

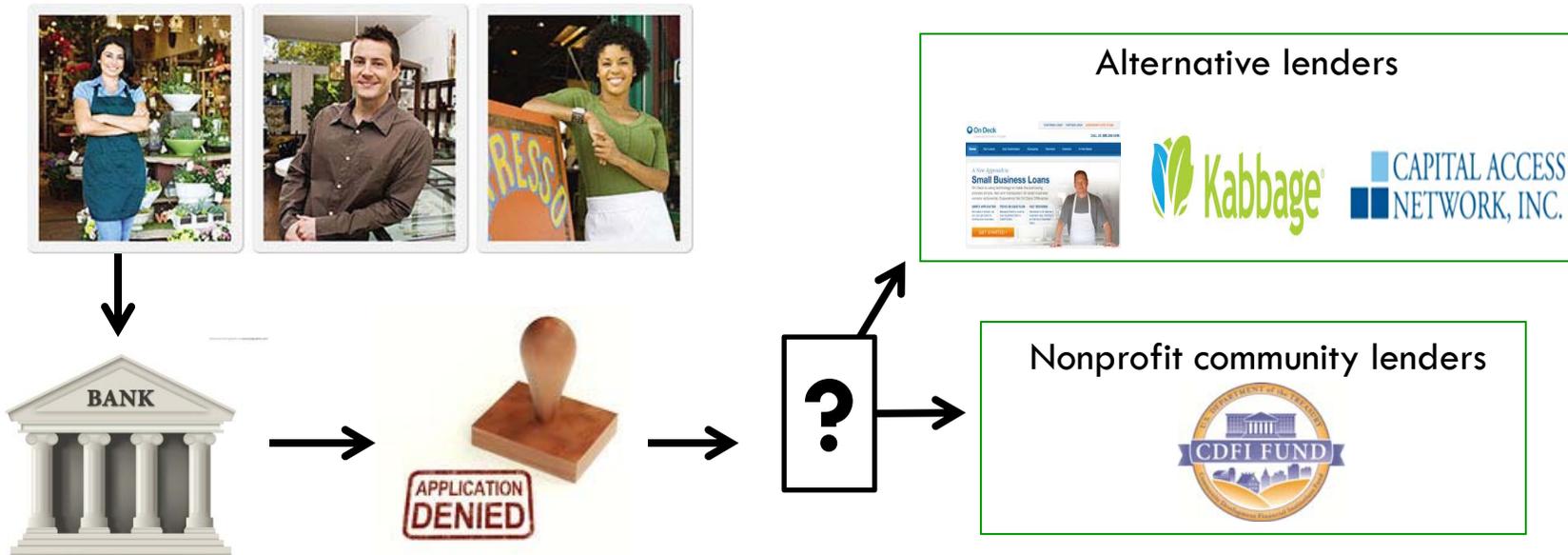


Conversation with Stakeholders

April 30, 2014

The Problem: Main Street Business Owners Don't Get What They Need to Succeed

8,000 small and micro business owner credit applications declined each business day**

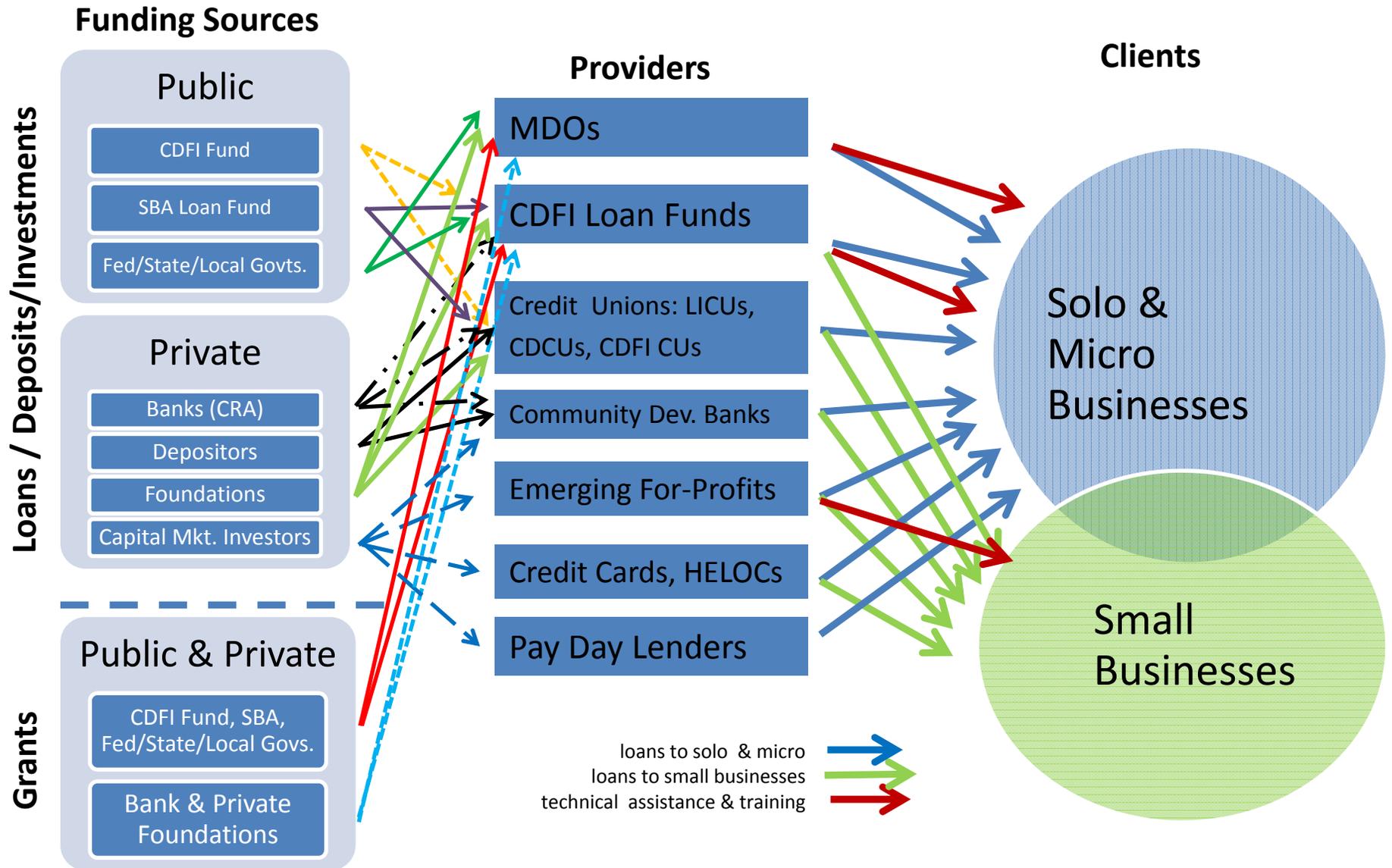


- **Banks:** Small loans too costly to underwrite profitably
- **Alternative lenders:** Fast and efficient but **very expensive**
- **Community lenders:** Hard for business owners to find, limited service lines and capacity constrained
- **Business owners:** Frustrated
- **Community and economy:** Missed opportunities

*Solo, micro and small business owners

**Treasury Secretary Jacob Lew, 10 June 2013

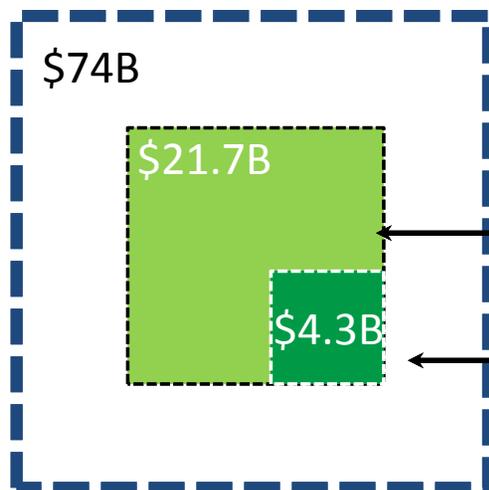
System to Finance Main Street is Complex & Fragmented



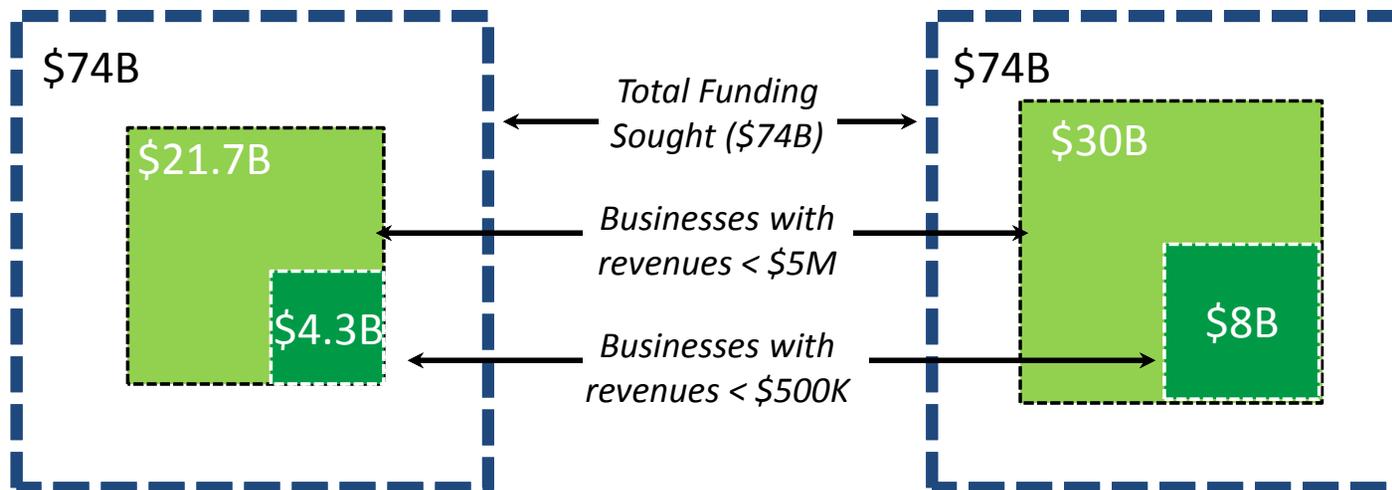
Source: Adapted from Lieberman, Ira, Phil Goodeve and Jenifer Mudd. *U.S. MICROFINANCE AT THE CROSSROADS: Scale and sustainability: can lessons from international experience help guide the U.S. sector?* September 2012

“Micro Capital Gap”: ~\$44B - \$52B in Unmet Need

Capital Sought v. Provided - Baseline
(model based results)



Capital Sought v. Provided - Alt 1
(model based results)



- Businesses owned by women, African Americans, Latinos and others are affected disproportionately by this capital gap
- If even 5% of this unmet need is credit-worthy, CDFIs in partnership with alternative lenders could create significant impact
- No silver bullet answers: Solutions must include increasing the availability of suitable credit products and strengthening the underlying performance of these Main Street businesses

Source: “Micro and Small Business Finance in the USA: A Strategy for Structural and Policy Changes in the Sector,” Ira Lieberman, Jose Ruisanchez, Paul DiLeo, Jenifer Mudd, Keith Catanzano and Alana Heath, (January 2014).

For empirical analysis of the capital gap by race, see for example, Robert W. Fairlie and Alicia M. Robb, “Race and Entrepreneurial Success,” (MIT Press, 2009). Surveys by a variety of organizations consistently demonstrate a capital gap to women-owned businesses as well. For a discussion of causality including the different capital structures of firms owned by women and minorities, see Alicia M. Robb, “Access to Capital among Young Firms, Minority-Owned Firms, Women-Owned Firms and High-tech Firms,” (SBA Office of Advocacy, April 2013)

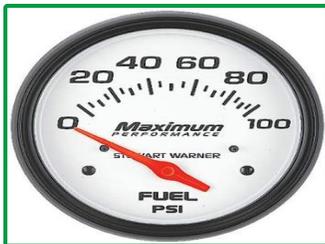
Inflection Point: Pressures Mounting for Change



1. Frustration on Main Street



2. Unintended Consequences of the High Costs of Compliance



3. Performance Expectations from All Capital Sources: Private, Public, Philanthropic, and "Impact"



4. Technology-enabled Innovation in Product Offers; Investment Models and Productivity Potential

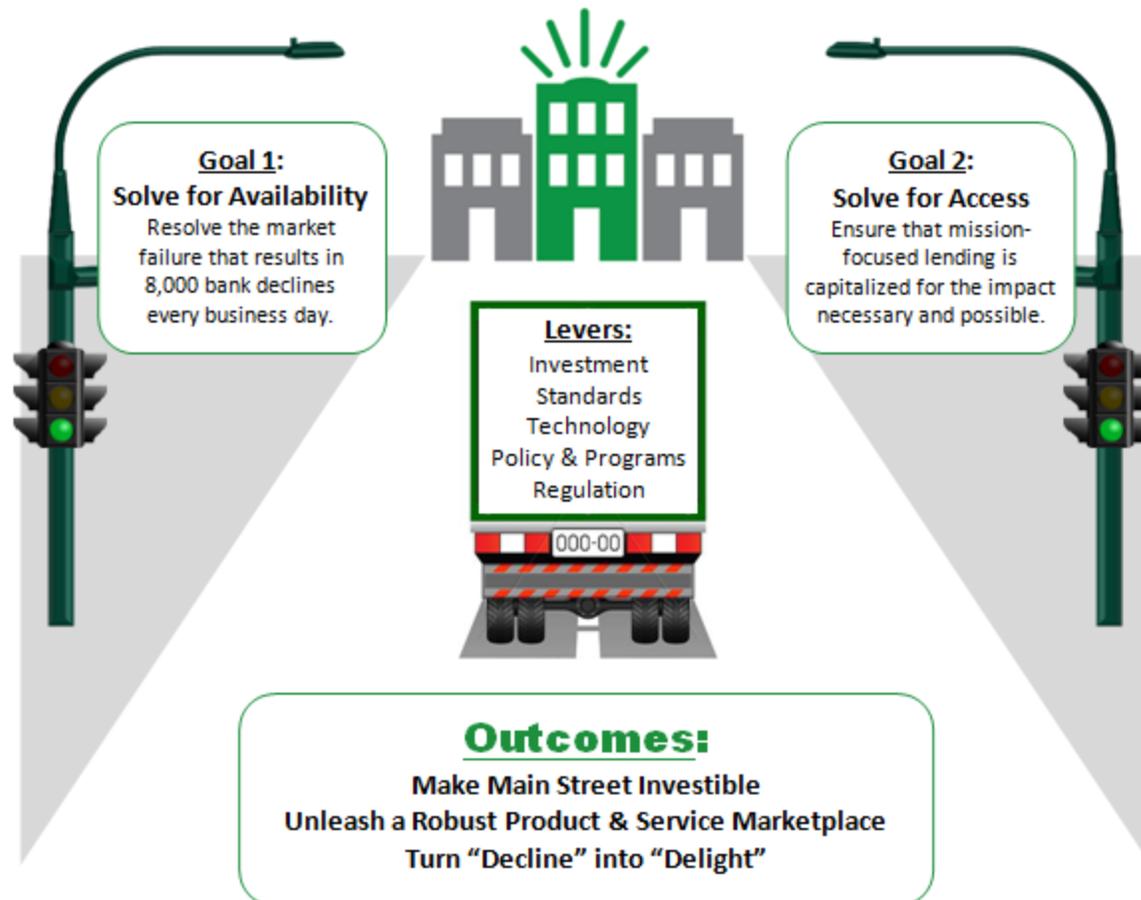
Micro Capital Task Force: Close the “Micro Capital” Gap

The Vision:

Move Money to Main Street in Every Community

Stakeholders:

Main Street Businesses, Commercial Banks, Community Banks,
Credit Unions, Loan Funds, Alternative Lenders,
Infrastructure & Data Providers, Investors,
Regulatory & Policy Makers



Micro Capital Task Force: Recommendations

- Reduce the operating costs of lending associated with originating, servicing, and collecting
- Accelerate development of new products and services through data access, data sharing and targeted investment
- Finance the development and delivery of proven business development support services on the path to capital (e.g. targeted “technical assistance” to support applicants prepare their businesses for capital)
- Reduce the time and expense of raising balance sheet capital and the cost of funds as methodically and quickly as possible
- Create mechanisms to absorb higher than expected costs in the early days of bringing new products to market (or accept higher market pricing)

Closing the “Micro Capital Gap” Requires Action

BANKS

- Connect declined customers to service providers that can prepare applicant for long-term banking services
- Pool CRA funding
- Safe harbor to try new products and connect credit technology products into their already scaled operating platforms

COMMUNITY LENDERS (CDFIs)

- Commit to principles and practices for impact, performance and sustainability
- Use data from “high touch” loan underwriting to enable to product development
- Develop and/or adopt standard but customizable solutions for declined applicants

PRIVATE INVESTORS

- Focus capital availability on scalable products, lowest cost originations and data exchange
- Benefits from financial & social returns of scale

FINANCIAL SYSTEM 2.0

PHILANTHROPY

- Commit to support for Main Street ecosystem as strategy for inclusive economic development
- Focus giving and investment on financial products and services with potential for scale / replication

CREDIT TECHNOLOGY COMPANIES

- Connect their products into community lenders and banks
- Connect to philanthropic and enhancement capital to lower costs during early stages of product development
- Connect to and contribute to common data platforms to increase the use of broad sets of data in product innovation

BUSINESS SERVICES PROVIDERS

- Develop and/or adopt standard but customizable solutions for declined applicants
- Commit to “pay for performance” models to support the Main Street business on the path to capital (e.g. 3-9 months from decline)

GOVERNMENT

- Use power to convene and regulate to ensure a suitable framework for Main Street

Action Plans Emerging

NOT EXHAUSTIVE– FOR DISCUSSION

Make Every Main Street Investible

- Create a Main Street window in the CDFI Fund to provide capital and targeted capacity building to a select set of high-impact/high-potential institutions including networks
- Mobilize and pool capital from financial institutions and other corporations, impact investors and philanthropy

Unleash a Robust Product & Service Marketplace

- Form networks for marketing, distribution and product development
- Define a framework and clarify goals, targets and metrics of business development services (aka “Technical Assistance”)
- Fund incubation and scaling of products, services and delivery models ranging from niche market credit products to business development services along the “Path to Capital”
- Permit each qualified program participant in government backed direct loan programs to set pricing in line with specific borrower profiles and market based conditions in its operating area

Turn “Decline” into “Delight”

- Enable Main Street business loan applicants to opt in to an automated referral network of approved lenders and service providers

Micro Capital Task Force: Structure

Micro Capital Task Force

Co-Chairs*: Connie Evans, President & CEO, AEO & Mitch Jacobs, Founder, Tech on Main

Working Group on Capital

Convenors*: Melissa Bradley, Managing Director, New Capitalist & Daniel Gorfine, Director, Financial Markets Policy, and Legal Counsel, Milken Institute

Working Group on Technology & “Big Data”

Convenor*: Matt Harris, Managing Director, Bain Capital Ventures

Working Group to Ensure Inclusion of Underserved Entrepreneurs

Convenors*: Ira Lieberman, Founding CEO, CGAP at the World Bank and President, LIPAM International & Grace Fricks, Access to Capital for Entrepreneurs, Inc. (ACE)

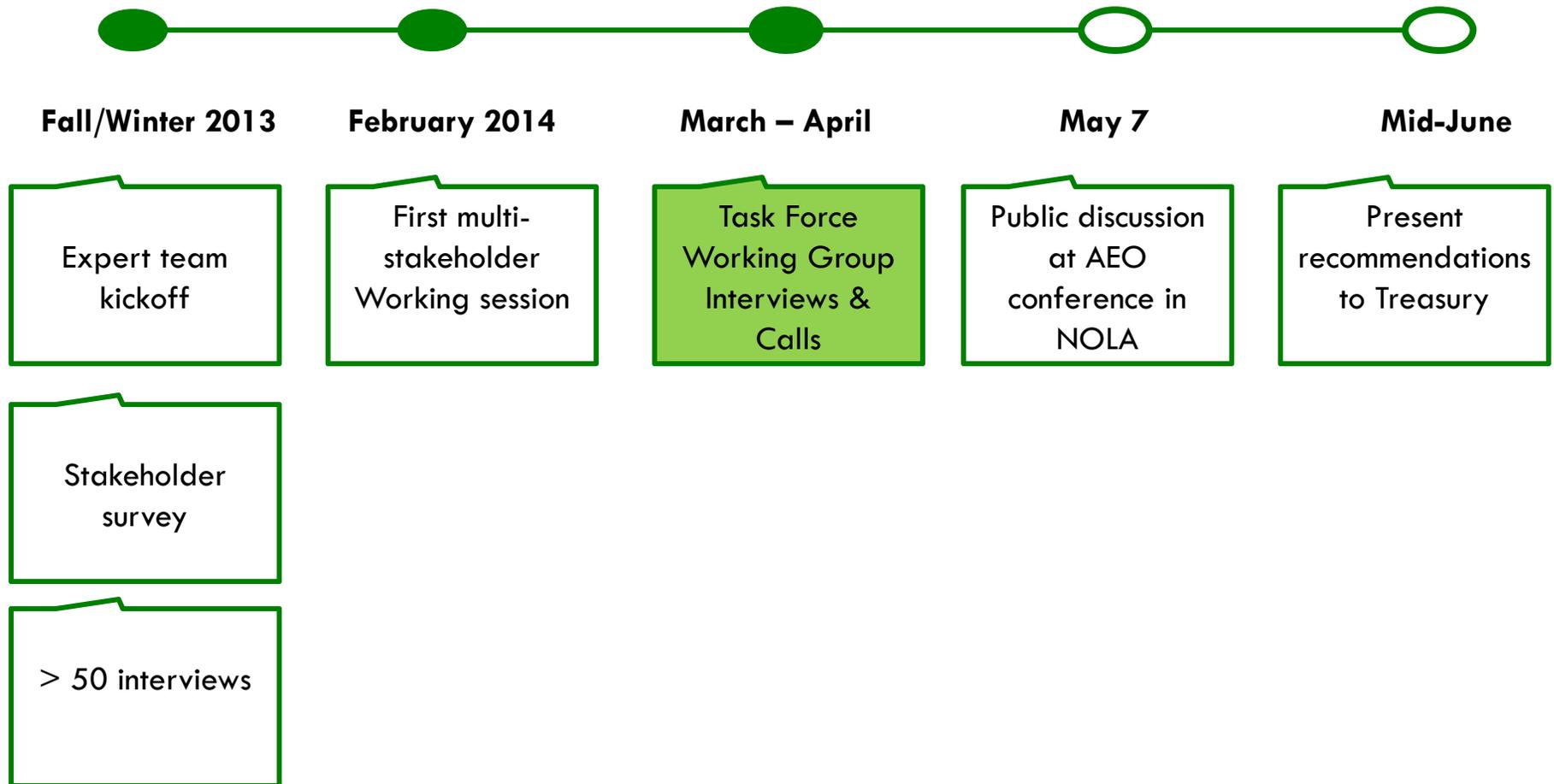


Micro Capital & Main Street Businesses: Scope

- “Micro Capital” defined as financing needs of up to \$250,000 for Main Street businesses
- Main Street businesses are the vast majority of the >25 million business establishments in the US
- Includes sole proprietors (e.g. solo); businesses with up to four employees (e.g. micro) and businesses with up to 50 employees (e.g. small)
- Several ways to characterize and segment:
 - **Number of employees:** Proxy for capacity
 - **Industry:** Broad range including construction, retail, services, etc.
 - **Age of business:** Less than one year operations to long established
 - **Growth aspirations of the owners**
 - **Geography**
- Capital needs include equity and credit building products (especially to start a business); short term or long-term working capital; and financing for major investments

Micro Capital Task Force: Process

 Today's discussion



Next Steps

- Participate in person at the **Micro Capital Task Force Summit** as part of the AEO conference in New Orleans on **7 May from 8am – 1 pm**
- Continue to share your feedback and ideas with the Task Force Working Groups and team
 - <https://aeoworks.wufoo.com/forms/micro-capital-task-force-your-recommendations/>
- Follow our progress and updates online from www.aeoworks
- Contact us with questions or feedback

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*Affiliations for identification purposes only. Does not indicate endorsement