Creating Economic Opportunity: Bridging the Small Business Lending Gap

Kate Swanson, FHLBank Pittsburgh
Dan Beck, Community First Fund
Josh Mooney, Port Richmond Savings Bank
Heather Hanowitz, PIDC Philadelphia
Catherine Dentino, Fireball Printing
Federal Home Loan Bank of Pittsburgh

• Wholesale bank
• Private entity, federally regulated
• Set up as a cooperative and governed by our member institutions
  – FHLBank Pittsburgh serves DE, PA and WV
  – About 300 financial institutions are members of FHLBank Pittsburgh
• All FHLBanks must set aside 10% of net earnings to fund affordable housing each year
Banking On Business (BOB)

- Developed in 2000 to create and retain jobs
- Provides unsecured, secondary loans up to $200,000 to qualified small businesses that do not meet traditional underwriting criteria
- Must be originated and serviced by an FHLBank member
Benefits of BOB

• Fills the gap between a small business’ needs and what a member institution is willing to lend
• No additional underwriting process
• Favorable repayment terms
• Offered as an unsecured loan
  – If business defaults and member demonstrates inability to pay, loan is forgiven
  – Works with other economic development programs
## Eligibility Qualifications

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Small Business</strong></td>
<td>Must be a qualified small business based on SBA size standards</td>
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<tr>
<td><strong>Member Participation</strong></td>
<td>Provide 40% of total financing</td>
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<tr>
<td><strong>Maximum Amount</strong></td>
<td>The lesser of $200,000 or 50% of the member loan</td>
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<td><strong>Economic Impact</strong></td>
<td>One job created/retained for every $35,000 in BOB funding</td>
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<td><strong>Funding Gap</strong></td>
<td>Member must demonstrate loan does not meet their underwriting criteria</td>
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BOB Repayment

- It is the member’s responsibility to service the BOB loan
- Member collects monthly payments from borrower and remits to FHLB annually

<table>
<thead>
<tr>
<th>Year</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>• No principal or interest payment</td>
</tr>
<tr>
<td></td>
<td>• No interest accrued</td>
</tr>
<tr>
<td>Year 2</td>
<td>• Flat principal payment</td>
</tr>
<tr>
<td></td>
<td>• Interest at up to 3% as determined by member institution</td>
</tr>
<tr>
<td>Year 3 and forward</td>
<td>• Flat principal payment</td>
</tr>
<tr>
<td></td>
<td>• Interest at up 6%</td>
</tr>
<tr>
<td></td>
<td>– Member interest up to 3%</td>
</tr>
<tr>
<td></td>
<td>– FHLB interest of 3%</td>
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How BOB Works

• Funding rounds are offered once a year
  – Opened March 1, 2018 with $6 million, currently have $1.1 million remaining
• Members determine need and apply on behalf of a small business
• Applications are approved on a first-come, first-served basis and round closes when funds are exhausted
Dan Beck, VP Community Lending

COMMUNITY FIRST FUND
Who We Are

• Community First Fund is a private, non-profit Community Development Financial Institution (CDFI) founded in 1992
• We provide loans to small and mid-sized businesses
• We provide one-on-one counseling to clients
• Our offices are located in Lancaster, York, Reading, Allentown, and Harrisburg; serving 13 counties in central and eastern PA
• We primarily focused on lending to People of Color, women, and low-income individuals who usually get turned away by major financial institutions
Services We Provide

We provide the following types of loans we offer to help small businesses and entrepreneurs in our revitalize communities in our market:

• **Small Business**: Up to $50,000
  - For both start-up and existing businesses

• **Mid-Sized Business**: $50,000 up to $500,000+
  - Typically been in business for two years or more

• **Community Development**
  - For non-profits and community development organizations

• **Real Estate**
  - Affordable Housing
  - Commercial Real Estate
  - Market-Rate Housing
  - Mixed-Income Housing
Challenges We Face in Lending

• Lack of Equity Injection
• Lack of Collateral
• Poor Credit Scores
• Lack of client business knowledge and education
• Financial Institutions are still not lending to smaller businesses, which has remained substantially lower since the Recession
Working with secondary funding sources allows us to close the funding gap for projects of all different sizes.

- **Approved SBA 7(a) Lender**
  - Allows us to offer SBA loans, which provide

- **Allocatee for New Markets Tax Credits in 2014 ($15MM), 2015 ($30MM) and 2016 ($45MM)**
  - Special financing for Large-scale projects that have a massive impact in low-income communities

- **Collaborative Financing with other organizations**
  - FHLB – BOB Loans, Banks, Credit Unions, and other CDFIs help bridge funding gap for projects
Josh Mooney, Small Business Development

PORT RICHMOND SAVINGS BANK
Heather Hanowitz, VP of Business Lending

PIDC PHILADELPHIA
BOB Case Study: Watch Us Grow

Watch Us Grow is a child care center in Allentown, PA offering 24/7 daycare, afterschool, tutoring and drop-in care. The center offers a curriculum that includes arts and crafts, dance and gymnastics.

Serving low-income families and third shift workers, Watch Us Grow filled a much needed role for the community and developed a long waiting list after just a few years of operation.

Having identified a space to expand, the business needed financing for leasehold improvements and equipment. However, the borrower had insufficient equity to make the deal work.

<table>
<thead>
<tr>
<th>Deal Structure</th>
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<tbody>
<tr>
<td>Community First Fund</td>
<td>$145,000</td>
</tr>
<tr>
<td>BOB Loan</td>
<td>$35,000</td>
</tr>
<tr>
<td>Economic Dev. Loan</td>
<td>$50,000</td>
</tr>
<tr>
<td>Owner Equity</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$280,000</strong></td>
</tr>
</tbody>
</table>
Fireball is a full-service printing business that offers digital large format and offset printing along with binding, finishing, and boutique master prints.

After outgrowing their space, the business purchased a larger property. However, the building was in need of a complete renovation. Fireball needed financing for the renovations, mortgage, plus some funds to use for working capital.

Having already spent a most of their cash reserves on the early stages of construction, the borrowers did not have sufficient equity to put into the deal. The member turned to BOB to make this deal bankable.

<table>
<thead>
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<th>Deal Structure</th>
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<tbody>
<tr>
<td>Port Richmond</td>
<td>$570,000</td>
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<tr>
<td>BOB</td>
<td>$200,000</td>
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<tr>
<td>PIDC</td>
<td>$225,000</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$995,000</strong></td>
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Next Steps

• Banking On Business:
  – Find a participating member institution at www.fhlb-pgh.com/bob

• PIDC Philadelphia:
  – Learn more about available products: www.pidcphila.com/financing/business-loans

• Talk to you local lenders!
  – Reach Dan at dbeck@communityfirstfund.org
  – Reach Josh at jmooney@jrsbank.com