



Forum – June 19, 2019

8:30 a.m. to 12:30 p.m.

MassHousing, One Beacon Street, 4th Floor
Boston, MA 02108

ANNOTATED AGENDA

[Note: This version of the Agenda includes Internet links connected to the four segments presented at the Forum]

Registration/Networking/Continental Breakfast

Welcome

Paul Horwitz, *Community Affairs Specialist*, FDIC, Boston Area Office

I. Money Smart for Small Business - Overview

Jeffrey Manning, *Community Affairs Specialist*, FDIC, Boston Area Office

FDIC Money Smart for Small Business:

<https://www.fdic.gov/consumers/consumer/moneysmart/business.html>

FDIC Money Smart Alliance:

<https://www.fdic.gov/consumers/consumer/moneysmart/members/index.html>

II. Massachusetts Community & Banking Council CBC Small Business Report & Online Data Tool Overview

Regan St. Pierre, *Executive Director*, Massachusetts Community & Banking Council

MCBC SB Lending Report: <http://mcbc.info/publications/small-business-lending/>

MCBC SB Committee: <http://mcbc.info/economic-development/>

III. SBA Partnerships – Powering the American Dream

Ili Spahiu, *Assistant District Director for Lender Relations*, Massachusetts State Office SBA:

- **Growth Accelerator Prize:** Competition announced – 60 prizes of \$50,000 each – focus is on technology accelerators. Deadline is June 20th.
- **Makerspace Prize Competition:** Up to \$1 million in total prize money to be awarded. Deadline is July 8th.
- **The MaTCH Pilot Challenge:** to create or expand programs that provide job-specific and soft skills training within existing makerspaces, including industry or trade certifications when feasible. The SBA will award up to \$1 million total in prizes to fund winning proposals.

- **Ascent:** (Joint effort by SBA, Department of Labor and Treasury) - New Online learning platform targeted to women entrepreneurs and the unique challenges and gaps women business owners face. The online platform will officially launch in the fall, however, SBA is looking for volunteers who would be interested to be part of the beta testing. <https://www.sba.gov/AscentFeedback>

SBA MA District Office: <https://www.sba.gov/offices/district/ma/boston>

IV. Exploring the Mutual Benefits of Robust Referral Relationships in Small Business Lending

Moderator: Regan St. Pierre, MCBC

Panelists:

Angela Laperriere, *Assistant Vice President, SEED* & **Eve Stoltz**, *Vice President, Rockland Trust*

Ana Hammock, *Vice President, Accion East* & **Joseph Badenhoff**, *Assistant Vice President, TD Bank*

William Nickerson, *Senior Financial Manager, Boston Planning and Development Agency* & **Josefina Silva**, *Vice President, East Boston Savings Bank*

See Panel *Notes* among the Forum materials posted on the BAEI Website:

<https://www.fdic.gov/consumers/community/aei/regional/boston-resources.html>

Adjourn



MONEY SMART

for Small Business

Boston Alliance for
Economic Inclusion

Spring Forum

June 19, 2019

Boston, Massachusetts

Jeffrey Manning

Community Affairs Specialist

FDIC Boston Area Office



MONEY SMART **for Small Business**

What It Is

**A business
education tool**

**Collaboratively
developed by the
FDIC & SBA**

13 modules

**Covers a wide
range of business
topics**



Why? To:

- **Assist** financial institutions and community organizations to deliver small business workshops
- **Provide** small business owners with a basic understanding of the financial aspects of running a business
- **Help** start-ups become more viable
- **Encourage** stronger bank-entrepreneur relationships
- **Spur** economic growth and job creation



**MONEY
SMART**
for Small Business



**MONEY
SMART**
for Small Business



For Small Business

Additional Features:

- Provided free of charge
- No copyright or use restrictions
- Reflects the unbiased and non-commercial perspectives of the FDIC and the SBA



**MONEY
SMART**
for Small Business


**MONEY
SMART**

For Small Business

1. Is Owning a Business a Good Fit for You?
2. Managing Cash Flow
3. Organization Types
4. Time Management
5. Financial Management
6. Record Keeping
7. Banking Services
8. Planning for a Healthy Business
9. Strong Business Credit
10. Risk Management
11. Insurance
12. Tax Planning and Reporting
13. Selling a Small Business and Succession Planning

Curriculum Components for EACH of the 13 Modules

- Instructor's Guide
- Participant's Guide/Workbook
- PowerPoint Slides
- Train the Trainer Curriculum

Available in English & Spanish



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MONEY SMART

for Small Business

Modules Overview

Banking Services



- Gain a solid understanding of the banking products and services available to small business owners
- Understand the importance of building effective long-term relationships with a banker or lender
- Recognize the role of a personal credit score in the lending process

Understand the Value for Small Businesses

Credit Reporting



- Understanding the full scope of credit reporting and the impact of credit reports on the operation or growth of a small business
- Discover strategies for building or improving business credit
- Appreciate how personal credit scores impact the ability of a business to obtain credit

Demystify

Financial Management



- Basics of small business financial management including:
 - Startup financing
 - Financing for a growing business
 - Financing working capital
 - Financing fixed assets

Appropriately Allocate Resources

Insurance



- Recognize the importance of small business insurance
- Understand the full range of insurance products and services
 - Required coverage
 - Other coverage

Plan for the Unexpected

Organization Types



- Know that the legal structure of a business determines how a company operates and is taxed
- Distinguish the general characteristics, advantages and disadvantages of organizational types:
 - Sole proprietorship
 - Partnerships
 - Limited liability company
 - C-corporation
 - S-corporation

Advantages and Disadvantages of Business Structures

Record Keeping



- Understand the necessity of good record keeping
- Learn about the practices and rules
- Explore record keeping software tools.

Critical Managerial Tool

Risk Management



- Understand the common risks associated with a small business
- Identify External and Internal risk factors
- Implement, monitor, and evaluate a risk management plan

Prepare for Negative Outcomes

Selling a Business and Succession Planning



- Learn how to change the ownership of a business through selling, closing, or transferring the business to successors
- Know how to establish an exit strategy for retirement which includes a succession plan, transferring ownership of the business, and paying taxes

Exit Strategies

Tax Planning



- Understand the range of state, local, and federal tax reporting requirements
- Be able to research general tax reporting requirements
- Understand the importance of establishing a plan to pay taxes

Understanding the Details

Time Management



- Understand the importance of time management
- Discover commonly used time management practices like:
 - Pareto analysis
 - ABC method
 - Eisenhower method
 - POSEC method

Steps for Effective Use of Time

Planning for a Healthy Business



- Discover a 4-Step Business Planning process, that will help create a long-term healthy business
 - Back-of-Napkin Plan
 - Resource Plan
 - Business Plan
 - Action Plan

Startup Costs and Beyond

Managing Cash Flow



- Learn how critically important cash flow management is
- Act as advisors to Bob and The Wired Cup (case study)
- Understand the need for expert assistance and advice

Practical Problem-Solving



Next Steps

- Sign up to become a **Money Smart Alliance Member**:
 - <https://www.fdic.gov/consumers/consumer/moneysmart/business.html>
- To **download** any Money Smart curriculum and support material:
 - <https://catalog.fdic.gov/>
 - www.sba.gov/moneysmart



**MONEY
SMART**
for Small Business



Resources

- Quarterly MSSB Town Hall Webinars
- MSSB Alliance Town Hall Meeting recordings
- MSSB Train-the-Trainer Curriculum
- List of Money Smart Alliance Members updated periodically
- Money Smart News
- Money Smart Success Stories



**MONEY
SMART**
for Small Business



Thank You

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or more information about

FDIC Community Affairs:

www.fdic.gov/communityaffairs



**MONEY
SMART**
for Small Business

Basic Banking

Mortgage Lending

Economic Development

Publications

News and Events



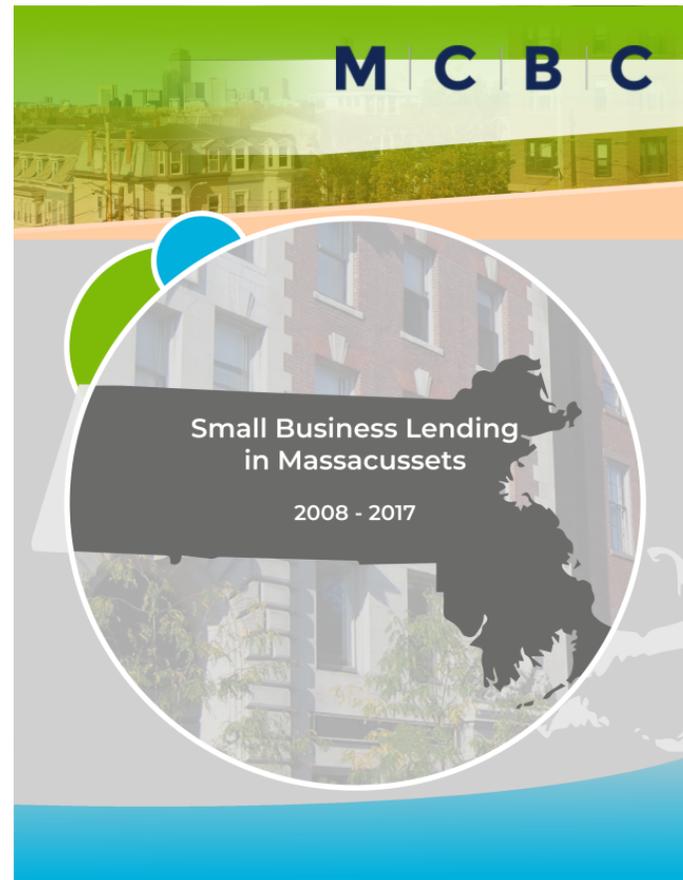
About

Stay Current, Get Connected

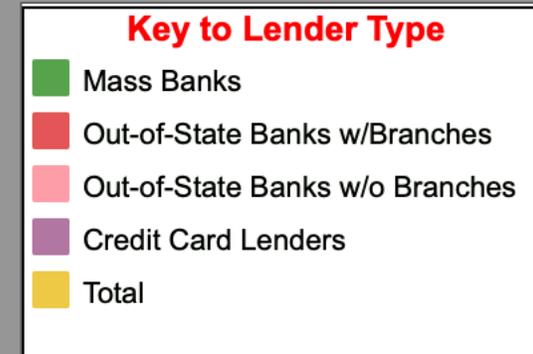
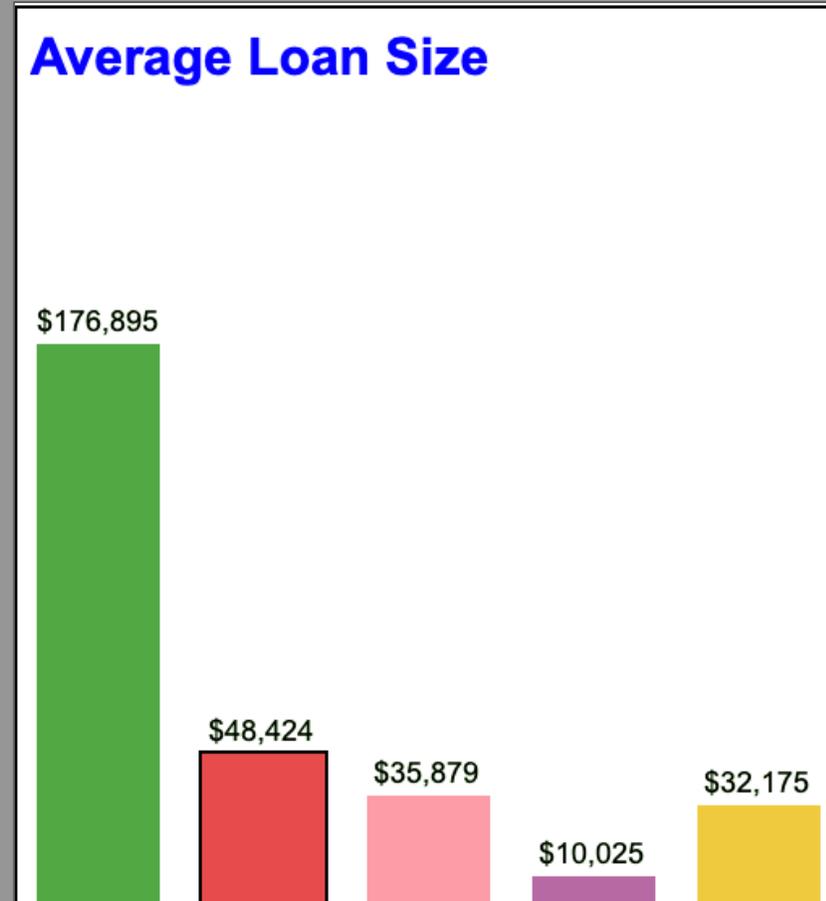
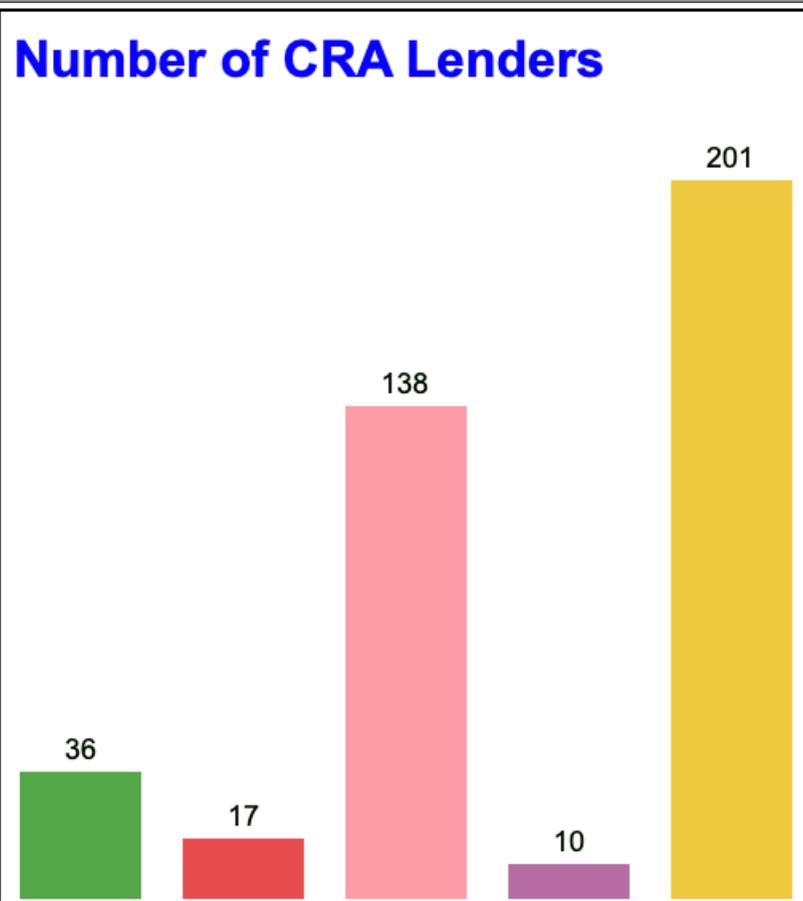
FDIC BOSTON ALLIANCE FOR ECONOMIC INCLUSION

Massachusetts Community & Banking Council, Inc.

20TH MCBC SMALL BUSINESS LENDING REPORT

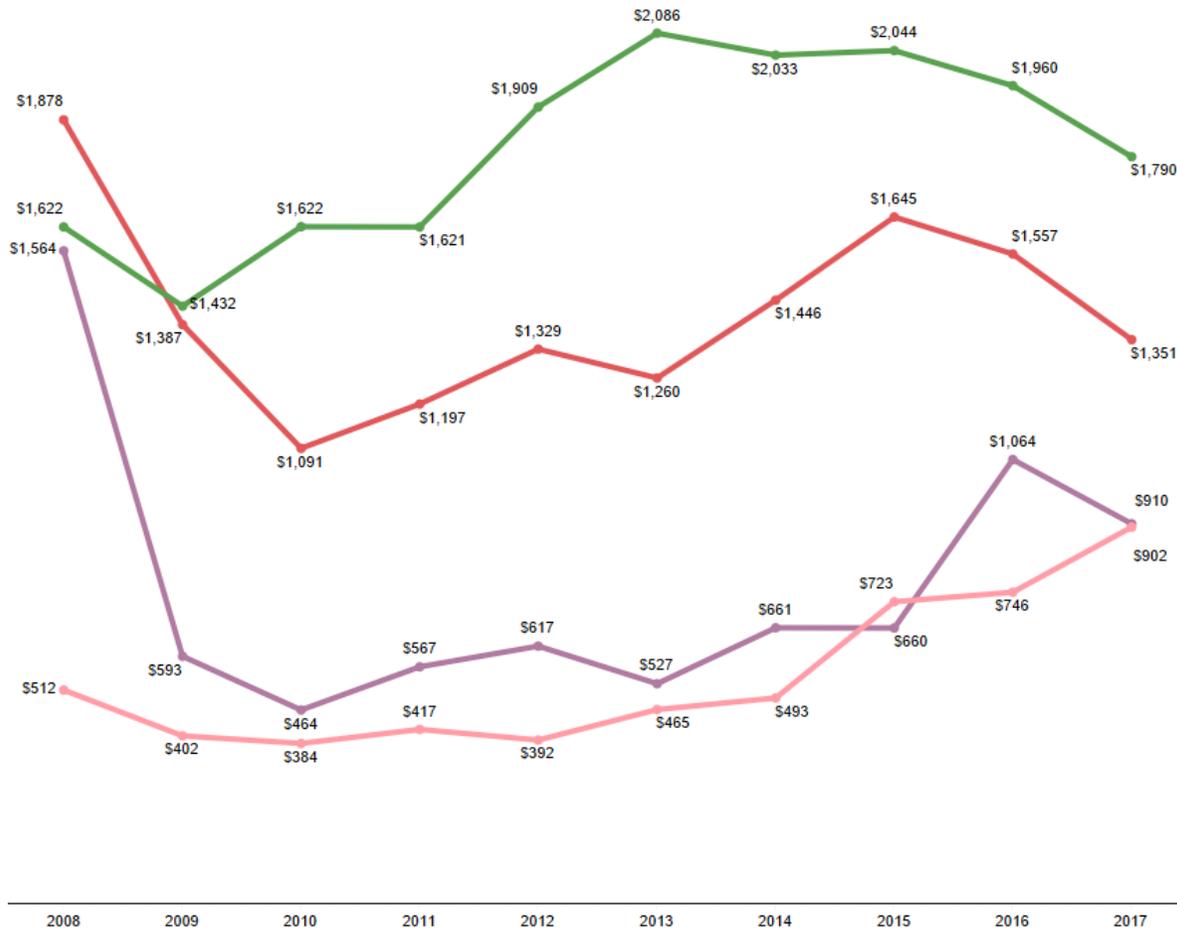


CRA REPORTERS MAKING SMALL BUSINESS LOANS IN MASSACHUSETTS

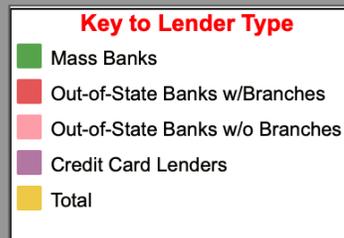


SMALL BUSINESS LOANS IN MASSACHUSETTS BY CRA LENDERS

CRA Loans by Lender Type in Millions

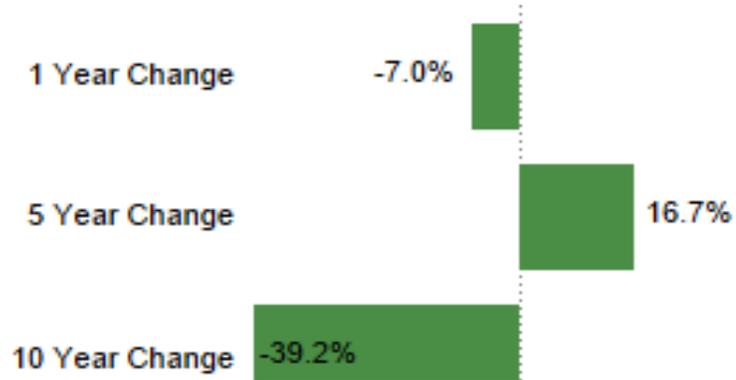


- Massachusetts banks account for the largest share of loan volume by CRA lenders in Massachusetts.
- Out-of-state lenders with no physical presence in the state experienced modest increases in market share.

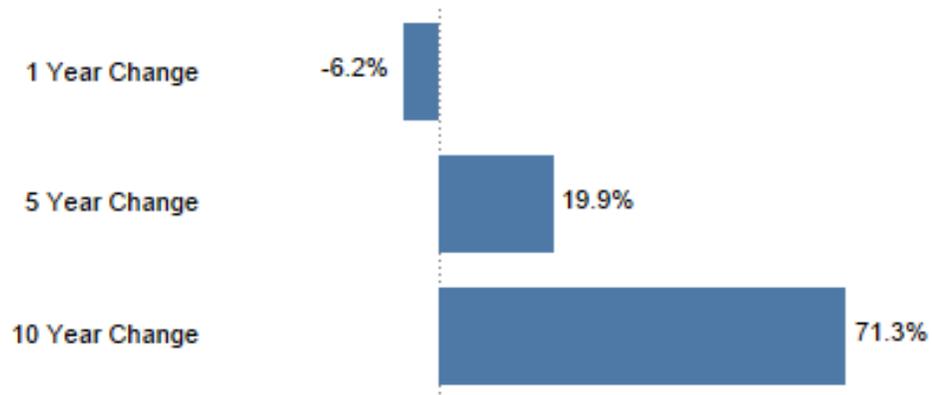


LOANS BY CRA REPORTERS

Loans by CRA Lenders - Massachusetts Change



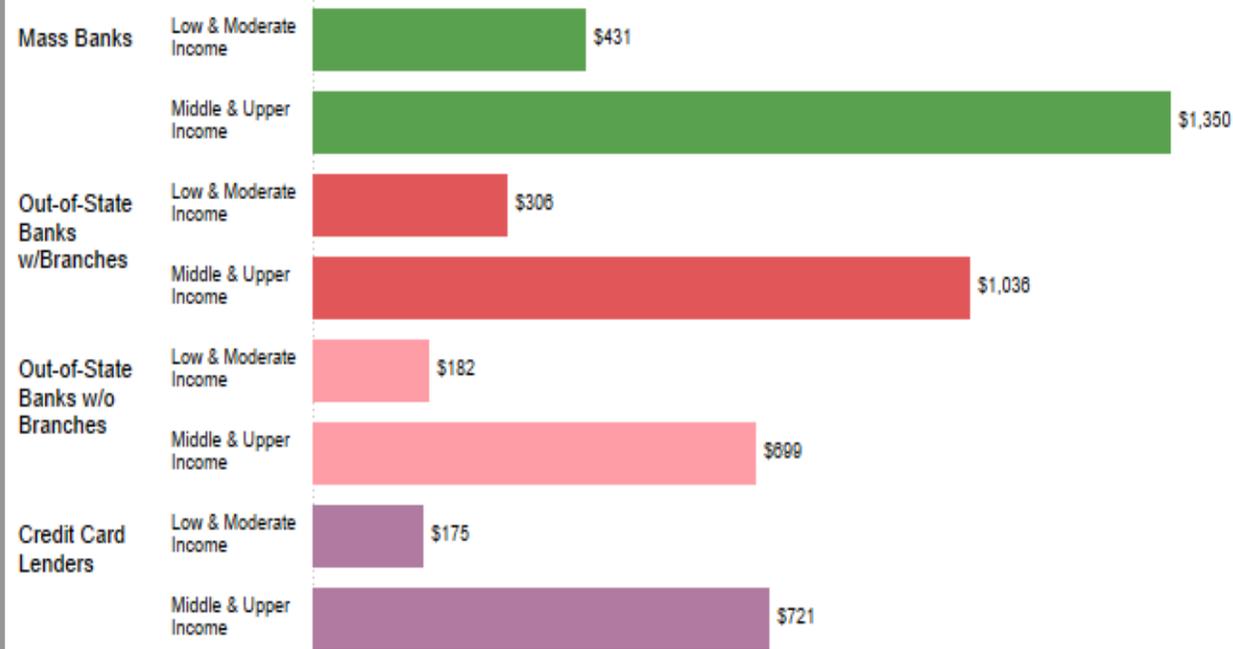
SBA Loans - Massachusetts Change



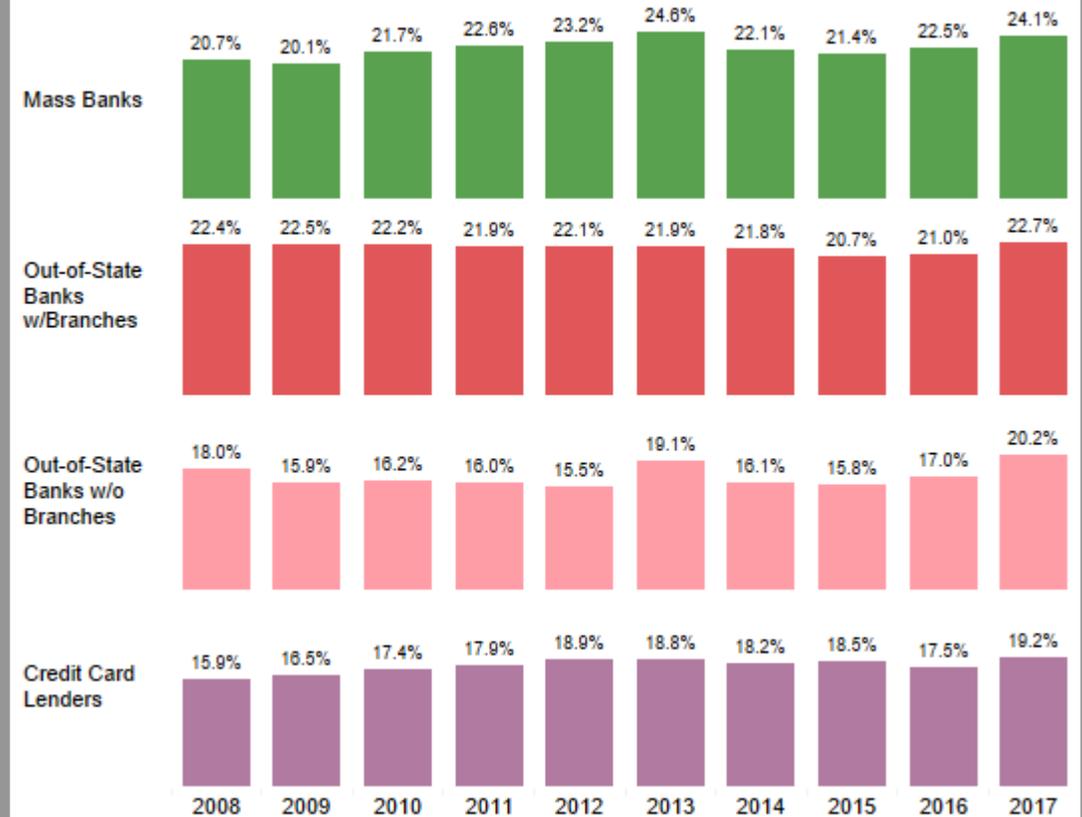
Massachusetts CRA reporters recorded 153,952 loans reflecting \$5.0 billion in volume
Down from 158,340 loans/ \$5.3 billion in 2016
Comparable to the national decline of 5.0%
Significantly less than 2008 levels, but 13% greater than the 10-year average

LOANS IN LOWER INCOME AREAS BY CRA REPORTER

CRA Loans in Lower Income Areas by Lender Type in Millions

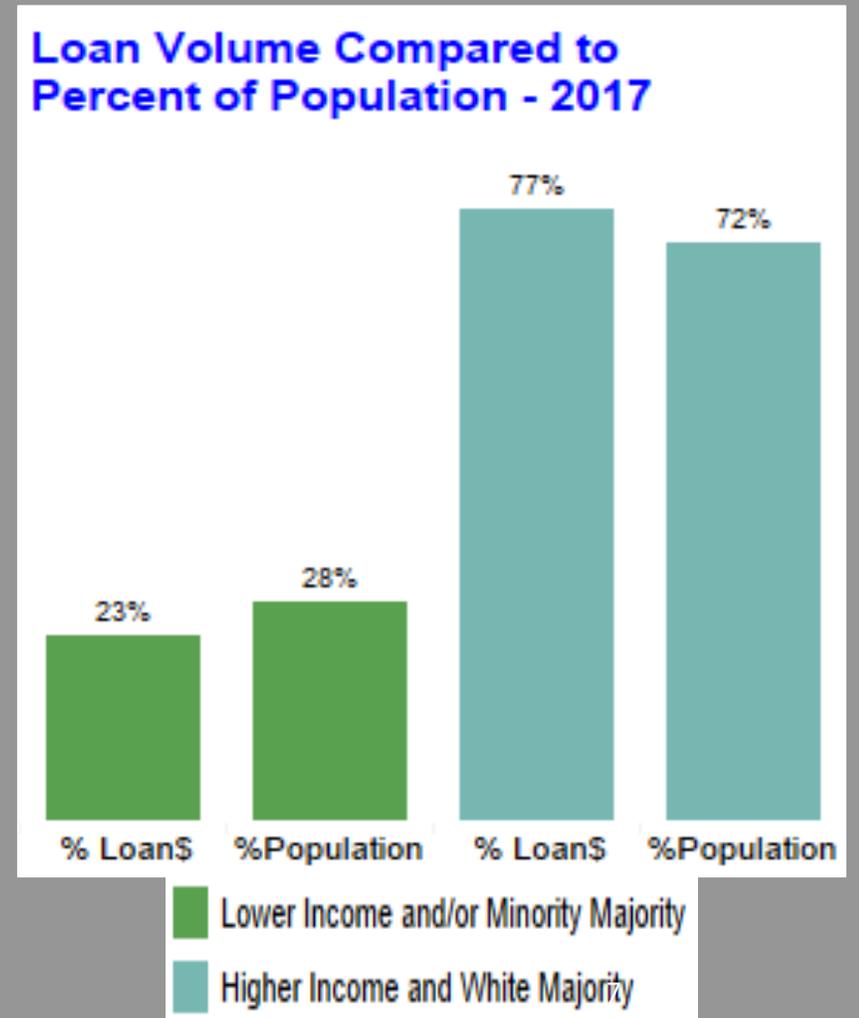


Percent of Loans Inside Lower Income Areas by Lender Type

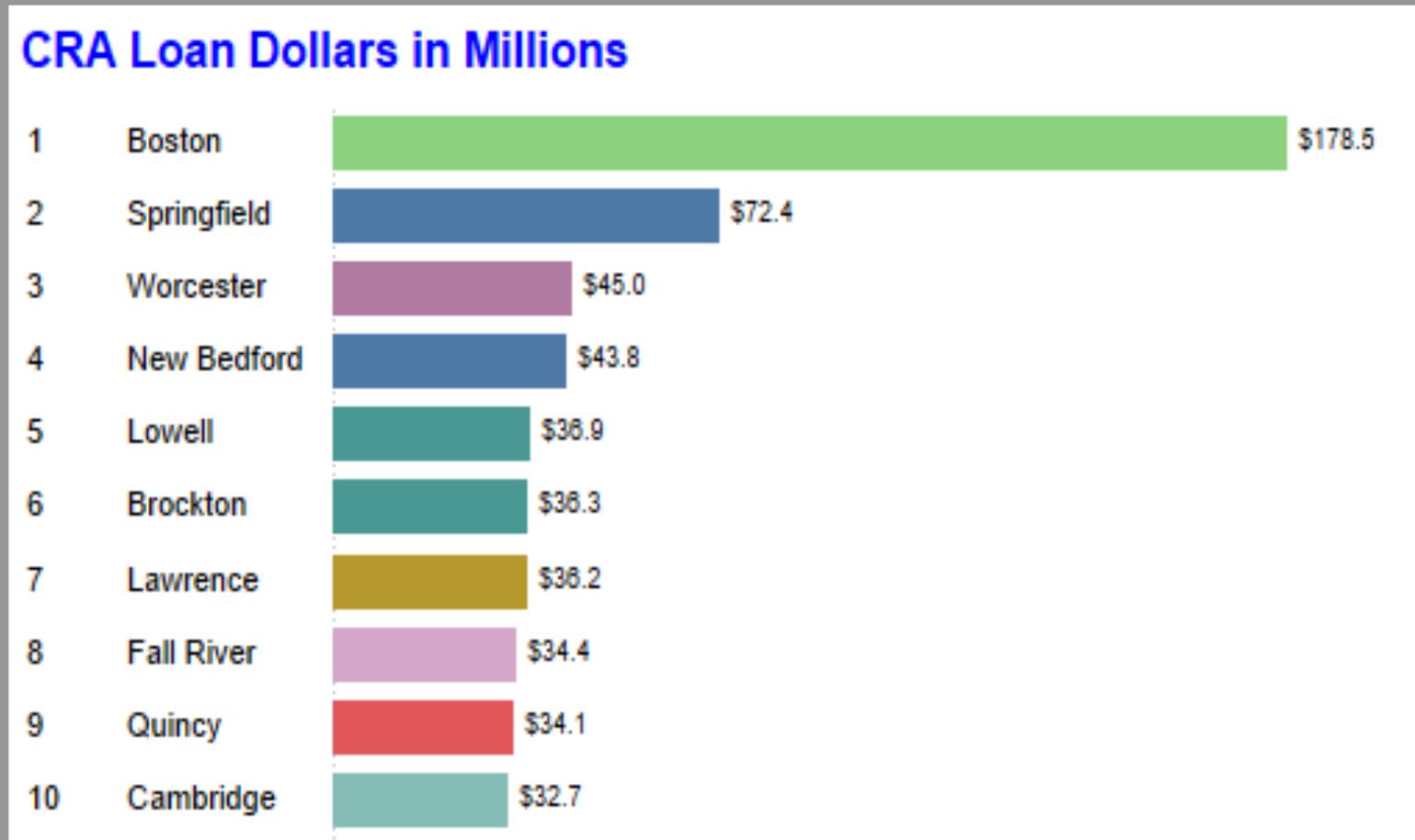


PERCENT OF CRA LOANS IN LOWER INCOME & MINORITY MAJORITY AREAS

	Number of CRA Loans	CRA Loan Volume
Lower Income/ Minority Majority	35,518	\$1.1 billion
Minority Majority	15,157	\$493 million
Higher Income and White Majority	116,931	\$3.8 billion
White Majority	137,292	\$4.435 billion



LOANS IN LOWER INCOME & MINORITY MAJORITY AREAS BY TOWN





Mortgage Lending



Small Business Lending

MCBC CRA PROJECT

mcbc.info/CRA_Project.html



Read More



Read More



U.S. Small Business
Administration



U.S. Small Business
Administration

Powering the American Dream

Massachusetts District Office
10 Causeway St. Suite 265
Boston, MA 02222

The SBA Resource Partner Network

Access the right tools at the right time—wherever you are.



Approved and funded
by the SBA



1,400+ partner offices
nationwide



Find local resource partners near
you at
[SBA.gov/local-assistance](https://www.sba.gov/local-assistance)



SCORE Resource Partner Network



Experienced Volunteers Offering:

- Expert business counseling
- Marketing advice
- Business plan preparation
- Loan application assistance
- Online or in person counseling
- **FREE AND CONFIDENTIAL**

Boston.....617-565-5591

www.boston.score.org

Cape Cod 508-775-4884

www.capecod.score.org

Northeastern MA ...978-922-9441

www.scorenemass.org

Southeastern MA....508-587-2673

www.sema.score.org

Western MA413-785-0314

www.westernmassachusetts.score.org

Worcester 508-753-2929

www.worcester.score.org

The MSBDC Resource Partner Network



Contact MSBDCs:

Berkshire Regional Office	413-499-0933
Central Regional Office	508-793-7615
Northeast Regional Office	978-542-6343
Southeast Regional Office	508-673-9783
Western Regional Office	413-577-1768
Massachusetts Export Center	617-973-6610
Procurement & Technical Assistance Center	413-545-6303

MSBDC Network:

- Paid advisors across the state in 5 regional centers.
- Free and Confidential
- Business plan and loan application assistance
- Combines resources of SBA, local government, private sector and academia
- Export and government contracting assistance.
- Typically located at colleges and universities: U-Mass Amherst, Salem State and Clark University

www.msbdc.org

CWE Resource Partner Network

Women's Business Centers

- Classes on how to write a business plan
- Support in launching your business
- Opportunities for networking with other business owners
- 2-hour topic-specific workshops
- One-on-one legal and business consulting
- Classes to support you in your job search

Eastern Massachusetts (617) 536-0700

Central Massachusetts :(508) 363-2300

Veterans Business Outreach Center of New England

(844) 404-2171

www.cweonline.org/vboc



SBA Grant Funding in Massachusetts



- **State Trade and Export Promotion (STEP) Grant Program**

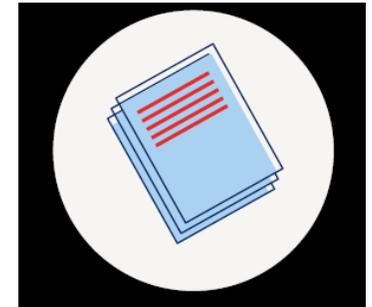
\$500,000 Grant matched by \$166,667 by Commonwealth of Massachusetts – capped at \$12,000 per business

<https://www.mass.gov/service-details/state-trade-expansion-program-step>

- **Program for Investment in Micro-Entrepreneurs (PRIME)**

Technical Assistance and Capacity Building Grants: \$50,000 - \$250,000

50 percent of the grant funds are awarded to qualified organizations that benefit very low-income persons, including Indian reservations.



- **Microloan Program Technical Assistance Grant**

SBA's non-profit Microlending Intermediaries qualify for up to 19.8% of their outstanding SBA microloan funds each grant year, they range from \$25,000 to \$250,000

Current SBA Grant Funding Opportunities

- **SBA Growth Accelerator Prize Competition** - \$3 Million for High Tech Focused Small Business (60 prizes of \$50,000 each) – Deadline is June 20, 2019
www.sbir.gov/accelerators
- **Makerspace Training, Collaboration and Hiring (MaTCH) Competition** – Up to \$1 million in total prize money to be awarded - Deadline is July 8, 2019
The MaTCH Pilot Challenge: to create or expand programs that provide job-specific and soft skills training within existing makerspaces, including industry or trade certifications when feasible. The goal is to have all program graduates immediately placed in positions with previously-identified employers that are in need of skilled labor.
<https://www.sba.gov/match>
- **Ascent** - Joint effort by SBA, Department of Labor and Treasury
New Online learning platform targeted to women entrepreneurs and the unique challenges and gaps women business owners face. The online platform will officially launch in the fall, however, SBA is looking for volunteers who would be interested to be part of the beta testing. <https://www.sba.gov/AscentFeedback>

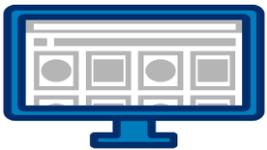
Are You Ready to Consider Federal Contracting?



The world's largest customer,
buying all kinds of products &
services



Required by law to provide
contract opportunities to small
businesses



Evaluate your readiness & learn
more by visiting
www.sba.gov/federal-contracting



The SBA Can Help You Evaluate Your Readiness

Federal contracting can represent a very profitable market for your business—but it can also be extremely complex to get started and thrive. The SBA can help you determine if your business is ready for federal contracting by assessing your:



- **Marketability**
- **Structure and experience**
- **Systems and capacity**
- **Ability to find contracts**

Qualify for Federal Contracts with Certifications



The SBA works with federal agencies to award at least 23% of all prime government contracting dollars each year to small businesses that are certified with the **SBA's contracting programs**. Programs include:

8(a) Business Development Program

Historically Underutilized Business Zones (HUBZone) Program

Women-Owned Small Business (WOSB) Program

Service-Disabled Veteran-Owned Program

Learn more and determine your eligibility at www.certify.SBA.gov

All Small Mentor Protégé Program

Gain valuable business development insight from mentors who are experienced government contractors. Mentors can help you:



- **Strategize** contracting & partnership opportunities
- **Navigate** the bidding and acquisition process
- **Manage** contracts by securing the appropriate business and financial systems, resources, and financial assistance

Need Funding for Your Business?

The SBA Can Help with:

- 1. SBA-backed Loans**
- 2. Private Investors**
- 3. R&D Awarded Funds**
- 4. Surety Bonds**



Role of SBA's Guaranty

Factors that determine this range:

- ✓ Overall economy
- ✓ Lenders' regulatory environment
- ✓ Lenders' liquidity (or lack thereof)
- ✓ Lenders' competitive environment

Most Viable Business Profile

- ✓ Experienced management
- ✓ High Debt Service Cash flow
- ✓ Sterling credit
- ✓ Generous collateral
- ✓ Sound business idea
- ✓ Financial reserve

Least Viable Business Profile

- ✓ No management experience
- ✓ No repayment ability
- ✓ Impractical business idea
- ✓ No financial reserves
- ✓ No equity investment



Lender's Comfort Range

Lenders are comfortable making loans without SBA's Guaranty



SBA Range



"No Go" Range



When Do Lenders Use the SBA Guaranty

- **New Ownership/Business Acquisition**
- **Start-up or certain types of businesses**
- **Collateral may be inadequate to meet normal underwriting**
- **Longer maturities are needed**
- **Mitigate risk exposure**
- **Lender's legal or policy limit**
- **Business leverage**
- **Business Expansion**
- **Projections based cash flow**



Need a Business Loan to Start, Grow, or Expand?

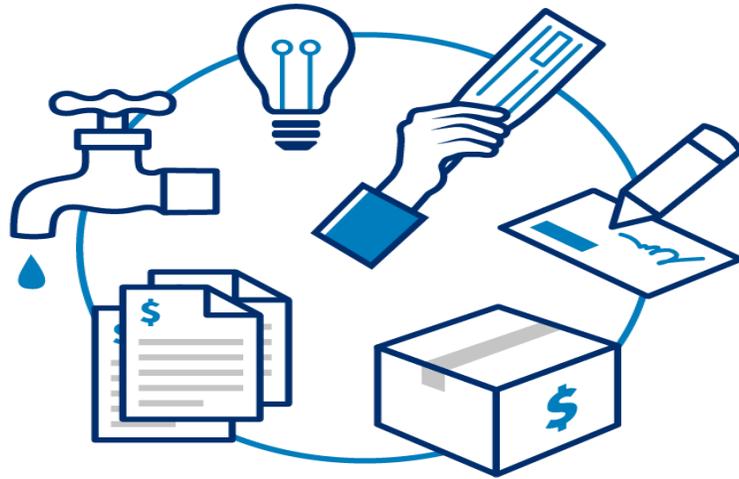


The SBA Massachusetts District Office works with **177** approved lenders to offer **microloans** and **SBA-backed loans** with:

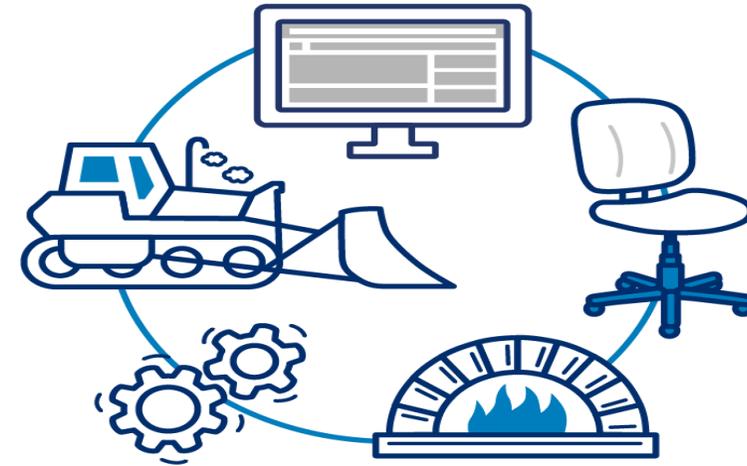
- Competitive terms
- Lower down payments
- Flexible overhead requirements
- Counseling and education



How Can an SBA-backed Loan Help You?



- Launch, grow, or repair a start-up
- Start or purchase a small business
- Access revolving credit or working capital for day-to-day expenses



- Purchase, renovate, or expand facilities
- Purchase inventory, equipment, or machinery
- Purchase land or real estate
- Export a product or service

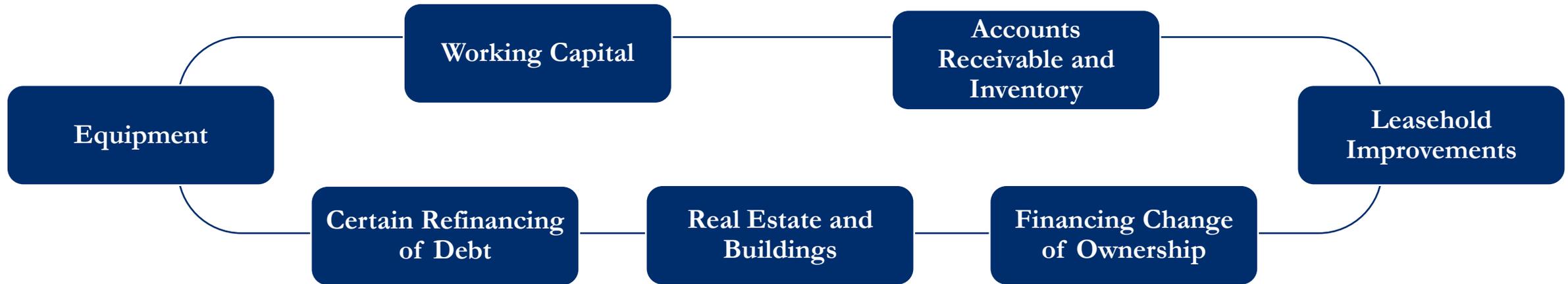
Two flagship business loan guarantee programs help start-up businesses launch and existing business expand:

7(a)

SBA provides a guarantee of select small business loans made by lender participants

504

Supports job creation and economic development through guaranteed debentures



Increased Chance of Business Success

All SBA Microlenders provide Technical Assistance to small businesses in their respective footprint. Ongoing business advice is provided to all Microenterprises who receive SBA funded loans through the following program participants:

- Accion USA
- Common Capital Inc.
- Community Teamwork Inc.
- Dorchester Bay Economic Development Corp.
- Economic Development Industrial Corporation of Lynn
- Bristol County Economic Development Consultants
- Massachusetts Growth Capital Corp.
- New Bedford Economic Development Council
- North Central Massachusetts Development Corp.
- South Eastern Economic Development Corp.



Lender Match

1.

**Describe
Your Needs**



2.

**Interested Lenders
Reply Within 2 Days**



3.

**Talk to
Lenders**



4.

**Apply for a
Loan**



Find an SBA-approved lender that's right for you by visiting

[SBA.gov/lendermatch](https://www.sba.gov/lendermatch)

FY 2019 Guaranty Fees

7(a) Guaranty Fees for Loans :

\$150,000 or less – 2% of the guaranteed portion

\$150,001 to \$700,000 – 3% of the guaranteed portion

\$700,001 to \$5,000,000 – 3.5% of the guaranteed portion up to \$1,000,000

PLUS 3.75% of the guaranteed portion over \$1,000,000

For loans with a maturity of 12 months or less – 0.25% of the guaranteed portion

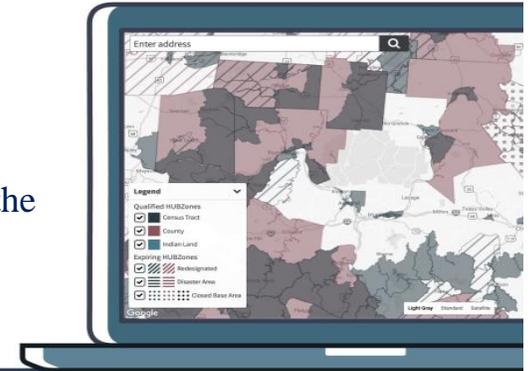
Annual Service fee will be 0.55% (55 basis points)

Authorized Fee Relief:

Historically Underutilized Business Zones

Physical Address must be in HUBZONE

- \$150,000 or less - 0.6667% (66.67 basis points) of the guaranteed portion
- Annual service fee will be zero



Powering Rural

Physical Address must be in rural area

- \$150,000 or less - 0.6667% (66.67 basis points) of the guaranteed portion
- Annual service fee will be zero



For all **SBA Express** loans made to **veteran-owned small businesses**, the upfront guaranty fee will be Zero

SBA Funding from Private Investors



Secure capital from investors partnered with the SBA through **Small Business Investment Companies (SBICs)**.



Grow Your Operations with SBICs

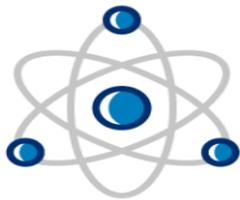


If you have strong financial performance and promising prospects, you can work with SBICs to grow and expand through:

- **Connections & expertise** in your industry
- **Business investment** through debt, equity, or a combination of both

Learn more and find an SBIC using our online directory at
[SBA.gov/funding-programs/investment-capital](https://www.sba.gov/funding-programs/investment-capital)

SBA Funding for Research & Development



Open the door to early stage capital through **Small Business Innovation Research (SBIR)** and **Small Business Technology Transfer (STTR)**.



Fund Innovations with the SBIR-STTR Program

If you are a technology-focused small business looking to fund research and development or prototyping operations, you may qualify for **federal grants** from 11 federal agencies participating in the SBIR-STTR program.



Key areas for funding include:

- Artificial intelligence
- Nanomaterials
- Clean energy
- Water filtration
- Education technology
- Wearable technology

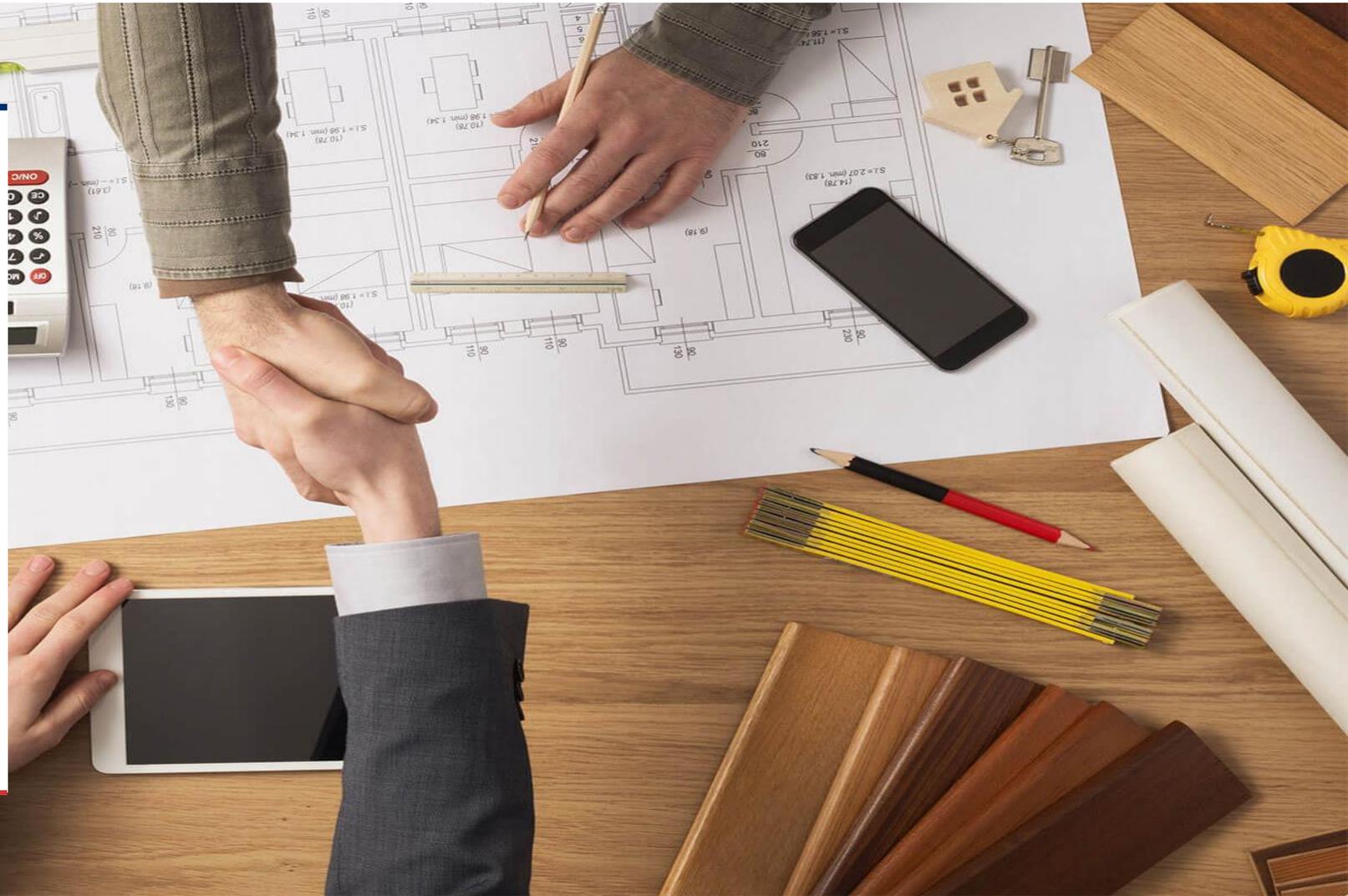
Learn more and determine if SBIR-STTR is right for you at

[SBIR.gov](https://www.sbir.gov)

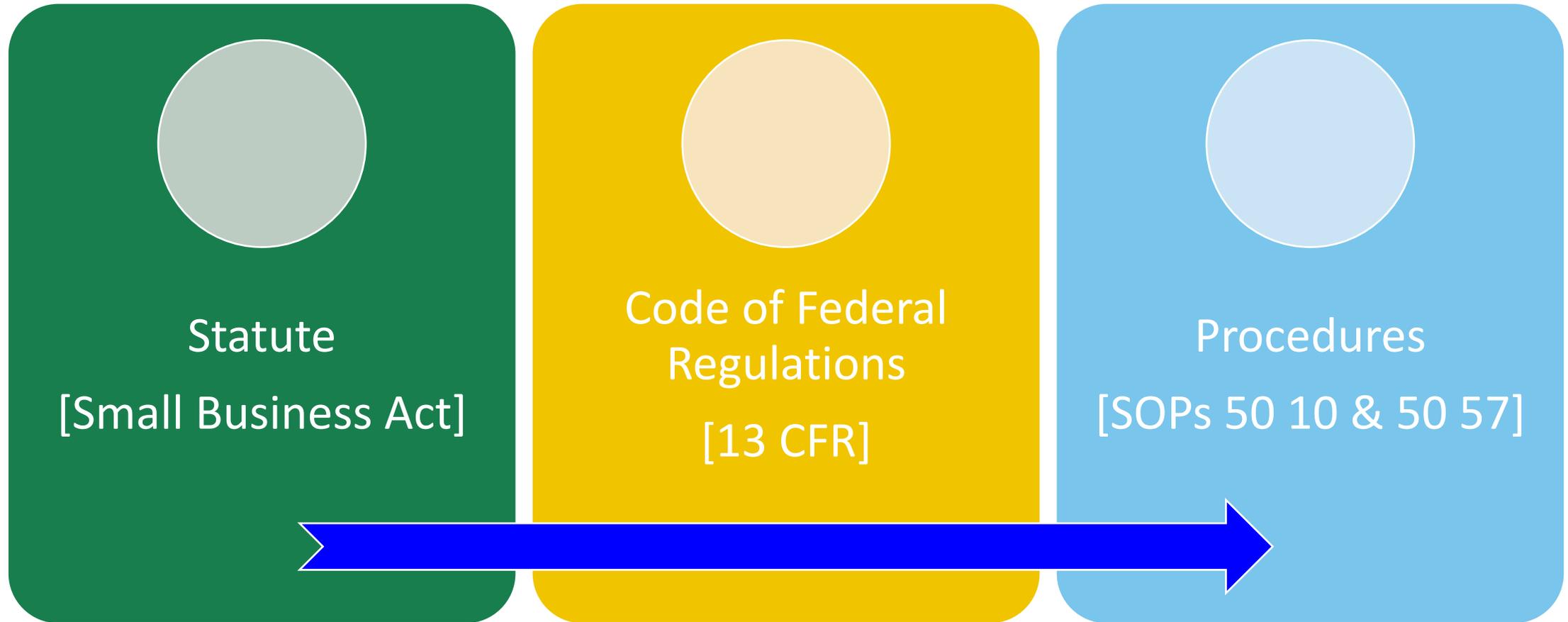
Need to be Bonded to Bid on a Contract?



The **SBA Surety Bond Program** guarantees surety bonds from select providers so more small businesses can qualify for and win work.



Statute, Regulations and Procedures



HEMP

Legal
Less than 0.3% THC

- ❖ Consistent with the **Agriculture Improvement Act of 2018** (Public Law No. 115-334), a business that grows, produces, processes, distributes or sells products made from hemp (as defined in section 297A of the Agricultural Marketing Act of 1946) is eligible.



Eligible or Not Eligible?

- ❌ **❖ Marijuana-Related Businesses:** Because federal law prohibits the distribution and sale of marijuana, financial transactions involving a marijuana-related business would generally involve funds derived from illegal activity. Therefore, businesses that derive revenue from marijuana-related activities or that support the end-use of marijuana may be ineligible for SBA financial assistance.

Whether a business is eligible is determined by the nature of the business's specific operations. The following businesses are ineligible:

- ❌ **❖ “Direct Marijuana Business”** -- a business that grows, produces, processes, distributes, or sells marijuana or marijuana products, edibles, or derivatives, regardless of the amount of such activity. This applies to recreational use and medical use even if the business is legal under local or state law where the applicant business is or will be located.



Eligible or Not Eligible?

- ❖ **“Indirect Marijuana Business”** -- a business that derived any of its gross revenue for the previous year (or, if a start-up, projects to derive any of its gross revenue for the next year) from sales to Direct Marijuana Businesses of products or services that could reasonably be determined to aid in the use, growth, enhancement or other development of marijuana. Examples of Indirect Marijuana Businesses include businesses that provide testing services, or sell or install grow lights, hydroponic or other specialized equipment, to one or more Direct Marijuana Businesses; and businesses that advise or counsel Direct Marijuana Businesses on the specific legal, financial/accounting, policy, regulatory or other issues associated with establishing, promoting, or operating a Direct Marijuana Business. However, for purposes of illustration, ***SBA does not consider a plumber who fixes a sink for a Direct Marijuana Business or a tech support company that repairs a laptop for such a business to be aiding in the use, growth, enhancement or other development of marijuana.***
- ❖ Indirect Marijuana Businesses also include businesses that sell smoking devices, pipes, bongs, inhalants, or other products if the products are primarily intended or designed for marijuana use or if the business markets the products for such use.



The Main Street Employee Ownership Act of 2018

- The Act revises § 7(a)(15) of the Small Business Act (“the Act”) for loans to qualified employee trusts (“ESOPs”) in several ways:
 - ❑ It will make it easier for employee-owned firms (both ESOP and employee-owned cooperatives) to access SBA financing already available to other small businesses;
 - ❑ 7(a) loan can be made to the trust OR to the employer small business to re-lend to the ESOP to acquire at least 51% of the employer small business (the terms of the loan to the ESOP don’t need to match the terms of the SBA-guaranteed loan;
 - ❑ Eligible uses of proceeds may include any transaction costs associated with purchasing a controlling interest in the employer (Employee Stock Ownership Plans and cooperatives), but not costs associated with setting up the ESOP or cooperative.
 - ❑ For both ESOPs and cooperatives changes of ownership, any seller who remains an owner of the business, regardless of percentage of ownership, must provide their guaranty.

7(a) Loans to ESOPs and Co-ops

- **The Main Street Employee Ownership Act was signed into law on August 13, 2018**
- Adds new § 7(a)(35) to the Act to provide the Administration with the authority to guarantee loans to cooperatives (“Co-ops”) for the purpose described in § 7(a)(15) of the Act, including:
 - ❑ Permits SBA-guaranteed loans to employee-owned Co-ops to purchase the stock of a small business concern under a plan approved by the Administrator that results in the Co-op owning at least 51% of the stock of the concern;
 - ❑ Eligible uses of proceeds may include related transaction costs;
 - ❑ The Seller may remain an officer, director, or key employee of the small business concern when the Co-op has acquired 100% of the ownership;
 - ❑ Any Seller who remains must provide a personal guaranty, regardless of any ownership %;
 - ❑ Provides the Administrator with the discretion to not require mandatory equity injections from a Co-op.



U.S. Small Business
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PANEL DISCUSSION: EXPLORING THE MUTUAL BENEFITS OF ROBUST REFERRAL RELATIONSHIPS IN SMALL BUSINESS LENDING

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PANELISTS

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Where Each Relationship Matters®

PANELISTS

PANELIST QUESTIONS

1. Please provide a high level overview of your referral relationship: its origins and recent history.
2. How is the referral relationship mutually beneficial? How do borrowers (and in particular borrowers in undercapitalized communities) benefit from the referral relationship?
3. What have been some of the 'lessons learned' over the years?
4. What advice would you have for a financial institution or community partner looking to initiate or expand referral relationships?
5. How could the ecosystem supporting small business lending in Massachusetts enhance and expand referral relationships?

THANK YOU

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Notes from 6/19/19 BAEI Forum Panel: Exploring the Mutual Benefits of Robust Referral Relationships in Small Business Lending

Moderator: Regan St. Pierre, MCBC

Panelists:

Angela Laperriere, *Assistant Vice President, SEED* & **Eve Stoltz**, *Vice President, Rockland Trust Company*

Ana Hammock, *Vice President, Accion East* & **Joseph Badenhoff**, *Assistant Vice President, TD Bank*

William Nickerson, *Senior Financial Manager, Boston Planning and Development Agency* & **Josefina Silva**, *Vice President, East Boston Savings Bank*

Five Moderator Questions for the Panel:

1. Please provide a high level overview of your referral relationship: its origins and recent history.
2. How is the referral relationship mutually beneficial? How do borrowers (and in particular borrowers in undercapitalized communities) benefit from the referral relationship?
3. What have been some of the 'lessons learned' over the years?
4. What advice would you have for a financial institution or community partner looking to initiate or expand referral relationships?
5. How could the ecosystem supporting small business lending in Massachusetts enhance and expand referral relationships?

[NOTE: this write-up uses "organization" as a generic term for any of the panelists' agencies or financial institutions, unless a more specific descriptor, such as "bank", is used.]

SUMMARY OF RESPONSES

1. PLEASE PROVIDE A HIGH LEVEL OVERVIEW OF YOUR REFERRAL RELATIONSHIP: ITS ORIGINS AND RECENT HISTORY.

- All of these organizations work with multiple parties in their *Service* or *Assessment* areas, so exclusivity is not expected, and usually not desirable.
- Current partnerships often arose from previous joint collaborations that provided opportunities to create trust and reliability, leading to an openness to explore what-else-can-we-do?
- Common features of successful referral relationships include --
 - Geographic matches or significant overlaps

- Broad connections (for example, on Boards or Committees) leading to deeper knowledge of the other’s goals and objectives
- Tracking and sharing data to inform each other about measurable impacts
- Consistent collaborations spanning many years (recognizing that building strong relationships is a process that has to start somewhere)
- Clear top-down support
- Shared vision and purpose
- Customer-focused approach with appropriate patience – if an applicant is not bankable today, connect with other resources and leave the door open to move forward
- Celebrate progress or accomplishments, large and small
- Depending on mutual comfort levels, some relationships are quite formal (detailed agreements, policies, etc.) while others can be less so

2. HOW IS THE REFERRAL RELATIONSHIP MUTUALLY BENEFICIAL? HOW DO BORROWERS (AND IN PARTICULAR BORROWERS IN UNDERCAPITALIZED COMMUNITIES) BENEFIT FROM THE REFERRAL RELATIONSHIP?

- Avoids losing local business operators with solid potential for growth. Local relationships can “solve” some immediate problems and address longer-term issues; people don’t forget who gave them crucial help.
- Access to and support from a broader array of programs and services better addresses individual client needs.
- Permits banks to retain customer accounts while borrowing capacity is improved over time.
- Builds and maintains relationships with local financial institutions as needs and capacity increase; local banks look out for clients’ best interests.
- Business operators appreciate being shown open doors and different options.

3. WHAT HAVE BEEN SOME OF THE ‘LESSONS LEARNED’ OVER THE YEARS?

- Trust is crucial. Every referral reflects on the organization making it, so make sure partners are reliable and match one’s own standards. Know your partners.
- Take the time to understand the borrower’s needs and each partner’s capacity and limitations to avoid --
 - Misunderstandings
 - Confusion, or
 - Disappointments
- Understand the geographies you are serving – small variations can lead to significant differences in needs and/or approaches.

- As possible, build relationships with a variety of organizations who offer a broader range of complementary products, programs, and services; put more tools in the tool kit. No one party can do it all.
- Staff at partner organizations must be educated about their own referral programs. Otherwise, clients who could be helped if properly connected to the staff specialists probably won't be. Employees need to know *How* to refer and *Who* to refer to.
- It's important to pay careful attention to recognize when things are working, and when they are not.

4. WHAT ADVICE WOULD YOU HAVE FOR A FINANCIAL INSTITUTION OR COMMUNITY PARTNER LOOKING TO INITIATE OR EXPAND REFERRAL RELATIONSHIPS?

- Committed and consistent leadership is essential when starting, and sustaining, a relationship.
- Understanding the history of the players, and the need(s) to be addressed.
- A bank that simply declines loan applications cuts itself off from existing, and future, customers. Abandoning customers who may only need a little more help to be successful is short-sighted.
- Banks should always work to connect denied clients with someone else, especially through durable partnerships.
- (Another reminder that) employee education/training is important – organizations do not want to automatically and unnecessarily turn people away when something of value may be available.
- Referral partnerships rarely lead to dead-ends when the central objective is to provide constructive options.
- Every successful partnering relationship must be reciprocal and trust-based; even the strongest of them still need nurturing. Don't take relationships for granted.
- Senior organization management must take these relationships seriously, and program staff members need to regularly explain why the referral program warrants that.
- Banks lend money and take deposits to make a profit. A customer whose credit application has been denied can still make deposits and use other services. Referrals help retain customers by giving them valuable options to pursue.
- The Community Reinvestment Act (CRA) is important, and attention to compliance with it can motivate and focus banks to provide services that bring value to Low- and Moderate-Income clients.
- CRA is a framework for collecting and telling client success stories arising from referral programs.
- Pay careful attention to data collection and sharing – this can add to the value each partner represents to the other.
- Don't overlook technical assistance or counseling after a loan has been approved – this can ensure healthy operations and on-time repayment.

5. HOW COULD THE ECOSYSTEM SUPPORTING SMALL BUSINESS LENDING IN MASSACHUSETTS ENHANCE AND EXPAND REFERRAL RELATIONSHIPS?

- The SBA's referral network is excellent – perhaps more organizations can participate in it. [SBA's rules and procedures are fairly specific; the MA District Office is open to discuss this or other issues.]
- More roundtables or events that brings all partners together would help.
- A centralized resource that describes all referral-related, micro-lending, and other programs. [The State Treasurer's Office is currently developing a small business tool box that might address at least part of that suggestion.]
- A focused effort to ensure that all front-line staff at any organization involved in direct customer/client contact be familiar with the referral program (at least that it exists and who is responsible for it). Knowing there are options prevents missed opportunities to help denied business applicants.