Washington State Department of Commerce

OFFICE OF ECONOMIC DEVELOPMENT AND COMPETITIVENESS

Proposal overview: Washington Recovery Loan Fund

Commerce is proposing to direct $35 million in CARES Act funding to start a new economic recovery revolving loan fund. The Recovery Loan Fund would provide a much-needed low-barrier loan product to struggling small businesses and nonprofits. This fund is a recommendation from the Governor's Economic Recovery Taskforce.

Financing designed to help our hardest-hit businesses and nonprofits

Many small businesses in Washington desperately need a financial bridge to restart safely, but are struggling to access working capital loans to fund their expenses as they reopen and their income resumes. Lenders have capital to lend, but they are reluctant to issue loans that carry too much risk. For businesses struggling to bring in a steady income during the pandemic and facing great uncertainty about when and how they can be fully operational again, this leaves them unable to find loans that allow them to keep the lights on.

Businesses in rural communities and small businesses and nonprofits owned by Black, indigenous and people of color have been particularly hard-hit by the pandemic and by historic barriers to financing and investment opportunities. The lower rates of access to funding by small businesses owned by Black, indigenous and people of color is well-documented.

The Recovery Loan Fund would provide longer-term working capital loans to support businesses and organizations as other one-time fund sources, such as the small business and nonprofit grants that Commerce has administered with federal CARES Act dollars, are winding down.

Leveraging partnerships to keep small businesses open

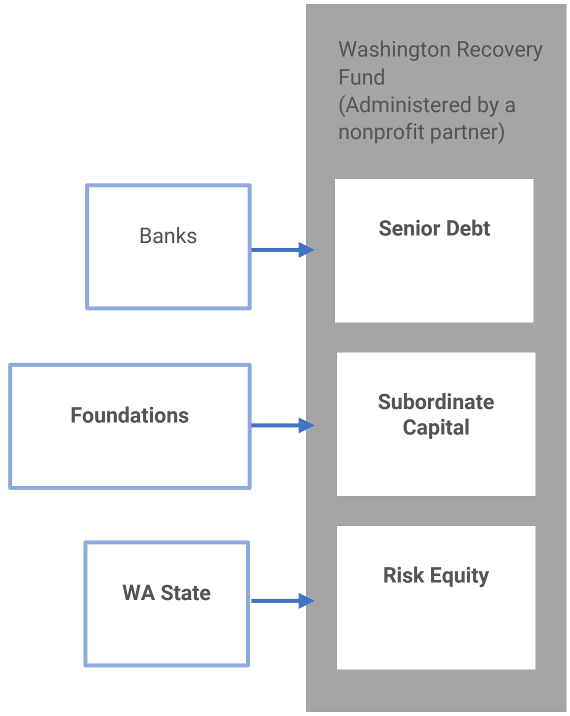
Commerce would work through a partnership with community development financial institutions (CDFIs), banks and the philanthropic community. CDFIs are mission-driven lenders who work to expand economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses.

Commerce's business resiliency partners would provide additional technical assistance and outreach to disadvantaged communities to help connect businesses with lenders. These partners have close connections in communities across the state and are trusted messengers to immigrant and Black, indigenous and communities of color who may not currently have strong relationships with a lender.

The state allocation of federal funding helps buy down the risk of the loans that would be issued by participating lenders. These funds essentially act as collateral for the loans and make lending more attractive to banks. In addition, the funding allows lenders to offer loans with more favorable and accessible terms to businesses at this time of crisis. These may include 0% interest for a term of months, no principal or interest payment for an initial term, and no fees. This is particularly valuable in helping provide access to capital for very small business owners. Although the business must still provide a personal guarantee of repayment, the small business owner isn't placed in a position of having to put up the family home as collateral for the loan.

How it works

The figure below shows the role the state plays in providing the foundational risk equity for the loan, the role played by philanthropic partners in providing subordinate capital, and finally the role of the banks as lenders who have the senior debt interest in the loan. Exact percentage contribution of each partner is not yet finalized, but experience in other states such as New York and California suggest that these categories are roughly equal. In other words, the state's contribution of $35 million in CARES funding could end up leveraging approximately $100 million in loans, benefitting up to 1600 small businesses and nonprofits.



Proven success

We know this model works based on the success in other states.

This includes the California Small Business Disaster Relief Loan Guarantee Program, offering $50 million in loan guarantees for small business that may not be eligible for federal relief, and administered through the Small Business Finance Center of California's Infrastructure and Economic Development Bank.

Another example is the New York Forward Loan Fund, administered in partnership with ten banks and philanthropic partners as well as five CDFIs and the National Development Council, a national nonprofit with 50 years' experience that serves as an advisor, investor, and developer that collates technical know-how and capital for community and economic investment. NDC would be well-positioned to serve as the nonprofit administrator of this program, who has been working with Commerce in other small business recovery efforts around the state by administering small business grants.

Agency contacts for more information:

- Lisa Brown, Director - lisa.brown@commerce.wa.gov
- Jasmine Vasavada, Legislative Director - jasmine.vasavada@commerce.wa.gov or 360.480.6622
- Keith Swenson, Deputy Assistant Director of OEDC - keith.swenson@commerce.wa.gov