



# Taking Advantage of Community Advantage: Programmatic Changes and Availability of Funding

December 2011



# Today's Discussion

- Context: Program intent + initial feedback
- Programmatic Changes: Pricing, Access to Capital, Participation costs
- Next steps



# COMMUNITY ADVANTAGE: INTENT AND ELIGIBILITY

## Intent

- Meet capital access needs of small businesses in underserved markets (eg LMI, veteran and/or < 2 years in business)
- Increase points of access to capital in underserved markets
- Provide mission-oriented lenders access to loan guarantees for loans up to \$250K

## Eligibility

- SBA-authorized Certified Development Companies (CDC)
- SBA-authorized Microloan Intermediaries
- Non-Federally Regulated Community Development Financial Institutions

3-year pilot effective from February 2011 through March 2014



# FEEDBACK ON INITIAL PROGRAM DESIGN: IMPEDIMENTS TO PARTICIPATION

## Sample

## Issues

11 organizations considered but opted not to apply

(7 of them presently make loans up to \$250K)

- 6 expressed **concerns re pricing loans** within the program constraints
- 9 expressed concerns re: **administrative costs** of the program
- 8 expressed concerns re: **access to sufficient lending capital**
- 2 expressed concerns re: **sourcing qualified borrowers**

5 participating organizations

(1 is new to loans up to \$250K)

- 1 expressed concern about pricing loans within program constraints
- 2 expressed concerns about finding capital



Source: AEO interviews and survey

# Programmatic Changes (1 of 2)

## Loan Pricing

- The maximum interest rate allowable is Prime + 6% (previously Prime + 4%)

## Capital Availability

- More than \$100m of loan capital committed by 13 commercial banks will be made available to approved Community Advantage intermediary lenders
- Funding for technical assistance, loan loss reserves and warehouse lines of credit
- The SBA will facilitate matchmaking between approved intermediaries and the banks



# Programmatic Changes (2 of 2)

## Lending Operations

- Outsourcing of lending operations will be permitted including: sourcing, evaluating and underwriting, closing, disbursing, servicing, and/or liquidating

## Oversight and Administrative Costs

- SBA expects avg. oversight costs are projected to be approximately \$150 per \$1 million in loans originated (e.g. .015%)



# Clarifications

## Capital Requirement

- There is no minimal capital requirement to apply to become an intermediary lender

## Underserved Market Requirement

- 60% of loans must be made to underserved communities; this means the *number of loans* disbursed and not the dollar value of the loans

## Application process

- Completed applications will be reviewed within 45 days of their receipt



# COMMUNITY ADVANTAGE: PROGRAM OVERVIEW

REFLECTS CHANGES  
FINALIZED DECEMBER 16

## Eligibility

- SBA-authorized Certified Development Companies (CDC)
- SBA-authorized Microloan Intermediaries
- Non-Federally Regulated Community Development Financial Institutions

## Selected terms

- Loan size: Up to \$250k
- Interest rate: Prime plus 6% maximum
- Guarantee: 85% for loans up to \$150K and 75% for loans >\$150K
- Loan Loss reserve requirement: 15% of the unguaranteed portion of the loan portfolio held in a separate reserve account
- Same underwriting requirements as standard 7(a) loans
- At least 60% of loans (by volume) must be made in designated underserved markets
- Revolving loans not permitted

## Other obligations

- Oversight fees (eg safety & soundness, on-site & desk reviews, etc) – expected to cost on average \$150 per \$1 million in loans originated
- Monthly + Quarterly + Annual reporting





# TO DATE, MORE THAN 30 LENDERS HAVE SIGNED ON

REPRESENTATIVE,  
NOT EXHAUSTIVE

Organization Name	HQ State
CDC Small Business Finance	CA
Clearinghouse CDFI	CA
OBDC Small Business Finance	CA
The Mortgage Capital Development Corporation	CA
Valley Economic Development Center	CA
First State Community Loan Fund	DE
Black Business Investment Fund of Central Florida, Inc.	FL
Idaho-Nevada Community Development Financial Institution	ID
Kentucky Highlands Investment Corporation	KY
Southeast Kentucky Economic Development	KY
Western Massachusetts Enterprise Fund, Inc.	MA
Coastal Enterprises	ME
Eastern Maine Development Corporation	ME
Northern Maine Development	ME
Northern Economic Initiatives Corporation	MI
Initiative Foundation	MN
Montana Community Development Corporation	MT
Mountain BizCapital	NC
Trenton Business Assistance Corporation	NJ
Union County Economic Development Corporation	NJ
Empire State Certified Development Corporation	NY
CCD Business Development	OR
Regional Development Funding Corporation	PA
The Progress Fund	PA
Appalachian Development Corp	SC
ACCION	TX
Cen-Tex CDC dba BCL of Texas	TX
PeopleFund	TX
REDC Community Capital Group, Inc.	VA
Northern Community Investment Corporation	VT



Source: SBA website as of 27 September

# Next Steps

## Application

- New Participant Guide available as of 16 December on SBA's website

## Assessment

- We encourage lenders to re-evaluate participation in the program: better terms; access to capital
- AEO can connect you to decision-support resources (e.g. Bankers without Borders; peers experienced with 7(a) lending, etc)

## Feedback

- Share your feedback, questions – AEO will continue to engage on this important program
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