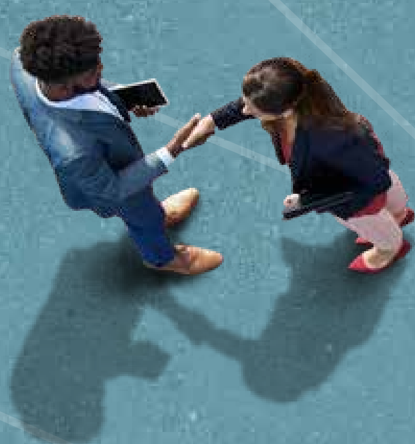
CASE STUDY

Leveraging Community Investing Ecosystems for Small Business Relief:

Local Collaborations to Support Main Streets in Chicago, California, New York and Beyond



THE U.S. IMPACT INVESTING ALLIANCE

Commissioned by:

FEDERAL RESERVE BANK *of* NEW YORK

CASE STUDY

LOCAL COVID-19 RESPONSE & RESILIENCY LOAN FUNDS

State and local partnerships with networks of CDFIs, philanthropies and fintech providers to quickly mobilize small business relief in response to the COVID-19 pandemic.

In the early days of the COVID-19 pandemic, it became clear that many small businesses required immediate support after being forced to close their doors or drastically change operations due to public health concerns. In response to significant uncertainty in the small business lending environment, there were several iterations of local governments, philanthropies, corporates and community development financial institutions (CDFIs) quickly banding together to drive capital to these small businesses. Each example builds on a similar model of relying on the expertise and relationships of local community lenders, often with the added efficiencies provided by technological solutions.

In March of 2020, the city of Chicago partnered with the Goldman Sachs Urban Investment Group, Fifth Third Bank and other private sector funders to launch the $100 million Chicago Small Business Resiliency Loan Fund. The fund – with banks providing senior debt, local foundations providing subordinate debt and the city providing equity – provided emergency low-interest loans of up to $50,000 to struggling small and micro-businesses through a centralized network of CDFIs – Accion Chicago and the Community Reinvestment Fund (CRF USA) being the primary lenders.

In this respect, the structure streamlined the fundraising and application process while still enabling the CDFIs to maintain the appropriate community-lender borrower relationship. The Chicago fund allocated the $100 million after receiving over 11,000 applications for more than $301 million in loans in a matter of days. According to data supplied by the project, of the applicants, 48% were non-white owned and 44% were women-owned small business.[1]

The fund had several important elements that contributed to its efficiency in driving capital to where it was needed most. First, the fund leveraged existing infrastructure by tapping into the strengths of the community-based lenders. Accion's high-touch customer service and technical assistance paired with the standardization offered through CRF

[1] Community Reinvestment Fund (CRF USA), "Community-Centered COVID-19 Recovery Program Webinar," 2020.

USA's Connect2Capital loan matching platform created an effective and fast-moving process.

Second, the loan product itself was designed to prioritize the needs of the borrowers in a prolonged period of crisis. The maximum loan size of $50,000 allowed the fund to stretch the capital widely while not over-indebting the borrowers facing a long recovery. Furthermore, for the first six months, borrowers were only required to commit to a nominal $10 monthly payment to stay engaged with their borrowers and monitor the account, while keeping the financial burden very low in the immediate term. From there, the interest rate would increase gradually over time – 1% for months 7-18 and 5.75% for months 19-60.

The application process was also targeted to reach the most underserved applicants. The city of Chicago implemented an algorithm for the loan application queuing to ensure that 75% of the funds went to small business owners operating in LMI communities.

Some of the key players involved have implemented similar models in other regions as well. The $100 million New York Forward Loan Fund was launched in May 2020 to channel loans through a network of CDFIs to small businesses, nonprofits and small landlords, with a focus on LMI communities.[2] The five-year loans were to be used to help businesses cover upfront expenses related to reopening, such as refitting to comply with social distancing guidelines. Calvert Impact Capital served as lead arranger partnering with CRF USA, an instrumental architect of the Chicago fund, and LISC Fund Management, who is serving as the Fund's administrator. To date, more than 65% of loans funded have gone to businesses owned by women and/or people of color and have reached businesses in 50 counties across the state.[3]

Most recently, Calvert Impact Capital also partnered with the state of California, Kiva and other private sector actors to launch the California Rebuilding Fund to deploy loans through CDFIs to small businesses in historically underbanked areas. As in the case with the Chicago and New York funds, CRF USA's Connect2Capital platform was used to efficiently match applicants to the appropriate local lender and loan product. The California fund was anchored by a commitment from California's Infrastructure and Economic Development Bank and draws in additional funding from other private, public and philanthropic and sources.[4] In its early days, nearly 200 businesses have already received loans, of which 84% have gone to underbanked and historically underserved communities and populations.[5]

Finally, the family office Ceniarth led efforts to mobilize a group of peers including Candide Group's Olamina Fund and Money in Motion to mobilize over $14 million in

[2] Connect2Capital, Overview: New York Forward Loan Fund.
[3] Data provided by Calvert Impact Capital.
[4] Calvert Impact Capital, California Rebuilding Fund Factsheet.
[5] Data provided by Calvert Impact Capital.

zero-interest loans from philanthropies for the Rural Community Assistance Corporation (RCAC), a rural CDFI.[6] The funds allowed RCAC to deploy Paycheck Protection Program loans to many rural businesses and nonprofits that initially were unable to access the program.

Similar efforts are under development across a 15-state region across the South, Southeast and in Washington State. Altogether, more than 30 nonprofit CDFI loan funds are engaged in these efforts across the country. Each of these local response funds model a formula for balancing high-touch, hyper local impact with efficiency and scale. While promising in that regard, it remains to be seen whether this format could be adapted for longer-term community development efforts outside of the current crisis set.

[6] Louis Martin, Rural Community Assistance Corporation (RCAC), "In a time of crisis, new partnerships emerge to provide payroll relief," June 2020.