City of South Bend Opportunity Fund
FAQs

Are start-ups eligible? DBAs?

- Start-ups and DBAs are eligible to apply for lending under the Opportunity Fund. These types of businesses face many challenges, and access to capital can be something that places a business on the path to success.

  However, the underwriting and loan review of these loans should reflect efforts to mitigate some of the risks of lending to a start-up company. A comprehensive business plan and supporting documents are expected as part of this process.

How many organizations will be selected?

- The City prefers to award a single application—either one organization providing both lending and coaching or a partnership of two organizations. Ideally, no more than two organizations under one application will be selected.

  Organizations experienced in either category are encouraged to form partnerships with organizations with complementary experience to provide a robust proposal for small business support. If an organization is interested in a partnership, but does not have a partner identified, notify the City by 11:59 PM April 19, 2024, so we may assist in partnering different interested parties.

Are there target industries that the Opportunity Fund expects to serve through lending and coaching?

- There are no target industries. Any business located and operating within the City of South Bend is eligible to apply for a loan or business coaching through the Opportunity Fund. There is a program preference to support businesses from traditionally underserved backgrounds. To this end, company revenues should generally be below $300,000 annually, or the company should have less than 10 full-time employees.

Can applicants with an Individual Taxpayer Identification Number (ITIN) apply for the program?

- Applicants with an ITIN are welcome to apply under the Opportunity Fund program, but the underwriting and loan review process should reflect the unique challenges of lending to those businesses. A strong emphasis should be placed on the company documents being in order, and start-ups with ITINs may pose unique challenges that will have to be reviewed on a case-by-case basis.

Are there specific requirements for women-owned and minority-owned businesses?

- While the City desires that the Opportunity Fund target underserved businesses for support, the RFP does not include any specific metrics for women- or minority-owned businesses.

However, this type of information will be tracked as part of the program reporting requirements with the City.

For organizations submitting a proposal as a partnership, is it necessary to demonstrate a "proof of partnership" in the proposal?

- If a proposal includes two organizations that are partnering, there should be a written commitment via an MOU to partner on the Opportunity Fund if selected. The MOU should be attached to proposal.
- If an organization is seeking a partner, please notify the City by 11:59 PM April 19, 2024, so we may assist in partnering different interested parties.

Are there any targets for loan terms?

- The Opportunity Fund does not dictate specific loan terms as it is expected that the loan terms will balance the nature of the financing (working capital, equipment, real estate, or other), any underlying collateral, and the specific cash flow of the business. While industry standards should be generally followed, with working capital being shorter and equipment secured loans being longer, specific loan terms should be tailored to the applicant.

Is there flexibility in the interest rate that can be charged?

- The City desires that the interest rate for loans issued through the Opportunity Fund does not exceed the target rate of 5%. The City is happy to work with chosen program partner organization to provide a lower rate. Also, the City encourages an RFP respondent to discuss in its proposal why an interest rate at a certain level may or may not be attainable. It is in the interest of the City that the Program be sustainable, so commentary regarding interest rates should lend support to this concept.

Are there target percentages regarding program fund usage? For example, how much can be used for administrative costs, marketing costs, or to assist in lowering loan interest rates.

- The City has not established a target percentage of funding for use in administration and operations. This allows an RFP respondent the ability to design a program that meets the City's objectives and is also appropriate for the respondent organization.

Can the funding provided be used to "pay down" the rate of a lender?

- Regarding the capital provided and lowering the rate, the City does not have a preferred approach for attaining a lower rate; a loan loss reserve was one mechanism presented that could be used to lower the interest rate.

  In the Overview on page 1 of the RFP: *Eligible uses of the funding award include, but are not limited to, administrative costs for servicing loans, costs associated with business coaching, and funds to backstop losses for the loan program (i.e., a loan loss reserve). It is expected that funds for lending will come from the applicant's resources, with City funding used to offset losses, obtain a lower rate for loan recipients, and for administrative costs.*

What is the cadence of reporting? (How often would partners report out on coaching activities and loan funds, etc.)

- The City's partner will provide a quarterly report to the City with updates on program activities and loan performance during the initial year. The partner will also provide information to City staff when requested. After the first year or as needed and depending on partner performance, the reporting frequency may be reassessed (i.e., more or less frequent reporting).

How will the Program Funds be disbursed?

- The initial $500,000 will likely be disbursed at or around the time an agreement is formalized. This may go into a loan loss reserve account (if this is the mechanism used by the selected organization) for anticipated loans and into an account for administration and program expenses.

  It should be highlighted that flexibility was built into the RFP to allow a range of proposals, so there may be other allowable arrangements. The following language is pulled from page 4 of the RFP ("Section V. Program Funding"):

  The City anticipates the total three-year funding for the Opportunity Fund program to be $1,000,000, with a maximum of $500,000 provided for the first year of the program. The City reserves the right to award more or less than the full amount of funding requested by the applicant. Eligible uses of program funding include:

  - *Facilitating small business lending through risk mitigation;*
  - *Providing business coaching;*
  - *Marketing and business recruitment; and*
  - *Financing administrative expenses and overhead.*

  Applicants are expected to use their own funding for all or a portion of the loans, with City funding used to offset losses and cover administrative costs. Loan interest income should be reinvested to offset potential losses unless the applicant can describe a more appropriate use for the income. Applicants are required to submit a detailed budget in their proposals, including the proposed plan to apply the loan interest income.

What is the cadence for Program Fund disbursements?

- Up to $500,000 will be disbursed in the first year for Program operations and eligible uses. The remaining Program Funds may be disbursed over the following 2 years of the 3-year agreement period. The precise process for individual draws will be determined while an agreement is negotiated.

Will a slide deck be posted?

- The slide deck may be located at this link.

Are the expectations that these loans will be unsecured (e.g., no collateral requirements)?

- Loans may be unsecured, but in the interest of sustainability, efforts should be made to obtain collateral where appropriate. For example, if a vehicle is financed, then a lien should be placed on the title of that vehicle. If the loan is for working capital, collateral should still be pursued, but it is not required under the program.

  In the interest of a sustainable program, collateral should be pursued to help mitigate potential losses. However, lacking collateral is a barrier for many small businesses. When a loan is issued without collateral, written justification should be included in the applicant file.

Is it correct that you would like to review a loan before final approval?

- The City should be informed on the number and nature of the businesses enrolling in the program to better shape potential future program improvements. This includes the specific details of individual loans. This information can be relayed in a number of different ways, such as a memo, a credit review, or a short biography. The City understands that each lender may have their own review process already in place with corresponding documentation, and there is flexibility with how this information is relayed.

Are loans for a single purpose or a mix of purposes? For example, a loan can have a mixture of equipment, working capital, etc.

- Loans may encompass a mixture of purposes, such as including working capital with equipment. Loan terms should reflect the nature of the individual loans, the underlying business, and should be reviewed on a case-by-case basis.

Are these exclusively loan terms or can they be a line of credit?

- The intent of the program is to provide term loans; however, the program may also include lines of credit for loan applicants. If the RFP respondent seeks to provide lines of credit to applicants, the proposal should speak to how specific lines will be managed. However, the foundational element of the Opportunity Fund program will be term loans.

Are there any minimum credit requirements and credit score?

- There is no minimum credit requirement. However, pulling credit profiles with the intent to assist the loan applicant in improving their respective profile will be part of the program.

Are sole-proprietors eligible?

- Yes. The business applying for a loan must be a legal business entity such as a sole proprietorship, partnership, corporation, or limited liability company.

Will the City assist with bilingual marketing?

- Yes. The City has resources to assist with bilingual marketing.

Are the Opportunity Fund loans eligible for admin cost? (such as overseeing a potential partnership)

- Yes. Eligible uses of Opportunity Fund program funding include:
    - Facilitating small business lending through risk mitigation;
    - Providing business coaching;
    - Marketing and business recruitment; and
    - Financing administrative expenses and overhead

Can business coaching be virtual?

- Coaching may be virtual, but the City prefers there to be an in-person coaching option as well. Business coaching should designed to meet the needs of each business. For example, online meetings may be appropriate for some businesses, but in-person meetings may be appropriate for others.

Can funds be used to enhance an existing program, or do they have to be applied towards a new program?

- The City does not have a preference on using funds to enhance an existing program or to create a new program, so long as the program meets the goals and target metrics outlined in the RFP.

What is the size of the loan fund?

- The RFP does not require a set amount of funds to be dedicated to lending. The $1,000,000 program funds may be used for facilitating small business lending, coaching, and administrative expenses (see **How will the Program Funds be disbursed?**). The lender must provide some of the funds to be used with the Opportunity Fund. Since this amount is variable, it must be detailed in the submitted proposal.

Are there specific goals for minority, women, or veteran owned businesses?

- There are no specific goals towards minority, women, or veteran owned businesses. However, the Opportunity Fund focuses on providing access to historically underserved communities. While specific goals towards this end are not included in the RFP, organizations may to set their own stated goals in their proposals.

What are the reporting requirements with regards to minority, women, or veteran owned businesses?

- The City wants a focus of the Opportunity Fund to be historically underserved or represented communities, which has crossover with these demographics. However, in certain instances there are regulations that prohibit a lender from collecting this information, such as Reg B. It is recommended that Respondents seek legal assistance in drafting their proposal to ensure that it complies with the relevant regulations.

Is there a limit to the number of partnering organizations?

- There is no formal limit to the number of partnering organizations. The City acknowledges that different organizations may have different capabilities, and that the best proposal may incorporate the best of these capabilities. However, while considering these partnerships it is prudent to focus on two different areas.
    - First, while there may be multiple organizations involved, the City expects consolidated program reports to come from the lead organization. These reports are expected to cover the different facets of the program, and multiple partners may complicate this reporting.
    - Second, applicants to the program may be new to business coaching and lending. Multiple partners may complicate the support provided to small business owners and may create confusion for the applying business owner. If there will be multiple partners, it is expected that applicant transitions between partners be smooth and well documented.

- Since lending is a foundational element of the Opportunity Fund, the City desires that a lead organization be either an institution that provides lending and/or coaching as opposed to a broker or entity that refers Opportunity Fund applicants to any number of different lenders. As mentioned in the prior bullet point, a broker relationship may complicate the interactions with program applicants.

Since the underwriting standards of the Opportunity Fund may deviate from those of traditional lenders, how should applicant expectations be managed?

- Messaging should be consistent between all parties that this program serves as an introduction (or re-introduction) to conventional financing. This can be accomplished a few different ways, but generally the business coach may play a larger role here. As written in the RFP, the role of the business coach is to help the applicant become ready to take on a loan. Found in the RFP in section III. Program Design, under "2. Coaching" (pages 2-3):

  <u>Coaching</u>
    - *Provide business coaching to small businesses receiving loans through the Opportunity Fund;*
    - *Provide business coaching to small businesses that do not yet qualify for a loan through the Opportunity Fund but have the potential to qualify in the future;*
    - *Coach Opportunity Fund participants on, among other things, business formation, developing financial literacy, and steps to improve a business' credit profile; and*
    - *Customize coaching sessions that "meet the businesses where they are," providing training that is relevant to the current stage of the business.*

  Focusing on the third bullet point: The role of the Coach should not be limited to just helping the applicant develop the financial literacy needed to obtain a loan from the

Opportunity Fund but should cover how to obtain a loan in general. The coach should set expectations on what a traditional lender will require and how that might compare to the Opportunity Fund. Of course, an applicant does not necessarily need to meet the standards of a traditional lender to qualify under the Opportunity Fund, but at a minimum, applicants should be made aware of the different distinctions. In the submitted proposal, the RFP respondent should highlight underwriting methods to be used for the Opportunity Fund.

While the Opportunity Fund may not have the same requirements as a traditional lender, it is meant to serve as an entry point and steppingstone towards a traditional lender—setting realistic future interest rate/underwriting expectations should be included as part of the coaching process. The precise method can be handled a few different ways, but perhaps an Applicant FAQ document could be published to help set these expectations under a standardized process. This is just one example, and RFP respondents are encouraged to propose their own methods.