



**PARTNERS FOR RURAL
TRANSFORMATION**

Policy Brief

Ensuring State Small Business Credit Initiative Funds Reach Persistent Poverty Communities

June 23, 2021

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*Support for this work was provided by the Robert Wood Johnson Foundation.
The views expressed here do not necessarily reflect the views of the Foundation.*

As the U.S. Treasury works to implement the second round of the State Small Business Credit Initiative (SSBCI), it is an opportunity for small businesses in persistent poverty communities to receive the critical capital infusions they need. In this brief, Partners for Rural Transformation raises the following recommendations to ensure SSBCI funds are accessible to them:

1. Ensure States' Accountability to serve Persistent Poverty Counties,
2. Ensure meaningful Engagement of CDFI/MDIs with Track Records Reaching, Underserved Communities, Disadvantaged Businesses and Very Small Businesses,
3. Ensure Products Meet the Needs of Underserved Communities, and
4. Ensure Transparency and Accountability for States' Performance.

These recommendations are discussed in detail below. Appendix A includes product offerings which could be scaled if SSBCI funds are appropriately implemented.

Setting the Context for Our Recommendations

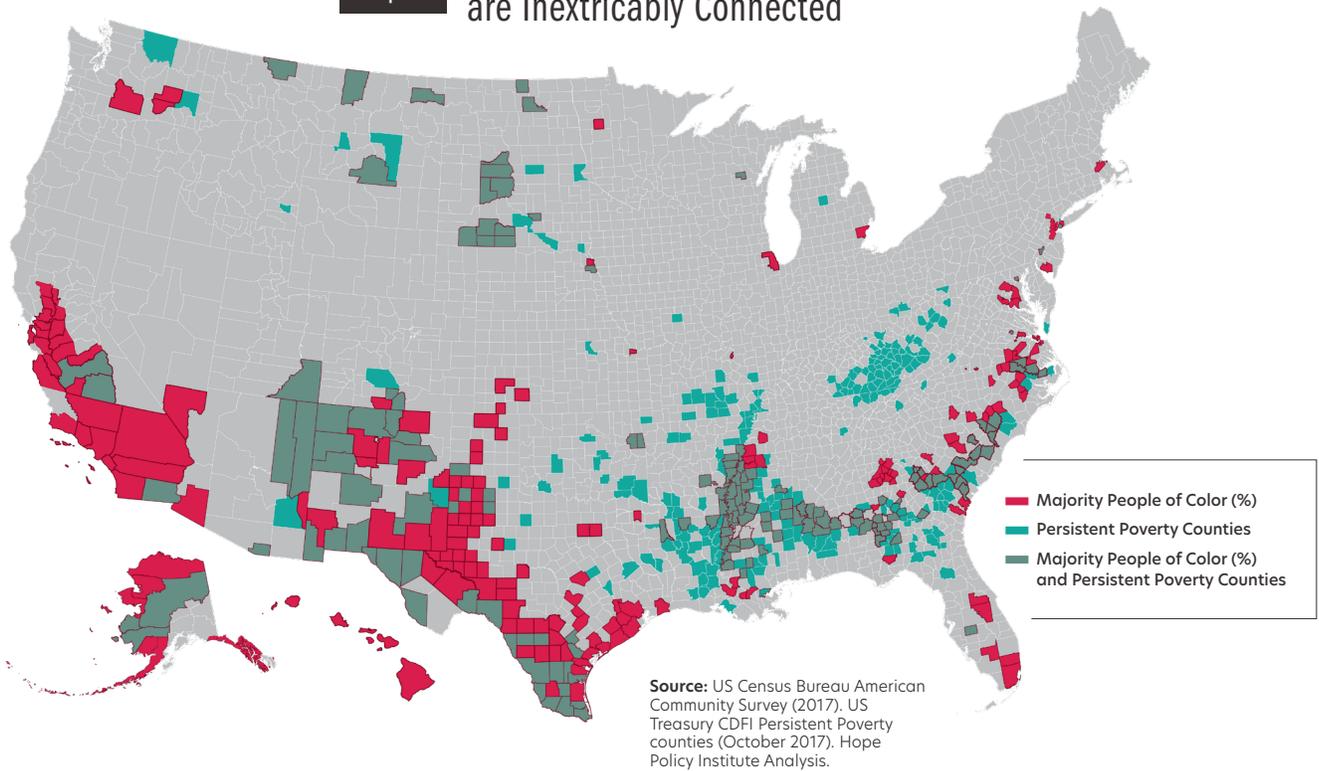
Partners for Rural Transformation represents six Community Development Financial Institutions (CDFIs) that serve three-quarters of the country's persistent poverty counties, communities that are overwhelmingly rural and people of color. With headquarters in the Mississippi Delta, Appalachia, Native American communities, the Deep South, the Rio Grande Valley and regions in the Rural West, the Partners for Rural Transformation has a unique lens on the range of challenges these communities face, solutions to them, and deep connections with diverse local leaders who are dedicated to creating change. PRT makes the recommendations included here rooted in decades of experience, reaching over 15 million people across its collective footprint.

From 2016 to 2020, Partners for Rural Transformation generated \$366.9 million in small business lending, with the majority of the 3,100 loans directed to businesses owned/led by people of color (65%) and a significant portion owned/led by women (41%). By geography, 56% of loans were to businesses located in counties with a majority of persons of color, over one third (\$122.3 million) to persistent poverty communities, and 72% to low-income communities. Nearly 30% of small business capital during that time went to businesses in rural communities. By contrast, during the first round of SSBCI, just 15% of funds went to rural communities.¹

The importance of these capital investments through PRT members and partners is underscored by the overarching context of persistent poverty counties.² Persistent poverty counties are defined as those experiencing over 20% poverty rates for more than 30 consecutive years. They are regions that have been historically excluded and exploited by both place and race. Eight in 10 of the country's 365 persistent poverty counties are rural. Sixty percent of the residents of persistent poverty communities are people of color. The overlapping layers of distress in areas of persistent poverty point to conditions created by design, embedded in the public policy choices guided by institutional racism and made over the course of decades. See Map 1. As result, these communities face other systemic challenges, such as higher rates of unbanked/underbanked populations, health concerns, and lower employment and educational outcomes. Another consequence of this disinvestment is the absence of bank branches, a gap often filled by CDFIs with a long history of reaching these communities.

Map 1.

Race, Place and Persistent Poverty are Inextricably Connected



PRT members' provision of Paycheck Protection Program (PPP) loans to communities hardest hit by COVID-19 demonstrates their ability to quickly deploy capital to small businesses least likely to have access to it. After the first round of \$350 billion in PPP funding was depleted in 14 days, PRT member, Communities Unlimited (CU), shared its experience in hearing from rural businesses who had no bank branch in their community and applied for PPP at a bank in the next larger micropolitan area. To this day, these business owners have not heard back on their initial PPP application from April 2020. In response, HOPE, RCAC, and CU quickly formed an innovative collaboration in which RCAC and HOPE raised enough private capital to be able to make PPP loans to CU's small business clients. By 2021, all three became PPP lenders in their own right. For all, a constant refrain from borrowers were stories of banks' under service, or absence, in meeting their PPP needs. Through their individual PPP lending programs, **HOPE, RCAC, and CU have collectively saved more than 16,000 jobs, deployed \$160 million in capital through more than 5,641 PPP loans.** A majority of these loans went to small businesses owned by people of color. One-third of HOPE's PPP loan volume flowed to persistent poverty counties, as did more than a third of each of RCAC's and CU's PPP loans.

The following provides details on each of Partners for Rural Transformation's recommendations on how to ensure SSBCI dollars reach, rather than bypass, persistent poverty communities:

1. Ensure States' Accountability to serve Persistent Poverty Counties,
2. Ensure Meaningful Engagement of CDFI/MDIs with Track-Records of Reaching Underserved Communities, Disadvantaged Businesses and Very Small Businesses,
3. Ensure Products Meet the Needs of Underserved Communities, and
4. Ensure Transparency and Accountability for States' Performance.

Recommendations

1. Ensure States' Accountability to Serve Persistent Poverty Counties

Treasury should use its authority related “to other *underserved* communities” to ask about, encourage, and evaluate States’ efforts to ensure access to capital in persistent poverty counties. By asking what plans States have to specifically serve these areas, linking the term *underserved* to persistent poverty counties, and making clear at the outset how States will be evaluated, Treasury can incent front-end program design to reach some of the most distressed areas of the country. As part of the approval process for States’ Capital Access Programs as provided in Sec. 5704, the Act includes consideration for “capital access for small businesses in *underserved* communities.”³ Specifically, it requires States to “deliver to the Secretary a report stating how the State plans to use the Federal contributions to the reserve fund to provide access to capital for small businesses in low- and moderate-income, minority, and other *underserved* communities, including women- and minority-owned small businesses.”⁴

Treasury should broadly interpret this requirement for how a State will reach underserved communities across all of a State’s SSBCI programs, just as it did in evaluation of all SSBCI programs last time in terms evaluating reach into low- to moderate- income areas as the measurement for reaching underserved communities.⁵

This section provides precedence, as well as, considerations for ease of implementation of this recommendation.

- a. There is federal precedence for measuring persistent poverty investments as a way to ensure reach into underserved communities

Executive Order

Persistent poverty communities are an explicit example of “underserved” in President Biden’s Executive Order on advancing equity.⁶ The Order specifically adopts as policy for the federal government to “pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality.” Furthermore, the Order’s definition of “underserved”—“populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life”—provides “persons otherwise adversely affected by persistent poverty or inequality” as one of the examples that “exemplifies” the definition.

Other Federal Laws

There are multiple examples of federal legislation and regulation, including in programs administered by Treasury, recognizing the unique challenges of persistent poverty communities. Several prioritize investments into persistent poverty counties and have reporting requirements as to how federal funds were deployed to reach persistent poverty counties. A non-exhaustive list of examples include:

- **CDFI Fund:** The Consolidated Appropriations Act of 2021, like previous appropriations bills, provides that “...of the funds awarded under this heading, not less than 10 percent shall be used for awards that support investments that serve populations living in persistent poverty counties...”⁷ The supporting Committee Report further “directs the Treasury to report to the Appropriations Committee...how the CDFI Fund will ensure fiscal year 2021 recipients will serve non-metropolitan and rural areas and populations living in persistent poverty counties.”⁸
- **Emergency Capital Investment Program:** The Consolidated Appropriations Act of 2021, in creating the Emergency Capital Investment Program, includes persistent poverty counties as underserved communities to be supported by the emergency infusion of capital to CDFIs and MDIs.⁹ Further in

its implementing guidelines, though not prescribed by statute, Treasury doubles the weight of lending in persistent poverty counties as “deep impact lending” that counts towards a CDFI/MDI’s eligibility for a rate reduction in repayment of the capital.¹⁰

- **Community Facilities Relending Program:** Though not proscribed by an enabling statute, U.S. Department of Agriculture (USDA) regulations for the Relending Program prioritizes lenders reaching persistent poverty counties. It requires participating lenders to both have demonstrated lending experience in persistent poverty counties, as well as demonstrate future ability to target investments there.¹¹
- **Other USDA Programs:** The enabling statute for the Rural Business-Cooperative Service Program, providing technical assistance and training grants to support rural business applications for USDA programs, provides: “In selecting recipients of grants under this section, the Secretary shall give priority to grants serving persistent poverty counties and high poverty communities, as determined by the Secretary.”¹² Similarly, the Committee Report for Agriculture, Rural Development, and Food and Drug Administration for the Consolidated Appropriations Act of 2021, “supports targeted investments in impoverished areas, particularly in persistent poverty counties.”¹³

b. Implementing this persistent poverty county evaluation metric does not put any additional reporting burden on the States

The Act already provides that States must report annually the zip code of each borrower receiving a new loan.¹⁴ With transaction-level zip code data, particularly when connected to other reported information, Treasury will easily be able to evaluate how many businesses and what type of businesses a State reached in persistent poverty counties, as well as the amount of capital infused there. The same is true for appending the zip code information to assess county-level demographic data, such as whether the county in which a business is located has a population where the majority are people of color.

In SSBCI 1.0, Treasury used the State-reported transaction-level data to measure provide two place-based metrics: low- to moderate-income tracts and non-metro tracts.¹⁵ Expanding Treasury’s evaluation to also include the two additional place-based metrics of persistent poverty and majority people of color counties is necessary and feasible truly assess whether States are ensuring access to capital in underserved communities as mandated by the Act and directed by the Executive Order.

Additional considerations for implementation:

- Treasury should inform States in its pre-application guidance that it will include persistent poverty counties as a specific underserved population and evaluate program reach into persistent poverty counties. Including this in the guidance prior to States submitting their application will incent and inform program design for states with persistent poverty counties in their borders.
- Treasury should, in its application, ask an explicit question, as contemplated by the Act, how States will ensure access to capital to “other underserved communities” including explicitly persistent poverty counties. This would be in addition to States informing how they will ensure access to capital to low- and moderate-income, minority, and women- and minority-owned small businesses, which are explicitly named in the Act.
- Treasury can facilitate States’ planning to develop programs and strategies in its application to reach persistent poverty counties by directing states to such as the already available list of Persistent Poverty Counties published by the Treasury’s CDFI Fund.¹⁶

- Treasury should explicitly state in its guidance that States can partner with CDFIs with existing track records in reaching persistent poverty counties, particularly in rural areas, and that such partnership ideally includes allowing CDFIs/MDIs serving these areas to hold the SSBCI funds as capital to more easily redeploy and leverage.
- Treasury should state explicitly that State programs reaching small businesses in persistent poverty counties may understandably have a lower leverage ratio, given the unique needs of the small businesses in those regions. This could be coupled with the reminder that the States' ten-to-one leverage ratio goal is across all programs, and so could be evened out by higher leverage ratios in other programs.
- Treasury should assess where it has authority to incentivize States' investments in persistent poverty counties, such as through investment goals or priority funding set asides to be deployed in these communities by community-based lenders.
- Treasury should use a meaningful portion of its \$500 million allocation for technical assistance to contract directly with CDFIs/MDIs and other providers with strong track records in reaching persistent poverty counties.¹⁷ This will support businesses not only in their access to SSBCI funds but other resources as contemplated by the statute. Many CDFIs serving persistent poverty areas are participating lenders in other state and federal programs.

The above considerations for implementation of persistent poverty county evaluation can be easily applied to evaluating States' reach into communities where a majority of residents is people of color.

2. Ensure Meaningful Engagement of CDFI/MDIs with Track Records of Reaching Underserved Communities, Disadvantaged Businesses and Very Small Businesses

In the previous round of SSBCI, CDFIs invested \$630 million, accounting for nearly half of all funding deployed (46%), in Low to Moderate Income (LMI) areas. Conversely, non-CDFI lenders deployed less than 32% of their funds in low to moderate income areas.¹⁸ MDIs also have a well-documented track record of serving people and communities of color, including small business loans generally and origination of guaranteed Small Business Administration 7(a) loans.¹⁹ CDFIs certified as SBA Microlenders also have a well-documented track record of serving very small businesses targeted by SSBCI.

The importance of CDFIs/MDIs in meeting the needs of underserved businesses was shown once again in the Paycheck Protection Program (PPP). As one example, a recent memo by the U.S. House Small Business Committee, highlighted: "SBA's data shows community financial institutions (CFIs) were best able to reach underserved small businesses, as Community Financial Institutions were the only type of PPP lender that performed above program average in all three of the following categories: 1) percent of loans less than \$150,000; 2) percent of loans in LMI areas; and 3) percent of loans in rural areas. This shows that CDFIs and MDIs are best positioned and able to deliver affordable financial services to low-income communities who will need it to recover from the COVID-19 pandemic."²⁰

Without a statutory requirement for States to provide a CDFI/MDI engagement plan, not all States will engage these specialized lenders in a meaningful manner. Treasury should use all available tools to move States to leverage the expertise of these community lenders as well as allow them to deploy the funds directly, particularly those with a track record in reached underserved and disadvantaged communities and businesses.

a. Allow and encourage CDFIs/MDIs to Administer and Retains Portions of State SSBCI funds.

Key to this recommendation is not simply serving as an administrator of the fund, but also clarifying, allowing and encouraging, States to provide the SSBCI funds as capital to CDFIs/MDIs. Retaining the SSBCI capital on their balance sheets is extraordinarily valuable to a CDFIs/MDIs, as it enables the CDFI/MDI to amplify its reach to underserved businesses. It also creates the opportunity for SSBCI funds to revolve, further stimulating lending, providing more capital for businesses, and increasing SSBCI's impact

in underserved communities. Importantly, it will allow CDFIs to provide products that are most needed by distressed communities, and in a way that can be deployed rapidly and leveraged with other resources raised by the lender. By comparison, a loan guarantee product for example, still requires a CDFI/MDI to raise additional capital for it to deploy while backed with the loan guarantee funds held by the State.

States should also utilize SSBCI or technical assistance funds to compensate CDFIs/MDIs for their administration of the program. To the extent a State does not provide such compensation, Treasury should make explicit that non-profit CDFI/MDI lenders should be allowed to recoup costs via origination or servicing fees. For example, some states do not pay non-profits for services though they do compensate for-profit entities. So, administrative costs for the non-profit would have to be covered from other sources of funding, which deters rapid deployment of funds and inhibits lenders' ability to service challenging markets.

b. Leverage the expertise and infrastructure of CDFIs/MDIs with strong track records in persistent poverty communities.

The following recommendations are additional ways that Treasury can move States to leverage the expertise of CDFIs/MDIs in program design and implementation to ensure SSBCI's reach into persistent poverty communities.

- In guidance Treasury issues, States should be asked to allow CDFIs (including nonprofit loan funds, credit unions, and banks) to be eligible lenders or administrators for any state program funded by SSBCI funds. In addition, Treasury guidance should highlight CDFIs/MDIs' unique ability to meet statutory requirements to serve underserved communities, particularly socially and economically disadvantaged businesses and small businesses in persistent poverty areas.
- Utilizing the Treasury's \$500 million allocation for technical assistance, Treasury should use a portion of this money to contract directly with CDFIs/MDIs with strong track records in reaching communities of color and persistent poverty communities, particularly rural communities.
- Where States are failing to reach goals of serving disadvantaged businesses/very small businesses, Treasury should explore options to deploy SSBCI capital directly to CDFIs/MDIs to serve businesses in those states. This option should not be limited to only States that choose not to participate in SSBCI at all.
- Where Treasury is already aware of innovative, successful State partnerships with CDFIs/MDIs, such as those described below and others, Treasury should explicitly state, and even provide examples, in its guidance that such innovative and creative partners are permitted by SSBCI. Silence on these issues to signal consent will not alone be sufficient to provide States' certainty to doing them.

3. Ensure Products Meet the Needs of Underserved Communities

CDFIs and MDIs with a track record of reaching underserved communities know how to create and underwrite products that small businesses need to be successful. Furthermore, CDFIs and MDIs receive grants and loans to relend from philanthropic investors, private social investors and mainstream banks. These funds will help leverage SSBCI funds.

A list of example products meeting the needs of underserved communities, offered by Partners for Rural Transformation, and could be expanded in a turn-key approach through the use of SSBCI dollars, is attached as **Appendix A**.

Key considerations for Treasury guidance to facilitate the development of products that meet the needs of underserved communities are provided here.

a. Provide clarity and flexibility in leverage ratios for SSBCI programs and loans reaching underserved businesses, disadvantaged businesses, and very small businesses.

- Treasury should indicate and remind states that the 10-to-1 leverage ratio goal for the program is across all programs and across all 10 years. In some cases, for specific loans or programs, it may be difficult to reach the 10-to-1 leverage ratio on a per transaction or per program basis. As such, Treasury should explicitly state that allowing flexibility for lower leverage ratios, if needed, in one program can be offset by higher ratios in another. Such explicit guidance will help States be more creative in their thinking about types of programs and products to deliver.
- Another area of flexibility for the leverage ratio, is clear guidance from Treasury on the variety of tools that could count towards the 10-to-1 match, particularly when deployed in a persistent poverty county.
- Finally, Congress should act to extend the authorization of the SSBCI program to match the 10-year appropriation of the \$10 billion in available funds.

b. Allow and encourage the use of SSBCI funds to provide equity or forgivable loans to underserved businesses, disadvantaged businesses, and very small businesses.

There is already clear authority and precedence for SSBCI funds to be deployed as equity. First, the Act does not limit how States can structure their product. Second, the explicit use of SSBCI funds in support of a venture capital program underscores equity investments as a permissible use. However, traditional venture capital programs, including those established under SSBCI 1.0, historically to not reach underserved businesses, particularly bypassing entrepreneurs of color. As such, Treasury should make explicit that States can, and are encouraged to, deploy products with an equity component better suited for underserved businesses. Examples of such products are listed in **Appendix A**.

Data clearly businesses struggling with growing debt loads, and shrinking reserves, as a result of the COVID-19 pandemic. According the Federal Reserve's Survey Small Business Credit Survey of Employer Firms, the number of firms carrying debt increased overall from 71% in 2019, to 79% in 2020.²¹ Second only to paying operating expenses, 44% of firms reported debt payments as a financial challenge they are facing. Most owners whose firms experienced financial challenges in the prior 12 months used personal funds to help their businesses, and half took on additional debt. More than a third (36%) of firms reporting feeling discouraged from applying for additional financing because of already too much outstanding debt. This was more of a discouragement than low credit scores or poor credit history. All of these factors increasing the strain of additional debt – high interest rates, lack of financial cushion, COVID-induced revenue declines – fall disproportionately on low-income communities and communities of color. As such, underserved businesses in these is need a range of strategies for economic stability and recovery that include access to capital, along with other approaches that CDFIs/MDIs are well positioned to deploy.

c. Additional considerations for Treasury guidance regarding to product design

- Explicitly state that SSBCI funds be allowed to take a subordinate position in a loan transaction. Doing so will incent more lenders, particularly banks, to lend their capital to meet the needs of underserved businesses.
- Allow SSBCI funds to aid with the refinancing of high-cost debt to relieve the pressure and strain of unaffordable payments which undermine the risk of the business's survival.
- Prohibit products with charges exceeding 36% per annum.

4. Ensure Transparency and Accountability for States' Performance

a. Mandate States disclose names of CDFIs and MDIs contacted for and participating in SSBCI.

Treasury should state in the guidance that as part of the application, States will need to provide a list, by name, of the CDFIs/MDIs contacted by the State as well as those that are expected to participate in SSBCI implementation. Additionally, Treasury should notify in its guidance, that as part of program evaluation it will require States to provide a list of names of CDFIs/MDIs that received SSBCI investments from the State for the purposes of relending to small businesses including disadvantaged businesses.

b. Assess how states assisted small businesses with Coronavirus Relief Funds.

Treasury should note in its guidance that as part of its assessment of a State's plan to reach underserved communities, disadvantaged businesses, and very small businesses, that it will also look to how states used CARES Coronavirus Relief Funds to assist small businesses.

Treasury should ensure SSBCI programs provide equitable access to businesses that may have been overlooked by state programs with CARES funds. To the extent a State has not yet published data regarding demographics of CARES Act small business relief funds, Treasury should ask for it. To the extent vast inequities existing within the distribution of those funds, Treasury should ensure corrective and targeted measures are included in plans for SSBCI dollars.

Here are three examples from state-level CARES Act programs in Deep South states:

- In Tennessee's Small Business Relief Program, which provided direct payments to designated businesses, white-owned businesses received over 90% of the funds.²²
- In Mississippi, the state legislature created a \$40 million, 60-day priority set-aside for minority and women-owned businesses of a larger \$240 million pool. However, the state only deployed \$2 million in the 60-day window, despite receiving more than \$100 million in application requests, the majority of which were from minority and women owned businesses.²³ By the end of the program, despite paying a private contractor over \$2 million to administer the program, Mississippi only deployed \$110 million – less than half of the available funds.²⁴ It has yet to publish demographics (race, gender, geography) of applicants or recipients of its funds. The same agency that administered Back to Business grant program will be administering the SSBCI funds.
- By contrast, Louisiana's Treasury Department deployed over \$275 million in CARES Act funding in the form of small business grants, with 41% (\$108.1 million) reaching minority-owned businesses. Louisiana, similar to many other states and jurisdictions, has published a public interactive dashboard of the results of its program, including by race, gender, and other demographics.²⁵

c. Ensure funds are directed to distressed communities through data collection

Treasury should require States to collect and publish race and gender data of the borrowers benefitting from the program to ensure programs are reaching underserved communities, as well as minority-owned and women-owned businesses. As demonstrated by the state-level CARES Act programs, states are already collecting such data from businesses receiving support through federal relief dollars. The failure to collect such data, as shown by the Paycheck Protection Program, leaves gaping holes in understanding the demographics of who benefited from these funds. By contrast, CDFIs are well versed in collecting this information, as required by CDFI certification and financial reporting requirements.

Treasury should require data collection to assess the geographic distribution of the businesses served. During the previous round of SSBCI, states provided thorough data on the rate to which SSBCI funds were directed to businesses in Low to Moderate Income and non-metro areas. This round, Treasury should also report data on the businesses supported in counties that are designated as persistent poverty county and counties in which the majority of residents are people of color.

Appendix A:

The following loan products are provided by members of the Partners for Rural Transformation: Communities Unlimited, HOPE, and RCAC. It provides key aspects of the products and tools used to reach businesses located in persistent poverty counties, rural areas, and to minority or women owned businesses. Also included is the Louisiana Business Recovery Grant and Loan program.

Communities Unlimited

Loan Product	Guidelines	
On Track Loans	Loan Amount	\$5,000 to \$100,000
	Business Stage	Early stage to seasoned; proof of concept required
	Use of Funds	Business purchase; Equipment; Real Estate; Working Capital; Startup funding
	Collateral	Loan decision based on cash flow with available collateral taken as sign of commitment
	Term	2 years to 10 years maximum; average term 5 years; no prepayment penalties
	Rate	Based on risk and term ranging from 4% to 7%
Step Loans	Loan Amount	Starts as low as \$2,000 and can increase as business grows
	Business Stage	Early stage; growth; acquisition; Part-time to Full time; Proof of Concept required
	Use of Funds	Business purchase; equipment, working capital
	Collateral	Loan decision based on cash flow with available collateral taken as sign of commitment
	Term	1 year to 6 years; average term 4 years; No prepayment penalties
	Rate	Based on risk and term ranging from 4% to 8%
Participations	Loan Amount	Up to \$125,000 with Lines of Credit available
	Business Stage	Business acquisition, expansion or growth; Startups with strong collateral and clear market are eligible
	Use of Funds	Business purchase; equipment; working capital
	Collateral	Loan decision based on cash flow with available collateral taken as sign of commitment
	Term	1 to 3 years
	Rate	4% to 8% - may vary by partners
Friends & Family	Amounts	Up to \$100,000
	Use of Funds	Start Up Expenses or Disaster Response
	Collateral	None; patient capital
	Term	Conversion to debt determined by cash flow and agreed upon targets
	Rate	1% to 3%
	Special Conditions	Board participation; Quarterly cash flow analysis; ongoing technical assistance;

CU Risk Mitigation Tools

Tool	Description	Use	Leverage
Collateral Enhancement	Funds designated for loans with minimal collateral; Does not guaranty	Loans with only business assets that have very low value can benefit from collateral enhancements, specifically for some retail businesses.	<ul style="list-style-type: none"> Loan to 35% of the loan 3:1 to 10:1 leverage
Loan Guarantee	Guarantees provided by a 3rd party and paid on the amount owed after foreclosure and liquidation	<ul style="list-style-type: none"> Used for businesses with minimal collateral Lenders are able to reserve only for their portion of the loan 	60-90% guaranty
Loan Reserve	Special reserve funds set aside for designated borrowers	<ul style="list-style-type: none"> Used across a designated portfolio or group of loans Reserve funds can be used for any loan in the designated group 	<ul style="list-style-type: none"> Varies by fees and size Expected leverage 15:1 - 34:1
Technical Assistance	Targeted assistance working with clients to solve problems	Implementing strong financial and management systems to support growth	

Hope Enterprise Corporation/Hope Credit Union

Loan Product	Guidelines	
Wells Fargo Diverse Community Capital	Loan Amount	Up to \$250,000
	Business Stage	Start-ups, established small businesses owned or operated by people of color, women, veterans, or LGBT individuals
	Use of Funds	Commercial real estate, working capital, inventory, Additional business acquisition, leasehold improvements
	Collateral	First lien on assets being financed (substitute/additional collateral may be considered or required)
	Term	<ul style="list-style-type: none"> Up to 15 to 20 year amortizations for real estate Expected life of the fixed assets up to 5 to 7 years for furniture, fixtures, and equipment Term to match the cash flow of company (5-year maximum) for working capital
	Rate	<ul style="list-style-type: none"> Fixed rates - set at time of commitment or closing, Variable rates - tied to the Prime Rate as reported by the Wall Street Journal, Pricing is intended to reflect both risk and delivery cost
	Risk Mitigation	<ul style="list-style-type: none"> Credit enhancement to make the loan possible and to ensure loan has adequate security to be approved Covers loan shortfall
Power of HOPE	Loan Amount	Up to \$500,000
	Business Stage	Business and individuals impacted by COVID19 with focus on Black-owned/led businesses and individuals affected by pandemic
	Use of Funds	General business expenses or expenses related to COVID19
	Collateral	Business purchase; equipment, working capital
	Term	24 months
	Rate	.5-3%
	Risk Mitigation	Philanthropic resources (primarily grant funds) raised to provide 100% security/guarantee (i.e. to be tapped into retroactively if there are any loan losses) for smaller dollar loans made to individuals and businesses negatively impacted by the economic effects of COVID-19. The borrowers themselves do not pledge any security.
Public Charter School Credit Enhancement	Loan Amount	Up to \$2,000,000; typical credit enhancement allocation is \$1,000,000 per deal
	Business Stage	Start-up, early-stage, and established schools serving students living in high poverty areas and/or in districts with failing traditional public schools. We also focus on schools serving rural and small communities.
	Use of Funds	<ul style="list-style-type: none"> Acquisition (by purchase, lease, donation, or otherwise) in real property for the purpose of operating a charter school; Construction of a new facility, renovations of existing, or other alterations to operate the school; Predevelopment costs required to assess sites and to commence or continue school operations;
	Collateral	First or second lien on assets; (substitute/additional collateral may be considered or required)
	Term	Up to 30 year amortizations; terms range from 2 to 15 years
	Rate	Fixed rates - set at time of commitment or closing; Pricing is intended to reflect both risk and delivery cost
	Risk Mitigation	Credit enhancement

Loan Product	Guidelines	
Re-Emerging Loan Fund	Loan Amount	Up to \$25,000 with no minimum
	Business Stage	Existing RCAC borrowers, including PPP and entrepreneurs and businesses in communities where RCAC Building Rural Economies program is operating
	Use of Funds	Working capital, capital purchases or debt restructure, facility upgrades/adaptations
	Collateral	None
	Term	Up to 60 months
	Rate	3%
Risk Mitigation	Coaching and Technical Assistance	Coaching and technical assistance to existing borrowers (including PPP) and where RCAC is operating ongoing entrepreneur and community economic development program technical assistance in rural and Native communities
	Forgivable	Capital consists of grant funds to RCAC to provide flexible, creative loans which may also be partially or fully forgiven
Loan Loss Reserve	Available to CDFI lenders for Persistent Poverty Community borrowers	Payment of six months deferred payments on guaranteed government loans for existing vulnerable small business and entrepreneurs to "jump start" re-emerging businesses into their market-place, post-COVID, without the accumulated deferred debt.

Louisiana Business Recovery Loan and Grant Program:

- Following Hurricane Katrina, the state of Louisiana in \$164 million in Disaster-CDBG funding to small businesses affected by the 2005 storms.
- It provided assistance to about 4,500 small businesses.
- Focus groups conducted by the GAO found the program worked relatively well.
- The program was only available to businesses with less than 100 employees. It was used to reach small businesses that applied for conventional or SBA loans but either had not received them or still needed additional assistance. Additionally, the program helped to provide assistance to certain businesses that were not eligible for SBA disaster loans.
- Lenders packaged loans that were approved by the state, then assigned to the eligible participating non-profit lenders.
- Loans were capped at \$100,000 with exceptions up to \$250,000. Up to 20% of the amount provided was given as a grant (example: for a small business approved for a \$100,000, 80% of this was structured as a loan and 20% structured as a grant).
- The loan terms were: 0 percent interest for the first 2 years of the loan and 4 percent for the remainder of the loan term. Loan terms range from 5 to 7 years
- Small businesses could use the grant and loan funds for business operating costs, such as leases; insurance; or debt payment on new equipment, utilities, or inventory
- As loans were repaid, the funds stayed with the lenders with the condition that they were to continue to be used in the state of Louisiana for small business lending.
- Five years later, this program had the lowest default rate among three small business disaster relief programs in the state (4.5%, compared to higher rates of 6% and 9.4% for other programs)

Examples of benefits shared by small business owners during focus groups about the program:

- One small business owner who operates two retail shoe and accessory stores located in New Orleans explained that her participation in the Business Recovery Grant and Loan Program allowed her to pay down lines of credit that had higher interest rates.
- Another small business owner who owns a tourist-related gift shop in New Orleans explained that as a result of her small business recovery loan, she was able to purchase merchandise in time for the National Football League Super Bowl in 2010, which helped to boost her sales. Without the \$80,000 loan she received from the program, she would not have been able to stay in business.
- Another small business owner who operates a bridal shop stated that the assistance she received from the Business Recovery Grant and Loan Program allowed her, among other things, to pay 3 months of operating expenses and reduce the debt owed to some of her manufacturers, which allowed her to buy new product.
- Finally, one small business owner who prior to Hurricane Katrina was a self-employed consultant to minority business owners stated that the Technical Assistance Program had been extremely helpful. She explained that many small businesses had utilized this program, and that for many of her previous non-English-speaking clients, the program provided the only technical assistance they received after the hurricanes.

More information can be found here in this US GAO evaluation of the program (US GAO Report-10-723): <https://www.gao.gov/assets/a308215.html>. See also Louisiana's RESTORE Program, created in 2016, in which 40% of loan was forgiven after 60% of the principal was repaid. Full program details here: <https://www.restore.la.gov/small-business-program-detailstimeline/>

¹ Michael Eggleston and Lisa Locke. (2018). "The State Small Business Credit Initiative". Policy insight: Community Development at the St. Louis Federal Reserve. https://www.stlouisfed.org/~media/Files/PDFs/Community-Development/Policy-Insights/SSBCI_Policy_Brief.pdf?la=en

² Partners for Rural Transformation, "Transforming Persistent Poverty in America: How Community Development Financial Institutions Drive Economic Opportunity," 2019, https://www.ruraltransformation.org/wp-content/uploads/2020/03/Transforming_Persistent_Poverty_in_America_-_Policy-Paper-PRT_FINAL.pdf. See also, William J. Bynum, Testimony Before U.S. Senate Committee on Banking, Housing, and Urban Affairs, "An Economy that Works For Everyone: Investing in Rural Communities," Apr. 20, 2021, <https://www.banking.senate.gov/imo/media/doc/Bynum%20Testimony%204-20-21.pdf>

³ 12 U.S.C.A § 5704(8)

⁴ Id.

⁵ U.S. Treasury, "Program Evaluation of The US Department of Treasury State Small Business Credit Initiative," prepared by the Center for Regional Economic Competitiveness and Cromwell Schmisser, 2016 at 20 ("Given the variety of approaches, Treasury tracked activity using a proxy for underserved communities, the location of a business in census tracts defined as low and moderate-income (LMI)").

⁶ Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government, Jan. 21, 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/>

⁷ Consolidated Appropriations Act, 2021, PL 116-260, Dec. 27, 2020, 134 Stat 1182 (Defining "persistent poverty counties" as "any county that has had 20 percent or more of its population living in poverty over the past 30 years, as measured by the 1990 and 2000 decennial census, and the 2007 - 2011 and 2014 - 2018 American Community Survey 5-year average.").

⁸ Committee Report for appropriations for financial services and general government for the fiscal year ending September 30, 2021, Oct. 26, 2020.

⁹ Consolidated Appropriations Act, 2021, PL 116-260, Dec. 27, 2020, 134 Stat 1182 ("to support the efforts of low- and moderate-income community financial institutions to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, including persistent poverty counties, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic.") (emphasis added).

¹⁰ U.S. Treasury, Emergency Capital Investment Program, "Rate Reduction Incentive Guidelines," Mar. 4, 2021, <https://home.treasury.gov/system/files/136/Rate-Reduction-Incentive-Guidelines.pdf>

¹¹ 7 C.F.R. § 1942.30

¹² 7 U.S.C.A. § 2008c

¹³ Committee Report for Agriculture, Rural Development, and Food and Drug Administration, Oct. 26, 2020.

¹⁴ 12 U.S.C.A. § 5706(b)(4)

¹⁵ U.S. Treasury, "Program Evaluation of The US Department of Treasury State Small Business Credit Initiative," prepared by the Center for Regional Economic Competitiveness and Cromwell Schmisser, 2016.

¹⁶ CDFI Fund, "Persistent Poverty Counties (PPCs) (2011-2015 ACS and Island Areas Decennial Census)," 2019, available at https://www.cdfifund.gov/sites/cdfi/files/2021-05/12_FY21_CDFI_NACA_Persistent_Poverty_Counties_2011_2015_ACS_and_Island_Areas_Decennial_Census.xlsx

¹⁷ 12 U.S.C.A. § 5708(3) (providing that \$500,000,000 may be used by the Secretary to, among other uses, to "contract with legal, accounting, and financial advisory firms (with priority given to business enterprises owned and controlled by socially and economically disadvantaged individuals), to provide technical assistance to business enterprises owned and controlled by socially and economically disadvantaged individuals applying to--(A) State programs under the Program; and (B) other State or Federal programs that support small businesses."

¹⁸ Michael Eggleston and Lisa Locke, "The State Small Business Credit Initiative". Policy insight: Community Development at the St. Louis Federal Reserve, 2018, https://www.stlouisfed.org/~media/Files/PDFs/Community-Development/Policy-Insights/SSBCI_Policy_Brief.pdf?la=en

¹⁹ FDIC, "Minority Depository Institutions: Structure, Performance, and Social Impact," 2019, <https://www.fdic.gov/news/press-releases/2019/pr19054.html>

²⁰ Chw. Sharice Davids, Hearing Memo, " Subcommittee on Economic Growth, Tax, and Capital Access Hearing: "Examining the Role of Community Development Financial Institutions and Minority Depository Institutions in Small Business Lending". U.S. House of Representatives Committee on Small Business, May 18, 2021 https://smallbusiness.house.gov/uploadedfiles/05-18-21_hearing_memo.pdf

²¹ Federal Reserve Survey Small Business Credit Survey 2021 Report on Employer Firms, 2021, <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report>

²² Tennessee Department of Finance and Administration, Financial Stimulus Accountability Group, Update on Small Business Relief Program, page 3, Sept. 30, 2020, <https://www.tn.gov/content/dam/tn/finance/documents/financial-stimulus-accountability-group/093020.pdf>. See also, NAACP Legal Defense Fund, Letter to Governor Bill Lee Re: Tennessee Small Business Relief Program, July 6, 2020 <https://www.naacpldf.org/wp-content/uploads/Tennessee-Letter-2020-07-06-1.pdf>

²³ Diane Standaert, "Mississippi's Small Business Relief: Gaps and Opportunities," Hope Policy Institute, Aug. 25, 2020, <http://hopepolicy.org/manage/wp-content/uploads/Mississippi-Small-Business-Relief-Gaps-and-Opportunities-Brief-Final-1.pdf>

²⁴ State of Mississippi, CARES Act Transactions (Eligible Business Recipients), available at <http://www.transparency.mississippi.gov/caresAct/caresact.aspx> (accessed May 24, 2021).

²⁵ State of Louisiana, Main Street Grant Recovery Program, available at <https://stories.opengov.com/latreasurer/published/YbOtGAB3m> (accessed May 24, 2021). See also, Louisiana Department of Treasury, CARES Act DBE Awards, available at <https://latreasurer.opengov.com/data#/49686/query=027DC0F135F7AE33B4F2C41863EE1A3A&embed=n> (accessed May 24, 2021).



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