



COMMUNITY ADVANTAGE

Pilot Program Opportunity



Community Advantage History

- *Pilot program launched in February of 2011*
- *Pilot ends March 15, 2014 but may be extended or made permanent*
- *After initial launch, desirable modifications were identified*
- *Participant Guide revised in December of 2011, with Federal Register Notice published February 8, 2012*



Community Advantage Mission

Increase access to credit for small businesses in underserved areas



By expanding points of access to SBA 7(a) loan guaranty program



As well as assuring Management & Technical Assistance is provided when needed



Community Advantage Pilot Program

3

SBA Access to Capital

SBA provides access to capital to small business owners through our lending partners, by either:

- *Providing loan funds to non-profit organizations which make loans directly to small business owners*
 - Microloan Program
 - Intermediary Lending Pilot Program
- *Guaranteeing a loan made by a lending partner to a small business owner*
 - 7(a) Loan Guaranty Program
 - 504 Loan Program

Community Advantage provides non-profit mission lenders access to 7(a), SBA's flagship finance program



Community Advantage Pilot Program

4

SBA 7(a) Loan Guaranty Program

- ❖ *SBA provides a loan guaranty to a lending partner which is a partial refund for a failed loan*
- ❖ *Guaranty allows lender to make a loan to a small business owner that would be otherwise viewed as too risky. Common reasons:*
 - Business loan is for a start-up
 - Borrower has insufficient collateral
 - Borrower needs non-standard repayment terms
 - Business type is too risky



Community Advantage Pilot Program

5

Who is eligible?

To be eligible, organizations must be one of the following:

- ✓ SBA Microloan Program Intermediary
- ✓ SBA Certified Development Company (504 Lender)
- ✓ Non-Federally Regulated Community Development Financial Institution (CDFI) certified by U.S. Treasury



Community Advantage Pilot Program

6

Community Advantage 7(a): Key Characteristics

Maximum loan size	<ul style="list-style-type: none"> \$250,000
Maximum interest rate	<ul style="list-style-type: none"> Prime + 6%
LLRF requirement	<ul style="list-style-type: none"> 15% cash reserve on unguaranteed portion of loan <i>Under review</i>
Markets served	<ul style="list-style-type: none"> 60% of the number of CA loans must be in underserved markets
Management and technical assistance	<ul style="list-style-type: none"> Encouraged when appropriate but not required



Community Advantage Pilot Program

7

Definition of Underserved Markets

- ❖ *Low-to-Moderate Income community*
- ❖ *Businesses where more than 50% of full-time workforce is low-income or resides in LMI census tracts*
- ❖ *Empowerment Zones and Enterprise Communities*
- ❖ *New businesses (in business for no more than 2 years)*
- ❖ *Businesses eligible for Patriot Express*



Community Advantage Pilot Program

8

Key Program Features

Percent of Guaranty

- 85% guaranty for loans of \$150,000 or less
- 75% guaranty for loans greater than \$150,000

Maturity

- Maximum of 10 years for working capital
- Maximum of 10 years or useful life for equipment
- Maximum of 25 years for real estate

Guaranty Fees

- 0.25% for maturities ≤ 12 months
- For maturities > 12 months
 - 2.0% for gross CA loan ≤ \$150,000
 - 3.0% for gross CA loan > \$150,000
- 0.55% on-going guaranty fee paid by lender



Community Advantage Pilot Program

9

How does the CA Pilot Program work?

The 7(a) program provides a **guaranty** for a portion of a small business loan, and is **not a direct loan** from SBA

At least initially, a **lender must submit a small business loan to SBA for approval** before closing the loan

The lender is responsible for following the rules and procedures outlined in 13 CFR as well as all SOPs

The lender's primary points of contact are the centers (loan origination, servicing & liquidation) as well as SBA's local district offices



Community Advantage Pilot Program

10

How are CA Lenders funding loans?

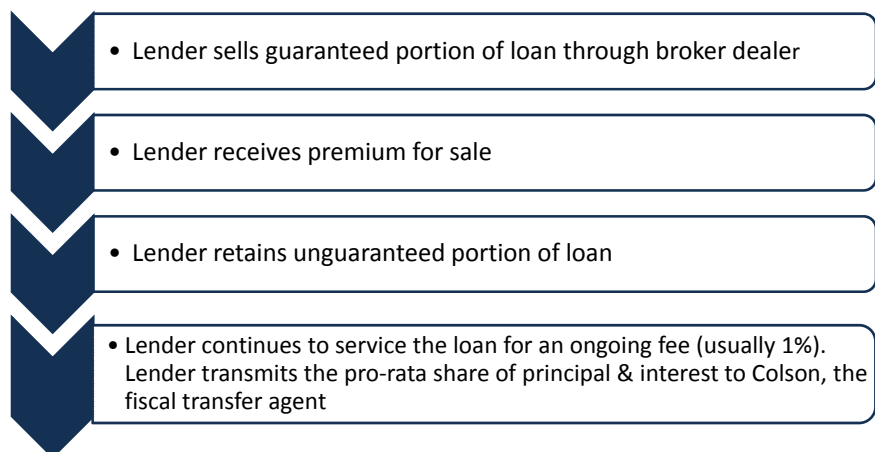
- *Existing funds or current income stream*
- *Warehouse lines of credit from commercial banks*
 - Bank of America
 - JPMorgan Chase
 - Wells Fargo
 - Other local lenders
- *Sale of loans on secondary market*



Community Advantage Pilot Program

11

Secondary Market Sales



Community Advantage Pilot Program

12

Key Benefits of Secondary Market Sales

- *Premium Income*
- *Proceeds from sale permit lender to make additional loans*

Caveat: It is difficult to modify a loan after it is sold into the secondary market. SBA is working to develop a set of investors that would be willing to meet the needs of mission lenders.



Community Advantage Pilot Program

13

Lender Application Process

1. Collect information and certifications listed in Community Advantage Participant Guide located at: www.sba.gov/advantage page 7.
2. Complete SBA Form 2301 Part E, which can be found on www.sba.gov/for-lenders page of SBA website, and required attachments.
3. Send application package to local SBA District Office.
4. District Office will forward to Director, Office of Credit Risk Management for evaluation and final decision.

Brand Promise: A decision will be made no later than 45 days after OCRM receives a complete application.



Community Advantage Pilot Program

14

Profile of Approved Applicants

Approved applicant organizations have:

- ❖ *Staff with significant relevant lending experience*
- ❖ *Either in-house M&TA capability or established relationship with outside provider*

Approved applicant organizations have the following financial characteristics:

- ❖ *Unrestricted or temporarily restricted net assets of more than \$350,000*
- ❖ *Ability to fund CA loans through cash, income, or a balance sheet that would permit additional borrowing*
- ❖ *Audit reports with no material weaknesses*



Community Advantage Pilot Program

15

Profile of Approved Applicants

Approved applications include:

- ❖ *Well developed business plan*
- ❖ *Well documented description of service delivery area*
- ❖ *Clearly explained plan for outreach efforts to target market*
- ❖ *Sufficient, clear & well documented loan policies and procedures*

Approved applicants also must be in compliance with current SBA programs.



Community Advantage Pilot Program

16

Community Advantage Program Changes

- *Maximum interest rate raised to Prime + 6% from Prime + 4%*
- *CA Lenders may use Lender Service Providers*
- *Oversight strategy revised*
 - Lenders do not automatically receive examination or review after first year
 - SBA will evaluate CA Lender's level of activity, performance metrics & risk rating to determine oversight tool to employ
 - In general, for CA Lenders with CA balance \leq \$3 million, annual oversight cost will be \$150 per \$1 million outstanding



Community Advantage Pilot Program

17

Additional Anticipated Program Changes

- Fidelity bond requirement
- Reserve requirements for secondary market access



Community Advantage Pilot Program

18

Online Resources

- Community Advantage specific information (*general information, link to Participant Guide & list of approved lenders*)
 - www.sba.gov/advantage
- General 7(a) lender information (*forms, SOPs, links to centers*)
 - www.sba.gov/for-lenders



Community Advantage Pilot Program

19

Community Advantage Program Changes

Please Note! *Other positive program changes are currently being considered*

Community Advantage is a pilot program!
SBA welcomes suggestions for improvement

Contact:

Andrea Giles andrea.giles@sba.gov (202) 205-6301

Andrea Peoples andrea.peoples@sba.gov (202) 205-6549



Community Advantage Pilot Program

20

Community Advantage

QUESTIONS?



Community Advantage Pilot Program

21