Georgia's State Small Business Credit Initiative

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TITLE III – State Small Business Credit Initiative (SSBCI)

Georgia
Department of Community Affairs

- Component of the federal Small Business Jobs Act of 2010 that uses state government delivery

- $1.5 billion to states to support state-run small business capital access programs or other credit support programs

SSBCI Treasury Guidelines

Georgia Department of Community Affairs

- **Georgia's allocation amount is $47,808,507.**
- **States must use federal funds for programs that partner with private lenders to extend access to credit for small businesses.**
- **States are required to demonstrate a minimum "bang for the buck" of $10 in new private lending for every $1 in federal funding.**

Georgia SSBCI Programs

Georgia Department of Community Affairs

Georgia offers three SSBCI programs within a performance-driven approach:

- Georgia Capital Access Program (GCAP)
- Small Business Credit Guarantee (SBCG)
- Georgia Funding for Community Development Financial Institutions (CDFIs)

Georgia Capital Access Program (GCAP) – Scope & Purpose

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- **New lending incentive for the state of Georgia**
- **GCAP provides portfolio insurance to lenders by requiring insurance premiums to be paid, by the borrower and lender, into a loan loss reserve fund for each loan enrolled. State will match the contribution to the reserve fund.**
- **Eligible lenders include banks, credit unions, and CDFIs, as defined by SSBCI act.**

GCAP (cont.)

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- **Each financial institution has a separate loan loss reserve fund/account owned by DCA's GCAP.**

- **GCAP will use SSBCI funds to contribute an amount equal to the sum of the contributions paid by borrower and lender for enrolled loan.**

- **Several other states are using SSBCI funds to expand pre-existing CAP programs (CA, NC, MI, etc.).**

Small Business Credit Guarantee (SBCG) – Scope & Purpose

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- **The Georgia Small Business Credit Guarantee ("SBCG") Program will provide a 50% loan guarantee with a <u>conversion option</u>.**

- **SSBCI funds will be leveraged with private capital from community development financial institutions, credit unions, banks, and qualified private investors.**

Georgia Small Business Credit Guarantee Program

- **The conversion option under the loan guarantee enables financial institutions to build a Risk Reserve Pool (RRP) held by the State in a centralized fund.**
- **Eligible financial institutions will sign a Program Participation agreement.**
- **Enrolled loans are covered with a 50% loan guarantee.**
  - Financial institutions will pay a 2% initial loan guarantee fee and ½ of 1% loan guarantee fee each subsequent year the guarantee remains in place.

Georgia Small Business Credit Guarantee Program

Georgia Department of Community Affairs

- **Financial institutions will be incentivized to leverage private lending at 10:1 through the conversion option.**
  - Financial institutions decide when to convert their 50% loan guarantee to the RRP.
  - 10% of the balance on a converted loan will be moved to the RRP.
  - Under the RRP, the lender may receive up to 80% reimbursement for losses on individual credits.
  - Reserves can cover losses on <u>any</u> enrolled loans.

- **DCA will partner with the Georgia Department of Banking and Finance to ensure participating financial institutions are financially sound.**

GA Funding for Community Development Financial Institutions (CDFIs)

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Department of Community Affairs

- CDFIs are private financial institutions certified by the U.S. Treasury to provide credit and financial services to underserved markets and populations.

- There are approximately 20 different CDFIs in Georgia created by a combination of private for-profits (banks and developers) and special purpose non-profit corporations (e.g. ACE and Habitat for Humanity).

Community Development Financial Institutions (CDFIs)

- **CDFIs are already established in the market niches or underserved communities that must be addressed in the SSBCI application.**

- **CDFIs provide alternative funding sources to small businesses for a portion of their working capital and fixed asset financing needs.**

- **CDFIs will provide the gap financing (“but for”) to assist small businesses with obtaining the financing they need.**

Community Development Financial Institutions (CDFIs)

- **CDFIs will be reviewed for financial and management capacity, loan history, and legal structure.**

- **Approved CDFIs will earn fees for underwriting, closing, and servicing SSBCI loans, and may participate in one of two capacities:**
  - Loan originator/servicer – DCA forwards SSBCI funds directly to borrower.
  - Contracting entity – DCA forwards funds to CDFI, which may retain and revolve funds into future SSBCI projects, subject to State SSBCI regulations and approval by US Treasury.

Community Development Financial Institutions (CDFIs)

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- **Funding under SSBCI to CDFIs will be structured under Treasury guidelines using a performance-driven approach.**
- **SSBCI must be used by CDFIs to fund projects that leverage new private investment.**
- **State will monitor CDFIs through performance-based contracts.**

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