBCI program.

**Outputs**

Data from the Kansas SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Kansas SSBCI program had supported 46 loans or investments totaling $136.3 million.

- As of the same date, approximately 48 percent of the program's loans and investments (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).

- NetWork Kansas reports that, as of December 31, 2013, 73 percent of its SSBCI loans (by $) have been in rural counties (defined by NetWork Kansas as counties with less than 100,000 in population), and 26 percent of its venture investments have been in rural counties. Overall 59 percent of Kansas' SSBCI-supported loans and investments have been in rural counties.

- As of year-end 2013, the Kansas SSBCI loan program had experienced no delinquencies or defaults, including loans in rural and LMI communities. NetWork Kansas believes that, beyond initial deployment of capital, the ultimate measure of success of a credit support program in an underserved community is the extent to which the businesses being financed remain ongoing contributors to local job and economic growth.

# Montana

## Summary

Montana attributes its success in reaching underserved communities to leveraging existing operational models, building on long-standing, positive, and trusting relationships among state and local economic development organizations and lenders. It is providing strong incentives to originators throughout the state to identify and close high quality loans in a timely fashion.

## Description of the Montana Program

Montana received a $12.7 million allocation. Montana apportioned all of its allocation to a loan participation program:

- ***The Montana SSBCI Program***. Montana's loan participations may share collateral or be subordinate to the lead lender. The interest rates are below-market, typically in the range of 1 percent to 1.5 percent fixed, plus a servicing fee of 0.50 percent. Additionally, Montana discounts interest rates based on the number of qualifying jobs created by the borrower as a result of the supported transaction.

## Program Delivery

The Montana Governor's Office of Economic Development is the state's designated lead agency for the SSBCI program. The Montana Department of Commerce and the Montana Board of Investments (MBOI) administer the program.

MBOI administers a variety of financial assistance and investment programs. These programs are designed to stimulate economic development by assisting the private sector and local governments in financing new or expanded businesses as well as infrastructure development.

The Montana program determined that its top SSBCI priorities were fast delivery of credit support and geographic coverage, particularly to underserved rural markets. To focus on these priorities, the Montana team based its SSBCI program on a state loan participation program that has been operated by MBOI for approximately 35 years and also decided to take advantage of an established network of economic development organizations from across the state that are long-standing partners with the state in economic development activities. Montana chose three CDFIs and six non-CDFI Revolving Loan Funds (RLFs) as loan originators and servicers. These originators were given a strong incentive to deploy funds due to the state's decision to grant all SSBCI funds under management to the participating organizations in 2017 upon expiration of the federal SSBCI program. This further serves the state's objectives by having the funds revolve locally in perpetuity for worthy economic development projects and activities.

In the Montana program, the participating CDFIs and RLFs identify and underwrite loan participation opportunities with qualified lenders following MBOI-mandated credit standards. MBOI performs a compliance review before approving each transaction. Once approved by a loan review committee consisting of the state agency partners, Montana funds the purchase of a participation in the bank loan and the CDFI-RLF services the transaction. Montana does not require a standard collateral position but, in its policies, states that "collateral must have sufficient equity to support the debt and will be shared proportionately with the Lender by the CDFI-RLF." Montana's CDFI-RLF partners retain principal and interest repayments and may relend those funds.

**<u>Aspects that Improve Capital Access in Underserved Communities</u>**

The Montana program has at least two notable features that improve access to SSBCI capital in underserved communities:

- ***<u>Building on Existing Networks of Relationships to Enhance Geographic Coverage</u>.*** Building on the long-standing engagement of the state's agencies in economic development issues, agency staff met with all potential qualified CDFIs and RLFs and had one-on-one meetings with key lenders within the state. Montana's CDFI-RLF partners used their existing networks to identify transactions. In addition, prior to SSBCI, MBOI had developed strong relationships with lenders throughout the state. This level of familiarity and trust allowed Montana to bypass the lengthy sales and marketing effort that some states faced in ramping up SSBCI programs. Similarly, Montana leveraged existing staff expertise and processes to operate the program and oversee the CDFI-RLF partners. These factors all contributed to the SSBCI program achieving a marketing reach far beyond what the State could accomplish on its own.

- ***<u>Alignment of Interests with Network Members Helps Ensure Quick and Widespread Distribution</u>.*** Aligning the priorities of the state's SSBCI program with the interests of the CDFI-RLFs proved to be a key element of success. CDFI-RLFs throughout the state were motivated to identify transactions quickly because the funds were available on a first-come, first-served basis. The CDFIs-RLFs were similarly motivated to identify quality transactions because losses on SSBCI loans would equate to lost future grant income. The state's selection criteria included identifying CDFI-RLF partners that had a long-term track record of successfully lending to support community and economic development in underserved communities. This selection criterion helps ensure these local organizations will continue to recycle SSBCI funds into small business loans after the federal program expires in 2017.

**Outputs**

Data from the Montana SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Montana SSBCI program had supported 44 loans totaling $84.6 million.
- As of the same date, approximately 25 percent of the program's loans (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).
- In less than 8 months, Montana was able to commit enough of its allocation to request its third tranche of funds. Through December 31, 2013, Montana had deployed (funded and committed) 88 percent of its entire SSBCI allocation in loans to small businesses. As of December 31, 2013, borrowers reported that the transactions will create 822 jobs and retain 185 jobs that were at risk of loss. Eight of the nine participating CDFI-RLFs used the SSBCI program funds, distributing the funds throughout the state. Loans have been made to businesses in fifteen communities in twelve counties, including two to businesses located on Indian reservations.

# New York

## Summary

The New York SSBCI program improves access to capital in underserved communities by focusing its loan guarantee program on an industry where the market share of minority- and women-owned businesses is substantial and growing. The state's equity program improves access by providing capital to funds that focus on different regions within the state and by contractually requiring specific outputs by those funds in underserved communities or by hiring low- or moderate-income persons.

## Description of the New York Program

New York received a $55.4 million allocation. New York apportioned its allocation among three programs: an equity fund and capital access and bond guarantee programs. This case study focuses primarily on the bond guarantee program, although certain aspects of the equity program are also discussed:

- ***The New York State Surety Bond Assistance Program (NYSBAP)*.** NYSBAP provides credit support, training, and technical assistance to help small and Minority- or Women-owned Business Enterprises (MWBE) secure surety bonds. Contractors are eligible to receive a guarantee of up to 30 percent to secure a surety bond line, a bid bond, or a performance and payment bond on state and city projects. Applicants must be a New York State small business or MWBE with at least two years of business operations. Maximum bond line or project size is $2 million. The business must have minimum average gross revenues of $400,000 in the last two years. Maximum gross revenues cannot exceed $5 million in the most recent year. The borrower also must have a minimum credit score of 600 as well as previous experience completing similar work to the contract opportunity being pursued. The guarantees for bond lines and bid bonds are issued by Empire State Development, which manages the state's SSBCI programs, with zero fees or costs.

## Program Delivery

The New York Department of Economic Development (DED) is the state's designated lead agency for the SSBCI program. Empire State Development Corporation (ESD) is the contracting entity that administers the state's SSBCI programs.

ESD represents the consolidated operations of three state agencies focused on economic development in the state: DED, New York State Urban Development Corporation (UDC) and New York Job Development Authority (JDA).

NYSBAP is a bond guarantee program that builds on lessons learned from an earlier pilot program in New York State as well as a program in Louisiana. NYSBAP is marketed primarily through direct contact with businesses that are current or potential state or local government contractors, focusing on MWBEs. There are currently more than 7,000 certified MWBEs in the state. Marketing networks include various contractor alliances, state and local agencies, and advocacy organizations supporting small and minority and women-owned businesses.

NYSBAP guarantees are approved based on underwriting by the issuing surety company, an independent consultant, and ESD's own credit assessment. Participating surety companies will make a credit determination in accordance with their internal underwriting standards, as the surety company will be at risk for at least 70 percent of the contract amount.

**Aspects that Improve Capital Access in Underserved Communities**

NYSBAP has at least one notable feature that improves access to SSBCI capital in underserved communities:

- ***Targets a Specific Sector in which Minority- and Women-Owned Businesses Have a Substantial and Growing Market Share.*** While NYSBAP is open to any small business contractor, marketing of the program has focused on minority- and women-owned businesses that are current or potential contractors on state and city projects. The program is limited to state and city contracts and focuses on construction-related activities. A disparity study commissioned by DED identified several barriers that have impaired access by MWBEs to state contracts, highlighting, among others, obstacles in credit and bonding. The bond guarantee program is designed to provide companies, particularly MWBEs, with access to an initial surety bond line or to an increased surety bond line to allow the company to compete for larger projects.

**<u>Other Contributors to Success</u>**

In addition to NYSBAP's sector focus described above, certain aspects of New York's equity program, the Innovate NY Fund, are also unique in improving access to capital in underserved communities. New York selected seven funds to invest in early stage technology companies and other high growth companies throughout New York State. Aspects of the Innovate NY Fund designed to improve access to capital in underserved communities include:

- ***<u>Created Regional Funds to Ensure Geographic Dispersion of Equity Investments</u>.*** Innovate NY Fund's investments are made through seven investment funds that were competitively selected to invest in technology companies and other high growth firms throughout New York State. ESD staff members selected those investment funds and oversee investments and compliance with SSBCI rules. All contracted investment funds are required to secure at least a 2:1 match from private sources on its aggregate portfolio at the time of investment. Innovate NY funding may not exceed $500,000 per investment ($750,000 in the case of biotechnology-related companies). Innovate NY Fund selected funds that focused on specific regions of the state, e.g., individual funds covered areas such as Ithaca, the Southern Tier and Western and Central New York regions, the Finger Lakes, Long Island, and New York City. One of the fund managers also focuses explicitly on early stage companies that have at least one woman in a leadership position.

- ***<u>Requires Specific Outcomes in Underserved Communities</u>.*** ESD's limited partnership agreement with each of the seven selected funds require that, by the end of the investment period, each fund must invest at least 12 percent of its allocation in beneficiary companies that at the time of the investment are either located in low- or moderate-income communities or employ individuals who are low- or moderate-income or reside in low- or moderate-income communities.

**<u>Outputs</u>**

Data from the New York SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the New York SSBCI program had supported 365 transactions totaling $106.1 million.

- As of the same date, approximately 49 percent of the program's loans, guarantees and investments (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).

- NYSBAP was one of the strategies implemented by the state as part of Governor Andrew Cuomo's establishment of a goal of 20 percent MWBE participation in state contracting. At the time the 20 percent goal was established in early 2011, MWBE participation in the state's contracting and procurement process was at 9.2 percent. MWBE participation currently stands at more than 21 percent.

# Pennsylvania

## Summary

The Pennsylvania SSBCI program achieved success by leveraging a wide network of CDFIs across the state through RFQ process to provide capital for business growth and job retention to entrepreneurs in underserved communities.

## Description of the Pennsylvania Program

Pennsylvania received a $29.2 million allocation. Pennsylvania used a portion of its allocation to fund two lending programs that specifically target underserved communities:

- ***Pennsylvania Economic Development Finance Authority Program.*** This program provides loans, including for projects in distressed communities. Loan funds are available for eligible small business enterprises at competitive interest rates with flexible repayment terms that meet the needs of the business.

- ***Pennsylvania Community Development Bank Program*.** This program provides debt capital for deployment by CDFIs.

## Program Delivery

The Pennsylvania Department of Community and Economic Development (DCED) is the state's designated lead agency for the SSBCI program. The Pennsylvania Economic Development Financing Authority (PEDFA) and Pennsylvania Community Development Bank (PCD Bank) programs are structured to pass SSBCI funds to DCED-designated Area Loan Organizations (ALOs) and CDFIs. Those ALOs and CDFIs, in turn, lend funds to qualifying small and micro businesses.

At the outset, Pennsylvania decided to use a RFQ process to allocate funds to partners that demonstrated both a commitment and capacity to implement SSBCI. The most underserved communities in Pennsylvania fall into three types: small, rural farm communities, communities in coal mining regions, and minority businesses in urban areas. CDFIs located across the state provide a solid network to reach these underserved communities.

## Aspects that Improve Capital Access in Underserved Communities

The Pennsylvania program has three unique features that have facilitated access to SSBCI capital in underserved communities:

- ***Breadth and Depth of Network.*** Rather than use a single contracting entity, DCED uses a network of CDFIs whose service areas cover most of the state. For example, the Economic Opportunity Fund covers inner-city Philadelphia while the Progress Fund serves rural Western Pennsylvania. The CDFI partners are creative in their loan structuring, often engaging in layered financing strategies that bring together capital from a variety of conventional and alternative sources. Other CDFI participants use SSBCI capital to make loans that reach businesses in underserved communities, including micro-loans.

- ***Outreach and Engagement.*** CDFIs and other economic development professionals who are based in and understand local market conditions and local small business finance needs are effective sources of intelligence and effective deployment agents of credit to underserved communities. DCED took great pains to identify the right network of committed CDFIs to participate in the SSBCI program. These efforts entailed significant start-up and program development costs on the front end and ongoing challenges of overseeing a network of partners. It also slowed the initial deployment of funds, but DCED has been pleased with the outcome.

- ***RFQ Process.*** DCED recommends the use of a RFQ process. The RFQ process highlighted the intended focus on underserved communities. Prior relationships made identifying CDFIs through the RFQ process easier. The expectation of a 10:1 leverage resulted in the engagement of applicants with the capacity to implement the program.

**Outputs**

Data from the Pennsylvania SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Pennsylvania SSBCI program had supported 86 transactions totaling $78.9million.

- As of the same date, approximately 33 percent of the program's loans and investments (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).

- DCED reports that, as of December 31, 2013, 17 percent of its SSBCI loans (by dollar) have been to businesses that are minority- or women-owned.

# Utah

## Summary

The Utah SSBCI program improves access to capital in underserved communities by explicitly targeting its core program to specific markets. Its marketing focuses on banks and their officers and departments active in underserved communities, and Utah will make exceptions to standard product terms for loans in those communities.

## Description of the Utah Program

Utah received a $13.2 million allocation. Utah apportioned its allocation among an equity fund and two loan programs. This case study focuses primarily on the loan programs:

- ***The Utah Loan Guarantee Program (LGP)*.** The LGP will guarantee up to 80 percent of the principal amount of a small business loan. The guarantee can be for up to seven years, with a targeted average term of three years. The guarantee is subordinated, i.e., carries first loss risk. Although exceptions can be made, the LGP targets an average principal amount of $100,000 to $500,000. Utah charges a 4 percent guarantee fee. The guarantees are issued on behalf of State of Utah and are collateralized by a 10 percent cash reserve.

- ***The Utah Loan Participation Program (LPP)*.** The LPP includes both purchase participations and companion loans. The program also targets loans from $100,000 to $500,000. The LPP will provide up to 80 percent of the total financing package, but with a target of 10 percent to 30 percent. For purchase transactions, interest rates, maturity, collateral, and other loan terms are negotiated between the borrower and the financial institution lender, subject to LPP approval. For companion loans, both LPP and the financial institution lender negotiate interest rates, maturity, collateral, and loan terms with the borrower. Typically Utah's loan is subordinate to the lender's loan in terms of collateral priority. Fees range from 0 percent to 3 percent of the loan amount and are negotiated with each borrower.

The mission of the loan programs is to create jobs and stabilize Utah's neighborhoods by providing growing businesses with access to capital.

## Program Delivery

The Utah Division of Housing and Community Development is the state's designated lead agency for the SSBCI program. The Utah Small Business Growth Initiative (USBGI), a private non-profit, is the contracting entity that administers all three SSBCI programs.

USBGI is a subsidiary of the Utah Center for Neighborhood Stabilization (UCNS). UCNS is the umbrella organization for three non-profits — the Utah Center for Affordable Housing (UCAH), Housing Plus, and USBGI. Using $19.2 million in Neighborhood Stabilization Program[9] grant funds, UCAH, founded in May 2009, purchases foreclosed properties for non-profits that in turn rehabilitate the houses and sell or rent them to low- to moderate-income families. Those who cannot purchase a home may be eligible to rent through Housing Plus, which purchases and maintains larger projects, such as condo developments. The UCNS staff has 35 combined years of banking and financial analysis experience and includes a loaned executive from Zions Bank whose salary is paid by Zions.

USBGI markets its SSBCI programs directly to banks, small businesses, bank's Community Reinvestment Act (CRA) program managers, targeted loan programs within banks, small business development centers, state agencies such as the Division of Workforce Services, advocacy groups such as the Hispanic Chamber of Commerce, and other similar organizations in the state's small business community. Loans are reviewed by a USBGI loan committee for both credit underwriting and credit compliance purposes.

## Aspects that Improve Capital Access in Underserved Communities

The Utah program has at least three unique features that improve access to SSBCI capital in underserved communities:

- ***Program Focuses Explicitly on Underserved Communities*. ** USBGI explicitly positions its loan programs as serving primarily underserved communities, not just small businesses. On its website, USBGI states that the programs target small businesses with one or more of the following characteristics:
    - located in low- to moderate-income neighborhoods
    - located in underserved communities
    - women and minority owned businesses

  This positioning focuses the program's marketing efforts and gives the program a clear niche and identity in the marketplace.

- ***Marketing is Targeted to Underserved Communities*.** As a result of its explicit focus on underserved communities, USBGI targets its marketing to groups that are already active in those communities. For example, USBGI has marketed the program to CRA program managers within banks. Other banks have specialized units working in underserved communities that are natural marketing partners. For example, Zions has a Diverse Markets group that focuses on the Hispanic and African American markets, a Women's Financial Group, and the Zions Business

[9] For more information on the Neighborhood Stabilization Program, go to http://www.huduser.org/portal/datasets/NSP.html.

Resource Center, which provides the Utah small business community with access to tools and information needed to help strengthen their businesses. USBGI has also found small business development centers to be effective marketing partners in rural areas of the state.

- ***Loan Terms are Flexible for Borrowers in Underserved Communities*.** The USBGI program guidelines state explicitly that USBGI will consider offering favorable interest rates and terms if one of its credit support programs is utilized in conjunction with a CRA qualified transaction. For example, USBGI issued a guarantee for a $16,000 loan to a women-owned business, well below its targeted minimum of $100,000.

**Outputs**

Data from the Utah SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Utah SSBCI program had supported 17 loans or investments totaling $16.2 million.

- As of the same date, approximately 58 percent of the program's loans and investments (by dollar) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).

- USBGI reports that, as of December 31, 2013, 66 percent (by dollar) and 38 percent (by number) of its SSBCI loans have been in rural counties or to minority- or women-owned businesses.

# Washington

## Summary

The State of Washington 's SSBCI program improves access to capital by partnering with a CDFI that has an extensive track record of successfully lending in underserved communities. The CDFI partner also has the resources to sustain targeted SSBCI marketing over a long time and a lending staff that is diverse and has longstanding ties in those communities.

## Description of the Washington Program

The State of Washington received a $19.7 million allocation. Washington apportioned its allocation among three programs: a venture fund, a capital access program and a direct loan program. This case study focuses on the direct loan program:

- ***Craft3 Fund***. Craft3 is a non-profit Community Development Financial Institution (CDFI) that lends to small businesses in underserved communities across the state. Through its SSBCI program, Craft3 will make loans generally from $250,000 to $5 million. Most of these loans are direct loans to businesses, although Craft3 will also purchase participations in bank loans. The average term is between 5 to 7 years, with interest rates from 7 percent to 9 percent, and fees charged between 1 percent and 2 percent.

## Program Delivery

The Washington Department of Commerce is the state's designated lead agency for the SSBCI program. Craft3 is the contracting entity that administers the Craft3 Fund.

Craft3's mission is to strengthen economic, ecological, and family resilience in Pacific Northwest communities. Craft3 does this by providing loans to entrepreneurs, non-profits, individuals, and others who do not normally have access to financing. Craft3 currently manages more than $166 million in assets devoted to community development finance.

Craft3 markets its loans programs, including SSBCI, statewide. Craft3 uses a diverse range of marketing strategies, including public presentations, direct banker and borrower contact, brochures and flyers, a sophisticated internet and social media presence, and a strong referral network of bankers, local and state government and development agencies built through years of economic and community development lending. Craft3 has also actively marketed the SSBCI program to key advocacy organizations in underserved communities, including Tabor 100 (an association of entrepreneurs and business advocates who are committed to economic power, educational excellence and social equity for African-Americans) and The Affiliated Tribes of Northwest Indians. The Department of Commerce has also assisted Craft3 in promoting the SSBCI loan program. Craft3 currently has three offices in the state and is opening an additional two offices in the more underserved eastern region.

The Department of Commerce does not underwrite loans funded via Craft3 other than for compliance. Craft3 applies its own credit underwriting standards in its program.

**Aspects that Improve Capital Access in Underserved Communities**

The Washington program has at least three notable features that improve access to SSBCI capital in underserved communities:

- ***Partner with Experienced Provider of Capital.*** Craft3 is a financially sound non-bank CDFI that has a history of low loan losses, the ability to disburse funds to underserved or distressed communities, and a track record of raising significant amounts of capital for those purposes. The State of Washington chose to contract with a single, strong, experienced CDFI, rather than with a network of CDFIs or other development agencies with varying degrees of experience. This structure eases administration, and only one organization has to build expertise in SSBCI program rules. As a long-term lender in underserved communities, Craft3 has the structure, policies, and procedures in place to underwrite, disburse, and monitor higher-risk loans. The state's contract with Craft3 includes a best efforts target that the SSBCI funds be widely dispersed between the state's eastern and western regions, with at least 20 percent to minority- or women-owned enterprises. Because the SSBCI funds will remain on Craft3's balance sheet after the end of the program compliance period, the funds will remain available for deployment in underserved communities.

- ***Ability and Capacity to Sustain Marketing Effort in those Communities.*** The Department of Commerce developed its SSBCI programs based on the assumption that the agency would not have significant staff to deploy the SSBCI funds. The Department was concerned that a program dependent on large staff is risky due to fluctuations in the state budget and program allocation for operational funding. Thus, the Department chose to partner with Craft3 to ensure that the program and its associated marketing in underserved communities would be consistently sustained at a high level for an extended period of time. Consistent and sustained marketing are particularly important to the program to the extent it is more costly, in terms of both time and dollars, to reach a targeted audience, such as underserved communities, when compared to a broader market of small businesses generally.

- ***Potential to Leverage SSBCI Capital at the Fund Level.*** The State of Washington 's collaboration with Craft3 is unique in that the SSBCI capital potentially acts as first loss protection for investors in Craft3's SSBCI fund. This enhances Craft 3's ability to raise additional private capital at the fund level in addition to seeking private sector participation in each individual transaction.

## Other Elements of Success

In addition to the partnering and marketing efforts described above, another factor to which Washington attributes its success in serving underserved communities is:

- ***Staffing that is Reflective of the Targeted Market.*** Craft3 emphasizes its belief that organizations are more likely to be successful in serving underserved communities if they have a diverse staff that is part of the community being served. Thus, in addition to offices in rural areas of the state, Craft3 has a lending staff that includes members of Washington's African-American, Hispanic, and Native American communities.

## Outputs

Data from the Washington SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the Washington SSBCI program has made a total of 24 loans, guarantees, or investments totaling $26.4 million, leveraging an additional $33.8 million in financing for borrowers.

- As of the same date, approximately 54 percent of the program's loans, guarantees, and investments (by $) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).

- Craft3 reports that, as of December 31, 2013, more than 40 percent of its SSBCI program loans have been outside of the Seattle metro area, more than 40 percent have been in central and eastern Washington, and more than 40 percent have been to minority-owned enterprises. At least $1.8 million has been loaned to Native American-controlled enterprises.

# West Virginia

## Summary

The West Virginia SSBCI program improved access to capital in underserved communities in that state by developing a network of experienced and geographically dispersed lending partners. The program also provides 1) strong incentives for those partners to deploy SSBCI capital quickly to creditworthy borrowers and 2) support for less experienced borrowers through technical assistance funded by non-SSBCI sources.

## Description of the West Virginia Program

West Virginia received a $13.2 million allocation. The West Virginia Capital Access Program (WVCAP) apportioned its allocation among a venture capital fund and three loan programs. This case study focuses on the loan programs:

- ***WVCAP Subordinated Debt Fund*****.** The subordinated loan is a direct loan from WVCAP to the borrower, with a bank or other lender providing the senior debt. Loan proceeds can be used to purchase equipment or for facility expansion or working capital. WVCAP provides up to 50 percent of total financing, with a maximum loan amount of $500,000. The loan term is 1 to 5 years, and WVCAP charges a 1 percent commitment fee. The loan's interest rate is at or below prevailing market rates. This has been by far WVCAP's highest-volume loan program.

- ***WVCAP Collateral Support Fund*****.** WVCAP provides cash collateral for a loan being made by a bank or other lender for up to 20 percent of the loan amount, with a $250,000 maximum in cash collateral provided. The term of the collateral support is 1 to 5 years. WVCAP charges a fee of 2 percent of the loan amount.

- ***WVCAP Loan Guarantee Fund*****.** WVCAP guarantees are up to 20 percent of the loan amount for working capital loans, up to a maximum guarantee of $250,000. The guarantee's term is 1 to 5 years. WVCAP charges a fee of 2 percent of the loan amount.

The mission of the WVCAP program is to assist businesses that are creditworthy, but may not fit traditional lending models. The overarching goal is to create $130 million of new lending and investment activity in the state and as a result spur the creation of new jobs.

## Program Delivery

West Virginia's Office of the Governor is the state's designated lead agency for the SSBCI program. The West Virginia Jobs Investment Trust (WVJIT) is the contracting entity that administers the program.

WVJIT is a public venture capital fund created to develop, promote, and expand West Virginia's economy by investing in early stage, later stage, and mature small companies that wish to expand. WVJIT makes investments that are expected to yield a financial return proportionate to the level of risk it assumes. WVJIT has 19 years of experience in early-stage investment in small businesses, having invested $19.2 million in 25 companies that has resulted in $350 million in private financing.

The West Virginia loan programs are structured to encourage the participation of economic development (ED) agencies throughout the state. Loans made through the WVCAP program are identified and funded through eight ED agencies, with WVJIT being one of those agencies. Each participating ED agency is responsible for project identification, transaction negotiations, closing, and oversight of loans made by them through the program. WVCAP generally requires (subject to leverage ratios) loans funded through SSBCI to be repaid in two years, at which point the participating ED agency has to return the funds to WVJIT until it identifies a replacement loan. When the program restrictions expire on the SSBCI funds, each participating ED agency will capture the principal of the SSBCI funds that agency has utilized.

## Aspects that Improve Capital Access in Underserved Communities

The West Virginia program has at least two unique features that improve access to SSBCI capital in underserved communities:

- ***Breadth and Experience of Delivery System Improves Geographic Coverage*.** With eight originating agencies WVCAP covers all regions of the state. Participating agencies were selected based on geographic coverage as well as track record and positioning, e.g., level of staffing, loan volume, portfolio performance, and availability of at least a full-time lender. Three of the participating ED agencies have a statewide presence, three are regional, one is a single county agency, and another is industry specific (healthcare). All are experienced lenders. Only one agency is a certified CDFI, and the others are certified development companies, local or regional development authorities, or other alternative providers of debt. Because a participating agency will eventually retain the SSBCI funds it deploys, all agencies have a strong incentive to identify transactions that will result in full repayment as well as to deploy quickly. Each participating agency underwrites their own transactions based on their loan policies, and thus determines its own interest rate and collateral position. In addition to creating new small business loan programs, West Virginia views SSBCI as an opportunity to generate long-term capital for the eight participating agencies, with those agencies eventually using the SSBCI funds to leverage additional capital from other sources and to continue to support economic development lending in the state.

- ***Funding for Marketing Increases Presence in State*.** WVCAP also received non-SSBCI funding from state government to contract with a marketing liaison that was responsible for promoting the program and meeting with bankers statewide. WVCAP increased its geographic coverage through that marketing resource.

- ***Technical Assistance Funding Improves Likelihood of Borrower Success*.** Using funds from a grant from the Claude Worthington Benedum Foundation, WVCAP can provide loan applicants access to the technical or operating assistance that can help them be better prepared to apply for WVCAP funds or to improve their company's performance. Funding is available to support business plan development, financial modeling, market research, product branding, executive recruiting, strategic planning, marketing materials, marketing strategy, and design and implementation of accounting systems. The technical assistance is delivered through consultants contracted for this project. Technical assistance is especially important to businesses in underserved communities that do not have a strong small business support network as well as to small business owners who are not experienced entrepreneurs.

**Other Elements of Success**

In addition to the delivery system and supplemental funding described above, other factors to which West Virginia attributes its success in serving underserved communities include:

- ***SSBCI Program Leverages Experienced Lenders*.** The state's SSBCI program was built on a network of experienced lenders that were located in, or otherwise served, all areas of the state. These lenders had pre-existing experience in identifying, underwriting and closing loans to small businesses as well as ties to local bankers. Geographic coverage and proven lending experience were driving forces in partner selection. WVJIT was chosen to administer the program because of its experience in providing financing for small businesses in the state and, as a quasi-state agency, has access to other resources to help run and implement the state's SSBCI program.

**Outputs**

Data from the West Virginia SSBCI program demonstrates its success in reaching underserved communities:

- As of December 31, 2013, the West Virginia SSBCI program had supported 39 transactions totaling $70.2 million, leveraging an additional $20.2 million in financing for borrowers.
- As of the same date, approximately 24 percent of the program's loans and investments (by $) have been in low- and moderate-income (LMI) communities within the state (LMI being defined as individuals and geographies having a median income less than 80 percent of the area median income).
- WVCAP reports that, as of December 31, 2013, 83 percent of the financings by its SSBCI programs have been for businesses located outside of the state's metropolitan areas.
- Approximately 30 small businesses have received technical assistance through WVCAP's foundation-funded program, the majority in rural areas.