April 7, 2022

The Honorable Janet Yellen
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20020

Dear Secretary Yellen:

The Council of Development Finance Agencies (CDFA) and the national State Small Business Credit Initiative (SSBCI) Coalition call on the U.S. Department of the Treasury (Treasury) to fully implement the SSBCI program, and immediately deploy capital to Eligible Governments and Technical Assistance (TA) providers.

While we appreciate the extent to which Treasury engaged stakeholders in the months following reauthorization of the SSBCI program, Treasury's prolonged regulatory and review process has exposed the program to Congressional scrutiny. As a result, the SSBCI program is now subject to proposed rescissions that would reduce the TA and financing available for small businesses. Further, this scrutiny may cause unnecessary reputational and capital risks to states' small business financing programs already in operation and to the SSBCI program as a whole.

Background

The SSBCI program was reauthorized and enhanced 13 months ago through the *American Rescue Plan Act* to provide near- and long-term support to small businesses. To date, Treasury has not allocated a single dollar to Eligible Governments or TA providers to fund small business financing and TA programs.

All eligible states, U.S. Territories, and the District of Columbia met the February 2022 deadline for submitting Capital Program applications. Nearly 60 days later, Treasury has yet to approve a single application, and in many cases, has yet to provide feedback to applicants. The application period for Tribal Governments remains open through June 2022, and if Treasury continues at the same pace, most will not likely receive SSBCI allocations this year.

The application process for all Eligible Governments has been made more difficult due to incomplete program guidance issued by Treasury. In November 2021, guidance pertaining to Capital Programs was issued. However, Eligible Governments have not received full guidance on reporting requirements, and guidance on the program's TA component has not been released.

As a result, Eligible Governments are currently not authorized to deploy SSBCI capital that has already been allocated on a formula basis. Eligible Governments have been required to put all necessary programming, partnerships, and private financing in place in order to prepare for expected SSBCI funds. However, nearly $10 billion in appropriated capital for the program remains unobligated

Effects to the SSBCI Program and Small Business Communities

The proposed rescissions have already had a negative impact on the SSBCI community, and delays in capital deployment continue to harm small businesses. CDFA has spoken with nearly every state and identified the following negative near- and long-term impacts:

<u>Rescissions will Limit the Impact of the SSBCI Program</u>

- At a minimum, a $2.1 billion cut in the main capital allocation will eliminate the potential for raising $2.1 billion in private finance as the program requires. In addition, because of the 10:1 leverage requirement, the $2.1 billion cut could result in more than $20 billion in private investment not reaching the small businesses SSBCI is designed to help.

- We all agree that preserving the allocation to SEDI businesses is important, however most states predict they cannot meet the required 10:1 leverage ratio in the programs designed to reach SEDI businesses without the counterbalance of more flexible funding through the full main capital allocation. As a result, states will have to allocate more dollars to programs with established track-records, thus limiting their ability to reach further into hard-to-serve communities, innovate, and create new programs as Treasury has encouraged.

- Reducing the amount of TA available will undercut, or even reverse, the health of small businesses that survived and formed during the pandemic. These businesses are in critical need of services to help strengthen their foundation and growth strategies in the coming years.

- All small businesses receiving SSBCI financing from Tribal Governments are considered SEDI businesses, however the rescissions do not explicitly protect the $500 million allocation for Tribal Governments.

<u>Rescissions will Further Delay Assistance to Small Businesses</u>

- Even though the proposed rescissions are to be taken out of the third tranche of funding, this will necessitate a full overhaul of proposed SSBCI strategies and partnerships. Eligible Governments will need to amend their Capital Program applications, which would trigger another round of Treasury review and approval.

- We anticipate Treasury will need to revise capital allocation amounts, SEDI Objectives, and the Capital Policy Program Guidelines, which will result in further delays.

- Because SSBCI funds will be used to recapitalize many existing programs, Eligible Governments have already had to pause programming, partnership development, and ongoing engagement with small businesses due to concern around availability of SSBCI funding.

Council of Development Finance Agencies

The Specter of Future Rescissions and Additional Delays will Discourage Participation in the SSBCI Program

- The proposed rescissions have injected uncertainty, which is discouraging and dissuading private financiers, TA providers, and other critical program partners from participating in the program.

- This uncertainty comes during the application period for Tribal Governments, and many are questioning whether they can carry the risk of standing up a new program that is under continued scrutiny and subject to additional rescissions.

Recommendations

To preserve the reputation of the SSBCI program and more than a year's worth of work from Eligible Governments, CDFA and the SSBCI Coalition strongly urge Treasury to do the following:

- Immediately provide all Eligible Governments a status update on their application as well as pertinent feedback regarding the SSBCI strategies proposed.

- Within the next 14 days, deploy the first tranche of capital to all Eligible Governments that have submitted an SSBCI application to-date.

- Immediately issue full guidance pertaining to reporting requirements and TA, as well as make reasonable adjustments to the Interim Final Rule on Demographic-Related Reporting Requirements based on stakeholder feedback.

- Make available the TA application by the first week of May 2022 to allow for an adequate stakeholder response by the June 30, 2022 application deadline.

- Execute allocation agreements with Tribal Governments within 30 days of receiving complete Capital Program applications

Eligible Governments can no longer wait for Treasury's prolonged due diligence on what are, for the most part, previously funded SSBCI programs with a strong track record of performance. While we are a hopeful a Congressional rescission of Tranche Three funds can be avoided, please provide clear guidance for how such a rescission would impact existing applications and timing for the release of Tranche One funds.

We stand ready to work with you in any way to ensure the continued success of this vital program.

Sincerely,

Toby Rittner

Toby Rittner, DFCP
President & CEO
trittner@cdfa.net

cc:
Nellie Liang, Under Secretary for Domestic Finance
Jonathan Davidson, Assistant Secretary for Legislative Affairs
Adair Morse, Deputy Assistant Secretary of Capital Access
Jeff Stout, Director, Office of Federal Programs

The Honorable Chuck Schumer
The Honorable Patrick Leahy
The Honorable Ben Cardin
The Honorable Chris Van Hollen
The Honorable Gary Peters
The Honorable Debbie Stabenow
The Honorable Jeanne Shaheen
The Honorable Maggie Hassan