

CDFA Minority Capital Loan Guarantee Program



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CDFA Minority Capital Loan Guarantee Program 2023 Call for Proposals

OVERVIEW

The CDFA Minority Capital Loan Guarantee Program aims to expand capital access for socially or economically disadvantaged businesses. The program design combines a loan guarantee with adoption of intentional and socially conscious lending practices, targeted marketing, staff training, and community outreach to reduce barriers experienced by socially or economically disadvantaged businesses.

Development finance agencies (DFAs) committed to advancing racial and economic justice who participate in this Program can utilize the loan guarantee as they implement new lending practices to better reach socially or economically disadvantaged business owners. The more significant the changes put in place, the greater likelihood that the DFA will receive access to the maximum guarantee authority available.

This work also brings philanthropy into coordination with public finance in ways that target business owners with relatively limited access to capital. A loan guarantee program of this nature encourages DFAs to evaluate and alter current lending behaviors that may have created barriers for socially or economically disadvantaged borrowers in the past. By addressing behavioral change, DFAs can deploy capital for greater impact and drive more equitable community-based lending without overly compromising lending standards.

ELIGIBLE APPLICANTS

CDFA is seeking proposals from DFAs in the United States, U.S. Territories, and Native American Tribal Governments. DFAs should already have an existing direct lending program in place to support small businesses in the community(ies) they serve, or make it clear in their application how a direct lending program will be established. CDFA expects to select three DFAs as part of this process.

DEADLINES

February 7, 2023	Informational Webinar (Optional)
March 10, 2023	Proposals Due to CDFA
April 2023	Interviews with Selected Candidates
April 28, 2023	Final Selection

PARTNERS

Program Administrator:	Council of Development Finance Agencies, on behalf of CDFA SPV, LLC
Guarantee Manager:	LOCUS Impact Investing
Counsel to CDFA:	Ice Miller
Master Guarantor:	Robert Wood Johnson Foundation

KEY CONTACT

For CDFA:	Fawn Zimmerman, Director fzimmerman@cdfa.net 614-705-1305
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The CDFA Minority Capital Loan Guarantee Program aims to increase access to capital for businesses in communities that have been historically excluded from opportunity. With the support of the Robert Wood Johnson Foundation (RWJF), CDFA has developed a 10-year, \$18 million loan guarantee program to help development finance agencies (DFAs) in the United States deliver capital in a more equitable manner. RWJF is providing additional grant funds to support the training, continuing education, and technical assistance aspects of the Program.

ABOUT THE PROGRAM

The COVID-19 pandemic and accompanying economic crisis are widening the racial wealth gap in the U.S., and targeted strategies are urgently needed to interrupt the pattern.

With support from the Robert Wood Johnson Foundation (RWJF), CDFA researched the market demand for and feasibility of a targeted loan guarantee program that would emphasize expanding capital access for minority-owned businesses.

CDFA investigated the barriers that minority-owned businesses face when accessing capital and how a new loan guarantee program could improve lending practices. This initiative included surveying existing loan funds, interviewing state and local development finance agencies (DFAs), and researching similar loan guarantee programs operated by DFAs.

Findings from this study were used to design a holistic program that would pair a loan guarantee with flexible, character-based lending criteria as well as resources for targeted marketing, staff training, and/or outreach to minority borrowers. Participating DFAs must already be dedicated to addressing racial justice in their lending, and this loan guarantee would offer a comprehensive tool to support them in that goal.

GOALS OF THE PROGRAM

The CDFA Minority Capital Loan Guarantee Program aims to reduce lending bias by working with DFAs to adopt more flexible, character-based lending criteria to mitigate perceived gaps in a borrower's credit history or worthiness. The Program has two main goals:

- To increase capital flowing to minority-owned businesses by modifying outreach, engagement, and lending behavior through the implementation of a guarantee structure to mitigate real and/or perceived risks.
- To promote racial, gender, and economic equity and fundamental improvements in the long-term health, social, environmental, and economic outcomes of the underserved individuals and communities served by the DFAs.

To achieve these goals, the CDFA Minority Capital Loan Guarantee Program provides a guarantee of up to 75% on loan amounts up to \$250,000. Loans must be made by DFAs to eligible businesses as outlined in the Program Policies and Underwriting Guidelines. CDFA can select up to six DFAs to participate in the Program, each receiving up to \$3 million of guarantee authority. In addition, grant funds are available to each DFA to support technical assistance activities for targeted marketing to minority-owned businesses, staff training around cultural competency, community outreach efforts, and/or other improvements to their lending pipeline.

To date, three DFAs have already been selected: Development Finance Authority of Summit County (Ohio), Milwaukee Economic Development Corporation (Wisconsin), and Tucson Industrial Development Authority (Arizona). CDFA is now calling for proposals from DFAs who would like to be selected for the second tranche of the Program.

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ELIGIBILITY REQUIREMENTS

The CDFA Minority Capital Loan Guarantee Program is open to development finance agencies (DFAs) and other non-profit lenders who are committed to advancing racial and economic justice. DFAs must have their own capital to lend or have a clear plan for how they will build a lending program.

Participating DFAs will receive technical assistance from CDFA and our partners to evaluate and alter their current lending behaviors that may have created barriers for socially or economically disadvantaged borrowers in the past. Once a formal Behavioral Change Strategy is approved and in place, DFAs will receive up to \$3 million of guarantee authority along with supplementary grant funding to support their engagement in the educational and technical assistance components of the Program. DFAs must agree to abide by the financial and program reporting guidelines in order to maintain their participation in the Program.

PROPOSAL REQUIREMENTS

To be considered for the CDFA Minority Capital Loan Guarantee Program, DFAs should carefully review the following requirements before submitting a proposal. Only complete proposals will be reviewed.

- ☐ Cover letter
- ☐ Description of existing (or proposed) lending program
- ☐ Overview of current lending portfolio
- ☐ Goals for participation in the CDFA Minority Capital Loan Guarantee Program
- ☐ Philosophy of racial equity across the organization and within lending programs
- ☐ Projected use of available grant funds
- ☐ Key contacts with contact information and explanation of their roles

In general, proposals should help us learn more about your organization and existing lending practices. Describe the strengths and weaknesses of your organization, the challenges you have faced in delivering capital to underserved small business owners, and why a loan guarantee program will help you overcome these challenges.

Details about the structure of the Program and ongoing requirements for participation are provided in Pages 4-8. This information should be used to evaluate how your DFA will engage in the Program.

SUBMISSION REQUIREMENTS

Submissions will only be accepted by email to fzimmerman@cdfa.net through March 10, 2023. There is no application fee. Selected candidates will be invited to a virtual interview to be held in April 2023. Being selected for an interview does not guarantee acceptance into the Program. Organizations selected for the Program will be notified by April 28, 2023 and should be prepared to attend the first virtual meeting in May 2023.

ADDITIONAL INFORMATION

To learn more about the Program and ask questions about submissions, please attend one of the following:

Informational Webinar: Tuesday, February 7, 2023 at 2:00pm (Eastern)
Open Q&A with CDFA staff: Monday, February 13, 2023 at 3:00pm (Eastern)
Open Q&A with CDFA staff: Thursday, February 23, 2023 at 11:00am (Eastern)
Open Q&A with CDFA staff: Monday, February 27 at 4:00pm (Eastern)
Open Q&A with CDFA staff: Wednesday, March 8 at 12:00pm (Eastern)

To attend an Open Q&A, email fzimmerman@cdfa.net to request meeting information.

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Program Grants & Fees

GRANTS

DFAs selected to participate in the CDFA Minority Capital Loan Guarantee Program will be eligible for up to \$150K in grants from CDFA, provided as \$50K per year during the active lending period. DFAs can use grant funds for a variety of expenses related to their engagement as described in the Program Policies and Underwriting Guidelines.

In general, DFAs should be prepared to build a yearly grant budget that includes:

- Personnel expenses for staff participating in the Program
- Travel expenses to attend two in-person meetings each year: one at the CDFA offices in Columbus, OH and one at the CDFA National Development Finance Summit (location varies)
- Registration fees to attend an annual training program from CDFA, to include 4-5 virtual meetings
- Registration fees to attend the CDFA National Development Finance Summit
- Potential legal or accounting expenses related to participation in the Program
- Other expenses can be included as approved by CDFA

FEES

DFAs participating in the CDFA Minority Capital Loan Guarantee Program will pay an annual guarantee fee. This fee will be paid to CDFA, who will in turn submit all collected fees to the Robert Wood Johnson Foundation. Each DFA will pay a fee equal to 1% of their guarantee authority. If a DFA receives the maximum authority of \$3 million, they will pay a \$30K annual fee. Details about this fee are provided in the Program Policies and Underwriting Guidelines as well as in the guarantee agreement.

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Behavioral Change Strategy

DFAs selected to participate in the CDFA Minority Capital Loan Guarantee Program will be required to develop a Behavioral Change Strategy to guide their engagement in the Program. This document will help CDFA, our partners, the DFA, and the Foundation track and study progress made based on certain changes as they are implemented.

Elements to be included in the Behavioral Change Strategy include:

- Overview of current lending practices and limitations for engaging socially and economically disadvantaged businesses
- Explanation of why the DFA is participating in the Program along with expected and/or intended impacts from participating in the Program
- Overview of new lending program being initiated or expanded
- Staff actions needed to develop program
- Specific lending policies and/or underwriting criteria and practices that will change
- Broader community impacts the DFA hopes to achieve

The more significant the changes put in place, the greater likelihood that the DFA will receive access to the maximum guarantee authority provided through this Program.

CONTINUING EDUCATION

DFAs selected to participate in the CDFA Minority Capital Loan Guarantee Program will be required to participate in a comprehensive continuing education plan provided by CDFA. Actives will include:

- In-person and virtual workshops to build the Behavioral Change Strategy
- Workshop at the CDFA National Development Finance Summit
- Annual training program
- Engagement in the CDFA Equitable Capital Technology (EC-Tech) Initiative and implementation of new software programs

IMPACT SCORECARD

CDFA has developed a proprietary Impact Scorecard to guide the overall development of the CDFA Minority Capital Loan Guarantee Program. DFAs selected to participate in the Program will be scored annually to track their progress in achieving elements of the Behavioral Change Strategy. Routine meetings with CDFA and the DFA cohort will be held to evaluate progress and consider strategies for addressing areas that need attention.

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Formal Application Criteria

APPLICATION

DFA's selected to participate in the CDFA Minority Capital Loan Guarantee Program will be required to submit the following documents to formally apply for the Program. If certain documents cannot be provided, a statement explaining why they are missing may be acceptable.

About the DFA

- ☐ Mission statement
- ☐ Most recent annual report
- ☐ Current marketing plans with accompanying marketing materials
- ☐ Current strategic plan
- ☐ One page review of economic development projects accomplished over the last 3 years (if not already included in the annual report)

Staffing

- ☐ Resumes or short bios for executive and senior staff (as it relates to participation in the Program)
- ☐ Organizational chart
- ☐ Entity organizational chart (if lending unit is a separate subsidiary and/or affiliate)
- ☐ List staffing for proposed program (new and/or existing)
- ☐ Review of significant changes to staff leadership or organizational structure over the last 3 years
- ☐ Certification that all employees have participated in ethics and diversity training in the past 3 years

Financials

- ☐ Last Audited financial statement, compilation, review, or equivalent financial disclosure
- ☐ Minutes from the last two Loan Committee Meetings
- ☐ Annual budget
- ☐ Year-end financial reports
- ☐ Most recent IRS Form 990 (if applicable)

Lending Practices

- ☐ List any partner organizations used to conduct lending (community partners and/or affiliates)
- ☐ List expected annual volume (# and \$ of loans over x number of deployment years)
- ☐ Existing small business lending credit policy
- ☐ Demographics of existing lending portfolio
- ☐ Annual small business loan production
- ☐ History of write-offs at organization
- ☐ Information on loan accounting and/or impact reporting systems used

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Ongoing Reporting Requirements

QUARTERLY REPORTS

DFAs selected to participate in the CDFA Minority Capital Loan Guarantee Program will be required to submit the following documents each quarter for the entirety of their time enrolled in the Program. If certain documents cannot be provided, a statement explaining why they are missing may be acceptable.

DFA Financials

- ☐ Financial statements
- ☐ Income statements
- ☐ Balance sheets
- ☐ Profit/Loss statements
- ☐ Tax returns
- ☐ Cash flow statement

Guarantee Loan Portfolio

- ☐ Portfolio documents
- ☐ Problem Loan Report with 30/60/90 delinquencies
- ☐ Active/Current loans
- ☐ Loans approved
- ☐ Loans funded
- ☐ Loans closed
- ☐ Repayment schedules
- ☐ Demographics of borrowers

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ANNUAL REPORT

DFAs selected to participate in the CDFA Minority Capital Loan Guarantee Program will be required to submit an annual report for the entirety of their time enrolled in the Program. If certain documents cannot be provided, a statement explaining why they are missing may be acceptable.

Narrative Report

- ☐ Program Engagement (overview of application and marketing materials, community outreach/engagement, staff representation, training completed, etc.)
- ☐ Impact Report (evaluation of performance based on Behavioral Change Strategy)
- ☐ Portfolio Report (pipeline development, loan products, underwriting processes, and at least one case study with picture)
- ☐ Financial Report (average loan performance, amount of guarantee in use, etc.)

DFA Financials

- ☐ Financial statements
- ☐ Income statements
- ☐ Balance sheets
- ☐ Profit/Loss statements
- ☐ Tax returns
- ☐ Cash flow statement
- ☐ Audit

Program Information

- ☐ Risk mitigation activities
- ☐ Use of grant funds
- ☐ Wrap-up reports