Addressing Capital Access in Underserved Communities: The SOAR FUND Example

Patricia McCall, Vice President Global Strategy and Corporate Affairs
Winrock International

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A collaborative effort to increase access to capital and support for community-based businesses and nonprofits across the South and Southeast
Why do we need new models?

- Covid-19 has exacerbated existing structural issues around access to capital for women and people of color throughout the country.

- Smaller businesses – many led by people of color and women – were already suffering from decades of discrimination, lack of access to affordable capital, and an insufficient safety net.

- If we do not authentically and intentionally create the right resources for these community organizations this crisis will widen the racial wealth gap, worsen outcomes for already vulnerable communities, and wipe out an entire segment of our economy.

- Existing institutions need support and capital to be able to increasing lending into these communities.
Financial System Responses to Covid-19

- **PPP Loans** – US Government supported loans to support businesses during the pandemic by providing loans, usually forgivable for specific uses including and focused on payroll. Design and implementation of initial round was found to be difficult to access for many small businesses.

- **Covid-19 Response Funds: Calvert Impact Capital CA, NY and South Funds**

- **Philanthropy** – billions pledged by philanthropists, foundations, corporations

- **Southern Communities Initiative (SCI)** – led by investor Robert F. Smith to drive modernization of the CDFI’s through capacity building and technical innovation
Early indicators show devastating effects of COVID-19 on the small business community, with outsized negative impact on communities of color and immigrants.

SOAR targets states where there is a relatively higher Black, Latinx and Native American population.

The Black population exceeds the national average in 10 out of 15 states. Concentrated in these 13 states:

- 52% of the nation’s Black population
- 36% of the nation’s Latinx population
- 31% of the nation’s Native American population

The economic impact of COVID-19 related social distancing policies has been unprecedented and is crushing community-based organizations.

Unaddressed, this crisis will widen the racial wealth gap, worsen outcomes for already vulnerable communities, and wipe out an entire segment of our economy.
Financial and Technical Assistance Innovation: The SOAR Fund – Emergency Loans coupled with Technical Assistance

• The SOAR Fund is a partnership of local and national community finance organizations created by Calvert Impact Capital to address the capital needs of historically disenfranchised communities across the South and Southeast U.S. as they attempt to navigate and rebuild after the unprecedented COVID-19 health and economic crisis.

• **SOAR targets small businesses in 15 South and Southeast States:**
  
  • *with 50 employees and fewer;*
  • *with an explicit focus on historically under-resourced communities;*
  • *focus on businesses in low-income areas and owned by women and people of color.*

• The SOAR Fund targets a size of $150mn with an upper limit of $500mn – capital will be provided as low-interest loans through regional CDFIs.

➢ *The loans will be supported by Technical Assistance provided to the small businesses*
Federal programs have provided widespread direct support, but have not been sufficient to support businesses through the prolonged economic slowdown.

<table>
<thead>
<tr>
<th></th>
<th>PPP / EIDL</th>
<th>SOAR Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan size</strong></td>
<td>Tied to certain expenses; very limited for the smallest businesses</td>
<td>Tied to three months revenue from any three-month period in 2019</td>
</tr>
<tr>
<td><strong>Use of proceeds</strong></td>
<td>Tied to spending on certain expenses</td>
<td>Flexible working capital</td>
</tr>
<tr>
<td><strong>Reach + eligibility</strong></td>
<td>Unavailable to many businesses that exist outside of the banking system; immigration status, criminal history can affect eligibility</td>
<td>Outreach through local, community-based networks; broad eligibility standards based on FTE and revenue size</td>
</tr>
<tr>
<td><strong>Lenders</strong></td>
<td>Mostly large and regional banks; CDFIs have participated but with limited liquidity available</td>
<td>Non-profit community development loan funds</td>
</tr>
</tbody>
</table>
This effort pools resources and leverages existing infrastructure to simplify execution and speed to market for businesses during this time of crisis

- Loans, investments, and grants...
- …centralized and tailored...
- …distributed through local partners...
- …to the organizations that need it most

SOAR FUND

- Capital
- Technical assistance
- C2C Technology Platform

National Partners

- Banks
- Foundations
- Individuals & Families

Local small businesses and nonprofits affected by COVID-19

Community based lenders / CDFIs

National Partners

- LSC
- Calvert Impact Capital
- CRF USA
- WINROCK INTERNATIONAL
The participating lenders will originate new loans to small businesses that they can package and sell to a centralized special purpose vehicle.

**Application Process**
All interested small businesses and nonprofits will apply for a loan through a centralized portal.

**Matching/Origination**
Eligible applicants will be matched with a community lender that serves their state or region; the CDFI will underwrite against the program’s criteria.

**Package and Sell to Fund**
Once a loan is approved and closed, the CDFI will package the loan documentation and sell 95% of the loan to the SOAR Fund LLC, managed by LISC.

**SOAR FUND LLC**
Managed by LISC

The originating lender will retain 5% of the loan on their balance sheet and maintain loan servicing.
The SOAR Fund will purchase locally originated Recovery loans

- Class A (Senior debt) ~$114M
- Class B (Subordinate debt) ~$29M
- Loan Loss Reserves ~$15M
- Equity ~$4.5M

Banks + other Institutions
Foundation PRIs or recoverable grants
Grants

Recovery loans and assistance to small businesses & nonprofits across the South and Southeast

- Flexible working capital
- Deeply affordable interest rates
- Longer term to keep monthly payments low
- Flexibility on eligibility requirements

Originating CDFIs will receive an origination and servicing fee along with any available technical assistance grants

Arranged by Calvert Impact Capital

SOAR Fund ~$163M Administered by LISC
Originating CDFI
Originating CDFI
Originating CDFI
Originating CDFI

Equity
Loan Loss Reserves

Grants

Originating CDFIs will receive an origination and servicing fee along with any available technical assistance grants
The SOAR Fund is designed to equip community lenders with the support required to meet the unique recovery needs of their communities.

**Liquidity**
- Enables participating CDFIs to focus on new lending in their communities by providing them with liquidity and mitigating on-balance sheet risk.

**Low-cost and flexible capital**
- Provides CDFIs with the low-cost and flexible capital required to offer deeply affordable and flexible loans to small businesses and nonprofits.

**Operational Support**
- Provides CDFIs with the financial resources through the origination fee and servicing fee to ensure they have operational capacity to execute on a high volume of loans.

**Sustainable and Scalable Partnership**
- Builds a scalable source of financing that leverages and combines existing infrastructure, networks, and relationships to activate new recovery lending.
The goal is not how much money disbursed, but the near- and long-term success of these businesses that create wealth and vibrancy in their communities.
Similarly, in NY - the New York Forward Loan Fund (NY FLF) was built to prioritize equity and access

Experience so far...

- **14,800** Number of eligible applications
- **$845M** Total loans requested
- **$57K** Average loan size requested
- **521** Loans funded in the first six months for $24.5M
- **66%** Loans disbursed to businesses owned by women and people of color
- **$47K** Average loan size disbursed

...the NYFLF expects to finance over 2,500 small businesses and nonprofits when fully deployed
Technical Assistance: Support throughout the loan lifecycle that strengthens the entire ecosystem

Outreach regarding SOAR Funds

Local small businesses and nonprofits affected by COVID-19

Interested businesses get pre-loan support

Loan application support

Qualified applications receive support during loan process

Ongoing technical assistance

Unqualified applications receive support for loan readiness

SOAR borrowers receive ongoing support through the life of the loan

Denied applicants receive ongoing support

Technical Assistance: Support throughout the loan lifecycle that strengthens the entire ecosystem
Technical Assistance: Holistic support throughout the loan lifecycle

TA has been a critical factor in the success of the Chicago and NY Funds and based on learnings from NY and Chicago the following areas are where support is most needed:

➢ **Pre-Loan:**
  • Outreach to small businesses through local community organizations to build awareness and trust in the product
  • Support in application process including support with collection and submission of necessary documents, online portal and application follow-up to finalize submission

➢ **Loan Process**
  • Conduct a one-on-one business needs assessment to determine post-loan needs or current needs, in case of denial

➢ **Ongoing Support and Ecosystem Building:**
  • Personal credit counseling
  • Business plan development/ Proof-of-concept/lean startup training
  • Marketing plan development
  • Corporate governance counseling
  • Accounting and financial counseling
  • Professional development
  • Peer-to-peer learning opportunities
Capacity Development and Sustainable Outcomes through Partnerships

<table>
<thead>
<tr>
<th>State</th>
<th># Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>AL</td>
<td>6</td>
</tr>
<tr>
<td>AR</td>
<td>33</td>
</tr>
<tr>
<td>LA</td>
<td>15</td>
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<tr>
<td>MS</td>
<td>10</td>
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<td>OK</td>
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<tr>
<td>TN</td>
<td>11</td>
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<table>
<thead>
<tr>
<th>Type of Organization</th>
<th># Organizations</th>
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</thead>
<tbody>
<tr>
<td>Economic Development Org.</td>
<td>15</td>
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<tr>
<td>Chamber</td>
<td>3</td>
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<tr>
<td>College/Uni</td>
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<tr>
<td>CDFI</td>
<td>2</td>
</tr>
<tr>
<td>Entrepreneurial Support Org</td>
<td>31</td>
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</table>
In the first two months of the program, there have been 3,133 matched applications requesting $162 million in loans;

Of these applicants, 79% are from business owners who self-identify as a woman or person of color, and 89% have 10 or fewer full time equivalent employees.

Loans disbursed:
- 92% have revenues under $1 million
- 67% have revenues under $250,000
- 89% have 10 or fewer FTE employees