

# SSBCI FAQs

The U.S. Treasury has provided guidance on many issues, but below are a few frequently asked questions with answers. Official guidance published by the U.S. Treasury can be found on its SSBCI website.

<https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci>

## I. Eligibility

### **Question 1: What businesses are allowed to receive SSBCI funding?**

Answer: Funding is for small businesses (< 500 employees). For profits and nonprofits are eligible, but public entities are not eligible.

### **Question 2: What types of businesses are not allowed to receive SSBCI funding?**

Answer: Businesses that are engaged in: (1) speculative trading on price fluctuations, like commodities, wildcatting, (2) pyramid schemes, (3) re-lenders unless they are CDFIs, (3) unlawful businesses as deemed by the federal laws or local jurisdiction, (4) gambling activities.

### **Question 3: What qualifies as a SEDI-owned business?**

Answer: As referenced in the SSBCI Capital Program Policy Guidelines published on November 10, 2021, page 6, <https://home.treasury.gov/system/files/256/SSBCI-Capital-Program-Policy-Guidelines-November-2021.pdf>

Treasury will consider SSBCI funds to have been expended for SEDI-owned businesses if the states expend (as defined in Section III.b above) the funds for meeting the needs of SEDI owned businesses. “Meeting the needs of SEDI-owned businesses” means that the SSBCI funds are expended for loans, investments, or other credit or equity support to:

(1) business enterprises that certify that they are owned and controlled by individuals who have had their access to credit on reasonable terms diminished as compared to others in comparable economic circumstances, due to their

1. membership of a group that has been subjected to racial or ethnic prejudice or cultural bias within American society;
  2. gender;
  3. veteran status;
  4. limited English proficiency;
  5. physical handicap;
  6. long-term residence in an environment isolated from the mainstream of American society;
  7. membership of a federally or state-recognized Indian Tribe;
  8. long-term residence in a rural community;
  9. residence in a U.S. territory;
  10. residence in a community undergoing economic transitions (including communities impacted by the shift towards a net-zero economy or deindustrialization); or
  11. membership of another “underserved community” as defined in Executive Order 13985;
- (2) business enterprises that certify that they are owned and controlled by individuals whose residences are in CDFI Investment Areas, as defined in 12 C.F.R. § 1805.201(b)(3)(ii);
- (3) business enterprises that certify that they will operate a location in a CDFI Investment Area, as defined in 12 C.F.R. § 1805.201(b)(3)(ii); or
- (4) business enterprises that are located in CDFI Investment Areas, as defined in 12 C.F.R. § 1805.201(b)(3)(ii)

## II. Funding

### Question 1: What's the maximum loan/investment funding I can receive from SSBCI?

Answer: \$5,000,000 loan or investment as long as there is a required private capital match. The maximum loan/investment size including the private capital match is \$20,000,000.

### Question 2: How does a small business get funding?

Answer:

- For loans less than \$250,000, small businesses would apply for a loan from an approved Community Development Financing Institution(CDFI) or the MSBDFA-Loan program. In the case of CDFIs, a qualified business applicant will not be required to bring its own private capital match as the private capital match requirement is expected to be fulfilled by the CDFI. *Note: CDFIs are expected to be taking applications starting in the Fall of 2022.*
- For SSBCI funding greater than \$250,000, small businesses would apply to the Neighborhood BusinessWorks or the MSBDFA-Loan program. A business will be required to bring its own qualified private capital match in order to qualify for the SSBCI funding.

Neighborhood Business Works information is found here:

<https://dhcd.maryland.gov/Business/Pages/NBW.aspx>

MSBDFA-Loan program information is found here:

<https://commerce.maryland.gov/fund/programs-for-businesses/msbdfa>

### Question 3: What is the private capital matching requirement?

Answer: The goal of the SSBCI program is to reach a 10:1 private capital match to SSBCI's funds. The matching must be established through a properly documented cause and result relationship between the SSBCI funds and the private capital match. Various loan and investment programs are structured at different private capital to SSBCI funds matching requirements to account for each specific program targeting and structuring features (please consult each program term sheets for the private capital to SSBCI funds matching requirements). The 10:1 goal may be reached through subsequent financing rounds, recycling of funds both principal and program income within the SSBCI program term.

### Question 4: What qualifies as a private capital?

Answer:

- For a loan - a private lender (e.g. CDFI, bank, private company, foundation, non-profit lender, etc).
- For an investment - venture fund, angel fund, private investor unaffiliated with the company.

### Question 5: What sources of private capital do not qualify?

Answer: Public funds from federal, state and local governments do not qualify as an eligible private capital match. In some cases, owners equity and loans to the business do not meet a private capital match requirement.

### Question 6: Are SSBCI funds grant funds?

Answer: SSBCI funds are in the form of repayable loans and investments **not** grants.

**Question 7: What are permitted uses of funding?**

Answer: Funding shall be used for “business purposes”. A business purpose includes, but is not limited to, start-up costs, working capital, business procurement, franchise fees, equipment, inventory, as well as the purchase, construction renovation or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. The definition of business purpose excludes acquiring or holding passive investments such as commercial real estate ownership, or the purchase of securities; and lobbying activities (as defined in Section 3 (7) of the Lobbying Disclosure Act of 1995, P.L. 104-65, as amended).

**Question 8: What are ineligible uses of funding?**

Answer:

- a. Repayment of a delinquent federal or state income taxes unless the borrower has a payment plan in place with the relevant taxing authority, or Superseded by 2021 Program Documentation 16 SSBCI Policy Guidelines Revised April 16, 2014;
- b. Repayment of taxes held in trust or escrow, e.g. payroll or sales taxes; or
- c. Reimbursement of funds owed to any owner, including any equity injection or injection of capital for the business’ continuance; or
- d. Purchase of any portion of the ownership interest of any owner of the business.

**III. Lenders - Loans****Question 1: Has the Treasury confirmed that confessed judgment language is not permitted in the loan documents?**

Answer: Yes, confessed judgment is not allowed.

**Question 2: Can a lender's private capital match be guaranteed by the SBA?**

Answer: No. Lender capital guaranteed by the SBA is not eligible unless approved by the Treasury.

Under the SSBCI Program, eligible state CAPs or OCSPs may not enroll any portion of an SBA-guaranteed loan or the unguaranteed portion of any other federal loan without the express, prior written consent of the Treasury. If a borrower receives a loan guaranteed by the SBA’s 7(a) or 504 loan programs or the U.S. Department of Agriculture’s Business and Industry (USDA B&I) loan program, SSBCI funds may not be used as credit support to a loan or investment for the same purpose as the SBA or USDA-guaranteed loan. For example, a borrower may not use a loan guaranteed under SBA’s 7(a) program and an SSBCI-supported loan to purchase the same real estate, including land and improvements. In contrast, a borrower may receive two sources of federal support in two separate loans if the proceeds for the two loans are for different purposes. For example, if a borrower receives a loan guaranteed under the SBA’s 7(a) or 504 program or the USDA B&I program to purchase real estate occupied by the borrower, the borrower also may receive an SSBCI-supported loan to purchase equipment. be guaranteed by the SBA, but the lender must be at least 20% at risk.

**Question 3: What is the maximum term for SSBCI loans?**

Answer: There is no defined maximum term of loans. However, the programmatic use and duration of the SSBCI loan proceeds must be supported with underlying loans to small businesses in the proper business context.

**Question 4: Is there an administration fee available for fund managers?**

Answer: Yes, but the annual administrative fee is capped at 1.71%. See Treasury guidelines for more details. CDFIs are allowed to earn customary lender fees. Please consult each program administrator for more details.

**Question 5: Please explain the details and frequency of required reporting.**

Answer: DHCD will require monthly closing and reconciliation reporting in order to meet US Treasury requirements for quarterly and annual reports.

**Question 6: Who will own the SSBCI Promissory Note? DHCD or the fund manager?**

Answer: DHCD will own the SSBCI portion of any note to small businesses funded with SSBCI funds through approved CDFIs.

**Question 7: Does the loan have to be Noted separately? One for SSBCI? One for the fund manager matching funds?**

Answer: SSBCI funds will be lent to CDFIs for further re-lending to qualified small businesses. The loans to qualified small businesses co-funded with private matched funds and SSBCI can be within the same note unless they are different in their lien standing.

**Question 8: Are all awarded funds transferred to the fund manager or do we have to make a draw request for each loan?**

Answer: SSBCI funds must be matched with the transferred private funds by the time the SSBCI funds are transferred to CDFIs. Other details are to be determined upon negotiations with each CDFI or fund manager.

**Question 9: If funds are awarded to the fund manager, can fund managers co-mingle SSBCI and private funds in one bank account?**

Answer: No. See Treasury response on this in their capital requirements publication.

**Question 10: Do fund managers have to obtain a local resolution?**

Answer: No.

**Question 11: Do businesses have to exist in a Priority Funding Area?**

Answer: No.

#### IV. CDFI Loan to Lender Program

**Question 1: Can a business obtain SSBCI funds through a direct loan from NBW and not the CDFI route?**

Answer: In order for CDFIs to receive SSBCI funds to re-lend to businesses, the CDFI must apply to receive a funding commitment from DHCD. For those CDFIs that want to make direct loans to businesses and would like additional funding to participate in those direct loans, the CDFI may direct the business (borrower) to apply to the NBW program directly and CDFIs may serve as co-lenders, providers of the required private capital match to these businesses.

**Question 2: Is there any oversight of end product terms for the loans that go to the SEDI businesses?**

Answer: Loans to small businesses must follow the guidelines. Each CDFI applicant under the loan-to-lender model will be underwritten as a lender for counterparty risks, reviewed for lending program goals and loan product terms. Loans to businesses will be subject to audit review by DHCD, U.S. Treasury and its authorized agents

**Question 3: Does the private capital have to be newly raised, or can we use capital we have already borrowed?**

Answer: Private capital from CDFIs may be newly raised, or comprised of existing cash assets or already borrowed. The private capital must be sourced from eligible private entities *not* from public sources (local, state and federal). The deployment of the private funds to fund loans to businesses must be on the timetable coordinating private capital match and SSBCI fund availability

**Question 4: Will the SSBCI portion of the loan be subordinate to the private capital and CDFIs capital?**

Answer: Subordination is allowed

**Question 5: Are the funds coming from DHCD (SSBCI) at 0%?**

Answer: Terms will be based on the applicant's program, products and amount of private capital to match SSBCI funds.

**Question 6: Are there SSBCI program presentation materials?**

Answer: Yes. Please follow the link

**Question 7: How does the 20% minimum lender capital at risk compare to the 70% CDFI / 30% SSBCI Program split?**

Answer: The lender must have 20% of the loan fully at-risk (no guarantee from other sources). The SSBCI funds will be junior to the lender's capital, with the targeted range of 20-30% participation based on the deal.

**Question 8: What can you say about the loan terms - both SSBCI to CDFI and terms for borrowers from CDFI?**

Answer: The terms are set by the CDFI, but it is expected that these funds will be advantageous to small businesses seeking capital to support their businesses. Short term loans enable funds to be recycled to assist more small businesses and to meet private capital match to SSBCI fund goal of 10:1.

**Question 9: Are deposits consistent with your definition of private capital?**

Answer: No. For the SSBCI program, depository institutions are not eligible recipients to relend funds to small businesses, CDFIs are eligible.

**Question 10: What is the pricing range of a SSBCI loan?**

Answer: Current federal guidelines provide for an interest rate of less than 18% for this program, but we expect these funds to be attractive to the small businesses and shall be set by the CDFI reflecting its cost of capital, lending risks, cost of servicing and asset management and are subject to approval by DHCD under the SSBCI loan agreement.

**Question 11: Have you considered a fund structure rather than a loan to the CDFI?**

Answer: Yes, we have considered a fund structure, but our current approved program by the Treasury does not allow for a fund structure at this time.

**Question 12: Can a CDFI use funds from another Federal source as a match?**

Answer: No. Private capital matches must come from a private source.

**Question 13: I saw on the slide that a 1:1 match was required. Then it also says that the SSBCI loan is 20%/30%. Please explain.**

Answer: The minimum requirement to close a transaction is a 1:1 match and it is across all programs, including the ones that require SSBCI funds to be pari passu with the private capital. For CDFIs, the target is to provide a 20-30% participation of SSBCI funds in a junior position to the private capital match of 70-80%. The overall SSBCI program target for the private capital to SSBCI funds match is 10:1. To achieve the 10:1 ratio, loan funds may be recycled during the 9 year period.

**Question 14: Please explain the part of the slide that says "cannot be SBA guaranteed".**

Answer: SSBCI guidelines suggest that SBA guaranteed deals would have to be reviewed and approved by the Treasury on a case by case basis. An SBA guarantee may jeopardize eligibility of the total private capital match unless there is a clear documentation that a CDFI has at least 20% of the private capital at risk.

**Question 15: Does the slide show include an example of how you see a compliant deal come together?**

Answer: Example: A working capital loan of \$200,000 to a manufacturing company which has less than 500 employees, seeking to buy equipment, that has a lender contributing \$120,000 - \$140,000 towards the loan is a compliant loan. Source of lenders' funding is private, not public.

**Question 16: Will you be able to address the Real Estate Development Loan initiative?**

Answer: The state does not have a Real Estate Development Loan initiative. The SSBCI funds are focused on business financing needs which does include funding real estate acquisition for small businesses planning to use the real estate to support its business. A small business owner can deliver the assurance regarding passive real estate investment if the small business leases any portion of a building constructed, acquired, or improved with proceeds of an SSBCI-supported loan if such proceeds are used in the construction of a new building and the small business occupies and uses at least 60 percent of the total rentable property following issuance of an occupancy permit or other similar authorization. Alternatively, if SSBCI-supported loan proceeds are used in the acquisition, renovation, or reconstruction of an existing building, the borrower may permanently lease up to 49 percent of the rentable property to one or more tenants, if the small business occupies and uses at least 51 percent of the total rentable property within 12 months following the acquisition, renovation, or reconstruction. If a small business chooses to lease an allowable portion of the rentable square footage to a tenant, the state may rely on lease agreements, blueprints, or similar documentation in assuring the lease of an allowable portion of the rentable square footage is consistent with these guidelines. SSBCI-supported loan proceeds may not be used to improve or renovate any portion of a rentable property that is leased to a third party.

**Question 18: Think this applies generally - In terms of "using capital on your balance sheet" - most CDFIs have private grants historically and or earnings (which are supported by grants). Those grants are on the balance sheet and are the "capital on balance sheet". So do the grants have to be within 90 days or some such?**

Answer: Private grants count as "private capital". If a lender can demonstrate that capital on its balance sheet was from a private source, the capital is considered "private capital".

**Question 19: Will you discuss the TA Grant Program?**

Answer: The Technical Assistance application is due September 1st, 2022, so the strategy and design of the program is being formulated and will be incorporated in an application to be submitted to the Treasury.

## V. For Additional Reference:

U.S. Treasury SSBCI website

<https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci>

SSBCI Capital Program Policy Guidelines published November 10, 2021.

<https://home.treasury.gov/system/files/256/SSBCI-Capital-Program-Policy-Guidelines-November-2021.pdf>

SSBCI FAQs updated March 2, 2022. <https://home.treasury.gov/system/files/136/SSBCI-FAQs-as-of-3-2-2022.pdf>

Capital Program Frequently Asked Questions - July 2022

<https://home.treasury.gov/system/files/136/SSBCI-FAQs-as-of-7-25-2022.pdf>

Capital Program Sample Certifications

[https://home.treasury.gov/system/files/256/SSBCI\\_Sample\\_Certifications\\_June\\_2022.pdf](https://home.treasury.gov/system/files/256/SSBCI_Sample_Certifications_June_2022.pdf)