SOS (Save Our Small) Business Loan Fund

Presentation to ABAG Executive Board
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Presenters

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- Vice Mayor Sophie Hahn, City of Berkeley
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Outline of Presentation & “Asks”

Presentation

- Overview of the SOS Small Business Loan Fund concept
- Focus on key Loan Fund topics

Asks

- Consider creating a Regional SOS Loan Fund
- Consider asking State to make funds available to support this and other local and regional SOS Loan Funds
- Consider asking State to create their own, statewide SOS Loan Fund

Small Businesses and Workers in Peril

- Severe consequences of COVID shutdown
- Needs exceed federal, state, local government capacity
- Private capital can/should be a resource for viable small businesses as they recover
- Government needs to invite/induce private capital to be made available to support recovery
- Government can accomplish this by bearing some of the risk to induce private capital to support small business loans

Haas Proposal

- Create structured COVID-19 recovery loan fund to provide a source of capital for small businesses, with a public/private partnership that results in significantly more capital available than government alone can provide
- Governments (city, county, state, regional) sponsor the fund, working with financial institutions to pool a small amount of public capital with a large share of private capital in a way that lowers the risk of the product and supports low interest rates

Elements of SOS Business Loan Fund

- Private investors pool capital with public dollars in ratio based on risk associated with loans
- Loans are made to viable small businesses based on pre-agreed viability and loan criteria
- Public claim to repayment is subordinate to private investors’
- Deep public cushion or “guarantee” lowers risk to private investors, attracting more private dollars and supporting low interest rates on loans to qualified local businesses

Benefits Small Businesses, Workers, and Communities

- Supports deployment of significantly more capital in the local economy than governments can provide on their own
  - Ex: Public entity invests $20 million, private investors provide $80 million, creating fund with total of $100 million to lend to local businesses – and stimulate the economy
- Long-term positive impact for local economy and governments = businesses and jobs saved and a rebuilt tax base – not just return on their capital invested in the fund

Part II:

Draft Principles of Structure and Term

More Details – in DRAFT form

Key things to get "right":

Part 1: Structure of the Fund / Program

- Structure needs to be two -sided:
  - encouraging private capital (will look like low interest rate, low risk fixed income)
  - while pricing the product as favorably as possible to keep costs low for governments and borrowers

Desirable Features of Structure	
Structured as **asset-backed security** (ABS) vehicle. Capital is pooled and when payments come in, they are paid out in tranches. Lowest tranche takes losses. This enables a 3-4X (estimate) leveraging.	Set up with investors in mind: **CRA credits**. **PRI investing** vehicles for foundations to place portfolio capital. ABS sits inside a 501c-3.
Loss capital is safer for governments than guarantees. Furthermore, amount in loss tranche depends on funds from other gvts and philantropy	Amount of capital going to an area can be **targeted**, helpful for fundraising philanthropy funds.
Capital from ABS flows to transacting **CDFIs** and/or **FinTechs** as they lend.	**Equity/justice agenda** can be built into allocations across CDFIs.

More Details – in DRAFT form

Key things to get "right":

Part 2: Underwriting & Loan Terms

- Must be VERY thoughtful here.
  - Governments have 1 shot to use money well.
    - Must go into businesses that have best capacity to lead to good economic returns : Governments will need tax base (sales, property, income) to pay off any debt and support ongoing needs.
    - Expected default?

Desirable Features of Eligibility	Desirable Features of Terms
Formed before 1/2019 and attesting to a negative income shock (***attestation with recourse*** threat works)	Interest rate needs to be low enough to be economically viable. Proposal: PRIME +1-4%
Target: 0-50 employee firms (While 1-10 micro firms prevent “zombie main streets”, 11-50 ones are job creators. Cities need both.	Use Fed’s strict Main Street Lending guidelines on: - Positive 2019 net income - Debt can’t be used to restructure debt - Debt can’t be paid to originating CDFI balance sheet
Loan size (up to $50k) dependent on 2019 revenues.	4-year with interest-only payments for 1-12 months and then equal payment amortizing

Closing

Asks

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Contact

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