



Community Advantage Overview SBA's Brand for Underserved Markets

U.S. Small Business Administration
Office of Economic Opportunity

OFN Small Business Finance Forum
June 2014

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Background on the CA Network

Community Advantage (CA) is a pilot program launched by the SBA in February 2011. It enables mission lenders to deliver government guaranteed loans to small business in underserved markets. In February 2013, the SBA's Office of Economic Opportunity (OEO) became the coordinating office for the CA Network.

Purpose:

- ▶ Increase access to credit for small businesses in underserved markets
 - ▶ Expand points of access to SBA loans through mission lenders
 - ▶ Manage risk by harnessing the experience of mission lenders, especially in underwriting and the provision of management and technical assistance
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Status as of June 2014

- ▶ Nationally, the program has 83 CA Lenders, who have approved 728 loans for \$98.6million
-

Who is eligible for Community Advantage?

As CA Lenders

- ▶ U.S. Treasury Certified Development Financial Institutions (CDFIs)
- ▶ SBA Certified Development Companies (CDCs)
- ▶ SBA Micro Loan Intermediaries

As Partners in the CA Network

- ▶ Lender Service Providers (LSPs)
 - ▶ Agents who carry out lender functions such as originating, disbursing, servicing or liquidating SBA loans for compensation
- ▶ Community Advantage Associates
 - ▶ Mission-oriented organizations that may act in partnership with a CA Lender to source and originate SBA loans

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Community Advantage Loan Parameters

Maximum loan size	• \$250,000
Maximum interest rate	• Prime + 6%
LLRF requirement	• 5% cash reserve on unguaranteed portion of loan
Markets served	• 60% of the number of CA loans must be in underserved markets
Management and technical assistance	• Encouraged when appropriate but not required

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Key Community Advantage Program Features



Percent of Guaranty	<ul style="list-style-type: none"> 85% guaranty for loans of \$150,000 or less 75% guaranty for loans greater than \$150,000
Maturity	<ul style="list-style-type: none"> Maximum of 10 years for working capital Maximum of 10 years or useful life for equipment Maximum of 25 years for real estate
Guaranty Fees	<ul style="list-style-type: none"> 0.25% for maturities ≤ 12 months (guaranteed portion) For maturities > 12 months <ul style="list-style-type: none"> 2.0% for CA loan ≤ \$150,000 (guaranteed portion, lender can retain ¼ fee) 3.0% for CA loan > \$150,000 (guaranteed portion, full fee paid to SBA) 0.55% on-going guaranty fee paid by lender


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Business Eligibility and Use of Proceeds



Business Eligibility	Use of Proceeds
<ul style="list-style-type: none"> ▶ Be an operating business ▶ Be organized for profit ▶ Be located in the United States (includes territories and possessions) ▶ Be small (as defined by SBA) ▶ Credit elsewhere i.e. Business demonstrates a need for the desired credit 	<ul style="list-style-type: none"> ▶ Working capital ▶ Furniture and fixtures ▶ Machinery and equipment ▶ Purchase of land and buildings, including construction and renovations ▶ Business acquisition ▶ Refinancing of existing debt* (Ex. SBA and USDA Microloans)

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Changes to CA Since Version 1.0

Version 2.0 changes (January 2012)

Change #1: CA Lenders may use Lender Service Providers (LSPs)

Change #2: Maximum spread over Prime Rate increased to 6 percentage points (from 4 points)

Change #3: Oversight strategy revised, simplified and typical cost substantially lowered (\$150 per \$ million gty.)

Version 3.0 changes (November 2012)

Change #4: Three-year extension of CA pilot to March 15, 2017

Change #5: Reserve requirements significantly reduced and clarified: base reserve now 5% on unguaranteed portion (down from 15%); additional reserve requirement of 3% of gty. balance sold in sec. mkt.

Change #6: Creation of CA Associates - For mission organizations that make CA loan referrals

Change #7: Ability to refinance microloans as CA loans – ‘graduation path’ for micro-borrowers

Change #8: Fidelity bond requirement reduced from \$2 million to \$500,000 for most CA Lenders

Change #9: CA guarantee purchase requests moved to processing centers focused on small loans

Change #10: USDA IRP loans (and other non-SBA gov’t grants and loans) can finance CA loans

Change #11: High capacity CA Lenders emerging as LSPs, thus lowering the cost of entry for new CA Lenders

Change #12: Updates to SBA Form 912 Statement of Personal History will greatly streamline the personal character inquiry for both loan applicants and lenders (criminal offense question limited to the past six months)

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CA Lender Application Process

1. Applicant collects information and certifications listed in Community Advantage Participant Guide located at: www.sba.gov/advantage (page 7).
2. Applicant completes SBA Form 2301, Part E, which can be found on www.sba.gov/for-lenders page of the SBA website, and required attachments.
3. Applicant sends application package to local SBA District Office. SBA District Office emails caloans@sba.gov to advise that an application is on the way.
4. SBA District Office forwards application package to Director, Office of Credit Risk Management for evaluation and final decision.

Brand Promise: A decision will be made no later than 45 days after SBA receives a complete application.

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Profile of Approved CA Applicants

Approved CA Lenders typically have the following qualities:

- ▶ Demonstrated relevant experience in small business lending
- ▶ Mentoring and technical assistance capability and/or established relationship with an outside provider
- ▶ A well developed business plan with a description of proposed service delivery area and a clearly explained plan for marketing and outreach
- ▶ Sufficient, clear & well documented loan policies and procedures
- ▶ **Unrestricted* net assets of \geq \$300,000 (~\$900k for Sec. Mkt.)**
- ▶ Ability to fund CA loans through cash, income, and/or a credit facility with a balance sheet and business plan strong enough to support CA
- ▶ Good standing with SBA/CDFI Fund and no material weakness audits

* Restricted to support lending included

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Successful CA Lender Best Practices



- ▶ Frequent meeting with stakeholders (Ex. SBA district office, local business associations)
- ▶ Marketing plan: BDO/LO meet face-to-face to develop quality relationships with borrower
- ▶ Have the right people
- ▶ Provide quality management and technical assistance to the borrower
- ▶ Contractors are better at the delivery of software specific education
- ▶ Loan administration software helps tremendously. Bank statement analysis can reveal tax and funding data to determine if a borrower meets criteria
- ▶ Outreach differences from rural to urban. Example: repeat phone calls to rural borrowers

Takeaways:

- ▶ High quality personnel: whether hired or contracted
- ▶ Quality production leads to a positive chain of events including free marketing and enhanced credibility
- ▶ Strong screening system: saves time and speeds up delivery
- ▶ Use of technology is crucial

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Examples of Mentoring and Technical Assistance



- ▶ Training opportunities
- ▶ One-on-one consulting/Counseling
- ▶ Reviewing business plans and cash flow projections
- ▶ Business assessment/evaluation: planning, sales and marketing, organization structure, management skills, accounting, budgeting
- ▶ Accounting system training; improve recordkeeping
- ▶ Regular site visitations
- ▶ Identifying and targeting new markets
- ▶ Identifying strategies for business growth
- ▶ Preparing for a bank loan
- ▶ Analyzing business financials

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So, what's in it for my Organization?

The Value Add of Community Advantage

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CA takes most of the risk out of small business lending.



- ▶ 75-85% guaranty on your small business loans
- ▶ Aligns with your goals in economic development and serving small business in your communities
- ▶ Can provide access to resource partners and other partners in the Network such as CA Associates and Lender Service Providers (LSPs)
- ▶ Improves likelihood of attracting new sources of funds via SBA's larger financial partners



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CA creates new revenue streams and enhances profitability.



- ✓ Accelerates revenue realization (loan sales)
 - That means for a 8% variable rate, 7 year loan, \$100,000 loan:
 - You sell the \$85,000 guaranteed portion
 - Investor gets full faith and credit and 7% interest (vs. 1.5% T-Bill)
 - Pays you **immediate profit of \$8,500**
 - You get \$85,000 to relend
 - You retain a 1% servicing fee on that \$85,000
 - You retain full interest spread on \$15,000
 - You get to **relend \$85,000** and start the process all over again!!!
- ✓ Fee income from loan sourcing (CA Associate)
 - Possible payment arrangements:
 - Flat finders fee for closed loans
 - Percent of the loan
 - Percent of ongoing revenue



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Secondary market premium can fund CA reserves and provide better ROC than a Microloan

\$100K CA Loan

- \$85K guaranteed
- \$15K unguaranteed

2 x \$50K Microloans

Microloan Intermediary required to maintain **\$15,000** in reserves on this amount. Compare this to just **\$3,300** in reserves for a CA Lender!

$\$8,500 - \$2,550 = \$5,950$
Lender maintains a 3% reserve on this portion

$\$5,590 - \$750 = \$5,200$
Lender maintains a 5% reserve on this portion

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CA offers the choice of whether to build or buy 7(a) lending expertise.

- ▶ You don't have to do it alone!
- ▶ Enlist Community Advantage Associate or Lender Service Provider (LSP)

ADVANTAGES?	Scale Economies	More Doors/More Stores
	Bigger Geographies	Boots on the Ground

CA Lender ↔ **CA Associate** ↔ **Small Business Borrower** ↔ **LSPs**

CA Associate

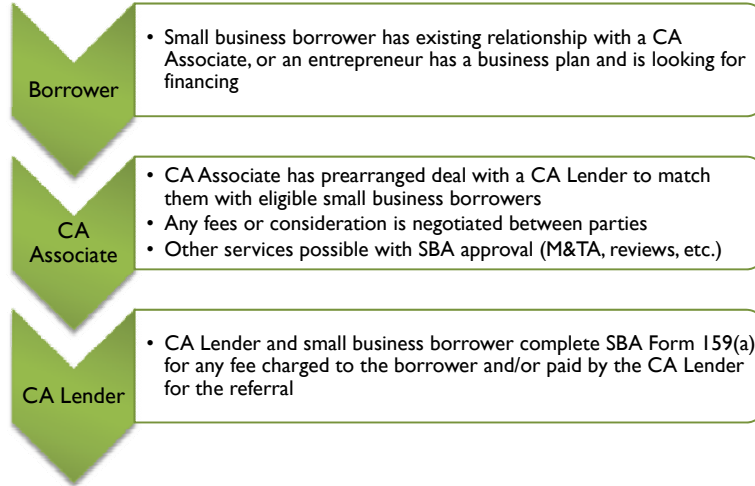
- Mission-based
- Sources loans
- Submit SBA Form 159

LSPs

- Commercial or Mission-focused providers
- Eligibility and Underwriting expertise
- Closing
- Reporting
- Process/service loans
- Servicing and Liquidation

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CA Associates provide the ability to source small business loans.



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CA provides the opportunity to tap into larger financial sources.



How are CA Lenders Funding Loans? Funding Sources:

- ▶ Grants, program related investments and warehouse lines of credits from commercial and investment banks. Financial partners include:

Bank of America *Grants *Warehouse Line of Credit *Program Related Investment	US Bank *Revolver
JP Morgan Chase *Program Related Investment *New Market Tax Credit	Wells Fargo *EQ2
Goldman Sachs *Grants, *Warehouse Line of Credit	Bangor Savings Bank *Warehouse Line of Credit

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Join the Community Advantage Network today!



The mission of the Office of Economic Opportunity (OEO) is to expand access to capital for small businesses and entrepreneurs in underserved communities, thus helping to drive economic growth and job creation.

CA Program HQ/OEO Contacts:

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Montana CDC



- Established in 1986
- Loan fund of \$25 million, roughly \$5 million in lending per year
- Community Advantage (CA), SBA Microloan
- First CA loan in January 2012
- 23 CA loans totaling \$3,399,211
- \$130,000 average loan size (all lending)

Bitterroot Gymnastics



David Stark, Missoula, Montana

Nova Café



Serena Rundberg, Bozeman, Montana