LISC
LOCAL INITIATIVES
SUPPORT CORPORATION

June 4, 2021

Jeffrey Stout
Director, Office of Federal Program Finance
US Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Re: State Small Business Credit Initiative — Notice and Request for Information (TREAS-DO-2021-0009)

Dear Director Stout:

The Local Initiatives Support Corporation (LISC) thanks the US Department of the Treasury (Treasury) for the opportunity to provide feedback on the State Small Business Credit Initiative (SSBCI) reauthorized under the American Rescue Plan (H.R.1319). The program's reauthorization, commonly referred to as SSBCI 2.0, provides a unique opportunity to support and scale equitable small business ecosystems across the nation. We appreciate Treasury's ongoing efforts on the SSBCI program design and implementation to better support new and existing small businesses and aid recovery from the economic effects of the COVID-19 pandemic through enhanced access to capital and technical assistance programs. LISC recognizes the critical need for continued engagement with small business stakeholders, particularly community development financial institutions, as essential to ensuring equitable delivery of capital and technical assistance as the development of rules and guidance occurs.

Background on LISC

Established in 1979, LISC is a national nonprofit housing and community development organization and certified community development financial institution (CDFI) with offices in 36 cities throughout the country and a rural network encompassing 92 partners serving 45 different states and Puerto Rico. LISC's work supports a wide range of activities, including affordable housing, economic development, building family wealth and incomes, education, community safety, and community health. LISC mobilizes corporate, government, and philanthropic support to provide local community development organizations with loans, grants, equity investments, technical assistance, and policy support. In 2020 alone, LISC invested more than $2 billion in grants, loans, and equity and leveraged an additional $4.6 billion throughout the United States with a clear focus on addressing socioeconomic and racial disparities.

Small business lending is an essential instrument in LISC's community and economic development toolkit. Our inclusive economic development framework enhances the ability of people, places, and businesses to achieve shared prosperity. As one of the largest CDFIs in the nation, we work in partnership with local grassroots groups, community-based organizations, financial institutions, and government agencies to finance programs and projects that leave a positive long-term impact. LISC also supports the development of more extensive coordinated assistance networks for enterprises overlooked by conventional financing channels such as businesses in low- and moderate-income communities and businesses owned by veterans, women, and minority entrepreneurs.

LISC supports job growth in underserved communities in urban and rural areas by helping equip local businesses with the resources they need to grow. We provide direct financing while also building out extensive networks of coordinated assistance for small enterprises overlooked by conventional financing channels. A LISC affiliate, immito, specializes in SBA 7a lending and provided over $50 million of Paycheck Protection Program (PPP) loans to 292 small businesses and nonprofits during the pandemic. LISC Strategic Investments, LISC's national fund management business group, leads our managed impact investment funds, community investment accelerators, and equity investments focused on supporting undeserved businesses. LISC and its affiliates collectively provided $400 million in loans, grants and technical assistance funding to over 26,000 small businesses in 2020. LISC closed 1,077 loans, of which 56 percent supported majority minority-owned and run entities.

With four decades of experience investing in communities' social and economic infrastructure, LISC can reach people whom the conventional financial market does not directly serve. LISC's track record and community-based partners throughout the country give us great insight into how to leverage the additional SSBCI resources to meet the needs of historically underserved entrepreneurs and communities.

Specific Comments

We are pleased to offer comments to several questions posed in the Notice and Request for Information. We offer these comments informed by our experience as a small business lender and through our work dedicated to expanding the capacity of smaller community-based financial institutions across the nation. LISC appreciates Treasury's consideration of comments to inform the allocation of technical assistance funding to states, territories, and Tribal governments, the Minority Business Development Agency (MBDA), and programs implemented directly by Treasury.

LISC is strongly supportive of the SSBCI program and recommends that Treasury adopt necessary updates to policy guidelines to ensure that federal resources reach historically disinvested and underserved communities and entrepreneurs by encouraging states to proactively partner with Community Development Financial Institutions (CDFIs).

1. What changes should Treasury make to the policy guidelines last updated in 2014 (available here) to enable the use of SSBCI to expand access to capital for small businesses in the current economic environment?

LISC appreciates Treasury's reconsideration of the SSBCI guidelines to meet the legislative intent outlined in reauthorization "to provide support to small businesses responding to and recovering from the economic effects of the COVID–19 pandemic." LISC encourages Treasury to specifically consider changes that replace outdated practices and guidance that may limit the ability of the SSBCI 2.0 program to meet the unprecedented needs of the current economic environment. The scale of small business lending and investments has also shifted, and updated guidance from Treasury is necessary to reflect the current market accurately.

Local Initiatives Support Corporation 501 Seventh Ave., 7th Floor, New York, NY 10018 • T 212.455.9800 • lisc.org

LISC recommends that Treasury issue guidance that requires states to provide, as part of their state plans, an analysis of their prior programs' effectiveness in facilitating inclusive capital access; as well as the measures they intend to take in their new plans to target resources to underserved businesses and communities. Treasury should facilitate active reconsideration of programs pursued at the state level to ensure states do not simply reallocate funding to existing fund structures that may not adequately meet the needs of the current economic environment. The robust federal authorization, over six times as large as the original, provides a unique opportunity to reimagine how SSBCI can be deployed; particularly to the extent that Treasury requires states to undertake a robust analysis of current market gaps and develop programs that meet outstanding capital challenges.

LISC also advises Treasury to encourage states to adopt a comprehensive portfolio of programs to support existing and aspiring entrepreneurs. It is critical that states include information on how one or more of the programs developed is specifically designed for socially and economically disadvantaged businesses as part of their plan. Treasury should also consider requiring states to describe how these dedicated programs will be integrated with targeted technical assistance – either through existing Small Business Administration and Minority Business Development Agency resource centers, or in partnership with community-based organizations to ensure equitable access. LISC recognizes the need for enhanced flexibility that enables states to more nimbly tailor SSBCI programs to meet local needs. However, we encourage Treasury to ensure that minimum standards and outcomes are established in accordance with legislative intent. Treasury, small businesses, and other stakeholders would be best served by adopting consistent and transparent guidelines that are streamlined to more readily encourage the flow of capital.

To close financing gaps, it is imperative that Treasury addresses obstacles to efficient distributions of SSBCI funding and streamline standards for approvals at the state level to retain small business customers. LISC encourages Treasury to adopt a broad definition to determine whether states have expended, transferred, or obligated 80 percent or more of the previous one-third disbursement , and to clarify that investments in CDFIs for small business lending meet these obligations at the time of such transfer, provided that the state can document that it has requirements in place for the CDFI to deploy the funds within a reasonable time period. Treasury should also clarify funds expended, transferred, or obligated to small businesses directly are included in meeting the 80 percent threshold for subsequent disbursements.

Standardized guidance from Treasury on minimum standards for states to enroll transactions into eligible programs would address delays in approvals. While LISC understands that SSBCI transactions must meet requirements outlined by the legislation and the agency itself, we encourage Treasury to consider how updated guidelines can be used to enhance transparency and mutual understanding of baseline requirements to further expedite an equitable economic recovery.

Local Initiatives Support Corporation 501 Seventh Ave., 7th Floor, New York, NY 10018 • **T** 212.455.9800 • lisc.org

Leveraging CDFIs

CDFIs are uniquely positioned to increase SSBCI's reach into low and moderate-income communities and to enhance the program's ability to serve smaller, disadvantaged businesses with small-dollar loans. Evaluations have found CDFIs to be a proven SSBCI partner, making the smallest loans and serving the smallest businesses with demonstrated results.

During SSBCI 1.0, CDFIs accounted for 51 percent of all transactions, and in total loaned and invested $630 million through the SSBCI with 46 percent of their activity occurring in LMI areas. By comparison, non-CDFI lenders and investors deployed 32 percent of funds to small businesses in LMI areas. Treasury can expand upon these proven efforts by prioritizing the number of proposed transactions to ensure states intentionally reach SEDI businesses, many of whom are seeking loans of less than $100,000. Treasury should consider tiered reporting requirements to minimize administrative burden and incentivize small-dollar transactions amongst lenders and borrowers, which will help speed the delivery of capital to SEDI businesses.

It is therefore imperative that Treasury consider and support an active role for CDFIs in administering and deploying SSBCI capital as updates to policy guidance occur. LISC recommends that Treasury consider establishing an external advisory board to advise on the rollout and continued deployment of SSBCI funds that includes members of CDFIs and other community-based organizations to ensure SSBCI meets the needs of disadvantaged and very small businesses. In doing so, Treasury would signal the critical role of CDFIs in supporting states to effectively and equitably distribute the expanded federal resources. Furthermore, this body could facilitate knowledge sharing to further develop and distill best practices and lessons learned between states and their CDFI partners. LISC also encourages Treasury to partner with the CDFI Fund by providing administrative resources to enhance the provision of technical assistance to state administrative agencies and to CDFIs to address knowledge limitations that previously hindered CDFI participation.

Treasury should maintain an explicit emphasis on CDFI engagement and participation within state applications and plans. LISC is concerned that without intentional efforts and guidance from Treasury to encourage states to partner with CDFIs, states may default to existing SSBCI 1.0 programs and partnerships that in many cases did not actively engage CDFI lenders. States should disclose the number and names of CDFIs consulted compared to the CDFIs domiciled in their state, staffing plans to continue coordination with CDFIs as the program unfolds, and experience working with CDFIs to expand access to capital equitably. Treasury can aid in this effort by providing direct references to existing case studies and reports that highlight the critical role CDFIs can play in delivering SSBCI programs within updated guidance.

LISC urges Treasury to specifically consider how states' proposed programs will leverage CDFI capacity *for primary allocations,* and not limit CDFI participation solely to the established set-asides and incentive funding for socially and economically disadvantaged individuals (SEDI business). To this end, LISC recommends that Treasury clearly establish and require states to deem certified CDFIs as eligible financial institutions for all SSBCI programs and avoid inadvertent or explicit bars. An active role by Treasury on this issue would help ensure that outdated domicile requirements do not inadvertently restrict access to CDFIs operating within a state that is not headquartered or domiciled in the same state. CDFIs have a proven ability to reach historically underserved markets and SEDI businesses, and

Local Initiatives Support Corporation 501 Seventh Ave., 7th Floor, New York, NY 10018 • **T** 212.455.9800 • lisc.org

Treasury should consider guidelines that indicate state partnerships with CDFIs will be given favorable consideration.

2. What changes should Treasury make to the policy guidelines last updated in 2014 (available here) to enable use of SSBCI to promote access to capital for diverse businesses, including SEDI businesses and Very Small Businesses?

LISC appreciates Treasury's reconsideration of the SSBCI policy guidelines to meet the legislative intent outlined in reauthorization by ensuring "business enterprises owned and controlled by socially and economically disadvantaged individuals have access to credit and investments."

An inclusive SSBCI framework requires financing for small businesses, microbusinesses, and non-employer businesses alike to support entrepreneurs meaningfully at each stage of their companies. Microbusinesses account for 95 percent of Black-owned businesses and 91 percent of Latino-owned businesses, while women and people of color account for more than 70 percent of non-employer businesses. By accounting for the needs of very-small businesses or microbusinesses and owner-operated businesses, Treasury can also increase SSBCI participation for businesses owned by women and people of color. LISC recommends that Treasury take an active approach in meeting the legislative intent for the SSBCI program to better serve socially and economically disadvantaged individuals (SEDI businesses). The Small Business Act (USC 637) defines SEDI businesses as those that are majority-owned by entrepreneurs "who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities or socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged."

LISC urges Treasury to issue policy guidelines that incentivize states to partner with institutions that specifically serve and have demonstrated the ability to identify and meet underserved businesses' needs successfully. As noted previously, CDFIs are a natural partner for increasing access to capital for SEDI businesses and very small businesses with a proven track record of directing SSBCI capital into low-income and rural communities. Therefore, LISC recommends that Treasury clearly establish and require states to deem certified CDFIs as eligible financial institutions for all SSBCI programs and avoid inadvertent or explicit bars; since CDFIs are the financing entities most likely to have the strongest relationship with SEDI businesses. Treasury should also encourage and incentivize partnerships with Minority Business Development Agencies, ethnic chambers of commerce, and other locally based organizations that specialize in serving SEDI businesses.

Treasury needs to incentivize states to develop and utilize alternative credit models in coordination with their partners as a critical means of promoting access to capital for diverse businesses, including SEDI businesses and very small businesses. LISC encourages Treasury to consider guidance that would help facilitate this development. We are concerned that without further direction many of these businesses will continue to face challenges accessing capital, given long-standing socioeconomic inequities which COVID-19 has exacerbated and associated negative impacts on credit histories. Expanded adoption of alternative credit models would help overcome these challenges and ensure our smallest and historically underserved businesses, particularly within communities of color, have access to the support and assistance they need to emerge resiliently.

Local Initiatives Support Corporation 501 Seventh Ave., 7th Floor, New York, NY 10018 • **T** 212.455.9800 • lisc.org

Treasury should also specifically consider the needs of microbusinesses and owner-operated businesses to ensure equitable access to capital, facilitating employment and asset-building opportunities, and strengthening local economies. LISC recommends that Treasury reassess policy guidelines that unnecessarily restrict access to capital for SEDI businesses. Specifically, we urge Treasury to allow for the use of SSBCI funds to refinance eligible debt by removing the requirement that the original lender must be SSBCI qualified. High-cost debt, particularly through the pandemic, is disproportionally burdening SEDI businesses. Transfers to affordable debt products must be included as eligible transactions so long as the previously incurred debt is directly related to necessary small-business expenditures. SSBCI authorizing language does not necessarily restrict refinancing activities, and LISC encourages Treasury to revisit this interpretation as a means of advancing equity within SSBCI 2.0.

LISC also encourages Treasury to consider establishing an interest rate cap of 36 percent Annual Percentage Rate (APR) for all financing products funded through SSBCI. Loans with excessively high interest rates and usage fees make it difficult for borrowers to obtain and successfully pay off the debt, allowing lenders to earn exorbitant profits on interest and fees—removing billions in annual household income nationwide, exacerbating racial wealth inequalities. Treasury can help ensure SSBCI funded products are affordable and responsibly offered to SEDI businesses by instituting a federal standard through a rate cap. A cap of 36 percent builds on the proven lending protections and examinations established under the Military Lending Act (MLA).

Finally, LISC supports the comments submitted by Partners for Rural Transformation and recommends Treasury consider these recommendations on how SSBCI can better serve persistent poverty communities.

3. How should Treasury ensure effective use of the TA allocation to support SEDI businesses' and Very Small Businesses' access SSBCI capital or other capital?

Small businesses thrive when they have access to capital and technical assistance. With this in mind, LISC encourages Treasury to adopt policies that will effectively use the technical assistance (TA) allocation to support SEDI businesses and very small businesses.

LISC encourages Treasury to broadly interpret the legislative language allowing for contracts "with legal, accounting, and financial advisory firms" to be inclusive of all nonprofit organizations that provide high-quality technical assistance to SEDI businesses and very small businesses. Treasury can help ensure an effective TA allocation and meet legislative intent by providing these resources directly to states and nonprofit intermediary organizations dedicated to fostering equitable access to capital and supporting the provision of one-on-one coaching for small businesses. Treasury should consider splitting the TA allocation to ensure each state receives a minimum allocation of TA resources, and set-aside a smaller amount to leverage the existing network of trusted nonprofit intermediaries, with deep roots to locally-based community and economic development partners, to quickly and efficiently deploy funding to support technical assistance through a competitive grant program.

Place-based business development organizations provide direct support to address disparities in opportunity by connecting SEDI businesses and very small businesses to training, resources, and capital they might not access otherwise. Throughout the pandemic, many of these groups have been on the frontline of support for hardest-hit entrepreneurs: providing assistance on grant and loan applications, offering information on pandemic restrictions, providing training and education on shifting business models, and financing physical interventions to floorplans and outdoor seating. Treasury can scale this work through partnerships that leverage their cultural competence and proximity to deliver in-depth one-on-one TA tailored to the unique business needs and that of the local market to meet the entrepreneur's needs.

LISC recommends that technical assistance delivery is not explicitly tied to SSBCI outcomes and that states should receive these allocations separately from their capital sources. We greatly appreciate the efforts of the Minority Business Development Agency (MBDA) in expanding access to opportunity for minority-owned businesses through a variety of programs and technical assistance. Regarding Treasury's question on direct TA allocations to the MBDA, LISC is concerned that solely relying upon the MBDA network might leave out many geographies, including rural communities, that don't have access to a Minority Business Development Center. As such, we encourage Treasury to consider the potential role of place and community-based business development organizations in delivering technical assistance that is culturally relevant and linguistically accessible to SEDI businesses and very small businesses. In either case, Treasury should include language that indicates SEDI businesses and nonprofit organizations shall be given priority as competitive awards are made.

4. What data should Treasury require from States, Territories, and Tribal governments in regular reporting on their performance and activities that would ensure compliance and provide meaningful information on results to inform the public, policymakers, and others?

LISC recommends that Treasury coordinate with the US Department of Treasury's CDFI Fund and the Consumer Financial Protection Bureau to ensure SSBCI data collection is aligned with the CDFI Fund and forthcoming Section 1071 reporting requirements. Treasury can further scale investments in SEDI businesses by authorizing the CDFI Fund to include SSBCI transactions in determining a CDFI's target market, regardless of geography, similar to PPP transactions. This alignment would encourage CDFI participation through streamlined reporting that decreases administrative burdens and increases time staff can spend with borrowers, expanding the number of SEDI and very small business served by SSBCI.

Thank you for considering these responses. Please contact Michelle Harati (mharati@lisc.org), LISC Policy Officer, if you need additional clarification on the letter's recommendations.

Sincerely,

Matt d. Jos

Matt Josephs
Senior Vice President for Policy