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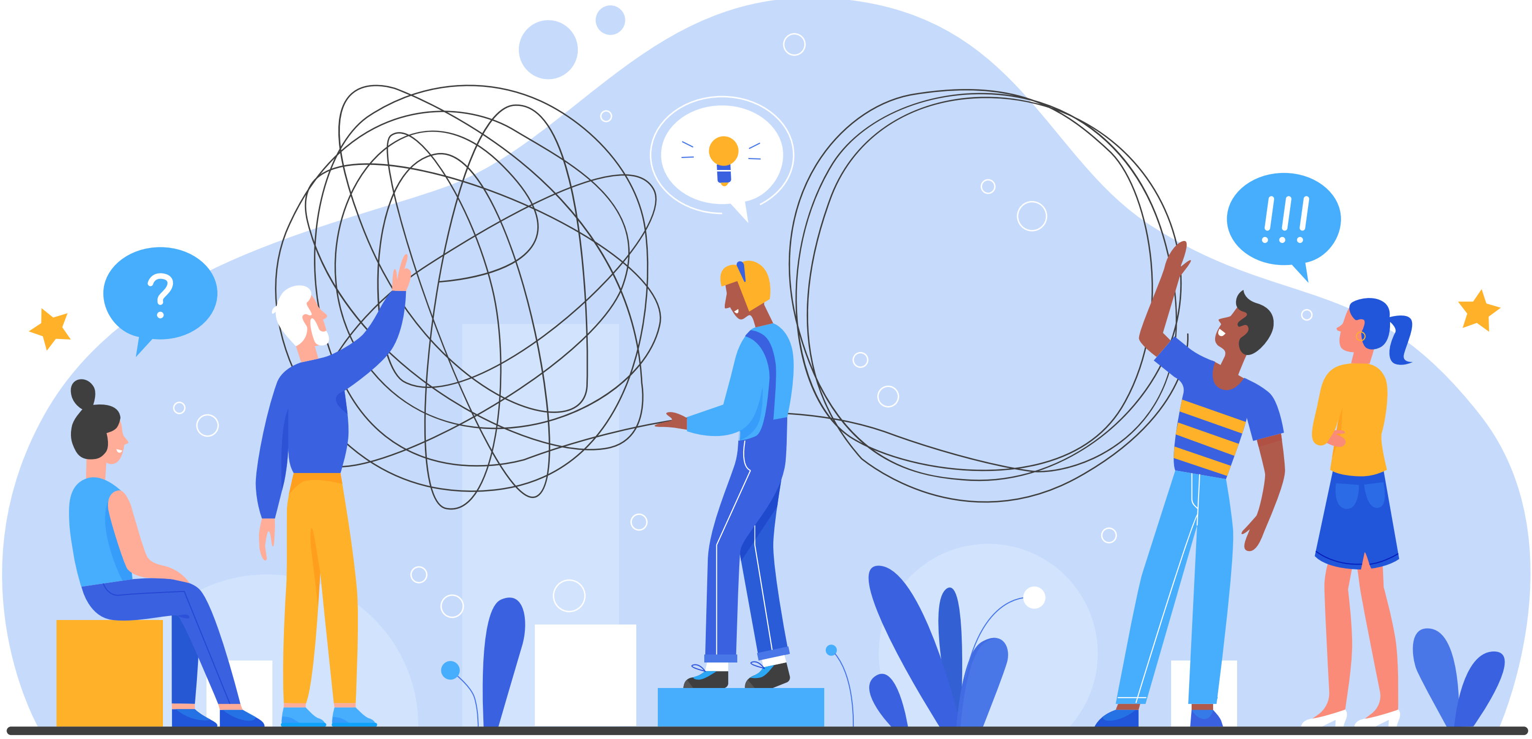
The Power of Coalition Building:

Confronting Racial Inequity in Small Business Lending

Authors: Purvi Patel and Todd Cooley, Self-Help Federal Credit Union

Self-Help®
Federal Credit Union

www.self-helpfcu.org



Executive Summary

The topic of racial injustice has been at the forefront of political discourse in our country since the start of the COVID-19 pandemic. The economic crisis caused by COVID-19 exposed the massive inequalities in the health and wealth of Americans based on their race and class. Black and Brown communities experienced hardship on many levels – the economic impact has hit small business owners especially hard, as they struggled to access the capital necessary to keep their doors open and continue to provide for their families.

Our government's response to the economic crisis caused by COVID-19 allowed community development financial institutions (CDFIs) to reach deeply into their networks and offer unprecedented financial support to small businesses owned by people of color. CDFIs acted swiftly and reached many business owners who would have otherwise been excluded from relief funding. However, the crisis required more than the actions of any single organization: organized, collective action was necessary.

Seventeen California-based community organizations offering lending, advocacy, and business advising services gathered in the spring of 2021 to build a coalition and attempt to collectively address some of the urgent problems facing small businesses at the peak of the economic crisis. This is the story of the genesis, actions, and learnings of that coalition. Deep gratitude is expressed to The California Endowment, without whose support and trust this work would not have been possible.

The Beginning: Responding to the Economic Crisis Caused by COVID-19

In March of 2020, life in America ground to a halt and businesses across the country shut their doors, not knowing when they would re-open. The COVID-19 pandemic led not only to dire health consequences but also an economic emergency, felt most acutely in low-wealth communities and among vulnerable populations. Many businesses were forced to shutter their doors during shelter-in-place restrictions, and for businesses with employees, ensuring they could reopen safely while sustaining sufficient staffing levels presented significant challenges. The owners of locally-owned restaurants, salons, retailers, and other small businesses faced the threat of financial instability. The economic impact is still being felt disproportionately by communities of color in California and throughout the United States. Indeed, the uneven impact of COVID-19 on communities of color will have long-term consequences on their financial stability and wealth.

As part of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Small Business Administration created the Paycheck Protection Program (PPP) to assist small businesses and nonprofits suffering steep declines in revenue due to the COVID-19 pandemic. Offered through participating lenders, PPP forgivable loans became available to sole proprietors, small businesses, and nonprofits that would keep employees on their payroll for eight weeks. During the first round of PPP, in April 2020, the majority of the $349 billion allocated for funding was quickly absorbed by very large employers and businesses. As a result, most of the federal relief did not reach sole proprietors and small businesses owned by people of color in low-income communities across the United States and in California.

In anticipation of Congress approving a second round of PPP lending in late April of 2020, Self-Help Federal Credit Union (Self-Help), a community development credit union with branches throughout California, saw an urgent need to bend the curve on the next round of PPP funding to support underinvested small businesses more intentionally. Self-Help and The California Endowment (The Endowment), a foundation committed to improving the physical and financial health of all Californians, decided to work together to increase access to financial aid for these businesses. Self-Help developed a coordinated process to increase the number of small businesses led by entrepreneurs of color in California that would access federal financial support through the next round of the PPP. As a CDFI and SBA lender, Self-Help was well-positioned to provide PPP loans to low-income and underserved communities hardest hit by COVID-19.

Based on its experience in the first round, Self-Help knew it could most effectively deploy PPP assistance if it used a network-based approach to rapidly establish a wide PPP infrastructure to reach more small businesses. To prepare for the second round of PPP, Self-Help developed a partnership with two other mission-aligned lenders, CDC Small Business Finance (CDC) and Accion Opportunity Fund (AOF). We engaged other organizations, such as the Mission Economic Development Agency (MEDA), to provide technical assistance to businesses owners who needed help with their applications. Together, we deployed 6,293 PPP loans in California totaling $294 million. We truly reached small businesses, as evidenced by the median loan size for each of our organizations: Accion Opportunity Fund ($10,415), Self-Help ($23,300) and CDC Small Business Finance ($28,432). Collectively, over half of the loans we originated went to small businesses or organizations led by people of color. Given the significant impact of our partnership, our organizations felt an urgent need to continue to collaborate and scale our approach. This is what laid the groundwork for what would become a formal coalition.

Formation of the California Small Business Coalition for Racial Justice

It is impossible not to acknowledge the racial unrest that was simultaneously occurring in our nation in the wake of COVID-19 and during our PPP response. During this period, our country saw the rise of a dramatic social movement, sparked by the murder of George Floyd. In addition to outrage over police violence, the protests highlighted structural racial inequalities in income, wealth, education, housing, healthcare, civic engagement and other fundamental elements of life, further exacerbated by the pandemic's disproportionate toll on the health and financial wellbeing of communities of color.

Self-Help, CDC, and AOF felt the impact of this movement and acknowledged that despite our collective efforts to provide financial relief to small businesses owned by people of color, there remained much more work to do, particularly in reaching businesses owned by Black and Brown entrepreneurs. In August of 2020, The Endowment made a $1.1M grant to Self-Help, with the purpose of building a state-wide coalition of small business lenders and technical assistance providers who could assess ways to expand access to capital and other resources for small businesses of color; and using a racial equity lens, guide the work and lay the foundation for long-term structural change to strengthen the small business lending ecosystem in California.

The first step was to establish a Steering Committee to guide the work of the California Small Business Coalition for Racial Justice ("the Coalition"). The Mission Economic Development Agency, AmPac Business Capital, and Access+ Capital joined Self-Help, CDC and AOF to form the Steering Committee of the Coalition. The Steering Committee met for a year developing trust and thought partnership which resulted in strong bonds and smooth collaborations. In 2020, the Steering Committee worked together, sharing resources and learnings to obtain federal and state hardship funding for the businesses in our networks, and engaging in political advocacy to highlight the needs of small businesses we were serving.[1] This period of trust-building was instrumental in our ability to create concrete deliverables and lead the Coalition.

In early 2021, the Steering Committee brought together17 organizations[2] across the state of California to form the Coalition. Many of these organizations knew of one another but had not worked closely together. We represented diverse

[1] For example, in preparation for the third round of PPP, grant funding allocated to Steering Committee members allowed them to increase their internal lending capacity by hiring temporary loan officers, investing in technology to process PPP loans more effectively, and utilizing high quality TA to prepare PPP applications. From a policy perspective, the Steering Committee urged the California Governor's Office of Business and Economic Development to select a CDFI to administer the CA Small Business Covid-19 Relief Grant Program, which was ultimately successful.
[2] A full list of the Coalition members can be found in Appendix A.

communities, offered a variety of services, and had different approaches to our work. The Coalition was comprised of community lenders, policy organizations, and business technical assistance providers, all of whom were committed to prioritizing racial justice in their work. We asked each organization to designate a member of their Executive team to represent them within the Coalition; and as a recognition of the time these individuals spent working on Coalition matters, we compensated each participating organization.

The focus of the Coalition's work in the first two months was simple: we asked each organization to share their mission and their work with the full group, and to express their thoughts on how the Coalition could be most impactful in the limited time we had together. This collective brainstorming exercise unearthed numerous avenues for collaboration and collective action, which the Steering Committee then evaluated. Through that process, the Steering Committee decided that the most effective method for achieving the Coalition's stated goals was to pursue three core areas of focus. In April of 2021, the Coalition began convening its three newly formed subcommittees, focused on: 1) Advocacy, Policy, and Communications; 2) Intentional Partnerships and Capacity Building; and 3) Racially Just Underwriting. These subcommittees were the main vehicles through which priorities were defined and action took place. Each Coalition member was involved in at least one of the three subcommittees (some members recruited additional staff to participate), and at least one Steering Committee member was responsible for facilitating each committee. Subcommittees met regularly, and during monthly Coalition meetings, members had the opportunity to share ideas, ask questions, and identify opportunities for action.

Our Impact

From the early stages of the Coalition's conception, the importance of taking tangible action has been at the forefront of our intentions and strategies. It was imperative that the Coalition not be a place for members to just sit and talk, but a place where ideas were generated, plans were laid, and the steps to realize them undertaken. This drive toward action needed to be balanced with the reality that existed; the Coalition had only one year of funding and was attempting to effect change on the deeply entrenched issue of racial inequity. We asked ourselves what we could do to make an actual, lasting impact, while staying within our given constraints. Our plans needed to coalesce relatively quickly, and we needed deliverables that could be used as building blocks in the ongoing fight for racial equity.

Through the structure of the subcommittees, the Coalition identified needs and created projects around them. The next section provides examples of each subcommittee's accomplishments.

Racially Just Underwriting Subcommittee

This subcommittee was created to explore and test racially just underwriting principles through rethinking the traditional methods of credit evaluation and how we think about risk.

To this end, the subcommittee undertook a process to review existing underwriting guidelines, which are inherently built on principles of systemic racism and historic wealth inequity in our nation. The subcommittee assessed each of the 5 C's of Credit – capacity, capital, collateral, conditions and character – to identify areas where a lending rule, process or practice exists to further the racial wealth divide, and in response, developed "The New C's of Credit," an alternative system to evaluate creditworthiness with a racial justice lens, offering the following guidelines: character, commitment, conditions, and capacity. The subcommittee developed a public-facing summary describing the guidelines[3], which we began testing through the lending pilot program described below.

[3] New C's of Credit Underwriting Criteria can be found in Appendix C.

In an effort to support mission-driven lenders to test the "New C's of Credit" model developed by the Coalition, the Steering Committee created the Racial Equity Lens Fund. Four participating Coalition members have been awarded $100,000 each in grant funding. $90,000 of these funds are being used by each organization as loan loss reserves to increase lending to Black, Indigenous, People of Color (BIPOC) owned small businesses using the "New C's of Credit" underwriting model, and up to $10,000 of the funds may be used as operating capital. Each of the four Coalition member organizations are providing at least a $45,000 loan loss reserve commitment from their own funds. Additionally, the Steering Committee engaged the California Infrastructure and Economic Development Bank to provide an additional state loan guarantee for loans made by grant recipients. As a result of the collective support, each Coalition grant recipient is able to disburse $450,000 in loan capital fully backed by guarantees.

It was important that the grants were made to organizations that could commit to using the "New Cs of Credit" focusing on BIPOC communities, and that this grant would allow the organizations to offer a new loan product while taking on more "perceived risk" in their lending. The Coalition believes that the data collected through this program will demonstrate that more racially equitable underwriting criteria can be used successfully with low borrower default. Our expectation is that this pilot will continue building the case for shifting toward a more racially-just paradigm to allow capital to reach more BIPOC small business owners across California.

Advocacy, Policy and Communications Subcommittee

This subcommittee utilized the Coalition's collective voice to advocate for racial justice in state and federal level policies that affect under-invested small businesses. From responding to time-sensitive opportunities to taking a more long-term approach, the subcommittee coordinated the broader Coalition's immediate responses while keeping an eye on the bigger policy picture.

One example of a timely issue interaction was the Coalition's work to strengthen the proposed CFPB Rule 1071, which requires lenders to disclose demographic data about small business owners they have made loans to, allowing community organizations, researchers, lenders and others to better understand and support small business and community development needs. Similar to the equivalent regulation for mortgage lending (the Home Mortgage Disclosure Act), under CFPB 1071 all lenders are required to publicly disclose data including race, ethnicity, census tract, and cost of credit– thereby providing full visibility into the lending practices of financial institutions to evaluate whether they have engaged in discriminatory or unfair lending. The subcommittee was able to secure a private meeting between the Coalition and a senior leader at the CFPB. During this meeting, Coalition members asked questions and shared their perspectives about working with underserved Black and Brown entrepreneurs who lacked access to mainstream financing or who were targeted with high-interest, predatory loans. One of the members of our Coalition, the California Reinvestment Coalition (CRC), played an important role in the release of Rule 1071, having sued the CFPB to take action, and ultimately succeeding. CRC prepared a comment letter in support of Rule 1071 that Coalition members could contribute content to and sign. At the close of comment, nearly 100% of Coalition members had either signed onto the CRC letter or submitted their own comment letter.

The subcommittee also created a Policy Playbook to provide Coalition members (and other organizations outside the Coalition) a toolkit on how to discuss racial equity and social justice with funders, banks and policymakers and advocate for a racial equity framework in their programs and policymaking. Beginning with a brief history of racial economic inequity in the United States, the playbook lays the groundwork for a shared understanding of the racial wealth gap and the current climate of BIPOC-owned small businesses in California. The bulk of the playbook is positioned to offer a step-by-step guide of how organizations can advocate for racial equity. The playbook addresses how to evaluate the landscape, incorporate community voices, and develop messages and strategies for advocacy with key audiences. The Policy Playbook can be found on CAMEO's (one of our Coalition members) website.[4] Currently, the Coalition is in the process of rolling out its dissemination plan for the Playbook and getting it into the hands of as many mission-led organizations as possible.

Intentional Partnerships and Capacity Building Subcommittee

This subcommittee identified opportunities to build trust and strengthen connections between Coalition members, namely through supporting organizations in different phases of their internal Diversity, Equity and Inclusion (DEI) journeys. Coalition members talked candidly about the importance of embodying the values around racial equity within their own organizations, including hiring and recruiting, leadership opportunities, and strategy development.

After conducting a survey of Coalition members to learn more about where each organization was in their DEI journey, it became apparent that a wide range of experiences existed within our group. At one end of the spectrum, we had organizations who had never engaged in DEI work internally. At the other end of the spectrum, there were member organizations that had invested in consultants to lead them through an intensive process of integrating DEI principles into all areas of their organization, and are currently executing their long-term plans.

[4] https://cameonetwork.org/wp-content/uploads/2022/06/Coalition-Policy-Playbook-1.pdf

In light of this wide range of experiences, the subcommittee undertook a project that could engage all organizations regardless of what stage of the journey they found themselves. The subcommittee decided to create a repository of well-organized, easy-to-access DEI resources to help Coalition members institutionalize DEI within their own organizations. Those Coalition members who were further along in their DEI journeys offered their extensive resources to organizations with more limited resources. These offerings came in the form of documents e.g., sample strategic plans that prioritized DEI, employee engagement surveys, plans for incorporating a DEI lens into hiring and retention, etc. These documents were collected, organized and placed on CAMEO's interactive learning platform. Through additional discussions and trainings, the Coalition was able to gather learnings from each organization's process with Diversity, Equity and Inclusion, and create open lines of communication between organizations to continue sharing knowledge and learning.

We must acknowledge that the scope of this subcommittee's work is vast and may be defined by an infinite set of actions. The subcommittee spent significant time ideating and defining a single project that could be accomplished within the timeframe we had. Some of the activities, such as conducting a racial equity training for Coalition members and summoning leaders in the community finance field to speak at Coalition meetings, were valuable in different ways for Coalition members. We recognize that much of the work of this subcommittee will be ongoing as relationships between Coalition members continue to strengthen over time.

Challenges

Our grant from The Endowment was for a 12-month period. During this time, we faced a number of challenges, but also took away many important learnings. Because much of the work remains ongoing, the Coalition and the Endowment may explore future collaboration to expand access to capital and other resources for small businesses of color, using a racial equity lens to fundamentally shift the landscape of small business lending in California. We hope our transparency provides learnings for funders and community development organizations undertaking similar types of collaborative work.

Over the course of the grant period, we experienced three main challenges. First, the global pandemic stretched everyone's limited resources, which created an emergency environment for many BIPOC small businesses and the organizations that supported them. Pandemic relief through PPP and other state programs such as the California Small Business Covid-19 Relief Grant Program was extremely time consuming in Q1 and Q2 of 2021. The demands on our Steering Committee members providing that relief affected progress, and the group agreed to slow down project implementation due to work overload by requesting a 3-month extension from The Endowment.

The second challenge was that of time, which expressed itself in two ways: individual Coalition member time commitments, and the overall length of the grant period. Having senior leaders heading the Coalition meant a real, and often difficult, time commitment from stressed executives. Members worked through this well, but it was at times a challenge for them and for us as the conveners. The stipends provided were helpful in acknowledging their valuable participation.

Our intention in having senior leaders represent their organizations was to make sure participating in the Coalition was a high priority for the organization. We learned, however, that allowing leaders to appoint another staff member to represent them in Coalition and subcommittee meetings was a valuable decision. The designated representative(s) were highly engaged in the work of their subcommittees and were eager to take back learnings to their organizations. Some of the representatives also viewed their participation in the Coalition as a professional development opportunity.

With respect to the length of the grant period, this was a lot of work to accomplish in just one year. Building relationships and getting high-quality projects off the ground typically requires much more time. We found that many coalitions with similar intentions are funded for at least 2-3 years with designated funds for a facilitating organization and/or staff person(s).

The third challenge, which is an obvious one, is that structural racism is a deep and complicated issue to tackle. The Steering Committee worked hard to find the right balance between pragmatism, in terms of what we could achieve in this space, and the impact of our deliverables toward longer-term outcomes.

Learnings

Trust building and power sharing are prerequisites to taking collective action. The six Steering Committee members met for a year developing trust and thought partnership which resulted in strong bonds and smooth collaborations. This period of trust-building was instrumental in our ability to create deliverables and lead the Coalition. Discussions between Steering Committee members were honest and intentional; we held each other to a high standard and pushed each other to be more radical and more creative. Each Steering Committee member knew they had something to learn and contribute through participating in this work.

The inherent structure of the Coalition required power sharing between all members. Although Self-Help received the grant and was primarily responsible for facilitating the Coalition's progress and deliverables, Self-Help was not itself an expert on the topic of small business lending in California.[5] Thus, Self-Help did not have a prescribed agenda or specific end goal it expected through the Coalition's work. Furthermore, the Steering Committee was committed to giving an equal voice to each member, and although some members of the Steering Committee had larger budgets or wider geographic reach, each member's perspective was equally valued and consensus-building was a priority in making important decisions.

This decision-making model was replicated within the broader Coalition, as members came together on equal footing and were empowered to bring their diverse perspectives to the work. Many organizations had heard of one another, but had not had the opportunity to work together. Through project collaborations and participation in subcommittees, the broader Coalition was able to build relationships that now extend well beyond the confines of our year together and have a life of their own. We expect the trust and collaboration of Coalition partners will only continue to grow into the future.

Finally, we cannot understate the importance of the nature of our relationship with The Endowment. From the outset, The Endowment was incredibly trusting in the concept of our coalition and what impact we could have with their funding. They believed in the power of our collaboration and did not prescribe activities or dictate results but allowed us to be creative and chart our path based on what we were learning in the course of our work. One of the most powerful learnings from our work is for our funding partners: democratizing philanthropy by giving grantees flexibility and ownership of their work is critical to achieving lasting impact.

Coalitions need leadership and financial support to thrive. Organizational leaders typically balance multiple key priorities simultaneously, and having a lead convening organization with dedicated staff to facilitate the project is critical to keeping activities moving forward. We also found that paying Coalition members for their time is important and respectful. The grant provided funding to Self-Help for serving as the primary facilitator and administrator of the Coalition, and also compensated Steering Committee members for their significant time investment in advancing the work.

Thinking about a long-term vision for this work requires identifying ongoing leadership and securing long-term funding and support for coalition-building activities. Within the Steering Committee, there was always a focus on shared leadership and collaboration. This power-sharing has contributed to the Coalition's success as a whole and in this spirit, the role that Self-Help has played as convener and primary facilitator for the Coalition will be handed off to another member organization of the Steering Committee. In 2022, the role was passed to the Mission Economic Agency (MEDA), while Self-Help has stayed on as a member of the Steering Committee.

Letting go of old norms is powerful. The established underwriting practices within the existing financial system discriminate against BIPOC small business owners and perpetuate the racial wealth gap. For many, stepping away from established norms and forging new ways forward can be daunting and perceived as risky. Yet, it is imperative that we take these risks to create new ways of operating, and we found that working in community with our peers in a collaborative effort helped us develop a new lens to find new solutions to entrenched problems. In this vein of new solutions is the "New C's of Credit", which will require ongoing testing, but will result in continued learning and revision to better fit the needs of different BIPOC small business communities, versus a "one size fits all" approach to lending.

[5] Self-Help offers small business loans in other states, but not in California.

Crisis uncovered the power of collective action. The global pandemic created a unique opportunity for organizations serving BIPOC small businesses to work together on multiple levels. During the first two rounds of the PPP, the average loan size was $153,500[6], as many very small, minority- and women-owned businesses experienced serious difficulties in securing PPP loans. The concept of the Coalition was born as a result of this inequity. In fact, many other organizations demonstrated the impact of collective action during this time.[7] Through the Coalition's collective action, and that of peer groups across the nation, the final round of PPP funding, which closed on May 31, 2021, had average loan sizes of $42,000[8], signaling a shift away from subsidizing the operations of the largest businesses and corporations towards those of micro, small, and mid-size businesses who needed resources most to remain open and accessible to meet their communities' needs.

The genesis of this coalition was grounded in the realization that organizations committed to racial and economic equity could exponentially increase their impact if we found effective and sustainable ways to work together. Clearly, the economic challenges facing small businesses owned by Black and Brown entrepreneurs continue to be a crisis – and we've only just seen the initial results of the impact that collective action can have in our communities. Funder support for organizations working in their own communities cannot be understated. However, coalition-building work is an equally valuable investment in the fight against economic inequity and should receive ongoing, intentional support from funders.

Committing resources to nascent ideas propels innovation. Each organization on the Steering Committee received a $45,000 grant to test a hypothesis or pursue an early-stage pilot that needed funding to advance[9]. This unencumbered funding allowed organizations to invest in research and development, risk capital, collaboration efforts, or other uses not normally budgeted by the organizations. Their ideas, challenges, and impact were shared with the broader Coalition as part of an effort to share knowledge in a transparent manner and propel continued innovation in the future.

Coalitions lay the foundation for future thinking and creative solutions. When organizations convene in a non-competitive, collaborative environment, possibilities for impact expand dramatically. On one hand, it may be said that the work of the Coalition has spurred more questions than answers. The Coalition's deliverables were created as the result of collaborative action; however, this has only raised new questions about how we can further improve our reach and support for small businesses owned by Black and Brown entrepreneurs.

Conclusion

Our Coalition accepted the daunting challenge of defining and acting on this profoundly complex and multifaceted topic of racial equity. Over the next few years, we will be able to test the effectiveness of our deliverables. We understand that others in our industry may challenge our approach, and we welcome alternative ideas and look forward to hearing how other organizations are tackling these issues. We have learned that talking about racial equity, while critical, can also lead to decision paralysis when the time comes to take some risk and move into action. We hope that our learnings, setbacks, and successes will lead to even more radical approaches in confronting racial inequity in small business lending. Finally, we are immensely grateful for the support and partnership of The California Endowment. We hope their leadership in grantmaking will inspire other funders doing this work.

[6] Round 1 https://www.sba.gov/sites/default/files/2021-09/PPP%20Deck%20copy-508_4.16.pdf; Round 2 https://www.sba.gov/sites/default/files/2021-09/PPP_Report%20-%202020-08-10-508.pdf

[7] Massachusetts Coalition for an Equitable Economy; Paycheck Protection Program collective advocacy for microbusinesses; and industry-wide advocacy through the Opportunity Finance Network for changes to PPP.

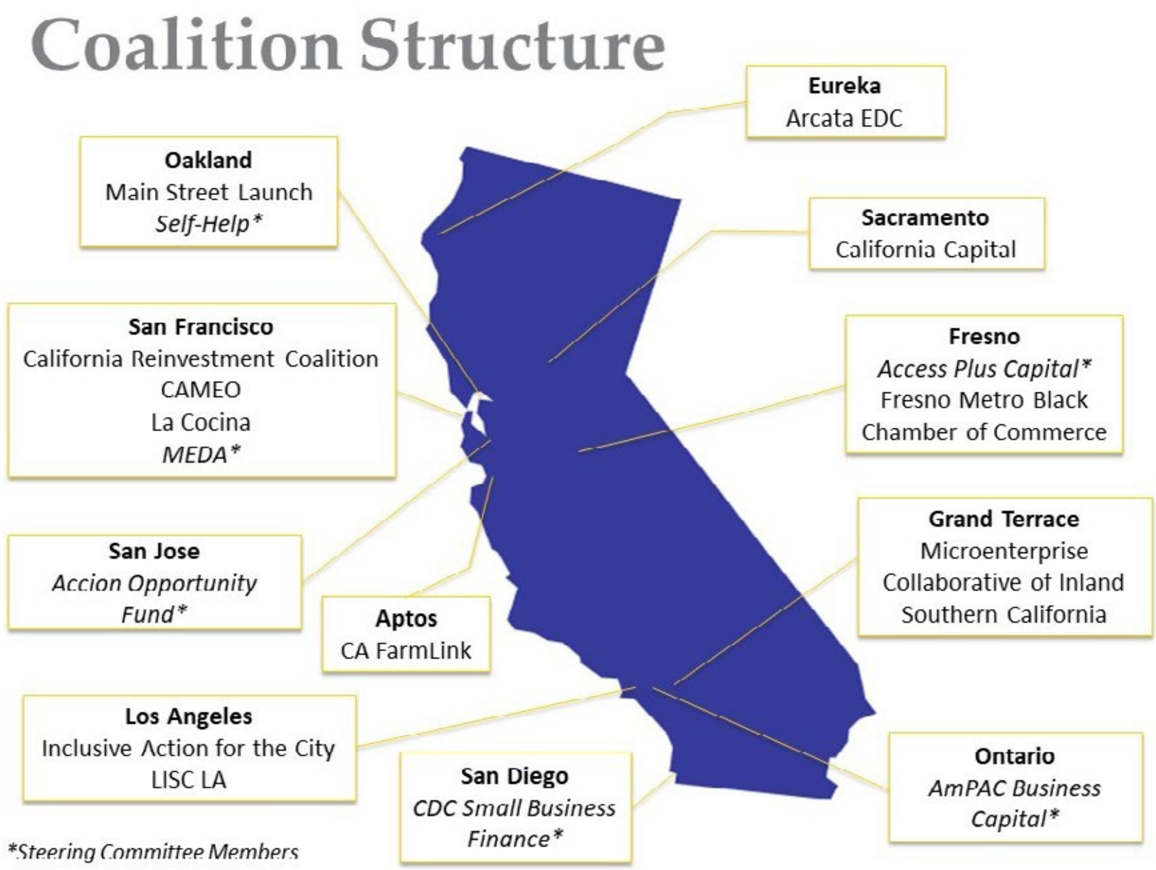
[8] https://www.sba.gov/sites/default/files/2021-06/PPP_Report_Public_210531-508.pdf

[9] The Creative Capital Projects of the five Steering Committee members can be found in Appendix B.

Appendix A

Roster of Coalition Members (Steering Committee members in bold)

#	Organization	Location / Region Serving
1	**Access Plus Capital**	**Fresno / Central Valley**
2	**Accion Opportunity Fund**	**San Jose / Statewide**
3	**AmPac Business Capital**	**Ontario / San Bernardino County**
4	Arcata Economic Development Corporation	Eureka / Humboldt, Del Norte, Lake, Medocino, Siskiyou, Trinity Counties
5	California FarmLink	Aptos / Statewide farming communities
6	California Capital Financial Development Corporation	Sacramento / Statewide
7	California Reinvestment Coalition	Bay Area / Statewide
8	CAMEO	Statewide
9	**CDC Small Business Finance**	**San Diego / Statewide**
10	Fresno Metro Black Chamber of Commerce	Fresno / Central Valley
11	Inclusive Action for the City	Los Angeles
12	La Cocina	San Francisco Bay Area
13	LISC LA	Los Angeles
14	Main Street Launch	Bay Area / Statewide
15	**Mission Economic Development Agency**	**San Francisco Bay Area**
16	Microenterprise Collaborative of Inland Southern California	Ontario / Inland Empire
17	**Self-Help FCU**	**Statewide**



Appendix B

Creative Capital Projects

- **CDC Small Business Finance (CDCSBF):** Seeking to better understand how to support and lend to African-American and Latinx entrepreneurs and small business owners, CDCSBF conducted research to review and analyze the lending process and portfolio of their African American-Latino Loan Fund. A third-party firm was hired to conduct 1:1 interviews with 20% of their portfolio which provided important insights into the Target Market and their "current credit box". Three significant learnings came from this study. First, CDCSBF needed to do a better job of marketing to the Target Market and not rely so much on referral sources. Second, they needed to continue to refine their credit box to reach more entrepreneurs. Third, the study concluded that CDCSBF is uniquely positioned to be a wealth generator in assisting Black and Brown business to scale, and their blend of underwriting and business advising allows them to become a trusted resource for these business owners. The learnings from this study assisted CDCSBF and their partner, Capital Impact Partners, in developing an alternative loan product in Detroit that has no minimum credit score, no equity injection requirements and no collateral requirements, and they are planning to extend the loan product into California in the near future.

- **Accion Opportunity Fund (AOF):** By conducting research into BIPOC entrepreneurs, AOF found that there was a significant need for these business owners to connect with other successful entrepreneurs, trusted services, and digital tools. These business owners wanted to hear from other BIPOC entrepreneurs who had similar life and business experiences, yet many did not have access to that type of community to connect with. Based on these insights, AOF focused on how they could enable BIPOC entrepreneurs, specifically Black women entrepreneurs, to connect with, support, and help each other so that they might avoid common mistakes, reduce decision fatigue, develop a greater sense of confidence, and ultimately grow their businesses. The research and learnings of the experiences that Black women small business owners felt were meaningful would help in their success in supporting the reimagination of the AOF customer experience. This initiative is called the **Unified Customer Experience** or **UCX**. The goal is to build stronger relationships with small business owners through a more personalized journey – one that draws from the full spectrum of AOF offerings based on the needs of small business owners, from loans, grants, and business advising to curated content, events, and education.

- **AmPac Business Capital:** In order to get more capital into the hands of BIPOC business owners, AmPac took a three-pronged approach. The first area of focus was on technical assistance through which they conducted three train-the-trainer sessions with local Latino- and Black-focused partner organizations. They supported these trainers in hosting 20 additional training sessions for small businesses in support of them obtaining PPP funds. AmPac ended up funding 70 Black-owned businesses and 145 Latino-owned businesses through the 2021 round of the PPP. Secondly, AmPac established a down payment assistance program to help Black-owned businesses purchase their own commercial real estate. So far, this program has three potential borrowers. Thirdly, AmPac created a new loan program focused on Black and Latino borrowers that incentivized success by offering reduced interest rates at each loan anniversary for the first three years with consistent monthly payments and attendance at up to three training programs per year. Currently, they have funded four loans and have a pipeline of 15 additional loans.

- **Access Plus Capital:** Focusing in on the underserved Southeast Asian business communities in the Central Valley, Access Plus Capital set out to better understand how to serve these businesses' unique needs and provide more accessible capital. There was very little existing data to help them understand how to best engage, communicate with, and provide appropriate business development services in these communities. In order to address this dearth of information, they began developing a Southeast Asian Business Community Report that collected data and analyzed key trends and needs through outreach, interviews and surveys of the business community. Additionally, they contracted with the California Hmong Chamber of Commerce to provide in-language webinars, marketing content and application support for the California Relief Grant to 32 applicants. Through these efforts Access Plus Capital was able to see a 5X increase from 2020 to 2021 in their lending to Southeast Asian business borrowers.

- **Mission Economic Development Agency / Fondo Adelante (MEDA):** Building on their learnings from working on PPP in 2020, MEDA set out to test new strategies to increase access to capital for the 2021 round of PPP funding. They focused their efforts on supporting BIPOC, women, and immigrant-owned businesses that had experienced difficulties in successfully accessing the PPP Program in its initial iteration. Some of the specific barriers they focused on were applicants who were not fully aware of the program, who did not feel comfortable completing an application in English, who were discouraged by multiple rejections, and those who thought their businesses were ineligible due to misinformation. In redesigning their approach to outreach and assistance, MEDA provided webinars targeted to different small business industries/sectors, added temporary staff to process higher volumes of PPP applications in Spanish, conducted door-to-door outreach, provided 1:1 technical assistance, and partnered with local organizations to reach more potential borrowers. Through this effort they processed 128 loan applications of which 60% were first draw applicants, ~70% were women-owned, ~80% were Latino-owned, with the majority being sole proprietors, independent contractors or sole LLCs.

Appendix C

Lending with a Racial Equity Lens: The New C's of Credit
A Project of the CA Small Business Coalition for Racial Justice

Background:

The CA Small Business Coalition for Racial Justice is comprised of 17 member organizations that include CDFIs, technical assistance providers and racial justice organizations coming together to create action in three focus areas: (1) challenging Coalition members and the industry in CA to prioritize racial justice in lending and technical assistance; (2) creatively responding to capital challenges faced by underserved small businesses; (3) advocating for policies and legislation infused with a racial justice lens to best serve marginalized small business communities.

Why rethink the traditional underwriting model?

A core group of Coalition members came together in a subcommittee to review the existing foundations of traditional underwriting guidelines and processes, and deconstruct how they have been built on principles of systemic racism and function to maintain the racial wealth gap. Over the course of the year, the subcommittee assessed these traditional "5 C's of Credit" (capacity, capital, collateral, conditions and character), examining each with a critical racial justice lens. The goal of this effort was to establish a common understanding of how these 5 C's operate to uphold racial inequity negatively affecting BIPOC communities, and posit an alternative system that is more just and centered around the strengths of the borrower.

For example, in the conventional model of credit evaluation the "C" representing "Capital" generally favors borrowers who are able to contribute monetary capital toward the funding of their business or investment. This criterion does not consider the systemic tools of racism such as redlining and predatory lending which have historically served to keep capital out of the hands of BIPOC businesses in the United States. Each of the C's has similar instances where the racist context of the country and its financial system serve to automatically hinder certain populations' potential to score strongly within the traditional model, which limits their ability to access affordable capital. This has a direct link to the continuing proliferation of the racial wealth gap and expansive growth of the predatory lending industry among BIPOC communities. In order to root out the existing inequality within this structure, the Coalition poses a revised slate of "C's" to utilize when assessing credit worthiness of small business owners.

These updated criteria aim to remove the inherently discriminatory nature of the traditional criteria and replace them with a more holistic and asset-framing view of an individual borrower, with the goal to demonstrate their creditworthiness through more community-centric methods of analysis. This is then paired with extensive, high quality, and mandatory technical assistance catered to each borrower. A higher touch approach is focused to help raise borrower's business acumen, support business viability, strengthen the relationship with the lender, and promote overall success of the business and loan repayment.

An Invitation to Lenders:

We invite you to look within your organization, talk with your credit committees, and assess how your current policies may be functioning on premises rooted in racial inequity. You are welcome to utilize this revised set of underwriting criteria as a way to see your internal structures anew, or outright use what is offered here in your approach to lending.

To move towards justice and the elimination of the racial wealth gap, it is incumbent upon us to examine how our history plays out in the everyday functioning of our field. We hope that the following underwriting criteria may offer a resource that helps propel us to this end. As gatekeepers to capital, we must identify how we can operate in a more equitable and racially just fashion, and create the necessary changes within our organizations to push towards racial equity.

The REL (Racial Equity Lens)

Eligible Borrowers	• Traditionally underinvested in, for-profit BIPOC owned business • Borrowers that were denied a loan by your organization in the past • SSN & ITIN holders
Loan Size	• Microloans from $5,000 to $50,000
Interest Rates	• 5 to 9 percent • Up to 120 months (to be determined by lender)
Project Types	• Existing businesses • New businesses less than 2 years old • Pre-revenue start-ups
Use of Funds	• Working capital • Inventory • Machinery, equipment, FFE • Eligible business debt refinance • Tenant improvements (with lease)

Commitment	• Contract agreement to receive TA by lender and/or partner organization
	  o Pre- and post-funding TA – number and types of session are defined after initial meeting with business coach as part of the underwriting process
	    · Important to hire and vet business coaches of similar background to borrowers
	    · At least 1 TA session or relationship building meeting per quarter
	  o Funding is disbursed at different stages based on TA, engagement, etc.
	• No UCC filings, no capital injection by borrower required
	• Optional: Alternative methods to determine "commitment"
	  o Provide proof of attendance to industry specific workshops or training attended, years in business, etc.
	  o Full-time and part-time engagement in business – do not discriminate against part-time engagement.

Character	• Holistic Credit Evaluation
	  o Evaluation of payment history with corresponding documentation - ex. rent, utilities, phone, suppliers, vendors
	  o Evaluate Credit Reports and NOT Credit Scores
	• Optional: Define and assess "character" outside of credit
	• Character references and accountability in community (e.g. participation on boards, community service, letters from community organization, etc.)
	• "Asset Framing": looking at strengths, not only weaknesses of borrower
	  o Personal investment in business, sales record, resilience, creativity, etc.
	• Intangible factors
	  o Showing up on time, relationships with family, etc.

Conditions	• Mitigating elements that lenders have control over
	  o Flexible repayment structure examples:
	    · Interest only payments for a certain amount of time - initial months of the loan (e.g. 3/6/9)
	      • Optional: evaluated at quarterly TA meetings
	    · Seasonal repayment
	    · Repayment tied to use of funds
	• Term: Up to 120 months
	  o Determined by lender
	• TA sessions or relationship building meeting at least 1 per quarter
	• Additional conditions may be required depending on location, type of business, and other considerations, including but not limited to insurance and periodic financial statements

Capacity	• Consider global household income
	• Use either of:
	  o DCR Historic: 0.9
	  o DCR Projected: 1.0
	• Repayment aligns with projected future cash flow
	• Measure capacity via historical business and personal tax returns (up to 3 years), financial statements and projections (if available), and / or monthly bank statements
	• Bank Statement Analysis, using both personal and business accounts, to include for not reported cash in the analysis
	  o Pathway for unreported cash and to be formally documented via deposits in bank account and to appear on bank statements and on taxes in future year filings

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