State Small Business Credit Initiative (SSBCI)

November 16, 2021

SSBCI State Small Business Credit Initiative

THE DEPARTMENT OF THE TREASURY 1789

Overview

- The American Rescue Plan Act of 2021 (ARPA) reauthorizes the State Small Business Credit Initiative (SSBCI) Program.
- Provides a combined $10 billion to states, the District of Columbia, territories, and Tribal governments (Eligible Jurisdictions) to help address the economic fallout of the pandemic and lay the foundation for a strong and equitable recovery by providing direct support to Eligible Jurisdictions for programs that increase access to credit for small businesses. Funds include:
  - $2.5 billion for businesses owned by socially and economically disadvantaged individuals & incentives to reach these businesses
  - $500 million directly to Tribal governments
  - $500 million for technical assistance
- Eligible Jurisdictions may contract out to third parties to administer programs.
- Tribal governments can apply in a consortium together with other Tribal governments.

What is SSBCI?

- **SSBCI provides Eligible Jurisdictions funding for:**
  - ✓ **Small business financing programs, which includes venture equity programs, loan participations, loan guarantees, collateral support, and capital access programs; and**
  - ✓ **Technical assistance in the form of legal, accounting, and financial advisory services to small businesses applying for support under SSBCI capital programs and other government programs that support small businesses.**

- **Eligible Jurisdictions direct the programming within broad Federal parameters**
  - ✓ **Businesses with ≤ 500 employees for Capital Access Programs, ≤ 750 employees for all Other Credit Support Programs**
  - ✓ **Transaction ≤ $5m for Capital Access Programs**
  - ✓ **Transaction ≤ $5m on average, but must be ≤ $20m for all Other Credit Support Programs**
  - ✓ **Requires private capital to be meaningfully at risk in each transaction**
  - ✓ **Reasonable expectation of 10:1 leverage overall**

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Why SSBCI?

- **Small businesses face barriers to securing financing:**
  - ✓ **Lack of collateral**
  - ✓ **Short credit history**
  - ✓ **Small dollar requests**
  - ✓ **Seeking scarce early-stage equity capital**
  - ✓ **Located in underserved geographies or markets**

- **SSBCI financing programs are a targeted way to spur private sector lending and investing:**
  - ✓ **Target local needs**
  - ✓ **Leverage the best local partners**
  - ✓ **Designed to support job creation and other local economy benefits, underserved communities, and small businesses owned by socially and economically disadvantaged individuals**

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Structure of SSBCI Capital Programs

1. Treasury

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2. Eligible Jurisdiction

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3. Provider / contractor

e.g.:
- CDFI, Community Bank
- Quasi-public entities
- Investment Fund

↓

5. Small Business

- Private capital at risk per transaction
- 10:1 leverage goal over the life of the program

Overview of the five major types of SSBCI capital programs

INDIRECT SUPPORT

Capital Access Program (CAP)

Cash from an Eligible Jurisdiction deposited into reserve fund at each lender to secure the portfolio of CAP loans

Suitable for smaller, working capital loans and lines of credit

Collateral Support

Cash collateral from an Eligible Jurisdiction or entity of an Eligible Jurisdiction deposited with lender to secure a portion of individual loans

Highly targeted for collateral shortfalls due to decline in PP&E values

Loan Guarantee

Individual loan guarantee by an Eligible Jurisdiction or entity of an Eligible Jurisdiction to cover a portion of approved loans

Flexible structuring based on local market knowledge

DIRECT SUPPORT

Loan Participation

Eligible Jurisdiction and lender loan partnership with focus on medium- to long-term financing

Two structures are common: Purchased Participation and Companion Loan

Venture Capital

Equity capital program supporting innovative businesses with high-growth potential unable to access bank financing

Two structures are common: Private Fund and Direct

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Equity capital programs were a significant part of the SSBCI 1.0 Program

SSBCI 1.0 Allocation and Leverage Ratios by Program Type					
Program Type	SSBCI Allocation ($millions)	SSBCI Funds Expended ($millions)	Total New Financing Leveraged including Subsequent Private Financing ($millions)	Total Subsequent Private Financing ($ millions)	Leverage Ratio
Capital Access	$40	$28	$640	$0	22.54:1
Collateral Support	$269	$238	$1,325	$0	5.57:1
Loan Guarantee	$246	$182	$1,395	$0	7.66:1
Loan Participation	$474	$419	$3,157	$270	7.53:1
Venture Capital	$431	$327	$4,171	$2,035	12.76:1
Total	$1,460	$1,195	$10,688	$2,305	8.95:1

Source SSBCI: Summary of States' 2016 Annual Reports

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Venture Capital: Meaningfully at Risk

- **Private Capital at Risk for equity investors:**

  Equity investors have a meaningful amount of capital resources at risk if these investors establish terms whereby the private capital is pari passu with, or junior to, the SSBCI investment in cash flow rights.

- **Exception for Incubation Funding Model**

  - ✓ **Equity investors using an Incubation Funding Model or Early-Stage Investor Model have a meaningful amount at risk if they establish terms where private capital is pari passu with the SSBCI investment in cash flow rights up to the repayment of the SSBCI investment.**

  - ✓ **If the equity investor is a fund or similar entity, the fund or entity manager must have exposure to the risk of its portfolio in a manner that is consistent with industry standards.**

Venture Capital: Federal funds for services provided

- **Context:**

  A lending program, for example, may also provide services to borrowers. For example, a CDFI might assist a potential small business applicant with preparing financials and making network connections to prepare the business to apply for a loan. Standard practice in loan contracting is to incorporate the cost of these services into the interest rate or in origination fees.

  For VC, the standard practice is embedded:

- **Venture Capital Services Cap:**

VC funds often offer a variety of services to their portfolio companies (e.g., financial management, IT consulting, customer outreach, etc.). As this is a form of equity support, SSBCI funds may be used to pay for these services up to an annual average of 1.71% of the federal contribution to a venture capital fund over the life of the program.

✓ Treasury derived the 1.71% cap based on industry studies.

Venture Capital Programs: “cause and result in”

- **How does “cause and result in” work in application?**

Guidance: “As a part of the application, states must describe how their OCSPs will in fact ‘cause and result in’ private financing. For example, for OCSPs involving venture capital funds, states may specify such safeguards as limiting investments to anchor investments, prohibiting SSBCI participation after a fund's initial close, or restricting investments in funds for which private capital is likely to be catalyzed by SSBCI participation based on the funds' age, size, or experience.”