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STATE SMALL BUSINESS CREDIT INITIATIVE (SSBCI)

On March 11, 2021, President Biden signed The American Rescue Plan Act of 2021 (ARPA) which reauthorized and amended the Small Business Jobs Act of 2010 (SBJA) to provide $10 billion to fund the State Small Business Credit Initiative (SSBCI) as a response to the economic effects of the COVID-19 pandemic.

SSBCI is a federal program administered by the Department of the Treasury (Treasury) that was created to strengthen state programs that support private financing to small businesses. SSBCI is expected to, in conjunction with new small business financing, create billions of dollars in lending and investments to small businesses that are not getting the support they need to expand and create jobs.

To provide Guam small businesses with additional access to capital, GEDA applied for and has qualified to receive federal funds from the United States Department of Treasury ("Treasury") for SSBCI-related programs administered by Guam.

The Government of Guam has designated GEDA with the responsibility to (i) administer the federal funds received from SSBCI in accordance with Treasury rules and regulations and (ii) assist small businesses to recover from the economic effects of the COVID-19 Pandemic.

The SSBCI funding allocated to Guam through GEDA will establish a Loan Guarantee Program and a Collateral Support Program.

The Loan Guarantee Program enables a small business to obtain term loans and lines of credit to help them grow and expand their business. GEDA will guarantee loans made by participating lenders to Guam small businesses in the form of a cash deposit not to exceed twenty percent (20%) of the total enrolled loan amount.

The Loan Guarantee Program:

- Guarantees Amount: up to 75% of the loan amount.
- Maximum Guarantee Amount: $1,000,000.00.
- Guarantee Term: First seven (7) years of loan.
- Guarantee Fee: 2% of loan amount.
- Maximum enrolled loan(s) amount is the aggregate of $5 million.

The Collateral Support Program is designed to enable financing that might otherwise be unavailable due to a collateral shortfall. The GEDA pledges cash to cover the collateral shortfall of a loan in order to enable financing that otherwise might not be available to small businesses which have a strong credit profile except for a collateral shortfall.

The Collateral Support Program:

- The program supplies pledged cash collateral accounts to leading institutions to enhance collateral coverage on individual loans.
- The program may be designed to target certain geographies or industries, such as real estate lending, in which a lender may be willing to fund at 75% loan-to-value but a company may not be able to bridge the difference in cash at closing.
- The program helps viable businesses that are struggling to get credit because the value of the collateral they hold has fallen and provides lenders greater confidence in extending credit to these borrowers.
- GEDA will pledge cash collateral of up to 49.9% of the loan amount.
- The program is also expected to assist lenders with construction projects that are financed with an SBA 504 structure.
- Maximum Guarantee Amount: $1,000,000.00.
- Guarantee Term: First five (5) years of the loan.
- Guarantee Fee: 2% of loan amount.
- Maximum enrolled loan(s) amount is the aggregate of $5 million.

Loan Guarantee Program & Collateral Support Program

Eligible Business Purposes:

- Start-up Costs
- Working Capital
- Franchise Fees
- Acquisition of equipment, inventory, or services used in the production, manufacturing, or delivery of a business's goods or services.
- The purchase, construction, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes.
- For small businesses with 500 or less employees.

Ineligible Business Purposes:

- Acquiring or holding passive investments in real estate
- Purchase of securities
- Lobbying activities

Prohibited Loan Purposes:

- Repayment of delinquent federal or jurisdiction income taxes unless the borrower has a payment plan in place with the relevant taxing authority;
- Repay taxes held in trust or escrow (e.g., payroll or sales taxes);

- Reimburse funds owed to any owner, including any equity investment or investment of capital for the business's continuance; or
- Purchase any portion of the ownership interest of any owner of the business, except for the purchase of an interest in an employee stock ownership plan qualifying under section 401 of Internal Revenue Code, worker cooperative, employee ownership trust, or related vehicle, provided that the transaction results in broad-based employee ownership for employees in the business and the employee stock ownership plan or other employee-owned entity holds a majority interest (on a fully diluted basis) in the business.

Permissible Borrowers may include:

- Jurisdiction-designated charitable, religious, or other non-profit or philanthropic institutions
- Government-owned corporations
- Consumer and marketing cooperatives
- Faith-based organizations
- Sole proprietors
- Independent contractors
- Worker cooperative and other employee-owned entities
- Tribal enterprises

** Provided the loan is for a "business purpose" as defined above and all applicable program requirements are satisfied.*

Borrower Restrictions:

- An executive officer, director, or principal shareholder of the financial institution lender;
- A member of the immediate family of an executive officer, director, or principal shareholder of the financial institution lender; or
- A related interest or immediate family member of such an executive officer, director, or principal shareholder of the financial institution lender.

Additional Borrower Restrictions:

- A business engaged in speculative activities that profit from fluctuations in price, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business or through the normal course of trade;
- A business that earns more than half of its annual net revenue from lending activities, unless the business is (1) a CDFA that is not a depository institution or a bank holding company, or (2) a Tribal enterprise lender that is not a depository institution or a bank holding company;
- A business engaged in pyramid sales, where a participant's primary incentive is based on the sales made by an ever-increasing number of participants;
- A business engaged in activities that are prohibited by federal law or, if permitted be federal law, applicable law in the jurisdiction where the business is located or conducted (this includes businesses that make, sell, service, or distribute products or services used in connection with illegal activity, unless such use can be shown to be completely outside of the business's intended market); this category of businesses includes direct and indirect marijuana businesses, as defined in SBA Standard Operating Procedure 50 10 6; or

- A business deriving more than one-third of gross annual revenue from legal gambling activities, unless the business is a Tribal SSBCI participant, in which case the Tribal SSBCI participant is prohibited from using SSBCI funds for gaming activities but is not restricted from using SSBCI funds for non-gaming activities merely due to an organizational tie to a gaming business.

Refinancing and New Extensions of Credit:

New Lenders. Under the SSBCI statute, a lender is not prohibited from enrolling or refinancing loans previously made by another, non-affiliated financial institution. Accordingly, a lender may refinance a borrower's existing loan, line of credit, extension of credit, or other debt originally made by an unaffiliated lender so long as the proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.

New Extensions of Credit by Existing Lenders. Financial Institution lenders are generally prohibited from refinancing an existing outstanding balance or previously made loan, line of credit, extension of credit, or other debt owed by a small business borrower already on the books of the same financial institution (or an affiliate) into the SSBCI-supported program. However, a financial institution lender may use SSBCI funds to support a new extension of credit that repays the amount due on a matured loan or other debt that was previously used for an eligible business purpose when all the following conditions are met:

- The amount of the new loan or other debt is at least 150 percent of the outstanding amount of the matured loan or other debt;
- The new credit supported with SSBCI funding is based on a new underwriting of the small business's ability to repay the loan and a new approval by the lender;
- The prior loan or other debt has been paid as agreed and the borrower was not in default of any financial covenants under the loan or debt for at least the previous 36 months (or since origination, if shorter); and
- Proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.

If a participating jurisdiction enrolls a loan that is used to repay principal under a loan previously made by the same financial institution or its affiliate, the participating jurisdiction or the financial institution lender must maintain records showing that the criteria were met. The limitation on refinancing does not prohibit a financial institution lender from originating a new loan under an SSBCI approved program and subsequently refinancing the same loan under any approved program.

Frequently Asked Questions

Q: Can I qualify for the program if I don't have any collateral?
A: The intent of the CSP is to cover a collateral shortfall, not to be used as the sole source of collateral.

Q: What is the difference between Collateral Support and Loan Guarantee?
A: Collateral Support provides cash to pledge to the loan as additional collateral when a shortfall exists, while a Loan Guarantee provides a guarantee to the lender to assume a portion of the risk in the event of a default.

Q: What are the loan terms?
A: The Interest rates, maturity, collateral, and other loan terms are negotiated between the borrower and the lender.

Q: Does the borrower initially contact the bank or lending institution to apply for a guarantee?
A: The borrower is required to contact the bank or lending institution directly to apply. The lender then works directly with GEDA.

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