Board Action: Changes to the Participation Loan Program

Background:

When the CLIMBER program was created in 2020, the Participation Loans were to be a strong tool that banks would use to make small business loans while keeping their liquidity levels as high as possible. During 2021 and 2022, only two loans were generated using this model, for a total of $208,000. Both loans were made by B-Side Capital, who stop participating in the CLIMBER program soon after. CLIMBER and CHFA staff reached out to B-Side as well as to other lenders and those familiar with participation lending practices to see why this program did not get the traction that was expected. Some of the feedback was: The maximum loan size was too small, if the loan was good enough to make in the first place they wanted to keep it all on their books, interest rate on retained portion was too low, no upfront fees they can earn, and the retained portion was subordinate to the portion purchased by CLIMBER. While many of these issues are beyond the scope of the CLIMBER program, the working committee looked into enhancing the program in ways that fit within the legislation and would provide more capital into the hands of small businesses. After many weeks of discussion, the working committee came up with the following suggestions. 1) Increase the allowable rate charged on the retained portion to 13%. This would provide a blended rate to the borrower of 4.6% based on the cost of funds. 2) Pay the lender 1% of the loan per category the borrower met regarding disadvantaged businesses established in the DLC program up to a maximum of 2%. 3) Making the purchased portion of the loan subordinate to the retained portion. These changes should create more interest in lenders using the program.

Board Action:

With approval of this request, the Oversight Board authorizes CHFA to pay up to 2% to lenders making Participation Loans based on their ability to loan funds to businesses classified as disadvantaged, increase the maximum lender retained interest rate to 13%, and make the purchased portion of Participation loans subordinate to the retained portion.

Rationale:

This will allow businesses to have more options when it comes to access to capital through the CLIMBER program, allowing them to retain employees and stabilize or expand operations.