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FESIA A. DAVENPORT
Acting Chief Executive Officer

November 10, 2020

To: Supervisor Kathryn Barger, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Janice Hahn

From: Fesia A. Davenport
Acting Chief Executive Officer

CREATION OF A COUNTYWIDE MICROLOAN PROGRAM (ITEM NO. 1-D, AGENDA OF MARCH 19, 2019, AND ITEM NO. 2-D, AGENDA OF SEPTEMBER 10, 2019)

On September 10, 2019, the Board of Supervisors (Board) adopted a motion (motion) by Supervisor Solis reassigning the directives indicated in Board Order No. 1-D of March 19, 2019 by Supervisors Solis and Ridley-Thomas. The September 2019 motion directed the Chief Executive Officer and the Director of Consumer and Business Affairs, in collaboration with the Center for Strategic Partnerships, to research, design, and present recommendations and an implementation plan for a Countywide Microloan Program. Through its Economic Development Master Services Agreement, the Chief Executive Office (CEO) acquired the services of Angel City Advisors (ACA) to assist in executing the directives of the motion.

On June 22, 2020, the CEO submitted Phase I of the microloan report back that included a needs assessment of the County of Los Angeles' (County) micro and small business landscape to identify target users and geographic areas where a Countywide Microloan Program would be most equitable.

The attached report documents the completion of the "Regional Microloan Program: Design and Implementation Plan" (Phase II Report). The Phase II Report builds on the Phase I needs assessment, which concluded that microentrepreneurs are experiencing an unmet need for working capital and technical assistance. The Phase II Report finds significant opportunity for County-led investment into existing microlending infrastructure that aims to advance economic development through social equity policy goals.

The Phase II Report outlines a Countywide pilot program over a three-year period that invests directly into up to four microlender organizations currently delivering high-risk lending products and high-touch technical assistance to the most vulnerable entrepreneurs, including low-income immigrant, youth, and re-entry populations. An increase in the capitalization of these microlender organizations will provide support to expand the scale of their work, allowing them to serve populations that have historically experienced limited access to affordable capital.

The Phase II design and implementation plan involves having the County play a convening role between stakeholders and funders in order to build greater connectivity with the small business community. Moreover, the plan calls for an expansion of microlending infrastructure and resources offered by the public and private sectors, as well as additional leveraged capital from resources dedicated to small business services. The plan frames three funding streams to be deployed:

1) Balance sheet equity awards to facilitate additional external capital-raising. Injection of capital into microlenders' balance sheets for loan loss reserves could be leveraged into acquiring more support from philanthropic or other private organizations.

2) Restricted operating support to hire additional staff focused on community outreach and business consulting, as well as buy-down interest rates and fees. Resources reserved for additional lending program staff and providing loan subsidies will increase high-touch technical assistance offered to borrowers and maintain product affordability.

3) Supplementary loan guarantees for high-impact transactions. Loan guarantees offer additional incentives to encourage microlenders to engage high-priority businesses that have a higher risk of default yet have a high-impact in furthering equity goals.

Next Steps

The CEO is currently conducting further review of the attached design and implementation plan to formulate recommendations for the implementation of a Countywide Microloan Program. During Phase III, in consultation with Board offices and upon the identification of a funding source for the Microloan Program, the CEO will determine next steps for issuing a Request for Proposals for a Countywide Microloan Program.

Should you have any questions concerning this matter, please contact me or Allison E. Clark, Senior Manager, at (213) 974-8355 or allison.clark@ceo.lacounty.gov.

FAD:JMN:AEC
JO:AD:acn

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Consumer and Business Affairs
Center for Strategic Partnerships

ATTACHMENT

Regional Microloan Program: Design and Implementation Plan

October 2020

County of Los Angeles
Chief Executive Office

Regional Microloan Program: Design and Implementation Plan

October 2020

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This plan was produced by Angel City Advisors at the request of the Los Angeles County Chief Executive Office and the Department of Consumer and Business Affairs. You can learn more about these County Departments at ceo.lacounty.gov and dcba.lacounty.gov. To learn more about Angel City Advisors and their work please visit angelcityadvisors.com. Cover photo by Rudy Espinoza.

Executive Summary

This Plan proposes launching a Regional Microloan Program to expand business support services to microenterprises in Los Angeles County. Building upon a Community Needs Assessment finding significant opportunity for County-led investment in existing microlending infrastructure to advance policy goals of economic development and social equity, this Plan submits program design and implementation recommendations for consideration.

While this Plan is being submitted within the midst of the public health and economic crises related to COVID-19, our inquiry was initiated prior to the pandemic and makes recommendations to support microenterprise well beyond the depths of the recession. The coronavirus shocks starkly revealed the longstanding inequalities in support given to Los Angeles' smallest businesses and communities of color. This Plan provides a roadmap to build greater equity and inclusion into future investments and lasting infrastructure.

In summary, our Plan finds and recommends as follows:

1. *Small business drives the Los Angeles economy* and is the primary mechanism that many immigrants, youth, re-entry populations, and low-income persons use to generate income and wealth. Data identifies over 500,000 microenterprises in Los Angeles County who could benefit from microcapital and technical assistance. Key sectoral clusters include restaurants and eating places, small retailers and grocery, personal care services, auto repair, and independent contracting. Across Los Angeles County, entrepreneurs and micro-businesses have been historically underinvested in.

2. Current COVID-19 relief and recovery programs are helpful, but *key segments of the small business community are unserved and vulnerable*. Informal businesses, foreign-born entrepreneurs, thin credit applicants, the unbanked, startup businesses, and re-startups of failed businesses due to COVID-19 will be mostly unserved by recent and proposed lending programs like the Paycheck Protection Program, LA Regional COVID-19 Recovery Fund, and the CA Rebuilding Fund. Well-intended and necessary grant relief programs are temporary, oversubscribed, and insufficient in scale.

3. *Los Angeles does not need another intermediary "Fund"* that cannibalizes the same set of public, bank, and philanthropic investors. Platforms already exist for investment into participation-model programs that protect investors, refresh Community Development Financial Institution ("CDFI") liquidity, and allow traditional CDFI lending to occur during a historic recession. These Fund vehicles will support bankable and near-bankable small businesses who have survived the economic crisis – an important role. But they will not support the most vulnerable who seek help.

4. *The County should invest funds directly into indigenous microlenders* who have genuine connection to the Los Angeles small business community and are willing to deploy high-risk lending products and high-touch technical assistance to our most vulnerable and

unsophisticated entrepreneurs. We recommend three funding streams to be deployed via County RFP:

a. Balance sheet equity awards to facilitate additional external capital-raising;

b. Restricted operating support to hire additional staff focused on community outreach and business consulting, as well as buy-downs on interest rates and fees; and

c. Supplementary loan guarantees for high-impact transactions.

5. *County leadership adds value.* The County can provide common infrastructure to build greater connectivity with its small business community. This can happen in two forms. First, a branded Microloan Program website can be launched as a trusted, first-stop information hub and intake portal for stakeholders. Second, over time, additional microbusiness services infrastructure can be introduced in strategic locations beyond Central LA where services are currently clustered. The County also can play a convening role among stakeholders and funders.

6. *This Program can pilot and grow.* The Plan has budgeted and modeled a Regional Microloan Program at an amount that the County can internally fund and implement in 6-12 months. We have currently modeled a pilot program at a $5 million initial County investment with two modest renewals at $1 million in Years 2 and 3. This program, even if not co-funded by outside partners, would result in microcapital deployment of $8.52 million into 540 Los Angeles County small businesses at an average of under $16,000 per loan. By requiring the lenders to match the $3 million balance sheet equity grant 3:1, there will be sufficient loan capital of $9 million to fund a projected 540 loans. The remaining County funds will be used to provide technical assistance, product subsidy, and fund the guarantee. Due to the simplicity of the program design, the impact can be vastly expanded (with limited additional overhead or complexity) if new public sector or private funds are dedicated for small business services.

Introduction

This document serves as a design and implementation plan (the "Plan"), focused on putting forward an actionable strategy for a regional microloan program. This program is intended to fit within the existing landscape of loan programs, funds and small business supports, fulfilling unmet needs without being duplicative of established, resourced efforts. If implemented, the program will strengthen locally owned and operated small businesses within disadvantaged communities and improve overall economic opportunities for residents and businesses within Los Angeles County ("County"). Microloans are used as a working capital tool, situated within broader economic development and financial stability strategies, to provide safe borrowing opportunities for low income entrepreneurs that create and retain jobs within our communities.

This Plan builds off the *Regional Microloan Program: Community Needs Assessment*[1], which defined the *who*, *what*, and *where* characteristics of the Los Angeles County microenterprise ecosystem. While it is important to understand what works well in national and global context, the following Plan is crafted with the unique attributes of the Los Angeles ecosystem and microenterprise population in mind, to ensure the highest aspirations of the program are served.

The County is pursuing the creation of a regional microloan program that serves entrepreneurs seeking to start, sustain, or expand businesses yet have limited access to capital from traditional lending sources. While a longstanding policy interest, the Board of Supervisors initiated more formal consideration of a program via a March 2019 Motion titled "Creation of a Countywide Microloan Program", advanced by Supervisor Hilda Solis. On a parallel track, analysis and potential legislation is underway to protect consumers and small businesses from the destabilizing practices of certain Alternative Financial Service (AFS) providers within the County[2].

In light of the public health and economic crises of 2020, the County recognizes and lauds the many efforts of national, state, and local-level funds and programs to support small businesses that have been adversely impacted by Safer-at-Home orders. However, it has become clear that no fund will be able to serve all types of borrowers and fill every gap. Thus, our Plan for a microlending program is *specifically designed to target identified gaps* in the capital offerings available, or soon expected to be available, to meet the economic resiliency and job opportunity objectives of the County as it supports its most vulnerable constituents.

Fully functioning, the regional microloan program can advance the following policy objectives:

- <u>Economic Resiliency</u>: support small businesses to increase family income, create and retain jobs, provide tax base, and stabilize communities;
- <u>Economic Justice</u>: mitigate disparate access to capital disadvantaging low-income and communities of color, integrating the informal economy into the mainstream economy, and providing viable options to predatory lending; and
- <u>Stakeholder Representation</u>: providing improved infrastructure for the County to communicate and engage with the nearly 500,000 small businesses in the region.

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[1] Submitted to the Los Angeles County Chief Executive Office in May 2020 by Angel City Advisors.

[2] Project No. R2020-000078 (All Districts) is in the public hearing process at the time of the publication of this Plan.

Background

Microlending as Economic Development

Microloans are a proven tool shown to propel the economic development and job growth that underpins the strength of local economies and their respective tax bases.

Microloans are a tool within a broader sustainable economic development strategy to provide fair borrowing opportunities for low to moderate income entrepreneurs and increase the creation and retention of jobs within communities. Microlending is the provision of very small loans of less than $50,000 to borrowers who typically lack a strong (or any) credit history with the purpose of generating revenue and providing for their over-all wellbeing.

Microlending is mostly targeted to fledgling entrepreneurs who cannot, for various reasons, borrow from a traditional bank or financial institution. In recent years, microlending has increasingly been seen as a tool in the consumer credit arena as a mitigant for payday lending, quick-turn internet lending, title lending, and other types of predatory debt products. Microloans are most effective when accompanied or preceded by high-touch technical assistance.

New and young companies are the primary source of job creation in the American economy.
~ Kauffman Foundation

There is rigorous evidence that microlending leads to positive social impacts. These impacts are consistent around increases in self-employment activities and increased business activity, particularly for individuals already engaged in entrepreneurial behavior.[i] Microenterprises therefore provide not only a path to economic self-reliance for individuals but are also associated with accelerating economic growth, including increasing incomes and local tax revenue. By way of example:

- A controlled trial involving the Grameen America program found that participants receiving microloans and coaching experience reduced material hardships when compared with the control group.[ii]

- A recent El Paso County program of $5.43 million in grants and loans to 422 businesses at risk during COVID-19 supported nearly 8,000 jobs and generated $757 million in economic growth and $5.5 million in annual local sales tax revenue.[iii]

Startups, which often rely on microloans, play an important role in economic development and are positively associated with economic growth. The Kauffman Foundation, which studies entrepreneurship closely, finds that while small businesses in general are an important engine of the US economy, new and young companies are the primary source of job creation in the American economy. Additionally, young firms also contribute to "economic dynamism by injecting competition into markets and spurring innovation."[iv] It is this economic activity, growth, dynamism, and innovation that the microloan program seeks to encourage – especially in low-income and communities of color.

Los Angeles County 2021: Rebuilding for Resiliency

The COVID-19 pandemic has significantly impacted Los Angeles, which currently is experiencing disproportionately high unemployment and business closures, especially among African Americans, Latinx Americans, immigrants, and women.

As Los Angeles County works at a furious pace to respond to the COVID-19 pandemic amidst a period of profound racial and criminal justice reckoning (while also handling one of the worst fire seasons on record), the County seeks to locate equity and resilient structures at the heart of its planning. While the datapoints below reflect a current snapshot in time, they also articulate deep-rooted and persistent inequalities that threaten public health and economic resiliency. This Plan applies an equity-first, resilience-focused approach while also understanding the depth and breadth of the socioeconomic issues that face a resource-constrained Los Angeles County.

COVID-19 Pandemic

As of the release of this report, the County has already confirmed over 281,000 coronavirus cases and 6,768 deaths, reflecting 33% of all California cases and 41% of all California deaths respectively. COVID-19 has disproportionately impacted African Americans, Native Americans, Latinos, and Pacific Islanders as well as those living in low-income neighborhoods.[v] [vi] The illness laid bare underlying inequities in access and availability of health care and mental health support. As so clearly highlighted in the recent *No Going Back* report, produced by a coalition of Los Angeles researchers, advocates, and community leaders, the racial and gender inequities intertwined in 'essential work' and 'high-risk work' exposed minorities and immigrants to greater risk, and thus infection, during the pandemic.[vii] The report notes that the striking racialized gaps in deaths are reflective of the "pre-existing patterns of structural racism".

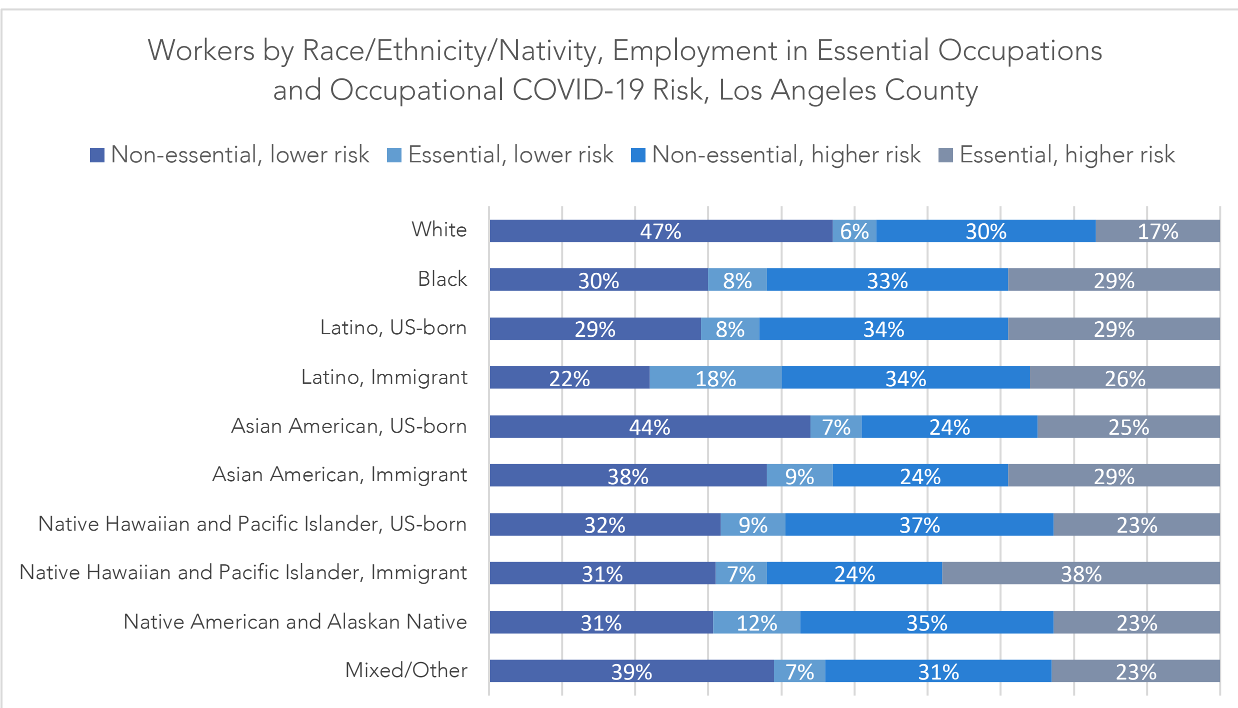


Figure 1: USC Equity Research Institute data analysis. Source: No Going Back: Together for An Equitable and Inclusive Los Angeles. See https://nogoingback.la/ for more detail.

Resulting Economic Hardship

The resulting economic distress from the Safer at Home orders has been unevenly distributed. According to the Los Angeles Economic Development Corporation ("LAEDC"), while the COVID-19 incidence rate has been declining since July, County unemployment remains high at 16.1% in August with 795,000 unemployed, down from 21% in May, but still well above the October 2010 Great Recession peak of 12.6%.[viii] However, those who have suffered the most from job loss and business shut downs have been minorities, immigrants, youth, and women. While not the full picture for Los Angeles County, Figure 2 below illustrates these inequities as represented more broadly across the state of California.

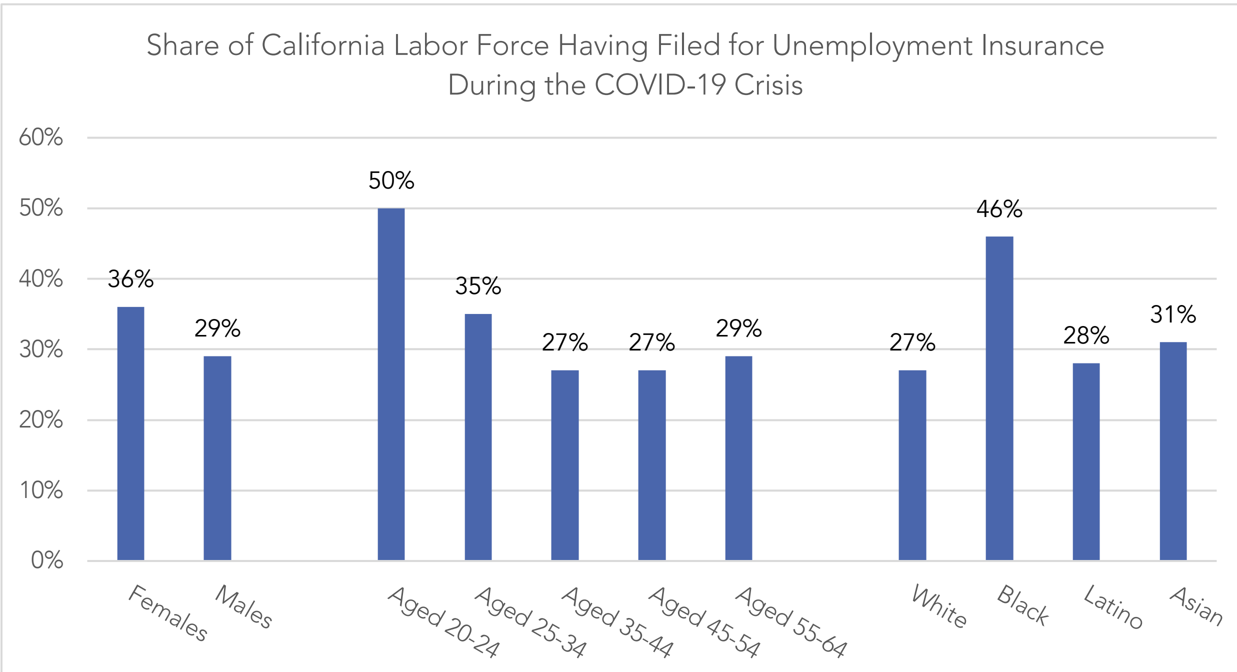


Figure 2: Based on reporting of California Policy Lab, California Unemployment Insurance Claims Data. Source: No Going Back: Together for an Equitable and Inclusive Los Angeles Report.

At the national level, as furloughs and layoffs become permanent job losses, the Wall Street Journal reports, "during the third quarter, 23% of the long-term unemployed were Latino workers and 21% were Black workers, both disproportionately large relative to their shares of the population."[ix] Similarly, reporting finds that 865,000 women left the labor force in September compared with 216,000 men, a stark difference attributed to not only the sectors hardest hit by the pandemic, such as retail and hospitality, but also the disproportionate responsibility women have for elder and childcare.[x]

Likewise, having roughly 50% of California's working age youth unemployed can have lasting effects on career mobility and earning potential – exacerbating concurrent challenges around student loans debt, limited health care coverage, and rental housing affordability. Lastly, local immigrant and undocumented communities (largely long-term stable, tax-paying Los Angeles community members) were barred from CARES Act relief at the household level even with children citizens in the household. The patchwork of available state and local relief has been welcome. But these populations were disproportionately vulnerable to begin with, were then disproportionately exposed and impacted by the nature of their work and circumstances, and relief delivered has been inadequate to the share of the burden carried.

As the pandemic continues and recovery limps along, with many employers unable to operate at full capacity, many Americans seeking income and opportunity are turning to entrepreneurship. Recent Wall Street Journal reporting finds that Americans are starting new businesses at the fastest rate in more than a decade, seizing upon pent-up consumer demand and new opportunities presented by an economy reshaped by the pandemic. According to findings from the IRS database for applications for the employer identification numbers (EINs) needed to start businesses, new filings have reached 3.2 million through mid-September, compared with 2.7 million at the same point in 2019. [xi]

> To make a better Los Angeles, we must center racial equity, align systems and hold them accountable for more effective delivery, and stir a new civic conversation and commitment for change.
> ~ *No Going Back* Report

The communities of Los Angeles have a long tradition of innovation, entrepreneurship, and reinvention that defines resilience. However, new 2020 businesses are launching in a time of economic distress when finding capital and support is a challenge. Nearly 90% of firms depend on an owner's personal credit score to secure loans, according to a survey by Federal Reserve regional banks.[xii] This makes little sense given that a quarter of Americans are unbanked and underbanked, indicating many entrepreneurs and microbusiness owners have few safe options when it comes to accessing loans.[xiii]

Predictably, amidst the economic crisis high interest rate lenders (often called payday lenders but are more accurately termed predatory lenders) are bypassing California restrictions and targeting struggling households with deceptive ads on Facebook, Google, and connecting borrowers with high interest loans from out-of-state banks.[xiv] While little current COVID-19 era data is public, experts found a surge in payday lending during the Great Recession and predict similar trends given the nature of the current crisis.[xv] It is critical that in this time of crisis, as those disproportionally impacted by the pandemic seek new opportunities, that safe and supportive credit options are available.

In a County as diverse and vibrant as Los Angeles County, these findings have ramifications for economic resiliency efforts. Therefore, intentional focus is placed on providing access to capital for those traditionally excluded and disproportionately impacted by the pandemic.

Regional Microloan Program Plan

An equity-first Regional Microloan Program, as proposed in this Plan, can bring affordable microcapital and high-touch support to entrepreneurs who have been left behind by existing recovery programs. The Program also makes a necessary capacity-building investment into our indigenous microlending community, which needs to better engage our thousands of microbusinesses on their terms.

This Plan first outlines the needs and unfilled gaps in the marketplace, immediately below, and then outlines an actionable Program that is scalable at multiple levels beginning on page 28.

Market Fit: Creating a Program that Meets the Need

The Regional Microloan Program is designed to address unfulfilled needs in capital access, borrower capacity, and service infrastructure across the Los Angeles ecosystem. As part of a gaps analysis, below, we address the following:

1) The demand for microloans among local entrepreneurs, small, and micro-business owners within the Los Angeles operating environment;
2) The landscape (supply) of small business relief and recovery funds coming online in Los Angeles County;
3) The small business stakeholders likely to be excluded from current lending programs that can be targeted by the Program; and
4) The lending products that would fit those gaps and meet borrowers where there they are.

Demand for Microcapital in Los Angeles

As documented in a 2020 County *Needs Assessment*, demand for patient, low-cost microloans and supportive business services is high amongst small business owners and microentrepreneurs in recessionary times.

Crowded yet sprawling, Los Angeles has the second highest small businesses density in the nation. While home to well-known corporate brands, Los Angeles County reports that more than 90% of all businesses within the County employ fewer than 20 workers. Microenterprises, defined as employing less than nine, are a major driver of economic activity. In Los Angeles and much of the nation, small business is the vehicle by which many immigrants, youth, and low-income persons generate income and wealth.

According to a Los Angeles County Department of Consumer & Business Affairs (DCBA) business inventory, there are 501,379 very small businesses, defined by annual gross revenues of less than $1,000,000, currently operating formally in the County. It is likely there is a significant number of additional informal microenterprises operating in the region as well. These recorded small businesses have modest average sales volume of $161,034 and our analysis of the data shows that small businesses are clustered in key industries that allow us to build profiles and infer the capital needs of microbusinesses.

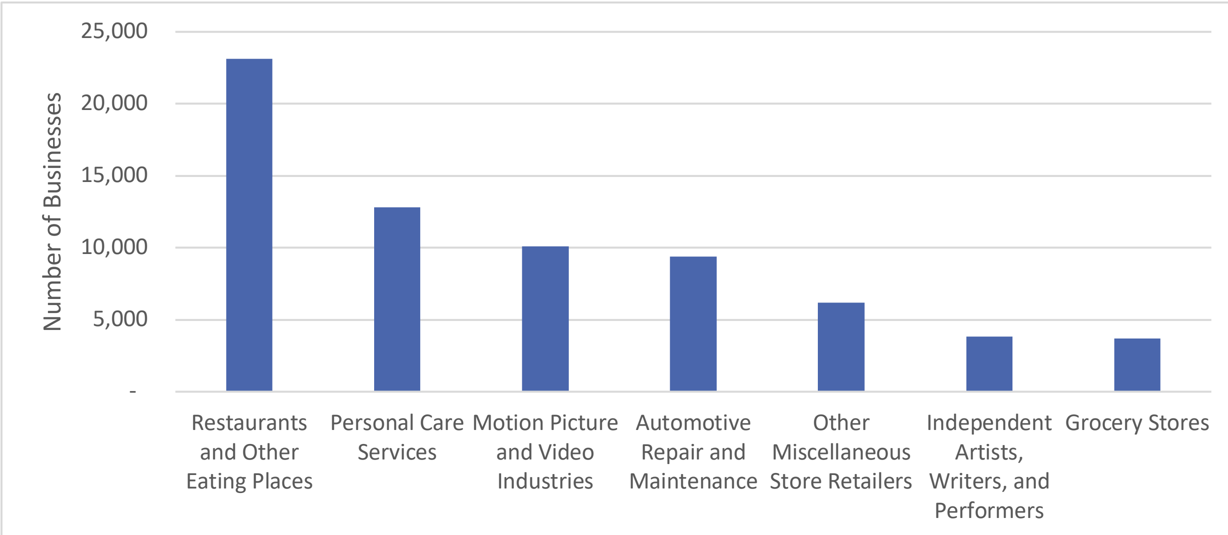


Figure 3: Most Relevant High-Concentration Industries

As illustrated in Figure 3 above, many County microbusinesses operate in industries where people gather, eat, and shop (like restaurants, small stores and groceries; seek personal care services such as hair and nail services; repair their autos or work as self-employed or small businesses contractors that support the creative sector.

Additionally, Los Angeles has a robust, but largely unlicensed, sidewalk vendor industry estimated at as many as 50,000 vendors, which sell food or a variety of other goods. Many of these vendors are undocumented, many are refugees, many are seniors, and 80% are women of color.[xvi] These vendors make an average of $10,000 annually and struggle against a labyrinth of regulations or even criminality as they work to make a living.[xvii] According to community advocates, if provided access to microcredit and technical assistance, these vendors can seek to operate more effectively within County regulations and better provide for their families.

Stakeholder input solicited from microlenders, at least 10 of which actively provide microloans currently, corroborates the business data analysis (see appendix for list of lenders). Lenders anecdotally share that when borrowers are looking for microcredit they typically run microbusinesses with annual sales between $100,000 to $300,000 in sales, employ one to three employees, have thin credit files, have been in business for less than three years, possess no or limited formal business training, and have annual household incomes of around $35,000. However, lenders find that with responsible microcredit, microbusinesses are often able to increase revenues by at least 25%. Borrower-owners can also increase their credit score by at least 25 points, increase take-home income, and, while not the norm, some businesses are also able to add employees, leading to local job creation.[xviii]

Acknowledging that not all small business owners and entrepreneurs have similar access to capital and support, the County *Needs Assessment* also looked at demand through a place-based social equity lens. An equitable microlending program is not possible without equity considerations addressed in design to ensure fair access to opportunity and participation. An extensive review of independent data, integrated into a multivariate Equity Index and mapped across the County, suggested that capital deployments should be concentrated in certain communities. These communities cluster in Central, South, and East LA, but also exist in portions of the South Bay, as well as the San Gabriel, San Fernando, and Antelope Valleys. See the *Needs Assessment* report for an extensive collection of maps[3].

The COVID-19 pandemic only served to increase the existing microcapital demand in Los Angeles. The pandemic has caused business disruption that has been widespread and disproportionately impacted already underserved populations. Recent LAEDC Economic reporting suggests that although businesses in the County were allocated an estimated $15 billion of PPP funding, many relying on PPP loans to stay open are expected to exhaust those funds in the coming weeks and months. Frankly, many of the underserved described in this report were not able to access PPP funding or sufficient support to stay open and are a part of the wave of ongoing business closures. A recent Yelp report suggests that in Metro LA 15,000 business have reported closing, with an estimated 50% of those closures permanent. The businesses most impacted are restaurants, bars, nightlife entertainment, personal care, spa, retail, shopping, and fitness centers – business types that significantly align with the small business clusters reported above.[xix]

In Metro LA 15,000 businesses have reported closing, with an estimated 50% of those closures permanent.
~Yelp Report, per LAEDC

While there is no current data breakdown by race for Los Angeles County closures, based on input from stakeholders we find that business closings have disproportionately impacted minority businesses owners. At a national level, a recent Stanford Institute for Economic Policy Research study finds that COVID-related closures are predominantly suffered by African-American (41%), Latinx (32%), Asian (26%), immigrant (36%), and women (25%), as compared to White (17%) and male (20%) owners. We posit that this national data is likely representative of the on-the-ground situation in Los Angeles County as well.[xx]

Many microbusinesses operating successfully prior to the pandemic have had to shut down abruptly, may not have been able to access government relief funding, and may, once they attempt to resume operations or pivot to a new model, find themselves with tarnished credit and significant operational hurdles. The underwriting challenges in supporting microbusiness in the wake of an economic shock are increasingly apparent and call for modifications to lending criteria. We recommend:

1) Giving greater weight to pre-pandemic success of a business and its future plans for success;

[3] The Equity Index Map can be found in the Appendix of this report. A complete set of Equity Maps can also be printed or downloaded for free at www.angelcityadvisors.com

2) Realistic revenue and expense projections reflecting low-density customer traffic and high-intensity cleaning and maintenance; and
3) Patience around credit, bankruptcies, and legal matters involving leases and other payables during the crises.

Small businesses will still benefit from economic relief, in the form of dwindling grant programs and safety net offerings, but will increasingly be seeking microloans and technical assistance to help them navigate a challenging recovery stage in 2021 and beyond.

Los Angeles County's Regional Microcapital Landscape

The small business capital supply landscape is currently occupied by expended federal relief programs, over-subscribed local grant programs, and traditional CDFI lending.

Los Angeles County seeks to fill capital gaps to build economic resiliency for micro and small businesses. The COVID-19 pandemic resulted in over a million individuals in the region losing their job or being laid off, and over 15,000 business closures to date. Various relief funds have been launched to support businesses and other enterprises to keep them operational and employees on payroll. Importantly, according to the LAEDC, many micro and small businesses report limited capacity to take on debt as the County enters the third quarter of the pandemic. Hence, a regional microloan program would appropriately target mid/late 2021 for implementation once Safer at Home orders are relaxed and consumer demand returns.

While there have been many stakeholder-specific short-term relief funds raised and expended, below we only review significant funds still providing capital -- or reasonability expected to launch or relaunch in the coming months. This funding landscape provides an overview of capital available and, perhaps more importantly, highlights gaps in the lending ecosystem.

SBA Paycheck Protection Program (PPP)

Paycheck Protection Program

Through August 2020 the federal Paycheck Protection Program was the primary loan incentive for small businesses to keep their workers on payroll. The SBA would forgive working capital loans if employee retention criteria were met and funds were used for eligible expenses. While the program is no longer accepting applications, the loans were 1% interest, two to five-year term, six months deferred interest with no collateral or personal guarantees. Loans were provided to sole proprietors, independent contractors, self-employed persons, small businesses, and non-profits with less than 500 employees. The funds were not available to informal businesses or undocumented individuals. The program was not available to anyone with criminal records until its final days. Those enjoying pre-existing credit relationships (outstanding loans) with banks appeared to get favorable treatment for much of the program. Reflecting the feelings of many community development professionals, the PPP program was structured in ways that were "disadvantageous to smaller businesses, especially businesses owned by people of color and the self-employed" per a policy report from the Center for Responsible Lending.[xxi]

SBA Economic Injury Disaster Advance Program (EIDL)

Through July 2020, the EIDL Advance program, which provided up to $10,000 in forgivable grants as an immediate advance on an EIDL emergency relief loan, provided economic relief to small businesses and non-profit organizations. The EIDL Advance program is no longer funded but the EIDL Loans are still being offered. The EIDL Loans are for the amount of six months of working capital and operating expenses for term of 30 years at 3.75% (2.75% for nonprofits), payments deferred for one year, UCC collateral needed, and personal guarantees required for loans over $200,000. The funds cannot be used to refinance pre-existing debt. EIDL is not available to those with poor or thin credit history, undocumented individuals, and recent felons.

LA Regional COVID-19 Fund[4]

This new fund was initiated in partnership between the County and the City of Los Angeles, who jointly pooled general and relief funds alongside corporate and private philanthropy to form a CDFI-administered program offering grants and loans to micro-entrepreneurs, small businesses, and nonprofits. The fund is managed by LISC and is similar to a model implemented in New York, see the New York Forward Fund callout below. The fund has thus far been providing rounds of grants of $5,000 to $25,000 to small businesses depending on size (and $15,000 to $75,000 grants to non-profits) but expects to offer loans in the future. The grants program is severely oversubscribed. In the most recent round of grant applications, the fund awarded a total of $14.2 million to 1,112 recipients selected from over 25,000 applicants, a 4.5% acceptance rate. The grant program is designed to support existing micro-entrepreneurs, small businesses and nonprofits who have at least one year of tax returns and only one award is allowed. The program accepts applications from undocumented individuals who can provide ITIN numbers.[xxii]

The loan program phase of the LA Regional COVID Fund has not launched as of the release of this report, as the program has focused on deploying multiple rounds of CARES Act grant funding. The underwriting criteria and terms of the loan products have not been finalized. In terms of structure, the Fund is a participation model whereby CDFI-originated loans are predominantly sold to a LISC special purpose vehicle, thus reducing portfolio risk and providing liquidity back into the CDFIs to lend more. Given this model focused on CDFI liquidity, it is reasonable to assume that the program will be making loans similar to those offered by CDFIs prior to the fund. That credit profile could leave out potential borrower groups including startups, restarts and reorganizations, microentreprenuers without credit or collateral, and other 'risky' credits.

California Rebuilding Fund

While not yet launched, the newest entry into capital provision is the California Rebuilding Fund, which was announced by Governor Newson in August 2020. The Fund is a loan program created to address the capital needs of small

[4] The LA Regional COVID Fund is transitioning its name from Relief Fund to Recovery Fund, presumably as it evolves from an emergency grant program to a lending program. As we refer to it in both stages, we will henceforth refer to it at the LA Regional COVID Fund that remains a multi-funder vehicle administered by LISC.

businesses across the State of California, with a focus on under-resourced and under-banked communities, as they attempt to re-open and recover. The fund targets small businesses with fewer than 50 employees, who are not already plugged into the capital markets and struggle to access credit. With a lead investment from the state Infrastructure Bank (IBank) of $25 million, the California Rebuilding Fund aspires to deploy between $250 million and $500 million depending on the success of its fundraising. Roughly 25% of small businesses in California are located in Los Angeles County. The Fund employs a similar participation model to that used in the LA Regional COVID-19 Fund.

The Rebuilding Fund will offer standardized loan products intended to assist viable small businesses struggling to access affordable credit. Expected uses of funds are operating costs, inventory, marketing, and retrofitting for new social distancing guidelines. The interest rate is 4.25% with loans up to $100,000 for a term of up to 5 years. While no minimum credit score is required, borrowers must have had positive net income in 2019 and be able to demonstrate business impact due to COVID-19. In addition, borrowers must submit federal tax returns from 2019 and bank statements (or other proof of revenue) and personal guarantees are required on a case by case basis. To be eligible, borrowers must meet a minimum debt service coverage ratio.

The Fund is open to business owners with an ITIN number. It does not appear that the Fund will assist startups, businesses without net income in 2019, or entities that do not meet traditional CDFI underwriting criteria. The Fund is not providing any additional resources capital to increase technical assistance to borrowers, instead relying on any existing infrastructure of technical assistance to support borrowers.

Key implementation partners for the fund are Kiva (fund manager) and Community Reinvestment Fund (online intake platform). Calvert Impact Capital assisted in arranging the fund and multiple CDFIs in the state are participating.[xxiii] Launch is anticipated mid-November.

New York Forward Fund

The California Rebuilding Fund is based on a model developed in part by Calvert, who is now working to replicate it in over 20 cities and states in support of recovery efforts. The $100M New York Forward Fund launched in May 2020 and can provide insights into how the Rebuilding Fund might perform. Beth Bafford, who is leading structuring and fundraising efforts for both NY and CA, said while the NY fund needed to adapt its restrictions and offerings to a rapidly changing landscape, the NYFF is performing as expected.

- The NYFF was state policy driven rather than the more collaborative lender partner cohort based on the CASE task force that is being utilized for the Rebuilding Fund.
- One key goal of the NYFF was to increase funding to minority women owned businesses, with a goal of 60% of funds deployed to this target demographic, which the NYFF is meeting at this time.
- Much like the Rebuilding Fund, each New York county is given a Fund allocation goal is rolled up into public-facing regional allocations.
- Four months into operations the fund has disbursed $9M in 200 loans and has qualified pipeline of $60M, with $600M in initial applications. The fund expects to disburse all funds within 12 months unless extended.

Localized, Small Scale Relief Programs

There are a variety of other small business relief programs that have supported small businesses in Los Angeles County. These programs often have parameters focused on the needs of vulnerable entrepreneurs but are more limited in capitalization and restricted by geography or other terms. Some examples include:

The East Los Angeles Entrepreneur Center Small Business Emergency Loan Program

Program offering up to $10,000 for small businesses located within 10 miles of the Maravilla Service Center[xxiv] unincorporated areas of County Supervisorial District 1. Loans carry 4% interest, no collateral or equity required, and deferred payments for 12 months. The program is still accepting applications.

Cities of Los Angeles and Long Beach Emergency Microloan Programs

Programs offering loans up to $20,000 at concessionary rates and terms within their jurisdictions. The Los Angeles program has exhausted current resources and Long Beach states funding is 'subject to availability.'

First and Fourth Supervisorial Districts COVID-19 Business Relief Grant Programs

Small dollar grants for eligible local businesses. Resources were exhausted in Summer 2020.

Comparison of Relevant Small Business Programs

This is a consolidation of the key characteristics of the programs described above.

Program	Type of Capital	Status	Challenge	Applicable Gap
SBA PPP	Forgivable Loan	Expired	Not available	No startups or restarts, no informal, no re-entry pops, no undocumented,
SBA EILD Advance	Forgivable Grant	Expired	Not available	No startups or restarts, no informal, no re-entry pops, no undocumented,
LA Relief Fund (Grant)	Grants	Operating; Oversubscribed	Low acceptance rate; oversubscribed	No startups or restarts, no informal businesses
LA Recovery Fund (Loan)	Loans	Pending, Not Launched	Not operational	Under development, likely using existing CDFI credit profiling
CA Rebuilding Fund	Loans	Pending, Not Launched	Not operational; same CDFI credit	No startups or restarts, no informal businesses, no high-risk credits
Other Emergency Loan & Grant Funds	Grants & Loans	Resources Nearly Expended	Limited availability	Restricted by industry, geography to narrow segments

The current funding landscape demonstrates limited capital resources, especially for those who would not typically meet the requirements of federal or traditional CDFI loans.

Gap Analysis: Businesses Not Being Served

Microcapital needs persist among the County's most vulnerable segments including the undocumented, informal microbusinesses, the formerly incarcerated, startups or business restarts.

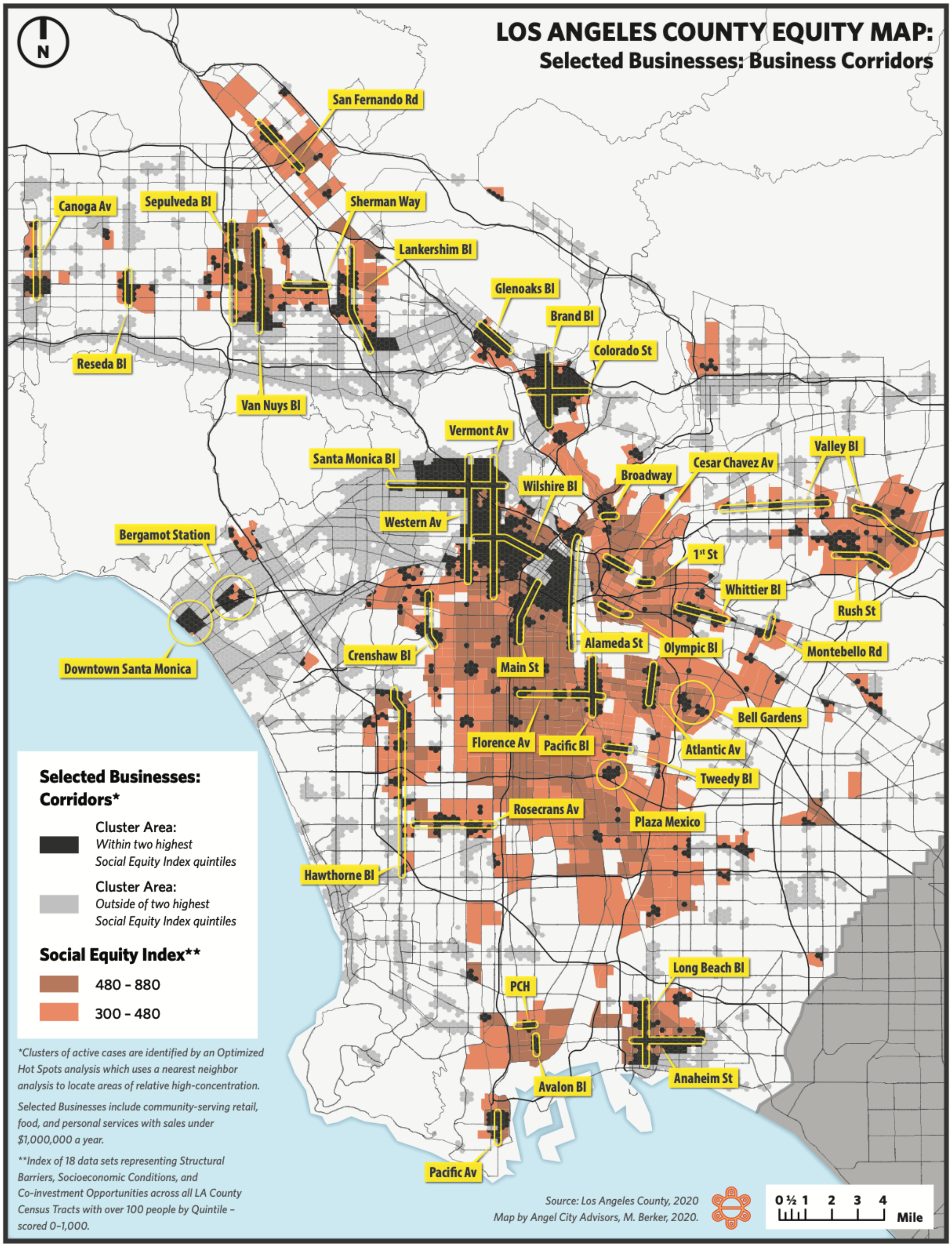
Los Angeles County intends to address unfilled gaps in the microlending environment, and to proactively invest with an equity-first lens. Current funds are helpful in bringing resources and liquidity to the small business community gaps, but capital needs persist. Vulnerable segments include the undocumented, informal microbusinesses, the formerly incarcerated, startups or business restarts, with a general lack of funding going to minority, immigrant, and women entrepreneurs. A County regional microloan program should be focused on these stakeholders.

As documented in the County *Needs Assessment*, one data tool to invest equitably is to identify those commercial corridors and communities with high levels of disadvantage, as well as small business density, for programmatic investment. The Equity Index mapping analysis conducted in the Needs Assessment visualized geographies meriting greater intentional investment to mitigate structural and socioeconomic barriers to opportunity. Further review was been conducted to identify commercial corridors that are high-impact places for programmatic resources and attention as Program guidelines are developed. Place-based investment can help equalize opportunity, by providing it where it has been deprived. The map on the following page visualizes data identifying the intersection of very small businesses and of structural and socioeconomic disadvantages to call out sample corridors worthy of attention.

Another method to identify vulnerable communities is to assess current small business lending and assistance programs and evaluate if the eligibility restrictions on their use are disparately impacting certain populations.

For example, federal funding is one challenge. During this economic downturn, a significant amount of all small business funding comes from the federal government. Although a large majority of Los Angeles' one million-plus undocumented have resided in the U.S. for over a decade and are an essential part of the entrepreneurial community, they are underserviced by microlenders due to funding constraints from one of the key sources of microcapital. To fill a structural gap that is otherwise unlikely to be filled, an equivalent lending program supporting the undocumented should be a programmatic focus. Much as the County supports supplementary programs for health care and other services to undocumented, providing basic resources for economic opportunity and stability is a strategic and ethical policy decision.

Another gap relates to underwriting and documentation requirements. Typically, there is very little funding available to businesses who are not formally established with at least two years of bank records, tax filings, incorporation documents, and the other documentation required to set up formal banking relationships. CDFIs typically follow similar standards that contain embedded



This map is a zoom-in of the select business corridors to highlight those commercial areas that overlap with the identified Social Equity areas meriting greater intentional investment. This map does not capture the entire County but does highlight the majority of the high-impact business corridors.

bias. Los Angeles' informal business owners can be home-based businesses, street vendors, day laborers, and otherwise participating in what is now called the 'gig economy'. Many gig economy workers have some documentation of their businesses, but often it is inadequate for traditional bank or CDFI loans. Therefore, their businesses remain stuck in the cash economy.

A further recognized credit gap is the challenge faced by the formerly incarcerated, who have a strong interest starting new businesses due to challenges in gaining employment. According to a recent Columbia University longitudinal study, formerly incarcerated individuals who start businesses tend to have both higher incomes and lower recidivism rates.[xxv] But getting startup capital is difficult, especially so with a criminal track record. While having a felony is not an automatic disqualification for many loans, many lending programs have moral character or moral turpitude requirements that allow lenders to credibly exclude felons from accessing credit.[xxvi] The federal PPP and EIDL programs effectively banned felons of all categories from accessing the program. Integrating re-entry populations into the regional economy fulfills multiple policy goals at the County.

> Over 80% of entrepreneurs do not access a bank loan or venture capital to start their businesses.
> ~ Kauffman Foundation

Startup capital is the hardest to find. Entrepreneurs, particularly minority, women, undocumented, and/or previously incarcerated entrepreneurs particularly struggle to access the patient capital needed to start (or re-start) a business, leaving them with less access to opportunity and harming the economy by depriving it of the productivity and growth that drives it. The Kauffman Foundation finds that over 80% of entrepreneurs do not access a bank loan or venture capital to start their businesses; they rely on personal net worth, family wealth, or connections to networks. This means that those without wealth or connections, statistically those who are younger, minority, and/or women, are largely shut out of entrepreneurial ecosystem. The fact that only 1% of 2016 venture capital dollars went to African-American and Latino founders and less than 2% went to women further reinforces this finding.[xxvii]

Foreign-born and linguistically isolated populations suffer similar credit challenges, despite our immigrant population being a key driver of entrepreneurial productivity and job creation. Immigrants make up nearly a fifth of all small businesses in the U.S., a number that is likely significantly higher in Los Angeles County. Yet a lack of familiarity with language, credit scores, and American systems can thwart many immigrants from accessing the financing they need to pursue their dreams. Many simply use payday and other predatory lenders as their only source of capital.

To the extent that the undocumented, informal microbusinesses, the formerly incarcerated, minority, immigrant, and/or women entrepreneurs' startups or restarts are minimized or excluded from full participation in the formal economy, it has important consequences for County GDP and the local tax base. It also reinforces structural racism and economic barriers that persist in Los Angeles and nationally.

Product Design: Meeting the Borrowers' Needs

Micro and small businesses need low-cost loans products, deployed in small amounts, repaid over a longer term, and offered under flexible underwriting conditions.

Suggested Products

Building on the stakeholder feedback provided in the *Needs Assessment* as well as interviews with key microlenders and technical service providers, the financial products that would be most useful to include in a microloan program include:

Products	Loan Amount	Term	Uses	Cost / Underwriting
Microbusiness Working Capital	$1,000 to $15,000	Up to 3 years	Costs to operate business	Low interest, low fee, TA participation, and other preparedness measures. Operating experience and prior success.
Line of Credit (LOC)	$2,500 to $25,000	Review and renew every 2 years	Support cash flow operating needs	Interest rate tied to risk, any collateral available, and other underwriting non-FICO based credit characteristics Line of credit increased in increments based on successful repayment
Microbusiness Restarts	$15,000 to $50,000	5 to 7 years	Costs to restart business	Low interest, low fee, TA participation, and other preparedness measures. Operating experience and prior success.
Microbusiness Startup	$1,000 to $15,000	Up to 5 years	Include licenses, education, tools, inventory, etc. to start new business	Low interest, low fee, TA participation, and other preparedness measures. No collateral required

The current operating environment, with COVID-19 precautions and the massive economic shocks that continue to ripple through the economy, will require adaptation and amendment of standard underwriting criteria. Target populations for these loans are unlikely to have strong or detailed credit files. There will be a need for not just technical assistance and coaching, but also greater focus on character-based underwriting or a multi-factor underwriting process that does not emphasize credit score and collateral. This is a departure from the processes of most CDFIs and microlenders, who may declare the product parameters untenable.

The products offered must meet the needs of the end borrowers and help to strengthen the fabric of the community. Our product suggestions are informed by practitioner and stakeholder input regarding gaps in the marketplace and are strongly recommended. However, it will be incumbent upon participating lenders to determine how these products fit their clients and how to manage a borrower-first lending program. Longer terms and smaller amounts are key features of products, for example, we have not mandated specific interest rates (or might recommend subsidizing a rate to lower it). Further, the lack of a small line-of-credit product is a common product gap highlighted by practitioners and would be a significant tool to microenterprise if it could be offered. It is challenging as it requires more infrastructure and sophistication. Any Plan, including this one, requires subsidies and tools to discount and de-risk inherently risky loans. We model a proposed solution later in this Plan.

Microlender Operating Models

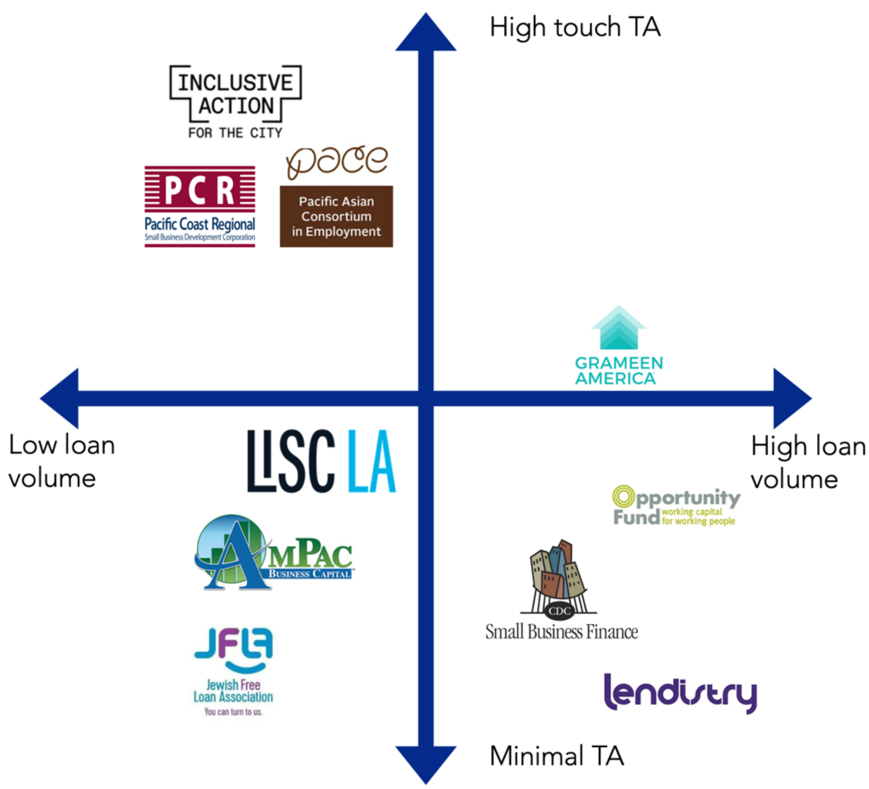


Figure 4: Most microlenders adopt a high volume-low touch or a high-touch-low volume operating model. Through the Program, the goal is to increase microlending volume, increase consulting touches, and provide a subsidized product that is more affordable than any in the Los Angeles marketplace.

From our perspective, most microlenders in the County need products with more flexible requirements such as light documentation, low credit scores, no personal guarantees, and the ability to work with start-ups and businesses with ITIN numbers. While not as conservative as regulated banks, CDFIs' current underwriting policies have credit standards that rule out many of the Los Angeles microbusinesses impacted by COVID-19. A successful County-CDFI(s) partnership will include those microlenders lenders who have the willingness, staffing capacity, and infrastructure to offer flexible credit products designed for evolving needs of microbusinesses in the County. The County can meet them with funding that helps them achieve their mission.

Companion Supports: More than Microloans

Microentrepreneurs need high-touch, long-term, physically accessible technical support and capacity building (alongside microloans) to be successful.

Technical assistance and capacity building are critical in reaching and supporting small business populations. Because micro borrowers have traditionally been underserved and overlooked, they may be limited in their understanding of local systems and regulations, unable to provide detailed documentation and business plans, and otherwise pass the high bar of knowledge and skills that traditional credit providers require. Hands-on, culturally competent, accessible technical assistance and coaching is essential through the preparation and application process as well as throughout the loan lifecycle to help borrowers succeed.

Technical Assistance and Case Management

Effective microlending programs should be paired with strong technical assistance providers, using a relationship management approach to capacity building.

Technical assistance (TA) refers to the education and guidance provided to entrepreneurs and small business owners to aid them in launching, growing, and pivoting businesses. Typically, as the TA provider works with a business, she builds the capacity of the organization to operate effectively, positions it to access capital, and to use that capital effectively for growth. When TA continues over time with multiple touchpoints across multiple issues, it more closely mirrors a case management relationship. Most strong TA programs involve a combination of one-on-one coaching, business skills classes, mentorship, connections to key resources, assistance accessing funding, and support in navigating regulatory challenges.

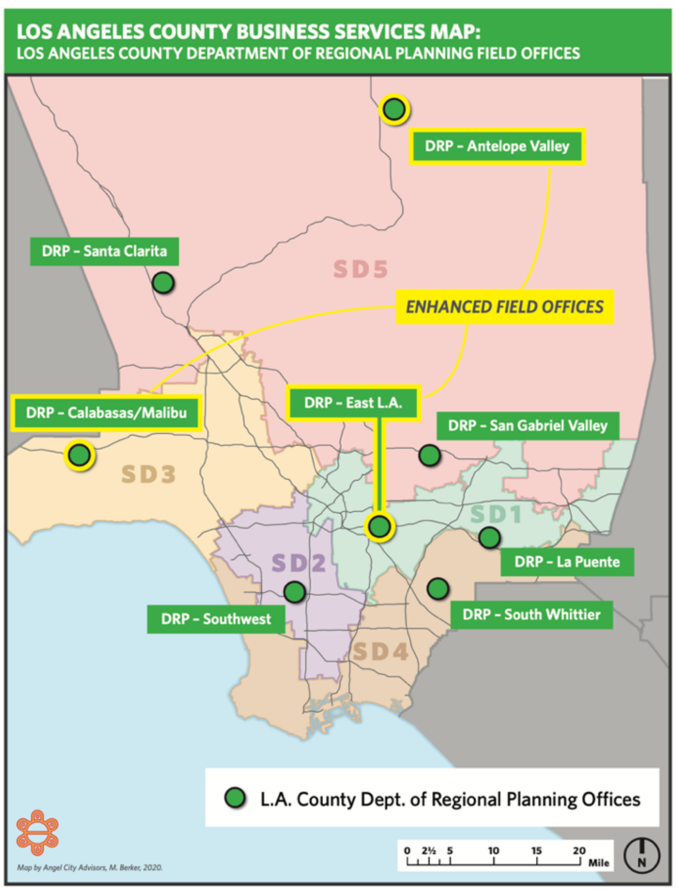
SBA SBDCs are somewhat regionally disbursed sites, but many do not provide TA plus microcredit.

The City of LA funds a series of business service centers, with good coverage of the City, but not the County.

Assessing the needs of microentrepreneurs and pairing them with the appropriate assistance, which often includes financing along the learning journey, is a necessary capacity for this program. But TA is often not offered by microlenders as it is expensive and time-consuming – something contrary to the economics of microlending. It is important to ensure that if a microlender is not capable of the 'case management' required to assess, arrange, and oversee a client relationship, that appropriate partners work with microlenders to provide these services.

The physical availability of technical assistance, to provide timely, high-touch support, is critical to ensure the success of the assistance and the borrower. Given the geographic spread of Los Angeles County, ensuring that there is equitable physical access to technical assistance locations and in-person support is a key factor to consider with respect to the long-term implementation of a regional microloan program. While great care is currently taken to social distance, we can reasonably foresee more in-person engagement will be demanded as greater control over the pandemic and vaccines become available in the coming years.

Bottom line, a successful microlending program will place a premium on connectivity and communication with small businesses, alongside relevant loan products and focused customer outreach, to be successful.



The County DRP are well distributed; however, only those Enhanced Field Offices offer more robust services to support small businesses.

Inventorying and Leveraging Current Business Services Assets

There is opportunity for increasing the accessibility of business services in underserved communities.

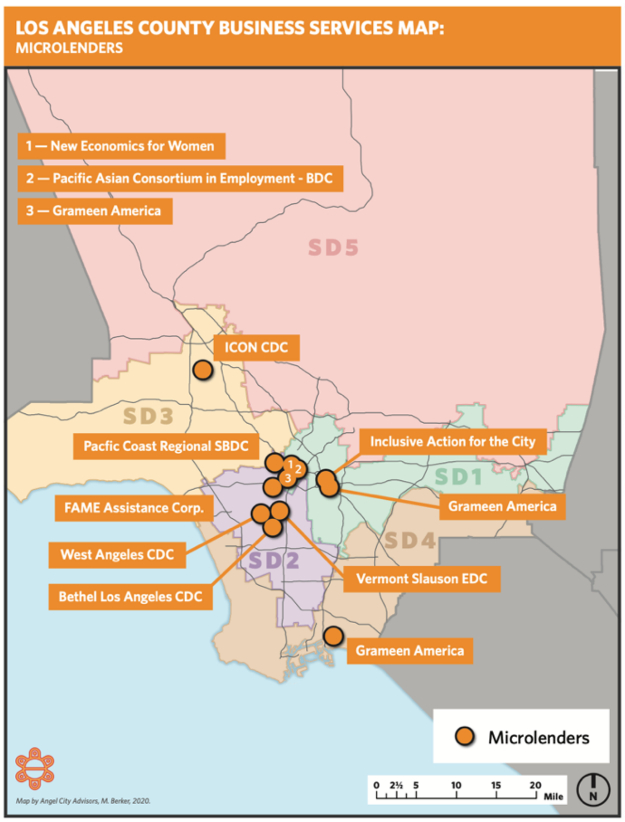
The vision of regional microloan program is to co-locate microlending services within a constellation of Countywide 'hubs' where other commonly-used business services are offered. By bringing the critical suite of business services, including microloan capital, to our most neglected communities, we invest holistically with an equity-first approach.

Based on stakeholder input, we assert the most common small business services sought include:

- Access to Capital
- Pulling Permits
- Business Education
- Legal Services

Within this document, we have identified and mapped the primary providers of these business services in Los Angeles County. As shown in these maps, we find:

1) Microlending and Legal Service Providers tend to cluster near Downtown and work an extended distance from the microbusiness concentrations throughout the County. As such, these services should be highly accessible online and loan officers should spend time in satellite offices in other parts of the County.
2) County (DRP) Permitting Offices and Business Service Centers (SBDCs and BSCs) are more evenly distributed throughout the region and can potentially host or cluster with lending and legal partners to create a hub of services throughout the County.

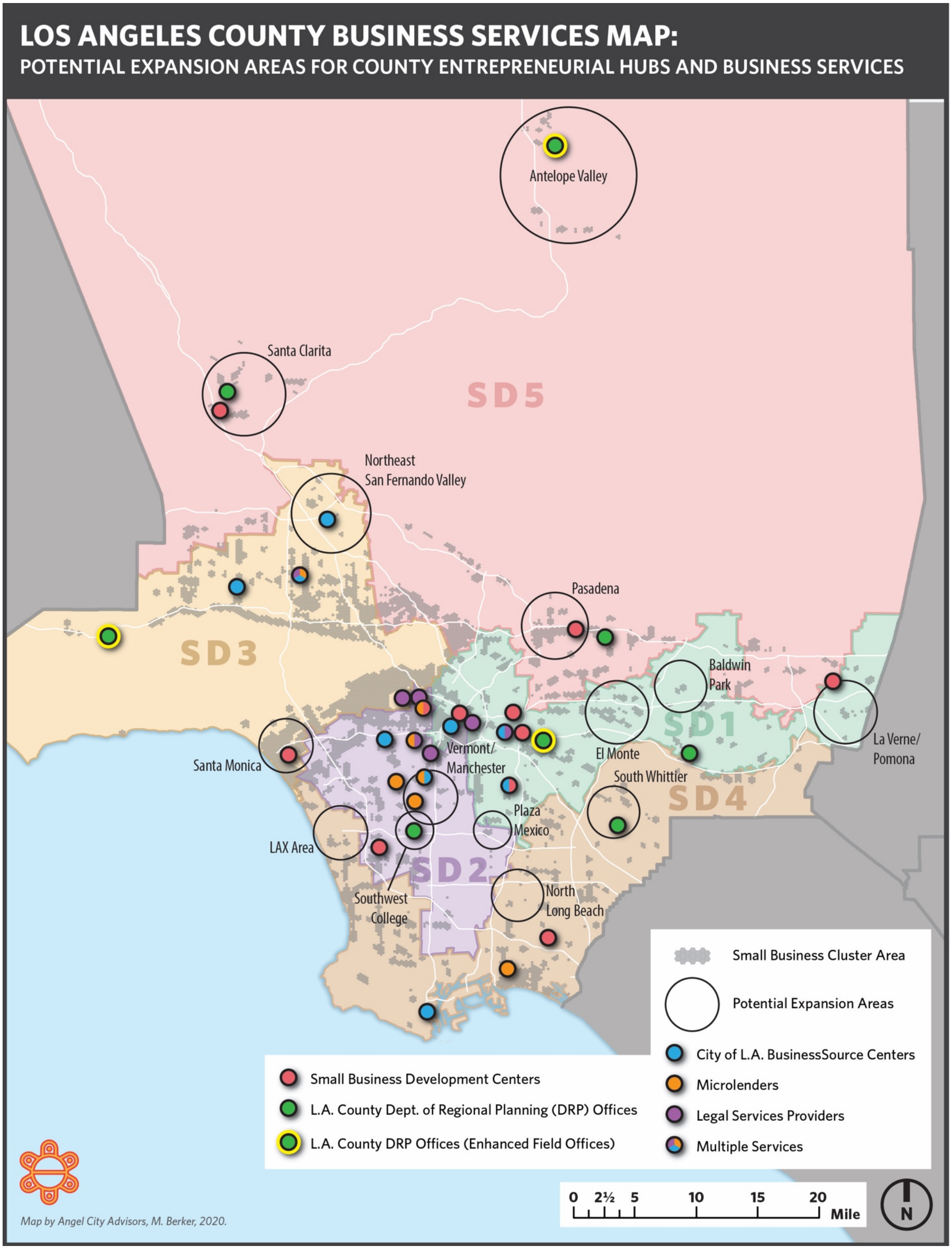


Lenders providing microloans at affordable rates and terms are largely clustered together near Downtown.

Similar to microlenders, nonprofits providing legal aid specifically to small businesses are largely centrally clustered, less accessible to those not in those areas.

While increasing or moving physical infrastructure is both slow and expensive, we endorse a future vision of creating entrepreneurship hubs in high-need County communities that cluster multiple services in one location or nearby. The East LA Entrepreneurship Center is a prototype example of such a hub, established within a County asset. The Entrepreneurship Center is managed by the Los Angeles County DCBA and layers multiple business services within an East LA facility. The Center provides business start-up assistance and resources, business development workshops, access to capital, navigating permits and licenses, one-on-one business counseling, and succession planning. Additional hubs in underserved areas could be de novo or simply facilitate clustering and coordinating of existing assets and services.

We have not modeled or budgeted any new hub infrastructure in this Plan. However, we felt it worthwhile to lift up the vision as a larger strategy for consideration.



Based on the data and maps previously suggested, this map calls out a series of existing business assets and suggest some locations for potential new assets.

Leadership Role for Los Angeles County

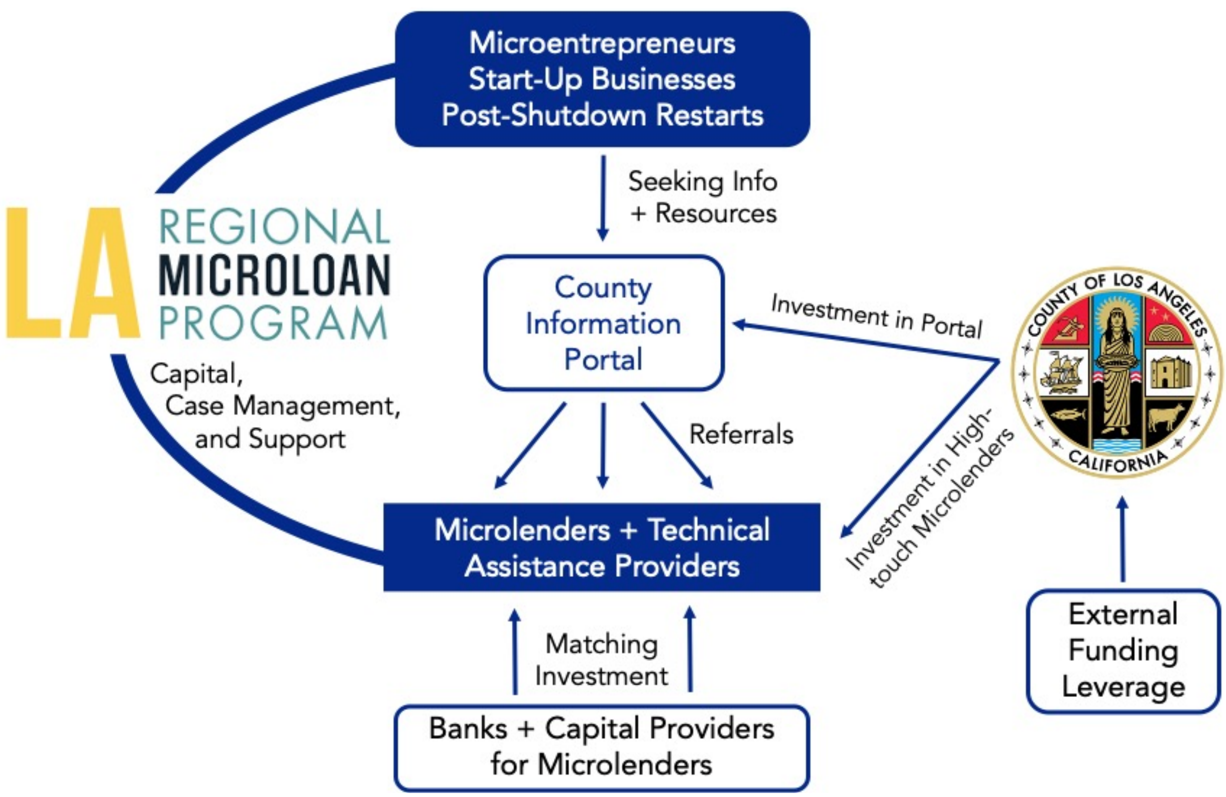
The County can play an important role as a convenor of stakeholders as well as establishing a branded portal for the marketplace to access Program information.

The role that the County can play in building the economic resiliency of the micro and small businesses community is multifold and significant. The County has credibility, convening power, messaging and amplification tools, and signaling ability to launch the Regional Microloan Program. Below are key roles for the County past lead-funding the Program launch.

Information Portal Host

Being a credible, trusted source of information that aids the disenfranchised is a key role the County can play. In times of economic distress, individuals and business owners often see predatory lenders as their only alternative to maintaining their businesses and staying afloat. Indeed, private small dollar lenders are aggressive advertisers online. The County can play a leadership role by establishing and maintaining an online portal for the Program that provides multilingual explanation of the program and direct referrals to participating partners. A similar portal was successfully created for the LA Regional COVID-19 Fund. The portal can promote the Regional Microloan Program, but also promote and direct entrepreneurs to the COVID-19 Fund and the California Rebuilding Fund sites, other regional business services assets, and other credible financing sources. Over time, it can become a true information hub. It can also help the County build its database of entrepreneurs by soliciting contact information on local businesses.

Program Overview



Convene Partners

The County also has the ability to bring business service partners together in a constellation of service hubs that will provide better services Countywide. Through various forms of influence the County can coordinate a series of entrepreneurial centers at the district level. Over time, each district should have one or more business assets delivering microlending, business education, legal advice, and satellite permitting in support of small businesses.

Coordinate Funders

The County has the credibility and influence to convene funders who can support and leverage the County's lead investment in the Program. Many Los Angeles funders are interested in supporting vulnerable populations and seeking a thoughtful platform to fund. The County has the ability to gather these diverse Funders together around a joint agenda and purpose. It also can explain how the Regional Microloan Program is strategically complimentary to (not competitive with) the LA Regional COVID-19 Fund and the CA Rebuilding Fund. Similarly, the County can advocate for the Los Angeles region at the state and federal levels, helping to coordinate the use of forthcoming resources that may flow to small businesses next year and ensuring that all segments of Los Angeles County are well served.

Procurement for Small Business

While more tangentially related to the Microloan Program, the County has the ability to use its significant budget to support small businesses who are traditionally excluded from opportunities to access local, state, or federal procurement contracts. Often small businesses need support to qualify and apply for the opportunities as well as working capital to flexibly take advantage of them. Programs are already underway to increase the pool of small and disadvantaged businesses applying for government contracts. Connecting the dots, a County could offer disadvantaged small business working capital loans to take advantage of procurement opportunities by providing easy linkages to the Regional Microloan Program.

Program Design Recommendation

A Regional Microloan Program addressing micro and small business needs, as described above, is more specifically detailed below. [5]

Multiple national microlending models were evaluated to address the pent-up demand for microloan capital and technical assistance in Los Angeles County. Two common ideas considered (and dismissed) were (a) creating a separate business loan guarantee program similar to the California Infrastructure Bank's ("IBank") statewide loan guarantee vehicle, and (b) developing a stand-alone microloan program housed within the County. While potentially impactful, both ideas were deemed inefficient and cost prohibitive. The loan guarantee program alone would not provide new at-risk capital into the marketplace, and it would not fund technical assistance. As such, without other elements, we do not recommend this tool. While a County-managed program has some advantages with respect to control, ultimately, we conclude this concept is inefficient due to insufficient capacity and infrastructure as well as high internal operating expenses.

We believe County policy is best served by investing in Los Angeles' existing microlending network. These organizations bring additional private capital, expertise in lending to microbusinesses, loan accounting infrastructure, and technical consulting services to the table.

Based upon our due diligence, interviews with existing lenders and borrowers, and best practices around the country, we propose the following pilot Regional Microloan Program.

Overview

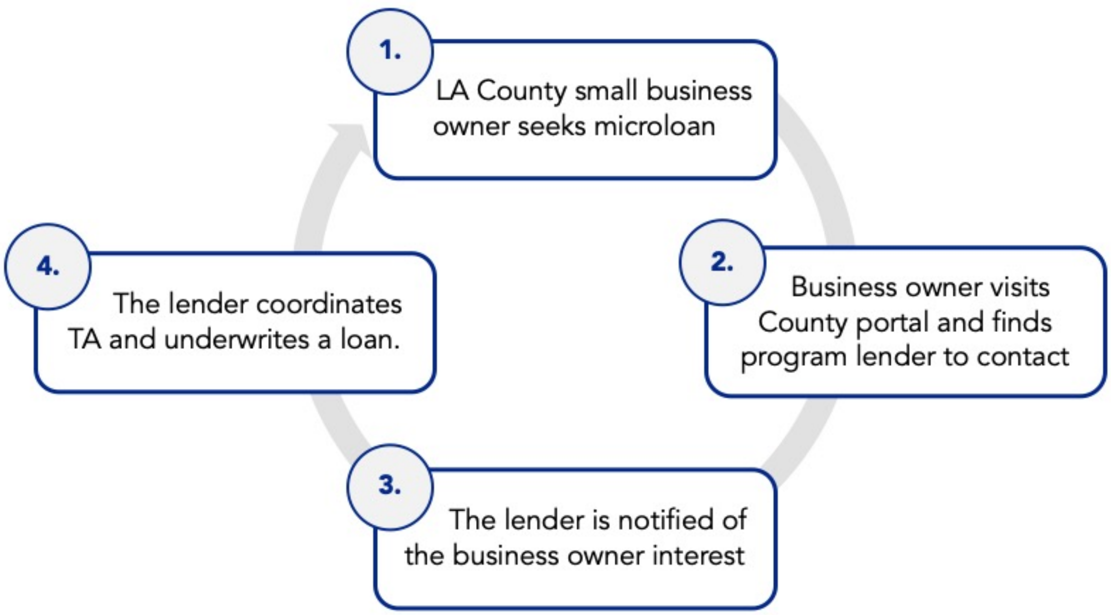
The Program is designed to create partnerships with local microlenders, provide equitable solution for the needs of small businesses, and build long-term community financing infrastructure at the local level.

In order to stimulate the Los Angeles economy and stabilize our most vulnerable communities, we recommend the County launch a Regional Microloan Program focused on entrepreneurs who are unable or unlikely to access the existing federal and state relief programs. The Program is designed to create multi-year funding partnerships with local microlenders, encourage affordable and patient loan products for microbusinesses, and simultaneously strengthen our network of local community lenders for the long run.

The Program can be thought of as a grant program or services contract to local microlenders, who in turn lend and coach within specific populations and geographies. By supporting an indigenous network of microlenders, the County will benefit from their fundraising ability, business expertise, and infrastructure. As a pilot scenario, a financial model was produced based

[5] This Program logo is put forth simply to be illustrative for internal County discussion. It contains commonly used fonts and descriptive language intended to reflect a common branding with the LA Regional COVID Fund. The logo is not intended for public-facing use at this time.

on the assumption of a $5 million program allocation in year one, with additional operating subsidies of $1 million in years two and three. These funds can be used to support (up to four) local microlenders to reach roughly 540 microbusiness owners with loan capital and technical assistance, all of which is targeted with an equity lens. Specifically, the funds will be used to build balance sheet equity, expand program staff capacity, and create a guarantee fund for high impact borrowers.



Our current financing infrastructure is hamstrung. While several organizations currently focus on serving microbusinesses, most have limited loan capital and modest operating funds. Furthermore, all lenders require a level of profitability, mostly achieved by application fees and interest earned on loans. Finally, local providers are not adequately staffed to accommodate high demand for technical assistance and financial coaching. The result of these conditions are limited operations and imperfect loan products. The Program can address each of these gaps.

While funding is critical, selecting strong operating partners are paramount. We recommend the County partner with smaller, local microlenders over larger regional or national operators. By providing funding to indigenous organizations, the long-term capacity of the microlending field is held at the local level and not subject to large organizations departing the County for strategic reasons. Furthermore, the County will benefit from the deep community relationships and reputations the local lenders possess. The trust, expertise, and cultural competency these local organizations have earned is an asset worth supporting.

Loan Products Descriptions

The recommended products are a working capital microloan, a small dollar line of credit, a microbusiness restart loan, and a microbusiness startup loan.

Based upon stakeholder interviews and reviews of existing programs nationally, we recommend up to four loan products for the Los Angeles marketplace:

1) An affordable microloan for ongoing working capital needs;
2) A small dollar line of credit product that can more efficiently serve recurring working capital borrowers;
3) An equity-like loan designed for experienced entrepreneurs wanting to restart their businesses after Safer at Home lifts, potentially as a new entity; and
4) A startup loan for new business owners without prior experience.

It should be noted that the creation of Program products will be a negotiation between the microlenders and the County to balance policy interests, operating constraints, and financial realities.

These proposed loan products are described further below:

Working Capital Microloan	
Loan amount	$1,000-$15,000
Term	Up to 3 years
Interest rate and fees	1%, no fee
Estimated default rate	25%
Collateral	Unsecured
Payments	Year 1 Interest Only

This product is designed to support the very small business owner, currently in business, such as a street vendor or small retail shop. The loan amount would range from $1,000 - $15,000 and have a maximum 3-year term for repayment. The interest rate would be fixed at 1% and there would be no fees required to apply. Likely, most of the borrowers would have very little ability to produce underwriting documents or collateral, and therefore debt would be structured as unsecured "character" loans. Nominal interest only payments in year one would be used simply to maintain contact with the borrower, but allow the business owner full flexibility to invest funds in operations. The loans would be used to purchase inventory, equipment, license fees, and refinance predatory debt.

Small Dollar Line of Credit	
Loan amount	$2,500-$25,000
Term	Up to 2 years
Interest rate and fees	TBD
Estimated default rate	30%
Collateral	Unsecured
Payments	Deferred payments in year 1

The line of credit product was identified in the *Needs Assessment* as a tool to support cash flow. Many microenterprises use multiple term loans as a means of creating a working capital line of credit. While this product would be highly beneficial to small business owners (like retailers), it is often viewed as an administrative burden to lenders. Lines of credit require a robust financial loan administrative system which can handle daily loan drawdowns and partial repayments. While large financial institutions such as banks and credit unions have this capacity, microlenders typically do not. In order to spur innovation and new partnerships with the Program we recommend the line of credit product but do not include it in the financial modeling as it is aspirational at this time.

Restart Loan	
Loan amount	$15,000-$50,000
Term	5-7 years
Interest rate	1%, $0 application fee
Estimated default rate	25%
Collateral	Unsecured, Personal Guarantee
Payments	Deferred payments in year 1

This product is designed to support launching businesses with flexible, low cost financing to allow entrepreneurs who have closed or 'walked away' from businesses to start a new venture. This Restart loan is available as an equity-like product to help experienced operators (like restauranteurs) to begin familiar operations under a new entity, to restart a dormant business, or return a minimally operating business to normal capacity. We envision this product being used alongside friends and family raises, personal credit, SBA loans, and possibly the LA COVID-19 or CA Rebuilding funds. The funds would be patient and low cost without strong collateral. As these loans are designed to help businesses restart after closing due to COVID-19 shocks, this product will be offered in years one and two of the pilot Program. In year three, potential borrowers will be encouraged to seek more traditional loan capital from the County's microbusiness lending community, likely CDFIs.

Startup Loan	
Loan amount	$1,000-$15,000
Term	Up to 5 years
Interest rate and fees	1%, $0 application fee
Estimated default rate	30%
Collateral	Unsecured
Payments	Deferred payments in year 1

The Microbusiness Startup Loan Product is designed to support new and emerging small business owners with initial seed capital. This product is designed to invest in underserved entrepreneurs who may not have experience owning or running a business. Applicants could be immigrants, re-entry populations, or other first-time entrepreneurs without personal credit or family wealth. Applicants will be required to receive technical assistance training from the Program microlenders to support and de-risk the venture.

Program Allocations

The allocation of County funds will be spread between equity capital injections, technical assistance funding, product cost subsidies, and a guarantee pool.

After extensive discussions with local stakeholders, the Program is designed to resource four key elements of a successful, local microlending ecosystem. These allocations include operational support for program staff and high-touch technical assistance; balance sheet equity injections to leverage philanthropic support and provide loan loss reserves; cost subsidies to maintain product affordability; and the creation of a loan guarantee program to incentivize outreach to high-impact businesses.

The following chart summarizes our program allocation recommendations for an initial $5,000,000 of funding. This Program contemplates additional $1,000,000 allocations in years 2 and 3 to maintain program momentum. Budget allocations for all 3 years are in the Appendix.

Use of Funds ($5 million)	% of Budget Allocation	$ Grant Allocation	Capital Match Requirement	Total $'s for community impact
Balance Sheet Equity	60%	$3,000,000	3:1	$9,000,000
Technical Assistance Funding	16%	$800,000	No match	$800,000
Product Subsidy	15%	$750,000	No match	$750,000
Guarantee	9%	$450,000	No match	$450,000
Total	**100%**	**$5,000,000**		**$11,000,000**

Balance Sheet Equity Funds: Enabling Capital Leverage

This Program is designed to primarily support informal businesses, foreign-born entrepreneurs, thin credit applicants, the unbanked, startup businesses, and restarts. As such, the credit profile of these loans is considered high risk. In order to reduce the risk to the lender, while still supporting the intended enterprises, the Program allocates $3.0 million towards microlender balance sheet equity awards. This award takes the form of a restricted cash grant that sits on the microlenders' balance sheet as a cash cushion, able to act as a loan loss reserve against non-performing loans. Balance Sheet Equity enables a microlender to fundraise low-cost capital to use for lending.

The Program's $3.0 million of Balance Sheet Equity funding will require a 3:1 match, meaning proof of external capital commitments at 3x their County grant. If fully leveraged, this investment will trigger a total of $9 million in new microcapital available in the program – sufficient for a three-year pilot and an estimated deployment into 540 loans. The County funds will be used only to cover any loan losses related to the County Program.

Most likely, the County would issue a commitment letter on behalf of the awardee to reflect the loan equity allocation and requirement for the 3:1 match. This funding arrangement will then permit the microlender to raise additional capital. The County can use its convening power to assist promoting the offer to local investors. While it is envisioned that the microlenders will secure outside funding, participating partners may commit their own capital as a potential match.

Technical Assistance (TA) Awards: Building Program Capacity

An $800,000 allocation is recommended as complimentary, restricted grant funding for up to four new full-time consultants who will specifically provide business outreach services, loan pipeline development, technical assistance, and case management support for the Program and larger community. This funding award will subsidize each selected microlender for one full time employee for two years (i.e. maximum $100,000 per year, fully-loaded labor cost). The two-year award is recommended as a means to invest in the region's business services capacity and signal that the County is committed to the Program and the organization. An additional $400,000 allocation is envisioned for year 3 to allow performing microlenders to continue offering high-touch consulting services. While there is no matching grant funding requirement for the TA awards, both philanthropy and the corporate sector may consider investing in these efforts.[6]

Product Subsidies: Ensuring Affordability

Lenders typically earn revenues from two sources: application fees and interest charged to borrowers. As this Program is meant to provide extremely low-cost loan support to entrepreneurs, the participating microlenders will no longer earn these revenues. In order to support their operations, a product subsidy allocation will be required.

The Product Subsidy pays for a lender's cost of capital (plus some operating costs) so it is not passed along to the borrower. We recommend this subsidy to offer a "below-market" product to those who require it, much as PPP, EIDL, and Relief Grants have provided cheap or free capital

Loan Product	Amount of Product Subsidy: Year 1	Amount of Product Subsidy: Year 2	Amount of Product Subsidy: Year 3
Microloan	$242,428	$339,399	$193,942
Restart	$357,270	$357,270	$0
Startup	$43,971	$43,974	$219,858
Year subtotal:	$643,669	$740,640	$413,800
Total Product Subsidy over 3 years:		$1,798,110	

[6] One potential source of funding to point to is Wells Fargo's recent announcement of the $400 million "Open for Business" Grants Program which provides funding for loan capital and technical assistance.

to businesses. Exact subsidies will vary due to the level of demand for (and pricing of) products. For purposes of financial modeling, we estimate approximately a 10% all-in return on microloan products.

Loan Guarantees: De-risking high-impact loans

To activate an Equity-first policy, the Program must incentivize microlenders to find and support our most vulnerable entrepreneurs who are traditionally neglected. A targeted Guarantee reserve can do that. While the Balance Sheet Equity provides a general level of credit risk protection, a Guarantee fund offers additional incentives to encourage microlenders to engage businesses deemed as a highest priority by the County. The County can offer further credit enhancement, or Guarantee (a promise to cover defaults), for loans that it deems to be high-impact and in furtherance of equity goals.

Guidelines for the guarantee would be refined after approval of the Program, but might include specific high impact geographies, sectors, and populations that have been historically denied adequate access to capital. The Equity Index and Equity Maps contained in the *Needs Assessment* are data-based tools to help establish such guidelines.

As currently modeled, there would be two tiers of Guarantee offered with scaled coverage rates[7]: assuming an additional 50% coverage for "highest impact" loans and 30% coverage for "high impact" loans. For example, if a $10,000 "highest impact" microloan defaults, the first 50% of the remaining balance is reimbursed by the County. If the loan were "high impact" it would be 30% covered. Loans underwritten that do not meet the Program definition of impactful would not qualify for an additional guarantee.

The chart below forecasts the credit risk exposure on the guarantee in years one through three. Based on the coverage rates and estimated default rates for each product offering, the estimated Guarantee exposure across the three-year pilot is $587,200.

Based on anticipated defaults, we estimate the following exposure on loan guarantees:

	Year 1	Year 2	Year 3
Microloan Working Capital	$121,875	$170,625	$97,500
Restart loans	$65,000	$65,000	$0
Startup loans	$9,600	$9,600	$48,000
Totals	**$196,475**	**$245,225**	**$145,500**
Total exposure over three years:	$587,200		

[7] A coverage rate is defined as how much of the loan (%) the guarantee will "insure" if the loan defaults.

The administration of the Product Subsidy and Guarantee aspects of the program will require a County resource. In both cases, funds will be held at the County of third-party entity and released upon approval of submitted documentation satisfying program criteria and making reimbursement calculations. The administration of these aspects of the program can be carried out by either internal staff or an external consultant.

Program Outcomes

Over the initial three years of the pilot program, the Plan estimates that 540 microentrepreneurs will be funded with $8.5 million in microcapital.

Based on an initial $5 million allocation and leverage as described above, the pilot Program forecasts funding 360 micro entrepreneurs in its first two years. It will deploy $6.5 million in high-risk capital into underserved communities and the County's smallest businesses. However, it is likely that many more entrepreneurs will receive direct technical assistance, or other business services, without pursuing a microloan. This enhanced connectivity to County services and systems is equally important.

By further providing an additional $1,000,000 of funding in years two and three, the Plan estimates financing an additional 180 microentrepreneurs to start, grow, or restart their businesses, or 540 microloans across three years. These important but modest numbers represent a pilot platform consistent with current microlender capacity in the region and will allow our local, high-touch microlenders to grow their operations for the long run. Please note these projections do not anticipate external funders joining this program, which could significantly increase its scale and scope.

Strategically, the initial round of funding sets the fundamental framework for a subsequent program expansion. This scaling is intentional. With additional support from philanthropy and/or the commercial sector, this program can be grown to meet the needs of the growing demands of small business in historically denied communities. The Program is designed to scale without significant additional administrative or operational burden.

	Year 1	Year 2	Year 3	Totals
# of businesses funded	160 entrepreneurs	200 entrepreneurs	180 entrepreneurs	**540 entrepreneurs**
$ of microcapital deployed	$2,960,000	$3,560,000	$2,000,000	**$8,520,000**

Portfolio Projections: What might loan performance look like?

To illustrate the lending volume and performance by product and year, below is a sample portfolio of the Working Capital Microloans, Restart Loans, and microbusiness Startup Loans. As you can see, there are significant defaults associated with the Program but those defaults are anticipated and budgeted for.

Types of Loans	Year 1	Year 2	Year 3	Totals
Working Capital Microloans				
# of Working Capital Microloans	100	140	80	**320**
$ of Microloans ($15,000 avg)	$1,500,000	$2,100,000	$1,200,000	**$4,800,000**
Restart Loans				
# of Restart Loans	40	40	0	**80**
$ of Restart Loans ($32,500 avg)	$1,300,000	$1,300,000	$0	**$2,600,000**
Startup loans				
# of Startup Loans	20	20	100	**140**
$ of Startup Loans ($8,000 avg)	$160,000	$160,000	$800,000	**$1,120,000**
Total Number of Loans per year	160	200	180	540
Total Loan Amount	$2,960,000	$3,560,000	$2,000,000	$8,520,000
Total Estimated Default Amount	$748,000	$898,000	$540,000	$2,186,000

Program Partners: Who runs the day-to day Program?

The key implementation partners are microcredit lenders, high-touch technical assistance providers, a guarantee and product subsidy administrator, and a brand champion.

Microlending Partners

The heavy lifting of the Program is undertaken by selected microlending partners who agree to offer a limited inventory of subsidized, patient, small dollar loans with high-touch companion technical assistance. In return for committing to these program parameters, they receive cash injections onto their balance sheet (for fundraising and loan loss reserve purposes), funding for new business consultants (for outreach and technical assistance); and access to County funds for product subsidies and loan guarantees.

We believe that this set of offerings will be attractive to a subset of local microlenders that hold racial equity and economic justice as their core mission and can demonstrate some flexibility in their lending model. Others, who may find the pilot scale or the equity-focus of this program incongruent with their larger strategies, will likely not engage.

In order to assess interest, capacity, and buy-in with the Program, the County should issue an RFP/RFS to CDFIs and microlenders operating in the Greater Los Angeles region. The Program envisions working with up to four lenders in a pilot phase to cover the various geographies and populations throughout the County. In the RFP, the County will describe the Program offerings, including product and grant matching requirements, to provide clarity and encourage partnership. Some lenders might partner with TA providers. As the Program is designed to encourage participation and build capacity among indigenous microlenders, the County might expect to receive proposals from the following local CDFIs and CDCs among others.

Large national CDFIs with offices in Los Angeles County:

- CDC Small Business Finance is a loan volume leader in processing SBA loans in Southern California. While their primary focus is on higher-dollar real estate-secured loans with federal guarantees, they have made some recent announcements about lending more in the racial equity space.

- Grameen America provides microloans (starting at no more than $2,000), financial training, and support to members as a domestic application of the renown international microlending model. They are the most active high-touch microlender in Los Angeles, having opened two new locations recently. Grameen also reports microloan repayments to Experian, enabling its members to build their financial identity and credit. However, their model is highly rigid, and they are not known for custom products or programs. Grameen only works with women entrepreneurs.

- Opportunity Fund, a national CDFI based in California, may be considered the nation's leading working capital microlender. While their products (like Grameen's) may be higher cost, they have achieved impressive scale through technology and operational efficiencies. Opportunity Fund has been removing itself from high-touch technical assistance services and is pursuing a national online lending model.

Local CDFIs:

- Inclusive Action for the City is a community development organization whose mission is to bring people together to build strong, local economies. They innovate and prototype in their programs, and have been active engaging street vendors. The organization manages a small loan fund which provides immigrants and low-income entrepreneurs access to patient capital at low rates. Recently achieving CDFI status, they also deliver high-touch technical assistance.

- PACE is a multi-service community development organization touching the Pacific Asian and other diverse communities. An SBA Microlender, PACE already deploys a modest volume of working capital microloans and offers business consulting in multiple languages.

- Pacific Coast Regional (PCR) is a longstanding nonprofit that assist small business owners in Los Angeles. As a federal SBDC and a state FDC, PCR is able to deliver consulting services and is familiar with guarantee products.

Emerging local providers:

- ICON CDC is an emerging organization which provides technical assistance and coaching to small business on how to attract financing. They contract as both an SBDC and a City of LA BusinessSource Center and are seeking CDFI status. ICON primarily focuses its efforts in the San Fernando Valley.

- Vermont Slauson Economic Development Corporation (VSEDC) is a South LA-based non-profit focused on technical assistance and coaching for small businesses. VSEDC recently obtained their CDFI designation.

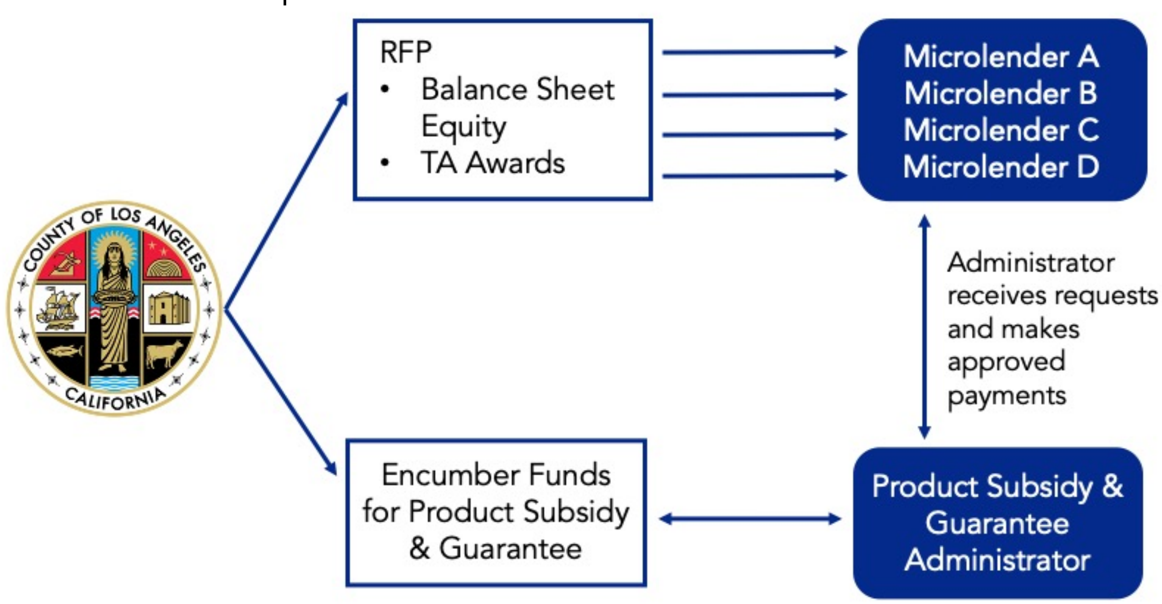
Guarantee and Product Subsidy Administrator

In addition to selecting a cohort of local microlenders to provide services, the County will need to identify a Program Administrator to execute the Product Subsidy and Guarantee elements of the Program. Both elements will receive an allocation from the initial funding, which will then be drawn down by the microlenders upon verification of their compliance with certain program guidelines. The administrative burden should not be heavy, if designed appropriately, but will need to be conducted in a timely fashion as cash liquidity is paramount in microlending. The Administrator role can be filled by a qualified consultant or performed by internal staff at the County.

Brand Manager and Cheerleader

Whether it is maintaining a branded website for the Regional Microloan Program, managing an online intake portal, convening regional stakeholders, or cheerleading entrepreneurs and the small business community, the County itself has a leadership role in holding up the larger vision in addition to making program funding decisions.

Partner Selection and Operations Process Flow



Program Evaluation: How will we know the program is working?

The program participants will provide periodic progress reports detailing lending activity as well as relevant social impact data.

Participating microlenders will be required to provide the County and other funders with progress reports on a semi-annual basis. These reports will be tied to lending activities, as well as community impact. The reports, which can be aggregated in simple dashboards or decks, should include activities for each 6-month reporting period since inception for:

- Number and amount of Microloans
- Number and amount of Startup and Restart loans
- Number of loans in specified High Impact geographic target market and sectors
- Number of hours of technical assistance and consulting
- Number of participants attending technical assistance trainings
- Number of loans to women owned / operated businesses
- Number of loans to BIPOC owned / operated businesses
- Number of loans to immigrant owned / operated businesses
- Number of loans to re-entry owned / operated businesses
- Estimated number of jobs supported or created
- Annual revenues of business
- Business stage (start up, growth, mature, etc.)
- Amount of capital funding raised by microlender

Furthermore, as appropriate, lenders will provide the County with qualitative data and stories on borrower outcomes as content for the website and report-outs to the Board of Supervisors.

Program Implementation Recommendation

The Plan can be finalized and launched within six to twelve months as outlined below.

Under the proposed design for the Plan, a resourced program can be finalized and launched within 6-12 months. We are optimistic such a rollout will time well with the anticipated rollback of the Safer at Home orders, a corresponding return of consumer demand, and an acceleration of the local economy. This pre-launch window will help solidify partner relationships, attract additional capital funding, define guidelines, and refine loan products and services. It will also provide the necessary time for the County to create a web portal to engage entrepreneurs and potentially allow for a parallel or complimentary launch alongside the Regional COVID-19 and CA Rebuilding loan programs. Finally, by building this program infrastructure, the County will be capable of receiving and disbursing additional resources should a 2021 stimulus package result in additional funds for small business support services.

Milestones and Timeline

The milestones and sample timeline for program's implementation include activities such as building out program procedures and convening stakeholders across sectors.

Key Implementation Milestones

To implement the program within the next 12 months, the County will need to build out Program procedures and convene key stakeholders across sectors. Key milestones in the program's implementation will include:

- ☐ *Allocation of Lead Investment from County.*
  The Board of Supervisors will need to identify and allocate initial funding for the Program (projected at $5 million in unrestricted funding).

- ☐ *Finalization of Loan Product and Guarantee Terms.*
  Informed by the 2020 County *Needs Assessment* and stakeholder interviews, the County will need to finalize the terms of the loan products, product subsidy parameters, and loan guarantee structure as outlined in this Plan. This process should begin as soon as an allocation is made, and financial constraints are known.

- ☐ *Drafting and Release of an RFP to Solicit Participating Microlenders.*
  To select the right microlenders, the County will need to assess which CDFIs are willing and able to adapt their product offerings to include the Program's core products (the Microloan, Restart and Startup loans). Using a competitive RFP process, the County can identify those CDFIs and microlenders who have the interest, staffing capacity, and infrastructure to offer these low-cost, flexible credit products. The RFP creation, release, and proposal review process will take about six months in order to allow time for internal County processes, microlender outreach, and a sufficient response window.

- ☐ *Designation of Program Administrator.*
  Whether internal or external, the County should identify an independent party to administer the loan guarantee and product subsidy reimbursements over the pilot.

Therefore, a second RFP may need to be prepared. This work can happen in parallel with the microlender RFP process in an estimated six months.

- ☐ *Convening of Banks, Foundations, and Stakeholders to Build Awareness & Solicit Funding.* In order to leverage the County's lead investment (both in terms of additional capital and community engagement), the County should educate potential funders and partners on how the Program will serve the unmet credit needs of the important, but often excluded microbusiness community within the County. A series of virtual convenings and meetings is envisioned to occur over four months.

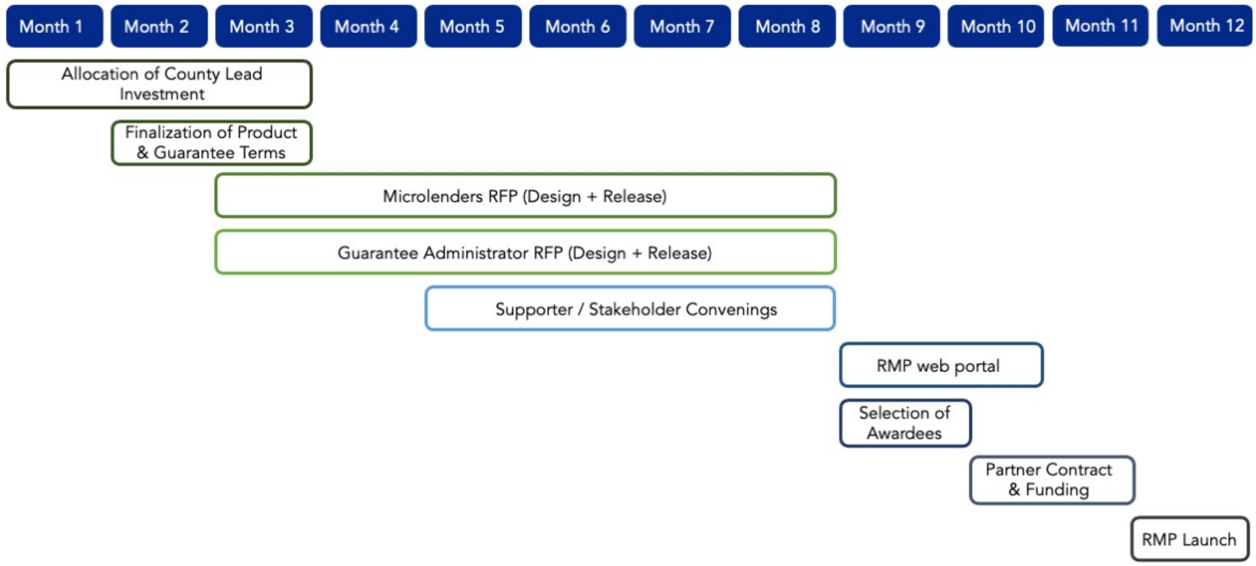
- ☐ *Creation of a Program Web Portal.*
  Serving as a trusted, common intake portal for stakeholders, the County can create a multi-lingual online portal that provides small business owners with a way of learning about the Program and other small business offerings from the County. This portal system could be used to collect data on small businesses, make public announcements impacting small businesses, and report out Program status updates. This function could be taken on by the Department of Consumer and Business Affairs (DCBA), given their experience, or be outsourced to a County vendor.

- ☐ *Selection of Microlender Awardees.*
  The County will screen all Program partner proposals based on predetermined selection criteria and choose up to 4 microlenders to participate in the RMP. A diverse and independent selection committee is essential, as the subsidy aspects will be attractive to a number of nonprofit organizations in the County. Included in the evaluation process will be the capacity of the lenders, experience working with relevant clientele, willingness to offer equity-first products, and ability to leverage outside funds.

- ☐ *Contracting and Funding all Partners.*
  Upon confirming the awardees through the RFP process, restricted grant agreements or service contracts will need to be prepared. During this process, final discussions and agreements on program goals, products, and leverage opportunities will be clarified, documented, and agreed to by all parties.

- ☐ *Program Launch.*
  Upon final contracting, the County will need to create press releases with various outreach partners, including the local newspapers, television stations, small business advocates, and small business development centers.

Sample Implementation Timeline



Scaling Opportunities: An Eye Towards the Future

The Regional Microloan Program has significant potential for scale and further impact with additional public, private, or philanthropic support.

Recognizing that the need in the County is far greater than the 540 small businesses this Program is designed to support in a pilot phase, there is potential to scale. As discussed throughout this document, the Program will be initially constrained by funding resources. If well implemented, the pilot Program will demonstrate tangible lending results, increase the scale and relevance of equitable Los Angeles microlending, and build the operational capacity of local microlenders. While these outcomes alone are laudable, they are preconditions for the potential significant expansion of small business supports over time. The need for additional post-COVID economic stimulus is obvious and may drive future public and private sector expenditures. With an established platform already in place, highly focused on mitigating structural inequities, the County can be ready to accept and deploy much greater sums. The chart below considers a simple linear expansion of the program with additional public, private, or philanthropic support.

	1x	3x	5x	10x
Allocation	$5,000,000	$15,000,000	$25,000,000	$50,000,000
Private Funding Leveraged	$9,000,000	$27,000,000	$45,000,000	$90,000,000
Microcapital Deployed	$6,500,000	$19,500,000	$32,500,000	$65,000,000
Loan Volume	360	1,080	1,800	3,600

Potential Partners to help scale the Program

The County can solicit support for its Regional Microloan Program (both in terms of grant capital and low-interest debt) from a variety of sources. The government sector has multiple programs which may be a source for future funding. These include the CDFI Fund and future stimulus funding through the CARES Act. Other potential sources of program funding include the philanthropic sector and the financial services industry.

Southern California is home to a number of foundations actively involved in the microfinance space such as The California Endowment, the California Community Foundation, the Weingart Foundation, the Jewish Community Foundation of Los Angeles, and the Annenberg Foundation. Like philanthropy, financial institutions have played a critical role in the growth of microlending CDFIs across the nation. From large national banks like Wells Fargo, Bank of America, Capital One, JP Morgan Chase, Goldman Sachs, and Citi to regional banks such as CIT, Bank of the West, BBVA, and East West Bank, financial institutions provide much needed grant and lending capital to CDFIs and microlenders. A list of potential foundation, corporate, and banking partners is outlined in the Appendix.

Conclusion

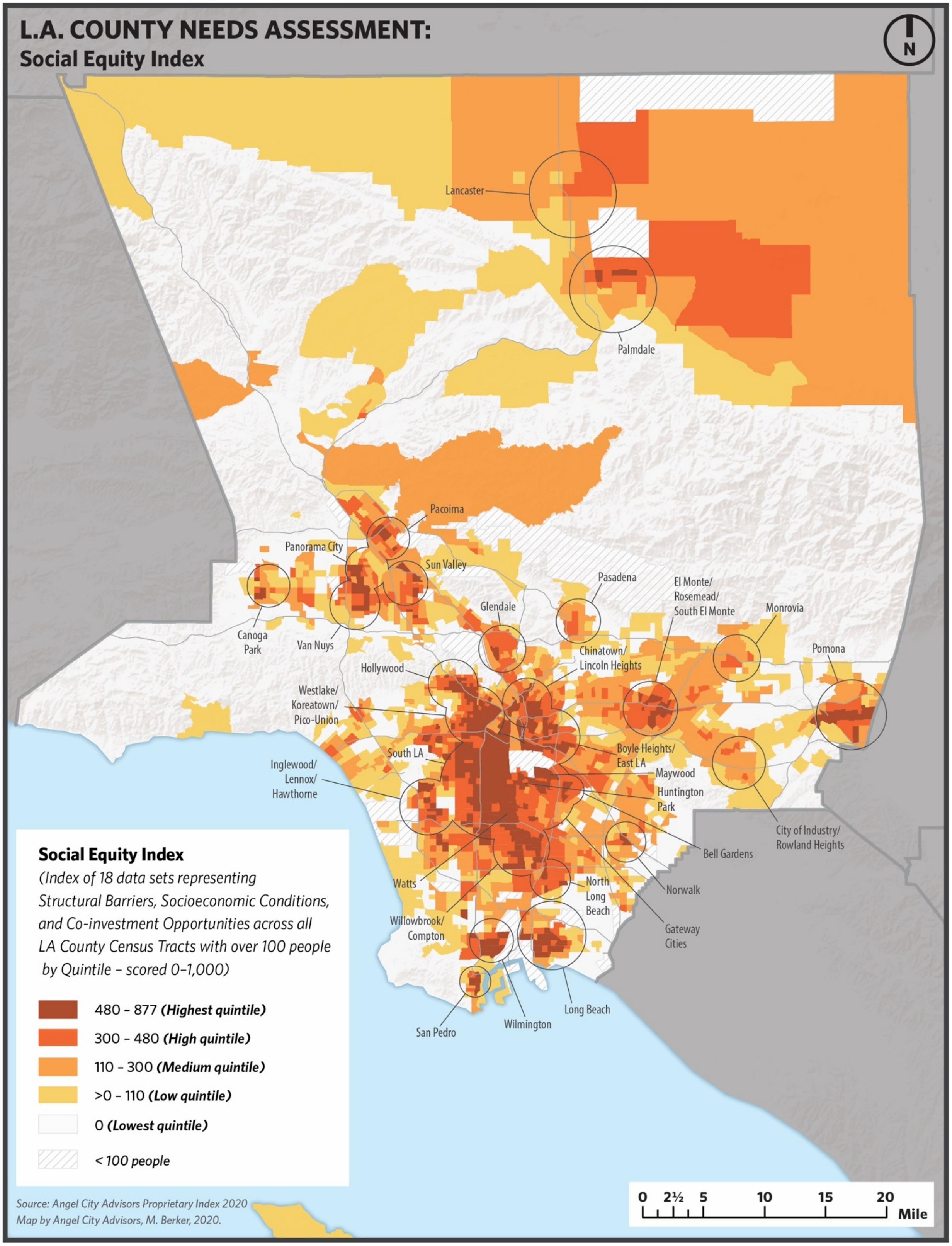
In response to the 2019 directive from the Board of Supervisors, County staff began exploring the creation of a regional microlending program to support small businesses. In May 2020 a detailed needs assessment was submitted that found an unmet demand for affordable working capital and technical assistance amongst Los Angeles microentrepreneurs, and that subsidized investments into microlending capacity was a reasonable policy decision given the resulting positive externalities to the County economy. Since then, the deep economic shocks caused by the coronavirus pandemic and resulting public health orders have laid bare the deep inequities within the small business community. It has also amplified the need for Startup and Restart microcapital products alongside small dollar working capital loans, which were unmet by PPP loans and unsatisfied by modest grant relief programs.

Several large-scale efforts are now underway to inject liquidity into the CDFI infrastructure that can provide business loans to healthy small businesses who have financially survived the pandemic-induced recession. The LA Regional COVID-19 Fund and California Rebuilding Fund are developing loan wholesaling functions for participating CDFIs. However, there remains a financing gap for smaller, less-sophisticated enterprises and startups that cannot meet traditional CDFI underwriting standards. There is an opportunity to invest in this region's resiliency.

The Regional Microloan Program solves for this unmet need. With a borrower-centric, equity-first approach, a set of indigenous microlenders can be capitalized and supported to deploy more high-risk, low-cost microloans alongside high-touch technical assistance and case management. A pilot program targeting 540 microloans can be launched in 6-12 months, and the platform can be scaled significantly with minimal overhead should greater resources be identified.

Appendix

Appendix A: Equity Index Map



Appendix B: Potential Banking Funders and Financial Partners

Banks

- Ally Bank
- American Business Bank
- American Plus Bank
- Banc of California
- Bank Leumi
- Bank of America
- Bank of Hope
- Bank of New York Mellon Trust
- Bank of the West
- Banner Bank
- BBVA
- BNP Paribas
- Boston Private Bank & Trust Company
- Broadway Federal Bank
- California Bank & Trust
- California Credit Union
- California United Bank
- Capital One
- Cathay Bank
- Charles Schwab
- Chase
- CIT Bank
- Citizens Business Bank
- City National Bank
- Comerica Bank
- Commonwealth Business Bank
- Community Commerce Bank
- CTBC Bank Corp.
- Deutche Bank
- East West Bank
- Edison International
- EverTrust Bank
- Farmers & Merchants Bank
- Federal Home Loan Bank of San Francisco
- First Bank
- First Choice Bank
- First Commercial Bank
- First Credit Bank
- First Financial Bank
- First General Bank
- First National Bank
- First Republic
- GBC International Bank
- Golden State Bank
- Goldman Sachs
- Grandpoint
- Hanmi Bank
- HSBC Bank USA
- International City Bank
- JP Morgan Chase
- Kaiser Foundation
- Lake City Bank
- Malaga Bank
- Manufacturer's Bank
- Mechanics Bank
- Mission Valley Bank
- Mizrahi Tefahot Bank
- MUFG Union Bank
- New Omni Bank
- Northern Trust
- Open Bank
- Opportunity Finance Network
- Opus Community Foundation
- Pacific Alliance Bank
- Pacific City Bank
- Pacific Premier Bank
- Pacific Western Bank
- PNC Bank
- Preferred Bank
- Royal Business Bank
- State Bank of India (California)
- Seacost Commerce Bank
- Silicon Valley Bank
- Sterling Bank & Trust
- Synchrony Bank
- U.S. Bank
- Union Bank
- Wells Fargo
- Western Alliance Bank

Foundations

- Ahmanson Foundation
- Angell Foundation
- Amgen Foundation
- Annenberg Foundation
- Asian Pacific Community Fund
- BofA Foundation
- Blue Shield of California Foundation
- Broad Foundations
- California Community Foundation
- Calvert
- Carrie Estelle Doheny Foundation
- Conrad N. Hilton Foundation
- Green Foundation
- Heising-Simons Foundation
- Jewish Community Foundation LA
- Kaiser Foundation
- Karsh Family Foundation
- Kenneth T and Eileen L. Norris Foundation
- Leslie Family Foundation
- Los Angeles Dodgers Foundation
- Long Beach Community Foundation
- Maravilla Foundation
- Ralph M. Parsons Foundation
- Rose Hill Foundation
- The California Wellness Foundation
- The California Endowment
- The Ralph M. Parson's Foundation
- The Tarsadia Foundation
- Thomas and Dorothy Leavey Foundation
- UniHealth Foundation
- Wasserman Foundation
- W.K.Kellogg Foundation
- Weingart Foundation
- Y&H Soda Foundation

Corporations

- Albertsons Cos.
- Apple
- BCG
- Charles Schwab
- Deloitte
- Edison International
- Ernst & Young
- Kaiser Permanente
- KPMG
- Mastercard
- O'Melveny & Myers
- Panda Restaurant Group Inc.
- PG&E
- Ralphs/Food 4 Less - Kroger Co.
- Southern California Edison
- Southern California Gas Company
- Target Corp.
- Verizon
- Walt Disney
- Western Alliance
- Whole Foods

Appendix C: Microlenders in the Los Angeles Market Place

Lender	Program(s) /Type	Target Clients / TA	Loan Amount	Interest Rate	Term	LA Lending Volume
INCLUSIVE ACTION FOR THE CITY	The Semi'a Fund *Microloan*	US Citizens, informal borrowers, with business coaching	$1,000 - $35,000	8% with 1-2% loan rebate with on-time repayment	12 – 36 months	$157,00 to 26 small businesses in 2019[xxviii] **Modest volume**
pace Pacific Asian Consortium in Employment	*Microloan & SBA Business Loans*	US Citizen; low but good credit history; clean car title	Mini: Up to $2,000 SBA: Up to $50,000	8.5% 6.5% (green business)	18 – 36 months	Lending ~$2M/yr Making 20 – 30 microloans per year. **Modest volume**
PCR Pacific Coast Regional Small Business Development Corporation	EDA Revolving Loan Fund *Microloan*	Small business owners in LA County	Up to $650,000	7% – 13%	Up to 20 years	Makes 10 – 12 microloans per year. **Modest volume**
Opportunity Fund working capital for working people	*Microloan and Business Loans*	Small business owners; esp the historically disadvantaged	$2,600 - $30,000; $30,001 - $250,000	10.9% - 18%	12 – 36 months; 3 – 5 years	Made 925 loan totaling $23M in 2019 ($25k avg) **High volume**
GRAMEEN AMERICA	Women's lending circle *Microloan*	Women below the federal poverty line	$2,000 - $15,000	15%-18%	6 month cycles	Disbursed $35.3M in 2019. 13,298 members.[xxix] **High volume**
CDC Small Business Finance	*Microloan; SBA Community Advantage*	Micro / Small business; advising available	$10,000 - $50,000; $20,000 - $500,000	8% - 10% Prime + 2.75% - 6%	3 – 5 years; 7 – 10 years	Lent $341.4M in 2019.[xxx] Makes 40 - 50/yr microloans **High volume**
lendistry	Express Business LOC *SBA Small Business*	Small business owners with 2 years experience	$10,000 - $250,000	WSJ Prime + 2.5%-6% variable	12 month revolving	$50M in lending in 2019 **High volume**
LISC LA	Kiva Loans *Microloan (intermediary & RE secured)*	Small business owners; esp the historically disadvantaged	$500 - $10,000; $25,000 - $5,000,000	Kiva 0% SBL 6% - 10%	Up to 36 months; up to 10 years	Lent $1.6M to small businesses; 15 Kiva loans ($160k)[xxxi] **Modest volume**
JFLA Jewish Free Loan Association You can turn to us.	Free Loan Program *Microloan*	LA + Ventura Counties; US Citizen only; proof of need	$100 - $18,000	0% (with good guarantors)	Up to 36 months	~$900,000 in small business loans outstanding in 2018.[xxxii] **Modest volume**
AMPAC Business Capital	SBA MicroLoan Program *Microloan*	Startups, micro and small businesses	Loans up to $10,000	8% - 13%	Up to 6 years	Had $2M in loans receivable at the end of 2018. **Modest volume**
RISE Financial Pathways	Capital Partners Program *Microloan*	US Citizen; no credit checks; supportive program	$500 - $15,000	8.5% - 12%	2 year program	~$500,000 in loans outstanding in '15 **Minimal volume**

Appendix D: Loan Portfolio Modeling

The following three charts describe the budget allocations in years 1-3.

Year 1
$5,000,000

	% allocation	**Amount**	**Match**	**Total amount**	**Years funded**
Balance sheet equity	60%	$ 3,000,000	3	$9,000,000	Years 1,2,3
TA	16%	$ 800,000			Years 1 and 2
Product Subsidy	15%	$ 750,000			Year 1
Guarantee	9%	$ 450,000			Years 1 and 2
	Total	**$ 5,000,000**			

Year 2
$1,000,000

	% allocation	**Amount**	**Match**	**Total amount**	**Years funded**
Balance sheet equity	0%	$ -	-	-	Prev funded
TA	0%	$ -			Prev funded
Product Subsidy	100%	$ 1,000,000			Year 2
Guarantee	0%	$ -			Prev funded
	Total	**$ 1,000,000**			

Year 3
$1,000,000

	% allocation	**Amount**	**Match**	**Total amount**	**Years funded**
Balance sheet equity	0%	$ -	-	-	Prev funded
TA	8%	$ 400,000			Year 3
Product Subsidy	45%	$ 450,000			Year 3
Guarantee	3%	$ 150,000			Year 3
	Total	**$ 1,000,000**			

The following three charts describe loan allocations in years 1-3.

Year 1

	Amount	Average Loan Size	# of loans / lender	# of Lenders	Total # of loans	Capital required
Microbusiness working capital	5-25k	$ 15,000	25	4	100	$ 1,500,000
Restart	15-50k	$ 32,500	10	4	40	$ 1,300,000
Start up	1-15k	$ 8,000	5	4	20	$ 160,000
				Totals	**160**	**$ 2,960,000**

Year 2

	Amount	Average Loan Size	# of loans / CDFI	# of Lenders	Total # of loans	Capital required
Microbusiness working capital	5-25k	$ 15,000	35	4	140	$ 2,100,000
Restart	15-50k	$ 32,500	10	4	40	$ 1,300,000
Start up	1-15k	$ 8,000	5	4	20	$ 160,000
				Totals	**200**	**$ 3,560,000**

Year 3

	Amount	Average Loan Size	# of loans / CDFI	# of Lenders	Total # of loans	Capital required
Microbusiness working capital	5-25k	$ 15,000	20	4	80	$ 1,200,000
Restart	15-50k	$ 32,500	0	4	0	$ -
Start up	1-15k	$ 8,000	25	4	100	$ 800,000
		Totals		**Totals**	**180**	**$ 2,000,000**

The following three charts highlight the product subsidies estimated in years 1-3.

Year 1

Type of loan	Amount of loan	Interest Rate Spread	Interst earned over terms		# of projected loans		Amount of Subsidy Required
Microloan*	$ 15,000	10%	$2,424.28		100		$ 242,428.00
Restart	$ 32,500	10%	$8,931.74		40		$ 357,269.60
Startup	$ 8,000	10%	$2,198.58		20		$ 43,971.60
				Total	**160**	**Total**	**$ 643,669.20**

* Note: Working capital microloan has 3 year term, Restart and Startup have 5 year term

Year 2

Type of loan	Amount of loan	Interest Rate Spread	Interst earned over terms		# of projected loans		Amount of Subsidy Required
Microloan*	$ 15,000	10%	$2,424.28		140		$ 339,399.20
Restart	$ 32,500	10%	$8,931.74		40		$ 357,269.60
Startup	$ 8,000	10%	$2,198.58		20		$ 43,971.60
				Total	**200**	**Total**	**$ 740,640.40**

* Note: Working capital microloan has 3 year term, Restart and Startup have 5 year term

Year 3

Type of loan	Amount of loan	Interest Rate Spread	Interst earned over terms		# of projected loans		Amount of Subsidy Required
Microloan*	$ 15,000	10%	$2,424.28		80		$ 193,942.40
Restart	$ 32,500	10%	$8,931.74		0		$ -
Startup	$ 8,000	10%	$2,198.58		100		$ 219,858.00
				Total	**180**	**Total**	**$ 413,800.40**

* Note: Working capital microloan has 3 year term, Restart and Startup have 5 year term

The following three charts highlight the Guarantee requirements in years 1-3.

Year 1													Amount covered by guarantee		
Product	**Amount**	**# of loans**	**total loan amount**	**% default**	**Amount of default**	**% AAA Program Loans**	**% AA Program Loans**	**% A Program Loans**	**Coverage ratio for AAA**	**Coverage ratio for AA**	**Coverage Ratio for A**		**AAA**	**AA**	**A**
Microloan	$ 15,000	100	$1,500,000	25%	$ 375,000	50%	25%	25%	50%	30%	0%		$ 93,750	$ 28,125	$ -
					$ -										
Restart	$ 32,500	40	$1,300,000	25%	$ 325,000	25%	25%	50%	50%	30%	0%		$ 40,625	$ 24,375	$ -
					$ -										
Startup	$ 8,000	20	$ 160,000	30%	$ 48,000	25%	25%	50%	50%	30%	0%		$ 6,000	$ 3,600	$ -
				Total	**$ 748,000**										
												Total	**$196,475**		

Year 2													Amount covered by guarantee		
Product	**Amount**	**# of loans**	**total loan amount**	**% default**	**Amount of default**	**% AAA Program Loans**	**% AA Program Loans**	**% A Program Loans**	**Coverage ratio for AAA**	**Coverage ratio for AA**	**Coverage Ratio for A**		**AAA**	**AA**	**A**
Microloan	$ 15,000	140	$2,100,000	25%	$ 525,000	50%	25%	25%	50%	30%	0%		$131,250	$ 39,375	$ -
					$ -										
Restart	$ 32,500	40	$1,300,000	25%	$ 325,000	25%	25%	50%	50%	30%	0%		$ 40,625	$ 24,375	$ -
					$ -										
Startup	$ 8,000	20	$ 160,000	30%	$ 48,000	25%	25%	50%	50%	30%	0%		$ 6,000	$ 3,600	$ -
				Total	**$ 898,000**										
												Total	**$245,225**		

Year 3													Amount covered by guarantee		
Product	**Amount**	**# of loans**	**total loan amount**	**% default**	**Amount of default**	**% AAA Program Loans**	**% AA Program Loans**	**% A Program Loans**	**Coverage ratio for AAA**	**Coverage ratio for AA**	**Coverage Ratio for A**		**AAA**	**AA**	**A**
Microloan	$ 15,000	80	$1,200,000	25%	$ 300,000	50%	25%	25%	50%	30%	0%		$ 75,000	$ 22,500	$ -
					$ -										
Restart	$ 32,500	0	$ -	25%	$ -	25%	25%	50%	50%	30%	0%		$ -	$ -	$ -
					$ -										
Startup	$ 8,000	100	$ 800,000	30%	$ 240,000	25%	25%	50%	50%	30%	0%		$ 30,000	$ 18,000	$ -
				Total	**$ 540,000**										
												Total	**$145,500**		

Appendix E: Briefing Memorandum regarding CA Rebuilding Fund

California Small Business Rebuilding Fund

The California Small Business Rebuilding Fund is a loan program created to address the capital needs of existing small businesses across the State of California, as they attempt to re-open and recover from the COVID-19 health and economic crisis. The main differences between the Rebuilding Fund and the Regional Microloan Program (RMP) are the markets served and credit underwriting requirements. While the Rebuilding Fund will likely support economic growth across the State, the Fund does not emphasize microbusinesses or have an equity first approach.

Products

The Fund's Rebuilding Loans are standardized loan products that offer affordable and flexible capital to small businesses that will struggle to access affordable credit during the impending economic recovery. These loans are not meant to act as a revenue substitute and are not structured like the Paycheck Protection Program (PPP) or Economic Injury Disaster Loans (EIDL) from the SBA. They are meant to be timed and structured to support businesses and organizations that have a path to reopening but face upfront expenses to do so (e.g., inventory, marketing, refitting for new social distancing guidelines) and/or see uncertainty in revenues given the slow pace in which we will return to "normal."

The product is designed to meet the needs of the small, community-based businesses (businesses with fewer than 50 employees) who often exist outside of the financial system and struggle to access credit – particularly in times of crisis and economic recession. However, the Fund is not designed to meet the needs of microbusinesses which will be served by the RMP.

Priced at 4.25% with loans up to $100,000, the Rebuilding Loan has a maximum term of 60 months. While no minimum credit score is required, borrowers must have a positive net income in 2019 and be able to demonstrate that COVID-19 has impacted revenues. In addition, borrowers must submit federal tax returns from 2019 and bank statements (or other proof of revenue) and personal guarantees are required on a case by case basis. To be eligible, borrowers must meet a minimum debt service coverage ratio (DSCR) based on debt service/revenue. The Fund is open to business owners with an ITIN number. The Fund excludes start up businesses, or those posting net losses in 2019. While helpful to many small businesses across California, the Fund will serve a very different market than what the RMP will support. See the Credit Box Description following this overview.

Partners

The Lead Arranger for the Fund is Calvert Impact Capital while the Fund Manager is Kiva. Participating CDFIs include Access Plus, Accion Serving Southern California, CDC Small Business Finance, Main Street Launch, Mission Economic Development Agency/Fondo Adelante, Opportunity Fund, Pacific Community Ventures, and Working Solutions. Government participants include the State of California's Infrastructure and Economic Development Bank, Governor Newsom's Task Force on Business and Jobs Recovery, and the University of California at Berkeley.

Operations/Structure
The Fund will be anchored by a centralized online portal built to make it easy for small businesses to understand the program, the loan terms, and submit a pre-application. This portal will be hosted by Community Reinvestment Fund, USA's Connect2Capital platform, an online marketplace built to easily match small businesses seeking financing with local CDFIs.

To apply, any small businesses will go to the Connect2Capital website and fill out a pre-application. With this information, the system determines whether the small business is eligible or ineligible. If the business is ineligible, they are notified and provided with a list of other resources that they may be able to access for technical and financial support. If the business is eligible, they are matched with a participating CDFI, which in turn will invite them to submit a full application. The CDFI completes their full underwriting pursuant to the Fund's underwriting criteria.

In the background, the CDFI determines if there is guarantee capacity available before they close the loan. If available, they will work with a Financial Development Corporation (FDC) to provide the necessary information to secure an IBank guarantee. Once the guarantee is finalized and the loan is closed, the CDFI can draw 90 percent of the loan value from the Fund to make the loans and then subsequently assign 90 percent of the loan to the Guaranteed Special Purpose Vehicle (SPV). If a guarantee is not available, the CDFI will draw 95 percent of the loan value from the Fund and assign 95 percent of the loan to a separate Blended SPV.

The Fund is not providing any additional capital to increase technical assistance to borrowers but instead is relying on the existing infrastructure of technical assistance to support borrowers. For example, both pre- and post-loan technical assistance will be provided by the CDFIs themselves and/or by the network of SBDCs and WBCs across the state. To help improve the delivery of this technical assistance in the State, the Fund is working closely with the State's Office of the Small Business Advocate and the Small Business Majority to promote better coordination between technical assistance providers and participating CDFIs. It should be noted this unfunded design element may lead to little or weak technical assistance support for the small business owner. The RMP on the other hand specifically designates funding for technical assistance, financial coaching, and outreach.

As part of its efforts to reach small businesses who are in greatest need of support but may not be aware of financing options, the Fund has launched a community outreach program spearheaded by the University of California, Berkeley with government, community, and grassroots leaders. Working with these community partners, the Fund plans to host webinars, publish newsletters, and possibly air advertisements in different languages to publicize the Fund. In particular, the Fund is focused on working with city or county agencies.

CREDIT BOX OVERVIEW

Step One

Through CRF's USA's Connect2Capital platform (an online site that matches microbusinesses with CDFIs), the loan applicants would answer the following 15 basic questions about their businesses.

- How much they are interested in borrowing
- How they plan to use the loan
- When they need financing
- The name, type, and industry of their business
- How long they have been in business
- Where their business is located
- The contact information of the applicant
- Their total revenues and profits from last year
- The number of full-time equivalent employees
- Their revenue projections
- Voluntary information on the business owners' race, ethnicity, and gender identity

For loan applicants who have trouble accessing the internet or who need support with the application and documentation requirements, a network of business support organizations across the State will be available to support or refer applicants to their matched CDFI.

Note: The following CDFIs are participating in the Fund

- Access Plus
- Accion Serving Southern California
- CDC Small Business Finance and/or Bankers Small Business CDC of California
- Main Street Launch
- Mission Economic Development Agency/Fondo Adelante
- Opportunity Fund
- Pacific Community Ventures
- Working Solutions

Step Two: <u>"Credit Box" Used by the CDFIs</u>

Borrower attestations - Loan applicant must attest (with recourse) that:

- It does not have an active application with any other Small Business Lender for a Rebuilding Loan, or has not applied for more than one Rebuilding Loan
- The business has experienced direct economic hardship as a result of COVID-19 in a way that materially impacts their operations and has an ability to document the impact
- It is not making false claims

Business size

- Loan applicant must have 50 or fewer full time equivalent (FTE) employees and have gross revenues of less than $2.5 million per year.
- FTE counts will be tested prior to March 2020, not at the time of application

- FTEs of any and all affiliates are counted in the total, including businesses with shared ownership
- This may be verified by the loan applicant's tax return

Profitability and revenue test

- Demonstrate a 25% decline in revenues since January 2020
- Returned to or has sustained at least 30% of pre-crisis revenues relative to a similar period the prior year
- Positive net income in 2019

Debt eligibility criteria: Monthly business debt service / revenues < 25% (requires DSCR of 4.0x and above) where debt service includes existing and new debt (post-interest only period) and revenues refers to average monthly sales from 2019 or a comparable 2019 month.

Documentation required from the Loan Applicant

- Schedule of ownership (name, address, SSN or EITN, percentage ownership, photo ID for any owners with more than 20% ownership), if applicable
- Executed Attestation Certificate
- Bank statements or other proof of revenue
- 2019 Federal Tax documentation
- Personal guarantee (if applicable)
- Evidence of organization's legal formation (standard location, business registration, and conflict of interest terms)

Program Personal Guarantee /Credit Check

For profit businesses: Personal guarantee (at the discretion of the CDFI) and credit check; signature required by each owner with greater than 20% ownership

- No active bankruptcies
- No 30+ day delinquencies in January or February of 2020
- No more than (1) 60+ day delinquency, no charge offs or discharged bankruptcies during COVID-19, or since March 2019.
- No repossessions or foreclosures in the past 36 months
- No outstanding tax liens or judgements unless there is 6-months of an active payment plan
- No unpaid child support
- No minimum credit score required; credit score preferences to be set by each community lender

Ineligible industries: Businesses that are not eligible include, but may not be limited to:

- Firms engaged in activities that are prohibited by federal law or applicable law in the jurisdiction where the business is located or conducted

- Business engaged in speculative activities that develop profits from fluctuations in price rather than through the normal course of trade
- Facilities primarily used for gambling or to facilitate gambling

Product Terms

Interest rate

For-profit businesses: 4.25% fixed interest based on WSJ Prime + 1.0%; should the WSJP rate change during the Availability Period of the Guaranteed Credit Facility, this rate may be adjusted to reflect WSJ Prime + 1.0%

Repayment Term

60-month term

- 0-12 months: interest only payments, paid monthly
- 13-60 months: interest and principal payments with flat payments on a 48month schedule, paid monthly
- 36-month term option for smaller dollar loans

Prepayment: Borrower may prepay the loan without penalty

Loan amount

Lesser of (a) $100,000 or (b) up to 100% of average revenues for a 3-month period prior to the COVID-19 outbreak; the 3-month period can be any 3-month period from 2019 or January to March 2020

Loan proceeds

- Working capital including payroll, operating and emergency maintenance, property taxes, utilities, supplies, rent, etc.
- Refinancing of an existing community lender loan is only permitted if it is permissible under the Existing IBank Disaster Relief Program (as stated in the program's Directives and Requirements).
- Loan applicant will be required to detail anticipated use of funds when they apply

Security

- A UCC lien filing may be done at the CDFI's discretion
- Personal guarantees may be required for individuals that own 20% or more at the CDFI's discretion. Requirements and policies around personal guarantees should follow the CDFI's standard practice

Fees

- Minimal third-party fees and expenses (UCC filing fee, application fees, guarantee documentation fee, credit report costs, etc.) can be capitalized into the loan up to a certain per-loan amount

No other fees paid by the small business

Endnotes

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Acknowledgement

We would like to sincerely thank the many stakeholders who have contributed their input into this plan. Voices have ranged from microentrepreneurs to policymakers, from community advocates to industry experts, from technical assistance providers to lending institutions, and from funders to investors. Collectively, your voices ring true and lend wisdom to our work.

We would also like to thank Los Angeles County and Supervisor Solis' office in particular, who have been staunch equity advocates and champions for resiliency amongst the smallest of businesses in Los Angeles.

Amy J. Bodek, AICP
Director of Regional Planning

Dennis Slavin
Chief Deputy Director,
Regional Planning

December 16, 2021

TO: Supervisor Holly J. Mitchell, Chair
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

FROM: Amy J. Bodek, AICP
Director of Regional Planning

Rafael Carbajal
Director of Consumer and Business Affairs

REPORT ON EAST LOS ANGELES ENTREPRENEUR CENTER (ITEM NO. 6, AGENDA OF MARCH 19, 2019)

On March 19, 2019, the Board of Supervisors adopted a motion instructing the Directors of Public Health (DPH), Public Works (PW), and Regional Planning (DRP), in collaboration with the Director of Consumer and Business Affairs (DCBA), to establish a permitting panel and other relevant services designed to meet the needs of the business community at the East Los Angeles Entrepreneur Center (Center).

In response to this motion, the Center was established and opened to the public on February 12, 2020, within the Centro Maravilla Service Center located at 4716 E. Cesar Chavez Avenue in East Los Angeles. The Center served as the County's new one-stop business development hub for entrepreneurs and small businesses. It housed staff from DRP, DCBA, PW, DPH, Treasurer and Tax Collector, and the Fire Department, providing business owners with a local, easily accessible, and centralized location to obtain zoning information and apply for permits and licenses. In addition, the Center provided the following free services: business start-up assistance and resources; business development workshops; access to capital; navigating permits/licenses; one-on-one business counseling; and succession planning. Staff assigned to the Center had extensive knowledge regarding small businesses and included individuals who were bilingual in English and Spanish.

The Center was open on the second Wednesday of each month from 1:00 p.m. to 4:00 p.m. but has been closed to the public during the COVID-19 pandemic. However, virtual counseling is being provided directly by the individual County Departments, as needed.

This is the final report that DRP and DCBA will submit to the Board regarding this matter. If you have any questions regarding this report, please contact Carmen Sainz, Supervising Regional Planner, Metro Development Services Section, at csainz@planning.lacounty.gov.

AJB:CS:MG:lm

c: Executive Office, Board of Supervisors
Chief Executive Office
Public Health
Public Works

K_CP_12162021_EAST_LOS_ANGELES_ENTREPRENEUS_CENTER_BOARD_REPORT