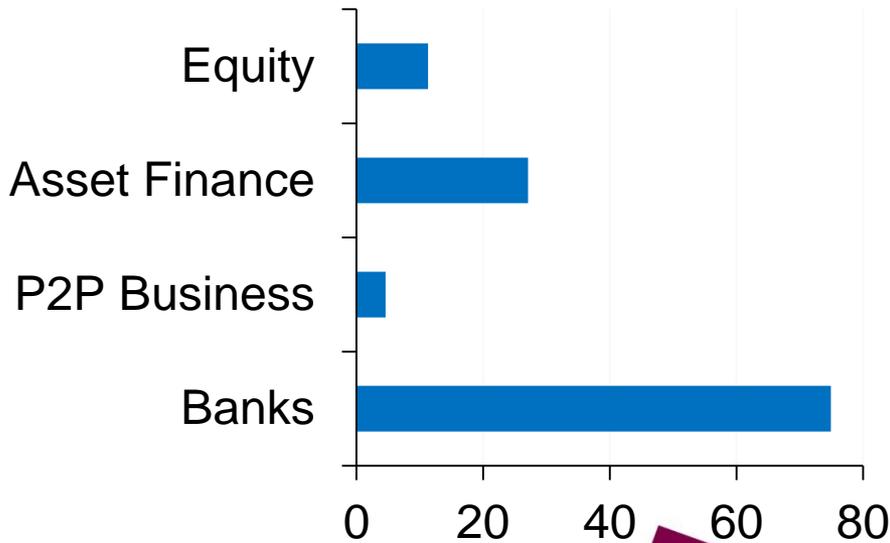


The Future of CDFI Business Lending

Richard Roberts & Steve Walker
March 2018

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Since the low point of the GFR, new supply of SME finance has increased by £120 bn



Loan and Overdraft Application Success Rate (%)

(Average % Acceptance rates for successive 18 month cohorts 2011 to 2017)

Overdrafts		Loans	
All SMEs	82.6	All SMEs	69.1
-Minimal risk	97.1	-Minimal risk	92.0
-Worse than avg risk	73.6	-Worse than avg risk	54.6
-First Time applicants	57.0	-First Time applicants	51.6
-Other new facilities	76.6	-Other new facilities	75.6
-Renewals	99.1	-Renewals	88.6

Source: UKSME Finance Monitor tables

The supply of SME credit is changing rapidly but variations in application success rates still very rapidly. Also, most commentators accept discouragement impacts on c 70k credit-worthy applications a year

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Supported by first loss funding from the RGF and SULCO, Enterprise Lending CDFIs (ELCDFIs), increased activity in 2013-2016 but fell last year

Active Enterprise Lending CDFIs 2014-2017

<i>Financial Year data</i>	2013	2014	2015	2016	2017
No of ELCDFIs	36	34	34	30	27
New Loans (£m)	52	72	98	104	67
New Loans (no)	9,303	13,230	11,400	9,600	5,072
Avg Loan Size (£)	,5,580	5,442	8,596	10,833	13,209

Source: RF Annual Reports

- The RGF funding especially was a short-term measure while the SME funding market evolved – particularly alternative funding.
- However no sign that demand for ELCDFI services are on the wane but worries now about a sustainable funding regime going forward.

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Some very positive developments – often at early stages of development:

- BBB sub national funds
- CITR/EFG
- BSC

Although the case for further public support remains positive, problems still evident:

- RGF rundown
- SULCO

Implied Economic Return on ELCDFI investment, 2016/17

	Value £m	Volume No	Return £m	Avg loan £ th	Return/£
2016/17 Data					
Total ELCDFI loans	67.2	5072	250	13.25	3.7
SULCO partners	33.0	3796	99	8.69	3.0
Other Micro and SME	34.2	1276	151	26.80	4.4

Note the table are author estimates as an illustration only based on combining the data in the latest Responsible Finance Annual review and the [BBB review of the Start-up Loans programme](#). We are grateful to Responsible Finance in providing additional data to help compile these estimates

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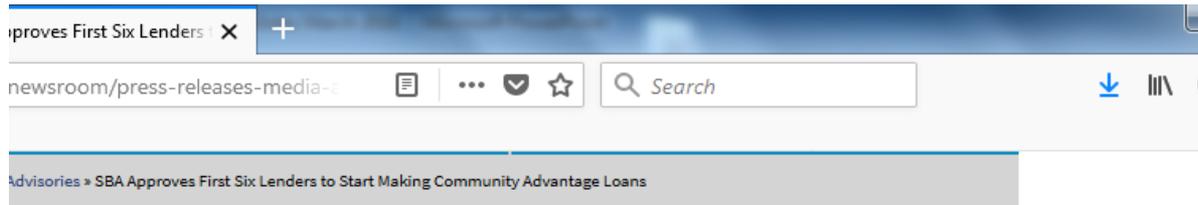
- **Need to consider what else could be done** – especially to accelerate sustainability – experience of the last few years shows the key benefit of first loss funding or a guarantee to support private investment in ELCDFIs to on-lend;
- We think more should be done to support ELCDFI development;
- Particularly as the EFG appears to have a design flaw for its use by some customers

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Reasons for Credit Decline by Commercial Providers

"Not Viable"	"Weak Finances"	"Due Diligence"	"No Security"
			<u>Covered by EFG</u>
Affordability	Weak balance sheet	Licence/patent ownership	
Serviceability	Insufficient stake/equity	Outstanding legal issues on firm/key staff	
	High gearing	CCJs	
	High short term debts		
	----- "Other Reasons" -----		
	Weak management	Main client credit score	
	Past account issues	Worries over premises/lease/tenancy	
	Business credit score	Over reliant on one contract	
	Personal credit score	Crown debts	

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SBA Approves First Six Lenders to Start Making Community Advantage Loans

Release Date: Thursday, April 28, 2011

Release Number: 11-27

Advisory Number:

Contact: David J. Hall (202) 205-6697

Internet Address: <http://www.sba.gov/news>

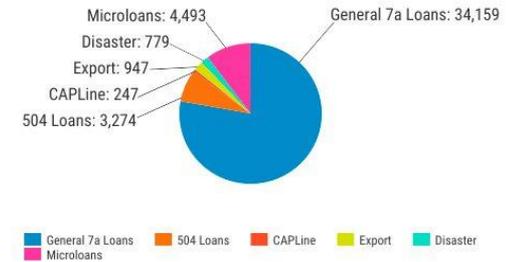
Community-based, mission-focused lenders will start accepting loan applications from small business borrowers immediately

WASHINGTON – The U.S. Small Business Administration has approved an initial group of six community-based, mission-focused lenders to start accepting and processing Community Advantage loan applications from small business borrowers immediately, the agency announced today.

The new Community Advantage pilot program was announced by SBA in December and is designed to expand access to lower dollar loans and lending in traditionally underserved communities. SBA and U.S. Department of Commerce studies have shown the importance of lower dollar loans to small business formation and growth in underserved communities. Even though SBA loans are three-to-five times more likely to go to women and minority-owned small businesses, underserved communities were hit disproportionately hard by the recession.

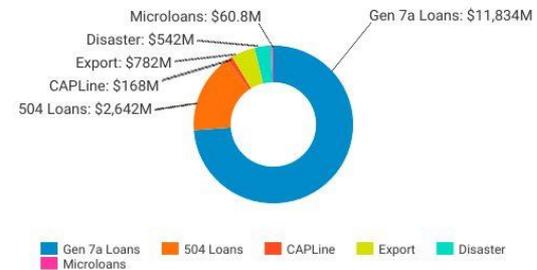
The pilot is specifically aimed at expanding points of access to capital for small business owners by opening SBA's 7(a) loan program to community-based, mission-focused financial institutions, including Community Development Financial Institutions, SBA's Certified Development Companies and SBA's nonprofit microlending intermediaries.

Total SBA Loans Given by Program in 2016



Source: SBA.gov
 Chart by FitSmallBusiness.com

Total Funded Amount of SBA Loans by Program in 2016



Source: SBA.gov
 Chart by FitSmallBusiness.com

Other lessons

- Need to think more of ELCDFIs as a distinct sub group
- Build up the size and quality of the evidence base (BSC initiative is very timely)
- Argue more for distinct localism approach that it as the core of the ELCDFI contribution to the SME Funding landscape.

THANK YOU