



Massachusetts Community & Banking Council  
Small Business Lending Committee  
Meeting of April 25, 2019

**Draft Minutes**

Attendees:	David Bryant	MACDC
	Brian Clarke	Federal Reserve Bank of Boston
	Maggie Cohn	Cooperative Fund of New England
	Maria Gooch-Smith	SEED Corporation
	Paul Horwitz	FDIC
	Andrea Ierace	Accion East
	Micha Josephy	Cooperative Fund of New England
	Gonzalo Puigbo	People's United Bank
	Jose Luis Rojas	Boston Private Bank & Trust
	Donna Saati	Enterprise Bank
	Regan St. Pierre	MCBC

The meeting began at 9:30 a.m. at Eastern Bank, 265 Franklin Street, Boston and was chaired by Regan St. Pierre.

1. Approval of the Meeting Minutes from February 21, 2019.

Motion to approve minutes from February 21st was made, seconded, and approved.

2. Updates and Announcements

MCBC's Small Business Committee (SBC) is looking for a committee co-chair to represent community organizations and CDFIs. Inquiries about the role and responsibility as well as the nomination process can be sent to Regan St. Pierre. The co-chair will work along with Charles Smith, SVP, Small Business Lending at Eastern Bank, to provide committee oversight and direction.

Regan shared MCBC's interest in forming subcommittees/focus groups, two of which have been established:

- Small Business Lending Report
  - Advisory Committee Volunteers - 1 additional community partner
- Strategic Procurement & Anchor Institutions
- Preserving Legacy Businesses with Cooperative Financing-
  - April through September
- Financing the Cannabis Industry – Racial Equity & Inclusion Lens
  - Financing Legacy Businesses – Anti-Gentrification Lens

Please contact Regan if interested in participating in a subcommittee.



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Regan also gave a brief overview of the [Semiannual Report on Banking Applications Activity: July 1–December 31, 2018](#). This report provides information regarding the applications filed by banking organizations and reviewed by the Federal Reserve as of the most recent reporting period ending on June 30 and December 31 of each calendar year. It showed an increase in bank merger and acquisition proposals that were approved despite receiving adverse public comments.

Regan noted that the September 12<sup>th</sup> committee meeting will be rescheduled to accommodate the Opportunity Finance Network's Northeast Regional Meeting in Manchester, NH.

Brian announced the Federal Reserve Bank's National Small Business Credit Survey will be released April 16th. Heading into 2019, small businesses with employees reported stronger revenue and employment growth and continued levels of credit demand, with more firms applying to online lenders for financing. Brian noted up to 32% of businesses used online lenders, up from 24% in 2018 and 19% in 2017. Brian noted that most borrowers are turning to online lenders because of the speed of funding, but the survey indicated that the net satisfaction is much smaller. Survey shows growth of industry still occurring.

### 3. CDFIs in Massachusetts

The meeting topic was an open forum focused on CDFIs in Massachusetts.

MCBC is curious to hear from Community Development Financial Institutions (CDFIs) in Massachusetts and their partners as it relates to:

- *How do CDFIs collectively organize across the state?*
- *What topics are of importance to the CDFI industry locally?*
- *How MCBC could better engage this sector of the small business and economic development ecosystem?*

Regan shared a handout that the CDFI coalition puts together on the CDFI lending activity in Massachusetts. It was noted that Accion East and the Cooperative Fund of New England was not listed in the handout.

According to the CDFI Coalition, there are 27 CDFIs in Massachusetts; Regan noted that this includes all affiliated entities – the real number appears to be 20. The CDFI Coalition reports total CDFI Fund awards to Massachusetts organizations since 1996: \$115,091,002 and \$2.4 billion of New Markets Tax Credit awards to Massachusetts since 2002.

The CDFI Coalition also reports in FY 2017, CDFIs program awardees made over 120,000 loans or investments totaling over \$5 billion to more than 12,000 small businesses. The average size of each loan or investment was \$41,744. CDFIs also financed over 27,962 affordable housing units. It was noted that 23% of this funding went to home improvement and home purchases and 19% went to residential real estate; such that only 58% of CDFI funding for Massachusetts was directed to commercial real estate, businesses and microenterprise, and consumer loans. Funding was received across the state, but concentrated in Greater Boston.



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Regan noted that Athol Credit Union, Workers Credit Union , One United Bank, and Greylock Credit Union are CDFIs in Massachusetts.

- *How do (or do) CDFIs collectively organize across the state? How are you bumping into each other formally or informally?*

OFN is an opportunity to meet regionally (not statewide). In addition, OFN's Small Business Lending Conference and Annual Meeting – which are held out of state - are also a place to connect with CDFIs in Massachusetts.

Maggie talked about the CDFI Women Connect that is being organized by Megan Teare and Vicky Stein. Maggie noted that the Boston chapter has been well received and well attended by women in the industry.

Andrea spoke that it connects with microlenders through webinars and opportunities coordinated by the SBA. Accion East hosted the last meeting of CDFI Women Connect. Andrea noted that Massachusetts Community Growth Capital is another resource.

SEED does some networking with and has a referral relationship with Common Capital in Western Massachusetts; both SEED and Common Capital are both microlenders and SBA lenders.

Gonzalo noted that Peoples United works with the Housing Development Fund, a CT CDFI, that utilize their CDFI funds for down payment assistance.

Micha noted that CDFIs work in different sectors and often there is a lack of opportunity to network and organize with CDFIs across sectors. New York State brings together its CDFIs more formally and has a state fund to support CDFIs.

Maggie noted CFNE cannot lend to individuals who are looking to buy a share in a cooperative and so will refer those individuals to banks and credit unions.

- *Is there a certain sector in the small business industry that CDFIs in Massachusetts focus on?*

Maria indicated retail businesses, restaurants, and home-based businesses (home health aid, landscapers, cleaners) are a focus.

Accion East has a new program focused on home-based daycare providers. The program was piloted in New York and is launching in Massachusetts and Florida in 2019. Accion East will be able to approve a loan in 24-48 hours using an application that utilizes public data from license information. Accion East can do the loan over the phone because none of the loan application information needs to be populated by the borrower. Many of the businesses are located in LMI communities and women-run businesses.

Jose Luis noted businesses that do not have a three-year history or track record will more often be served by CDFIs.

SEED has a loan product that can be approved within 48 hours using an online application.

- *What topics are of importance to the CDFI industry locally or nationally?*

Topics of importance included:

- Lack of financing for start-ups that are about to launch and have no collateral, no operating track record, only “visionary” financial projections;
- Lack of financing for businesses that lack collateral such as housecleaning or homecare businesses – these businesses often have a track record and actual financials, but no collateral to collateralize the loan. One option would be loan guarantees from other entities (CDFI, philanthropies, municipalities);
- Lack of capital to capitalize loan funds and the operations of CDFIs. The group discussed the lack of state matching funds for applications to the Dept. of Treasury/CDFI Fund. Federal funds must be matched 1:1 from city, regional, state, or private sources, including a CDFIs own retained earnings;
- Lack of a central resource for city, regional, state, or private sources to reference the loan performance as a CDFI and to see how CDFIs are using money to assist small business in a given area.

MACDC worked with State Rep Patricia Haddad to get state funding four years ago of \$1.0 million for the matching grant program; last year that was arbitrarily increased authorization to \$1.25 million in the Economic Development bill. David indicated that MACDC had met with Rep. Haddad and Rep. Michlewitz (Chairperson of the House Ways and Means Committee) to try to get a \$5.0 million fund established for the Economic Development bill this session. MACDC agreed that it is really hard to avail yourself of federal dollars w/out a ready source of state funding.

- *Who else is working in the CDFI industry that might be a resource?*
  - PV Grows in Western Massachusetts – Franklin County CDC
  - Michael Schaaf
  - Michael Swack at UNH
  - Southern New Hampshire University's Masters Program in Community Development
- *How do financial institutions, philanthropies, and private donors evaluate CDFIs in Massachusetts?*

Aeris – CDFIs in Massachusetts did not indicate that they subscribe. Instead they use CAMEL analysis and audited reviews conducted by US Economic Development Administration and SBA 504 and Microloan Program

Locally philanthropies and private individuals have not been strong supporters of this industry.

- *What could be simplified or clarified in the Community Reinvestment Act that could help spur investments in CDFI?*

The discussion revealed that there is a limited audience of banks in Massachusetts that see CDFIs as a reliable partner in the small business lending field. Some CDFIs have a formalized relationship with banking partners where the banks are a source of capital to capitalize loan funds and/or have operationalized a referral system.

The discussion emphasized that the State and financial institutions could be doing more to increase the visibility of CDFIs and small business loan program as a viable alternative to bank financing to prevent borrowers from turning to predatory lending that is most often happening online.

The need for responsible debt and interest rate disclosures from online lenders was also discussed.

David indicated that the House Ways and Means increased Mass. Growth Capital Corporation's technical assistance grant program by 50% to \$3.0 million in the proposed budget. It has historically been funded at \$2.0 million with twice the number of asks.

Another suggestion was to earmark some of the economic development revenues generated by the casino activity should be targeted to fund small business lending.

- *How can banks engage in a referral relationship with a CDFI? How can the state or the city support these relationships?*

It depends on if the Bank sees small business lending as part of their CRA strategy or a priority for their business. There is, for instance, for Chase who has My Way to Credit, which is a very easy and streamlined platform to make loan referrals to CDFIs and TAs all over the country. However, the impact is very low (8% conversion) because it is making referrals to various CDFIs.

The biggest impact we see is with banks that take a personalized approach. For instance, Eastern Bank and TD Bank have partnered with Accion. This approach is more personalized where Accion meets with regional managers, store managers, small business specialists so that they know the value of the organization and the partnership, and how to make referrals. It takes time and effort and a multi-year learning process to implement and operationalize a robust referral program.

The group also discussed how banks make referrals on the mortgage lending side, where there is a designated affordable homeownership mortgage officer fluent in all of the affordable lending mortgage products and resources and can facilitate the process of underwriting and processing those loans. It does not appear that the same infrastructure is in place on the small business lending side.



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The group also talked about how in New York City there is the Small Business Solution Centers that are focused on access to capital.

Maria indicated that SEED makes a point of talking to all resources in our area: SCORE, CWE, chambers of commerce, municipal Economic Development departments. It is a continuous process of being out in the community and re-educating individuals at all organizations.

The meeting was adjourned at 11am. The next meeting will be held on May 30<sup>th</sup>.