

# State Small Business Credit Initiative 2.0 | ECHo Working Group

A Technical Assistance Discussion

Alternative Capital Solutions to Engage California STO Bankers

# Subject Matter Experts

**Los Angeles LDC, Inc.** – is a minority led independent non-profit community development financial advisory firm with a mission to provide capital and advisory services to foster positive community development impacts in distressed neighborhoods by aligning the needs capital seekers and capital providers.



**Capital Access Group, LLC** – is a minority-owned consulting and financial innovation for the community and economic finance industries. It has a particular expertise in the creative use of public policy and structured finance to reduce the risk and cost of loans to emerging domestic market enterprise.



# California's Small Business Finance Challenge

Meeting California's equity, environmental and economic growth goals will require:

Large increases in small business lending and investment, especially in the minority-owned companies that create a disproportionate share of black and brown jobs and wealth

However, banks and other sources of small business finance are risk averse

Thus, the State needs to find new ways to reduce perceived small business finance risk.

# The State Small Business Credit Initiative

Established by the Small Business Jobs Act of 2010, the State Small Business Credit Initiative (SSBCI) provided nearly **\$1.5 billion** to states, to increase access to capital and entrepreneurship. SSBCI gave states significant flexibility to design programs that met local market conditions (SSBCI 1.0)

Reauthorized with **\$10 Billion** under Biden Administration - American Rescue Plan includes incentive funding for "Socially and Economically Disadvantaged Individuals" (SSBCI 2.0)

CA received and deployed **\$168 million** under SSBCI 1.0 and is allocated \$1.2 Billion under SSBCI 2.0

# Approved Products & Solutions

- ✓ Capital Access: CAPs - loan loss reserve program
- ✓ Loan Participation: LLPs - loan purchases whole or partial
- ✓ Loan Guarantee: LGPs - % loan guarantee to protect lender
- ✓ Collateral Support: CSPs - cash to lender for shortfall
- ✓ Venture Capital: VCPs - Equity ownership

# Targeted Program Outcomes

**Support Financing of Small  
Businesses**

**Deploy More Capital to Targeted  
Populations & Locations**

**Leverage New Financing (10:1)**

**Create or Retain Jobs**

# SSBCI 1.0 Results

## California SSBCI 1.0 Performance (Millions)

	SSBCI Funds Used	Total Financing	Leverage
Capital Access Program	\$19,500	\$337,400	17.30
Collateral Support Program	\$65,000	\$155,800	2.40
Loan Guarantee Program	\$83,000	\$558,600	6.73
	\$167,500	\$1,051,800	6.28

# How Lenders Enroll & Participate

- SSBCI-funded programs are administered by both the California Pollution Control Financing Authority (CPCFA), housed within the California State Treasurer's Office and the California Infrastructure and Economic Development Bank (IBank), housed in the Governor's Office of Business and Economic Development.
- CPCFA enrollment
  - [CPCFA CalCAP for Small Business](#)
- IBank enrollment
  - [Participating Lenders | California Infrastructure and Economic Development Bank \(Ibank\)](#)



# California: \$1.2 Billion Under SSBCI 2.0

The California Infrastructure and Economic Bank (IBank) will receive \$600 million

- \$400 million will be used for its Small Business Loan Guarantee Program—the state’s version of the SBA 7A program.
- \$200 million will be used for new venture capital programs—mainly targeting firms owned by “socially and economically disadvantaged individuals.”

The California State Treasurer’s Office will receive \$600 million for:

- The California Capital Access Program (CalCAP)
- The California Collateral Support Program (CSP)

# California's Underperformance Risk

Under SSBCI 1.0, California fell well short of Treasury's 10:1 leverage target

Just to achieve the same leverage as under SSBCI 1.0, the State will have to produce **\$5 billion more** in new financing

## California 2.0 Performance Forecast (Millions)

	SSBCI Funds Used	Total Financing	SSBCI 1.0 Results
Capital Access Program	\$138,000	\$2,387,753	\$337,400
Collateral Support Program	\$462,000	\$1,107,378	\$155,800
Loan Guarantee Program	\$400,000	\$2,692,048	\$558,600
	\$1,000,000	\$6,187,181	\$1,051,800

# A Three-Part Strategy for Solving Underperformance

## **Better Marketing - Mainly to Banks and Other Lenders**

Partner with providers of bank advisory and other services

Increase forums designed to educate lenders on programs

## **Design Improvements to Make Current Programs More Appealing to Lenders**

Seek rated backing for Loan Guarantee Program

Optimize synergies among programs (e.g. collateral support and loan guarantee)

## **Introduce New Programs**

# A Loan Participation Program Would Be a Valuable Addition



Centered on commercial real estate ownership—an important source of wealth accumulation



Large average size of real estate transactions would help solve underperformance

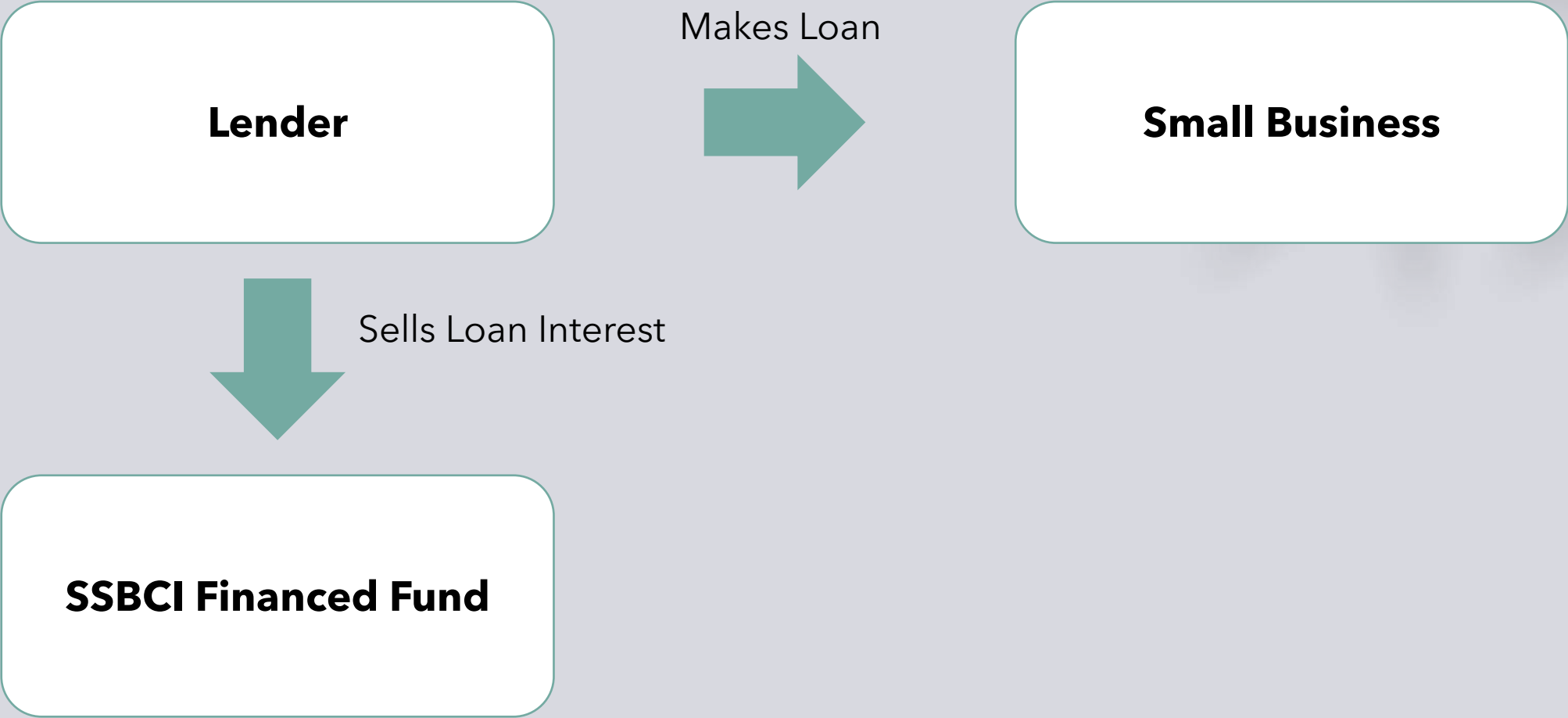


Could be modeled on SBA 504 program—with increased simplicity and broader reach.



Solid results from other states

# Conventional Loan Participation Model

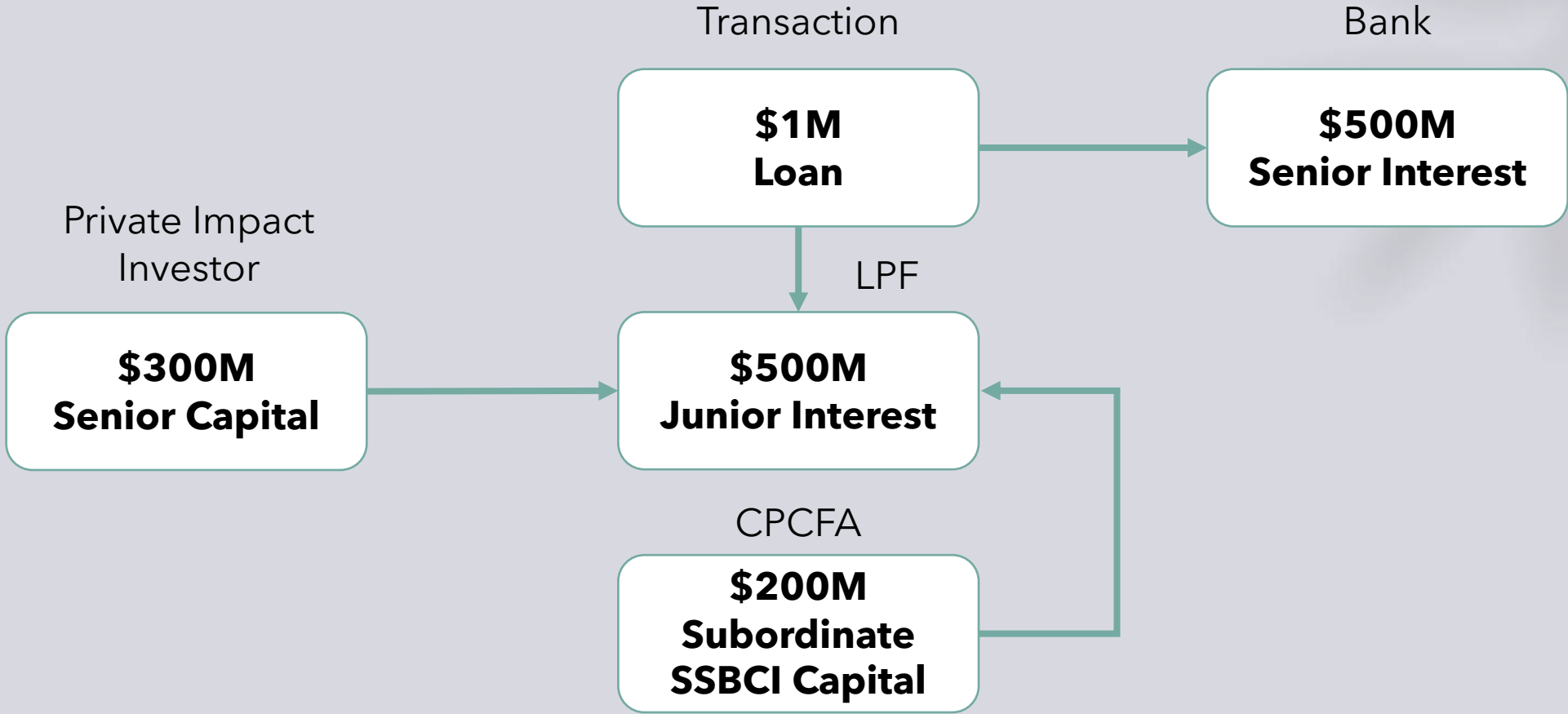


# A Loan Participation Fund Modeled on the SBA 504 Program Can Increase Minority Wealth

Comparative Analysis: \$1 Million Transaction (000)

	Conventional 504	LPP Fund
Senior Debt	\$500	\$500
SBA Debentures	\$400	
Private Junior Debt		\$250
SSBCI Funds	\$0.00	\$250
Owner's Equity	\$1,000	
	\$1,000	\$1,000

# Hypothetical LPF Transaction



# The State Small Business Credit Initiative (SSBCI): A Powerful Tool for Mitigating Small Business Risk

SSBCI is a U.S. Treasury Department program providing federal money to capitalize and recapitalize state small business loan, investment and guarantee programs.

Originally established by Obama Administration under Small Business Jobs Act of 2010 with \$1.5 billion in funding

Reauthorized with \$10 billion in funding under the Biden Administration's American Rescue Plan



# Informational Resources

- [State Small Business Credit Initiative \(SSBCI\) | U.S. Department of the Treasury](#)
- [SSBCI-Program-Evaluation-2016-Executive-Summary.pdf \(treasury.gov\)](#)
- [Annual-Report-FY-16-17.pdf \(ca.gov\)](#)
- [Los Angeles LDC, Inc.](#)