

**Fund Tennessee
pre-Intent to Participate**

• • •
Dec. 21, 2022



tn.gov/e cd /small-business/ssbci.html

Pre-Intent to Participate

Thanks for being here
today!

AGENDA

- Introductions
- Where we are
- What we know
- What we don't know
- Discussion/Questions
- Next Steps

Fund Tennessee (SSBCI 2.0) | Allocations

Support and expand an inclusive continuum of access to capital for small businesses and entrepreneurs throughout Tennessee

The American Rescue Plan Act (ARPA) reauthorizes and amends the [Small Business Jobs Act of 2010](#) which established the State Small Business Credit Initiative ([SSBCI 1.0](#)).

For [SSBCI 2.0](#), the [U.S. Department of Treasury](#) (Treasury) was allocated \$10 billion to provide funding for small business financing, and technical assistance to help small and diverse businesses become capital ready.

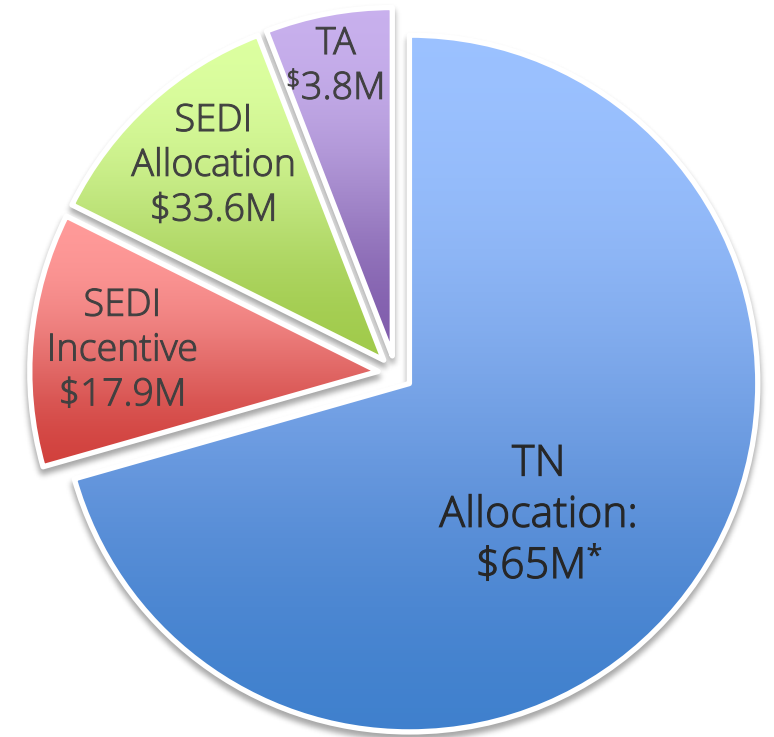
Tennessee: \$65,390,433

- Employment-based allocation: \$60,573,813
- Very Small Business allocation: \$4,816,620

Additional Pending Allocations:

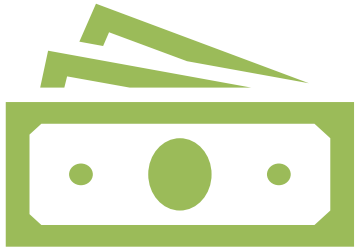
- SEDI Business Allocation: \$33.6M
- SEDI Business Incentives: \$17.9M
- Technical Assistance (TA): \$3.8M

TN Allocations



Fund Tennessee (SSBCI 2.0) | Technical Assistance

Support and expand an inclusive continuum of access to capital for small businesses and entrepreneurs throughout Tennessee



Eligible activities:

- Technical assistance (i.e., legal, accounting, fiscal advisory services)

• SEDI focus:

“SEDI-owned business,” a business is “owned and controlled”

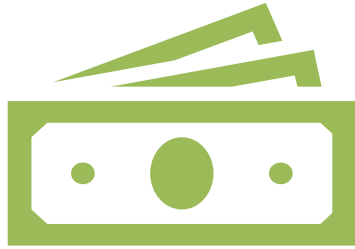
- by applicable individuals:
- if privately owned, 51 percent or more is owned by such individuals;
- if publicly owned, 51 percent more or of the stock is owned by such individuals; and
- in the case of a mutual institution, if a majority of the board of directors, account holders, and the community which the institution services is predominantly comprised of such individuals.



Some businesses may qualify as both a SEDI-owned business and a VSB, very small business (fewer than 10 employees). An eligible recipient can consider these businesses as SEDI-owned businesses, VSBs, or both for all TA Grant Program purposes.

Fund Tennessee (SSBCI 2.0) | Program Components

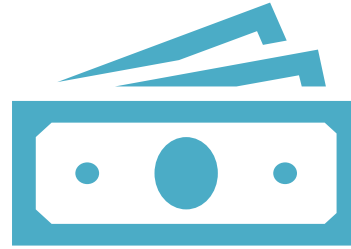
Support and expand an inclusive continuum of access to capital for small businesses and entrepreneurs throughout Tennessee



DEBT: Loan Participation Program

Direct Loan: up to \$5M

Purchase Loan: min. \$10K; up to 25% up to \$1,250,000
or up to 30%, up to \$1,500,000 if SEDI-owned business

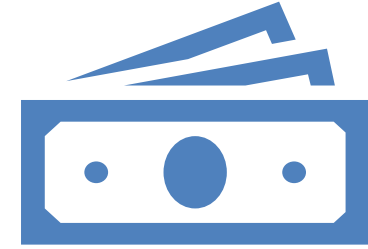


EQUITY: BuildTN Programs

Regional Investment Fund \$25k to \$250K

Tech Fund: \$250K to \$3M

Multi-Fund: \$2M



The **Between...** patient capital, angel capital, ...

- The \$117M allocation will be dispersed over three tranches
- 80% of tranche 1 must be expended within three years to access tranche 2 (same for tranche 2 to tranche 3)
- The SEDI goal must be met to receive the SEDI Incentive in tranches 2 and 3
- Of the \$117M, there is a 40/60 split between debt and equity

Fund Tennessee (SSBCI 2.0) | Debt Components

Loan Participation: Direct Loan (companion loan)

SBOF

CITC

HYBRID

(use both SBOF and CITC or a bank wants to participate but chooses not to take the tax credit)

CDFI raises private capital from bank, uses it with SSBCI and lends to business

Loan Participation: Purchase Loan

- You are a non-depository CDFI or MDI in Tennessee
- You are current and in good standing on all federal and state certifications, licensures, and registrations
- You have at least 3 years' experience in administering a small business loan program, including but not limited to: origination, credit and compliance underwriting of loans, loan servicing, post-closing asset management and monitoring of businesses, and compliance with reporting requirements
- You have the ability to leverage eligible required private capital as a match to SSBCI funding (minimum leverage of 1:1 with a goal of 10:1)
- You have a CRA plan (or in the process of establishing/updating one) and/or have a plan to reach SEDI businesses
- You have the capability to do outreach to very small businesses ("VSBs") and to socially and economically disadvantaged individual businesses ("SEDIs") or businesses operating in the CDFI investment areas

CITC

VS

SBOF

REVOLVING LOAN FUND COMMUNITY INVESTMENT TAX CREDIT (CITC)

History: 2006 amended the Community Investment Tax Credit to include CDFIs that provide small business loans as eligible entities for financial institutions to invest in and receive a credit against their F&E taxes.

Tax Credit Structure

The amount of the tax credit is based on the rate of interest paid by the CDFI. The tax credit received by the investing financial institution is based on the rate below Prime.

For purposes of this credit:

- (1) "Qualified loan" means a loan that is at least 2 percent below the prime rate that does not qualify as a qualified low-rate loan;
- (2) "Qualified long-term investment" means an equity investment made for a period of more than five years; and
- (3) "Qualified low-rate loan" means a loan that is at least 4 percent below the prime rate. Credit is based on outstanding balance at 12.31.xx each year and cannot be carried forward.

This structure results in a Prime + 1 annual return on the investment

TN SMALL BUSINESS OPPORTUNITY FUND TAX CREDIT (SBOF)

History: created in 2010

Tax Credit Structure

Provides each financial institution making a loan to an CDFI an F&E tax credit equal to 10% of the original principal balance of the loan annually for 10 years. Following the receipt of ten years of tax credits equaling the principal of the loan the bank forgives the loan to the CDFI to create a permanent pool of loan capital for underserved Tennessee small businesses. At this time the bank can receive a federal deduction for a contribution to a 501(c)3.

CRA Credit Received

The bank receives credit under either the CRA Investment Test or Community Development Loan Test for the full amount of the loan for 10 years. The bank receives a second CRA Investment test credit at year ten when it makes a contribution (forgives loan) to a CDFI.

Interest: Annual rate of 2.5% (paid quarterly)

This structure significantly removes repayment risk and provides a treasury type yield with principal protection..

Q&A

A few questions off the top...

- Would you originate loan prior to approval for the SSBCI dollars?
 - If yes, what would your top limit be?
- Timelines...
 - How long does it take you to process and pay out on a loan? What are your dollars breakdowns? (i.e. loans \$50K and under take X # of days to process/pay?)
 - If a purchase
- ...
- What questions do you have?

Next Steps

Intent to Participate Submission period:

- Opens: January 9, 2023
- Closes: February 8, 2023

**It will be posted in the TNECD Weekly Recap and on the Fund Tennessee webpage*

Webinar:

Wednesday, January 18, 2023
1:30 to 3p CDT/2:30 to 4p EDT

Contracting:

Tranche 1 estimated to begin with a review period, one-on-one calls, possible

**Thanks for time
and expertise!**

TNECD SSBCI 2.0 CONTACT INFORMATION

615.741.1888 | ECD.SSBCI2.0@TN.GOV

TN.GOV/ECD/SMALL-BUSINESS/SSBCI

Reach us directly with questions, concerns, suggestions, recommendation, etc.

Wisty.Pender@tn.gov and Lamont.Price@tn.gov

From the Q&A portion

Thanks for your questions and participation!

Here are the various comment and clarifications came up...

- CDFIs can choose to use CITC and/or SBOF depending on what works best for your organization.
- CDFIs/MDIs underwrite their own loans, which includes loan reviews and preparing loan documents; documents are submitted to TNECD to draw down funds. Our role will be to monitor for compliance with SSBCI 2.0 and state policy and guidelines
- In collaboration with the TSBDCs, they are providing Technical Assistance.
- We work with the LaunchTN, the Regional Entrepreneur Centers and the participant CDFIs/MDIs to cover areas that aren't met
- CDFIs/MDIs may choose to originate a loan then seek the compliance check understanding that the risk that a loan would not be reimbursed if it doesn't meet the compliance check
- We are looking at a master contract then issue a PO to each participating CDFI/MDI
- Depending on the CDFI, loans under \$50K to \$100K have a 1-2 week turnaround so a compliance check that takes a week is good but a month is not
- Real estate takes longer to approve and would like to see a preliminary go-ahead early vs waiting until the end to find out it is a no-go

**From the Q&A
portion...** (p.2)

Distribution of Tranches for Tennessee							
	Totals	Tranche 1: 33%		Tranche 2: 33%		Tranche 3: 34%	
Initial Allocation	99,002,900	32,670,957		32,670,957		33,660	
SEDI Bonus	17,926,649	n/a		8,963,325		8,963	
	Debt 40% Equity 60%	13,068,383	19,602,574	16,653,712	24,980,569	17,049,724	25,574
Total SSBCI Funding	116,929,549	\$32,670,957		\$41,634,282		42,624	

- The above table is for reference, a general breakdown of Tennessee’s allocation by tranche with SEDI Incentive/Bonus (the initial allocation includes the very small business (VSB) and SEDI portions)
- Would like a clear explanation of process during the “Intent to Participate” submission period
- Dates updated in presentation
- Please email further comments, questions, concerns, recommendations, etc. to help us better address items in the upcoming webinar, in consideration of processes, etc.
- Please check out the SSBCI website for reference on compliance under “PROGRAM RULES AND MATERIALS” [here](#).
- Thanks for your participation, feedback, and time!