REBUILDING OUR ECONOMY POST COVID-19: GUARANTEES

Panelists
Joel Smith, Native American Bank
Christine Ryan, The California Endowment
Teri Lovelace, LOCUS Impact Investing/Community Investment Guarantee Pool

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PANELISTS

Joel Smith, Senior Vice President & Chief Credit Officer, Native American Bank

Christine Ryan, Manager for Program Related Investments, The California Endowment

Teri Lovelace, Executive Director, Community Investment Guarantee Pool & Founder/SVP, LOCUS Impact Investing
POLLING QUESTIONS

Has your lending program used a guarantee?
If you used guarantees, what type of guarantee was it?
What are you most interested in hearing today?
INSIGHTS FROM A FINANCIAL INSTITUTION

- Offset Collateral Risk, Mitigate risk of loss upon default
  - Especially helpful with non-traditional collateral like Leasehold Mortgages on Trust Land
- Offset calculated risk exposure in portfolio
  - Lower Loss Reserve
  - Can provide for a much larger loan size
- Doesn’t (generally) mitigate repayment risk
  - Can allow for higher portfolio expected default rate while maintaining ROE
- Liquidity/Secondary Market
  - Can come with pricing benefits for customers
- Compliance Risk
- Identity, Location, and Industry are primary determinants of program
US COMMERCIAL GUARANTY PROGRAM HIGHLIGHTS

**Programs**
- SBA 7(A) -75%-85%
- SBA 504 - LTV Enhancement (50%)
- USDA (B&I, Community Facilities) 60%-90%
- FSA -95%
- OIEED (BIA) – Indian Loan Guaranty Program-90%
  - Interest Subsidy
- OIEED Loan Insurance
- HUD Title VI – Indian Housing Program

**Challenges**
- High Compliance Risk
- High Fees
- Collateral Requirements
- Detailed Requirements
- Processing Timeframes/ Secondary Market
  - Sparingly approved
- Need portfolio Volume
- Limited Allocation
GUARANTY EXAMPLES

- 75% SBA 7(a) Guaranty in Portland for Native entrepreneur to acquire data center
  - Lack of collateral and deal size limit
- 90% BIA Guaranty to build and permanently finance water treatment facility
  - Trust land and deal size
- BIA Insurance for Navajo Trucking Company Owner to Expand
  - Lack of track record
- 70% USDA Guaranty to support NMTC loan to build new Tribal grocery store
  - Deal Size, Trust Land
PHILANTHROPIC GUARANTEES

- As a Foundation, how does TCE think about guarantees? What are TCE’s motivations and objectives for using guarantees?
- How do guarantees further TCE’s commitment to racial equity?
- What are some benefits & challenges of using philanthropic guarantees (bilateral and pooled)?
- Example of using a bilateral guarantee in a multi-funder transaction: FreshWorks – TCE & Community Vision
COMMUNITY INVESTMENT GUARANTEE POOL – A NEW PIECE OF COMMUNITY DEVELOPMENT INFRASTRUCTURE

Centralize a source of credit enhancement for intermediaries
Reduce complexity by building capacity to deploy and manage guarantees
Accelerate community investment w/o requiring current endowment liquidity
Mitigate losses by sharing them pro-rata across a pool of philanthropic investors
UNFUNDED GUARANTEE POOL – LEVERAGING THE BALANCE SHEET

12 guarantors* committed $38.1M in unfunded guarantee commitments

CIGP places enterprise/fund level guarantees to intermediaries in 3 sectors: small business, affordable housing & climate

For more information about guarantees, please click on the following report images to access additional resources.

Global Impact Investor Network, Scaling the Use of Guarantees in U.S. Community Investing

The Kresge Foundation, Rob Manilla, Making “Cents” of Guarantees

Milken Institute, Guaranteeing the Goals: Adapting Public Sector Guarantees to Unlock Blended Financing for the U.N. Sustainable Development Goals

The Kresge Foundation, Kimberlee Cornett, A Needed Piece of Community Development Infrastructure

Mark Kramer, FSG Foundations: Use Your Balance Sheets
Kresge Foundation video -- Power of Guarantees:
https://www.youtube.com/watch?v=x6kBZM7R_Cc&t=26s

Meet CIGP video:
https://www.youtube.com/watch?v=tSnXiPhg6yA
RESOURCES -- LOAN GUARANTEES & SELLING LOANS ON SECONDARY MARKET, LISA WAGNER, BLUESTEM CONSULTING, INC. (PRESENTED AT OWEESTA CAPITAL ACCESS CONVENING JUNE 25-27, 2019)

- Farmer Mac
  https://www.farmermac.com/products-solutions/
- HUD 184
  https://www.hud.gov/program_offices/public_indian_housing/ih/homeownership/184
- Fannie Mae
  https://www.fanniemae.com/singlefamily/become-seller-servicer
- BIA Loan Guarantee and Insurance
  https://www.bia.gov/as-ia/ieed/division-capital-investment
- USDA B&I Guarantee
- USDA FSA Guarantee
- SBA
  https://www.sba.gov/partners/lenders