

Capital
Plus Financial

||| 2022



Improving economic security for small businesses

Eliminating barriers to PPP financing for businesses
owned by underserved women and minorities



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Multiple reports have demonstrated the CDFI's were essential in reaching small business owners who were largely left out of PPP assistance nationally. This report is about the experience of our PPP recipients.

- Who are the recipients of Capital Plus Financial PPP loans?
- What changed due to PPP loans? Did the PPP loan have its intended impact?
- How much capital was distributed?
- How did PPP recipients view their experience working with Capital Plus Financial?
- How helpful was the PPP loan to the recipients?
- How can Capital Plus Financial invest its resources to have the most significant impact in the future?

THE PPP EXPERIENCE

for Self employed & Small Business Owners

The Problem

The importance of small businesses to our nation's economy cannot be overstated. Small employer firms, those with 1–499 employees, account for 47.5% of the private-sector workforce and are vital to the fabric of local communities.

The US SBA advocacy office reported that the pandemic's economic impacts differed by industry, with the most significant declines in the restaurant industry, taxis, and limousine services, with Black and Asian business owners disproportionately affected.

The Paycheck Protection Program (PPP) was an ambitious and unprecedented policy response to the economic fallout of COVID-19. Congress approved the Coronavirus Aid, Relief and Economic Security (CARES) Act, a \$2.2 trillion stimulus bill to relieve the economy. As a result, small businesses could borrow ~ 2.5 times their average monthly payroll costs, up to \$10 million. A significant provision of the PPP was that the total loan could be forgiven if businesses kept 75% (later changed to 60%) of their workers on the payroll.

An overview of CDFI borrowers from one of the research:

Insights from 1,073 Paycheck Protection Program Loan Recipients from six known CDFIs that processed 6,013 PPP loans in Rounds 1 and 2 and distributed \$274,491,22B in COVID relief to businesses..

45%

Black-owned businesses

43%

Women-owned businesses

88%

Borrowers were not customers of their CDFI's prior to applying for a PPP



The fundamental goal of the PPP was to keep American workers on the payroll, not to keep small businesses going. So most of the money was disbursed to companies with more employees, rather than very tiny ones with a small staff. A program widely perceived as being meant to boost the United States' most vulnerable small businesses prioritized businesses that aren't that small.



Eliminating Barriers To PPP Financing



For Businesses Owned By Women And Minorities

Our why

We are a mission-driven community development corporation, and we feel a duty to our communities and prospective borrowers to certify our model through the U.S. Treasury Community Development Financial Institution (CDFI). This certification allows us to further leverage longstanding banking relationships to tackle the important issue of uplifting communities and providing financing to underserved populations.

As a large CDFI, we carry a responsibility to bridge the gap between public and private funding to ensure the flow of capital to smaller CDFIs doing incredible work in their communities. We are leading the industry into a broader impact investment landscape where capital market solutions and public dollar leverage expand the transformative work CDFIs do across the country.

Throughout the pandemic, Capital Plus Financial aided communities across the country through PPP loans backed by the Small Business Administration (SBA).



Dear Stakeholders,

In 2020, as the nation faced a once-in-a-century pandemic, we made a simple promise. We pledged to support our stakeholders through a period of lost revenue, staffing shortages, and profound economic uncertainty. Over the next two years, we saw firsthand small businesses grappling with the effects of the COVID-19 pandemic on their operations, owners, and employees. We are proud to have kept our commitment to provide assistance to the businesses that needed it most in unprecedented times.

It is worth remembering the backdrop of the crisis the nation faced. For years, thousands of financially underserved small businesses and entrepreneurs have had no choice but to rely on predatory lenders. According to data released by the Federal Reserve in 2020, while 80% of White business owners received some part of the funding they requested from a bank, that figure was only 61% for Black business owners and 69% for Hispanic business owners.

With the onset of COVID-19, a fog of unprecedented uncertainty descended on the economy, impacting small businesses disproportionately. Economic research shows that the number of active business owners in the United States plummeted by 22% between February and April 2020. The full story of COVID-19's impact on economic, social, and health outcomes will take years to write and decades to truly understand. Our priority, given the challenges faced by the affordable housing industry, was to fight to keep at-risk stakeholders housed throughout the pandemic.

In addition, small businesses account for 47% of U.S. employment and provide a pathway to success for women and minorities. Unfortunately, during the pandemic, these small businesses—especially those owned by minorities—were hit hard as consumers reduced spending on in-person physical interaction services, such as hotels and restaurants. Through our partners, we reached out to those most at risk and extended approximately \$6.3 billion in PPP loans. As of June 2022, about 76% of these loans have been forgiven.

Beyond our work with PPP loans, we have worked with new partners—Fountainhead and Enhanced Capital, for example—to deliver on our core mission. One illustration of the myriad ways in which we are helping communities across the country is a bridge loan we provided this past year to Vertical Harvest. This woman-owned, Wyoming-based business grows local produce in urban areas to address food insecurity and climate change through vertical hydroponic greenhouses. With our new partners, we also assisted with a project to eliminate environmental contamination in soil and water at two locations in upstate New York. This will enable the construction of a 16-story tower with 144 units of affordable rental housing in a middle-income area with a high density of minority residents.

Our work continues because the challenges remain. And, as always, we stand with our stakeholders because your success is our success.

Thiru Vignarajah
Capital Plus Financial



THE PPP EXPERIENCE



“I feel the COVID pandemic severely affected the dentistry profession more than any other healthcare profession because the state of Texas shut down all dentistry (except for emergencies only) for almost three months and it took many months until the COVID vaccine to be developed and approved for general population use/coverage—and the entire dentistry field was negatively impacted because all dental patients avoided coming to the dentist until the vaccine was widely accepted and taken. And because of these facts—I am fortunate that the PPP loans were available and that these PPP loans have a forgiveness option. Thank you”

- A Respondent

Our reach extended to businesses in the following segments: Accommodation, Food Services, Health Care, Social Assistance Professionals, Technical Services Manufacturing, Retail Shops, Construction, Wholesale Trades, Real Estate, Rental and Leasing, Transportation, Warehousing, Arts, Entertainment, Recreation, etc.

EXPANDING CAPITAL ACCESS to underserved communities

This report shares the learnings from our financial inclusion activities during the Global Pandemic. We sought to remove barriers to capital for small businesses owned by women and minorities. We reached out to our stakeholders to learn outcomes and future needs. This report follows the framework of the Impact Management Project, integrating learning from the five impact dimensions, WHO, WHAT, HOW MUCH, CONTRIBUTION, and RISK.



We set out to:

-  Support small businesses and self-employed people in underserved communities
-  Target beneficiaries such as small businesses, women and minorities
-  Help small businesses sustain their business and grow once the pandemic is over
-  Stabilize businesses and help them retain their employees

Impact learnings At a glance



Most of the unbanked recipients at the time of the PPP loans were minorities and male business owners.

PPP loans served the purpose.

78% stated that their business is either thriving, very stable or stable post PPP loan.

87% retained their employees and found the PPP loan helpful in sustaining their businesses

Our PPP recipients are minorities and women

74% of the capital went to minorities

66% of the capital went to men. Out of those recipients, 74% are business owners and 84% are minority business owners

44% of the capital went to women, with 77% being minority business owners



Approximately **\$6.3 billion** in PPP loans given to small business owners and minorities.

All the results are presented as round numbers for ease of reading in the report. Learn more about Sustainable Development Goals (SDG) at <https://sdgs.un.org/goals>

SDG Goals & Targets	1 NO POVERTY	8 DECENT WORK AND ECONOMIC GROWTH	10 REDUCED INEQUALITIES
			
	Target 1.4	Target 8.3, 8.5	Target 10.1, 10.2, 10.3





WHO

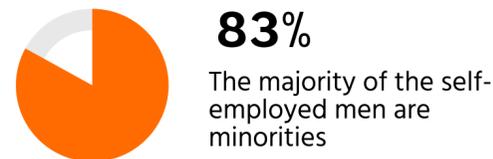
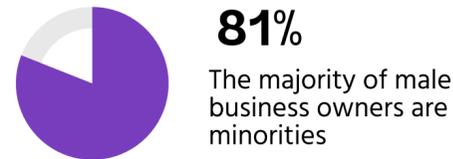
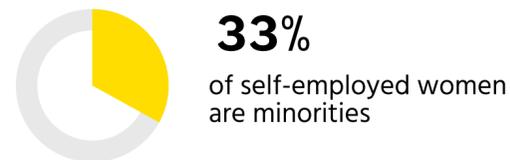
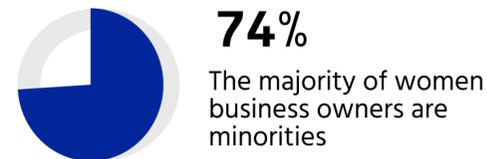
WHO tells us which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome.

2020-2021

Investing in minorities and women-owned small businesses.

WHO were our PPP borrowers?

Independent Contractors and minority-owned small businesses were left out of the first rounds of PPP because banks focused on current bank customers and larger credits.

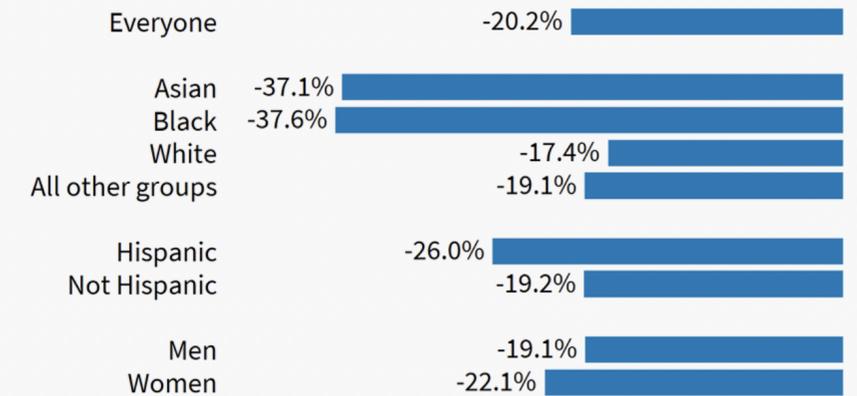


How can we engage more women business owners to improve financial equity?

Eliminating barriers to PPP financing for self-employed and businesses owned by women and minorities was important.

As per U.S. Department of Labor data, in May, the unemployment rate was 3.6 percent for the third month in a row, and the number of unemployed persons was essentially unchanged at 6 million.

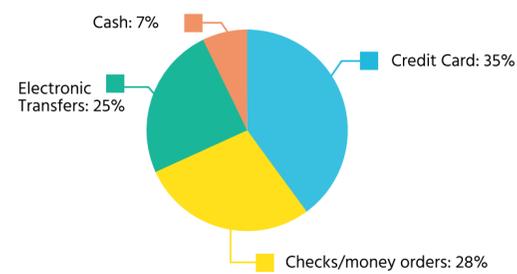
We continue to provide these services to women, minorities, and small businesses to help them get back on their feet. During the pandemic, women left the workforce in record numbers because they had to serve as caretakers for children who were out of school and other family members, leaving little time to spend on furthering their careers. This disproportionately affected the minority community, as many women couldn't work remotely or didn't have the resources or help to manage both their work schedules and a drastically changing family life due to the unprecedented circumstances of the pandemic. To help women be able to pursue their desired careers, we ensured that the loan process was made easy, accessible, and eliminated barriers to loans that prevented women from staying in the workforce and having their desired careers.



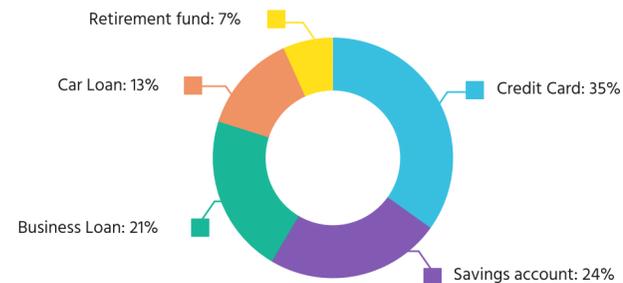
Change from April 2019 to April 2020. Source: Current Population Survey; BLS, Census, and IPUMS

Banking behaviors of our borrowers

Preferred form of financial transactions



What other financial services are you using today



The borrowers are comfortable using multiple banking services. Credit Card, Check/Money orders, Online transfers.



Before applying for a loan, did you have a bank account?

Note: Most of the accounts were personal accounts, not business ones. Our question didn't make a distinction.



LEARNINGS

What are the banking behaviors of our borrowers?

While we assumed that most applicants got their PPP loan information from other sources, we learned that 51% of the applicants received PPP loan information from their bank, and around 24% from friends or other businesses, and 23% from the internet.



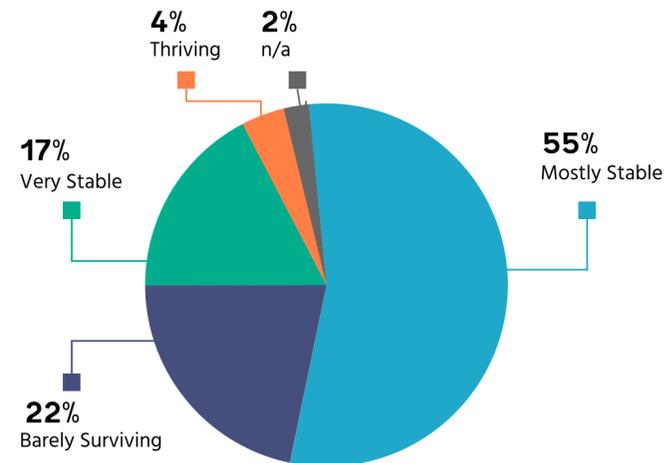
WHAT

WHAT tells us what outcome the enterprise is contributing to, whether it is positive or negative, and how important the outcome is to stakeholders.

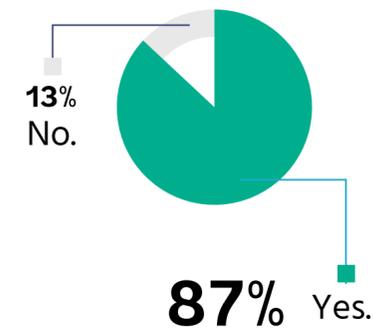
• Did the PPP loan have its intended impact?

Stability of your business after receiving a PPP loan:

Our borrowers self-reported the status of their business. Most of the borrowers reported that their business is stable and thriving at the time of data collection.

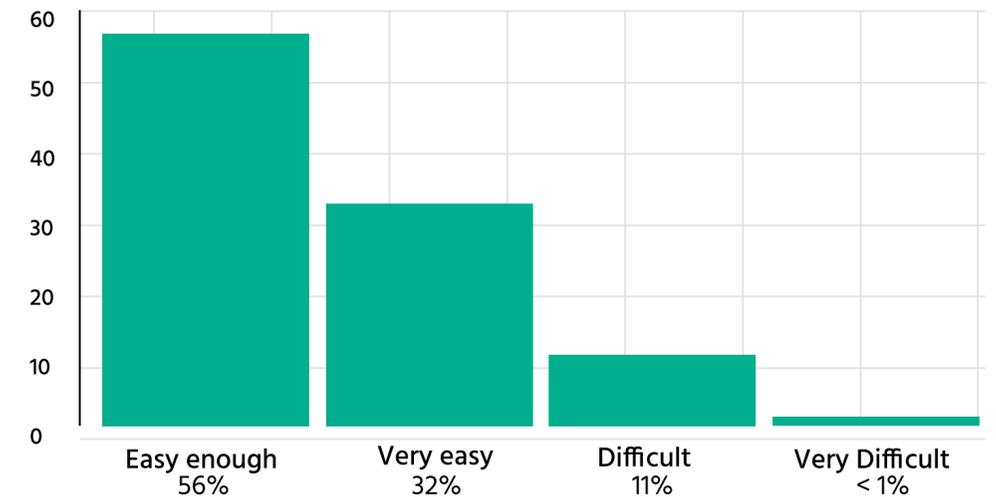


Was your company able to retain its employees?



• What changed due to PPP loans?

How easy was the application process?



What expenses did the PPP loan help cover for your business?



43%
Payroll Costs



31%
Rent



24%
Utilities

Learnings

The main goal of a PPP loan for small businesses was to retain their employees and cover a few other expenses such as utilities and rent.

What changed with the PPP loan?

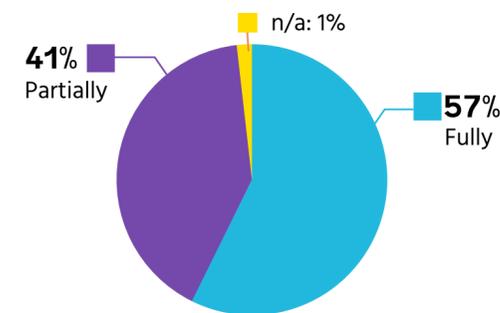
- 87% of borrowers could retain their employees
- 55% of borrowers had stable business after more than a year
- 17% of borrowers' businesses were very stable at the time of feedback
- Most of the borrowers used the capital to cover payroll, rent, and utilities
- Most of the borrowers found the application process easy or very easy



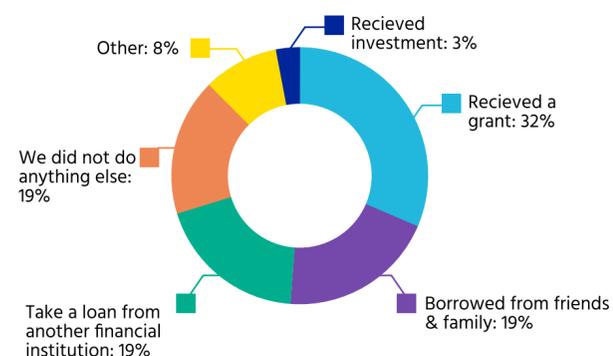
HOW MUCH

How did CPF meet the needs of small businesses? We asked two-part questions to understand if the PPP loan covered all the business expenses. We inquired what small business owners did to cover the gap if the PPP loan didn't cover all of their expenses.

Were you able to cover the business expenses as expected?



What actions did you take to help cover the expenses that were not covered by the PPP loan?



Response from Business Owners regarding what was not covered.

“only covered for a month or so”
 “We didn't lose all our income so we were able to cover everything between our revenue and the PPP loan”

“Utilities and other business expenses”
 “Labor”
 “Supplies”

“Rent”

“I had to make deferred payments to catch up, which affected my income”
 “Partial payments were made and didn't cover rent, savings, food costs and supplies”

“Other expenses such as insurance and other repair costs”
 “insurance”
 “Took losses with payroll”

“Could not cover all the salary”
 “Supplies for payroll”

HOW MUCH tells us how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome for.

Loan amount distributed	New bank accounts created	Percentage of loans forgiven	Number of loan applications
\$6.3B	13%	76%	400K+
Approximately \$6.3 billion in PPP loans has been disbursed	More than 13% of clients created a bank account at the time of loan application	As of May 31, 2022, approximately 76% of the loans were forgiven	CPF processed 401,000+ PPP loan applications

LEARNINGS

How important was it to reach out to small businesses and self-employed borrowers?

For ~41% of small businesses and self-employed borrowers, PPP loans did not meet 100% of their needs. Many reached out to different resources such as receiving grants, borrowing from friends and family, or taking an additional loan from other financial institutions. Approximately 19% of borrowers didn't take further action. See the contribution section to see why?

Rent was the number one expense that the PPP loan did not cover. Many businesses could not cover insurance payments, some outsourced services, and deferred other payments.

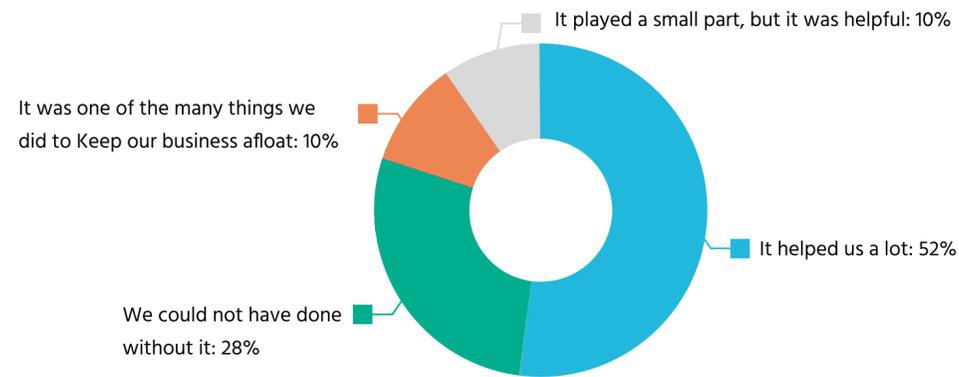




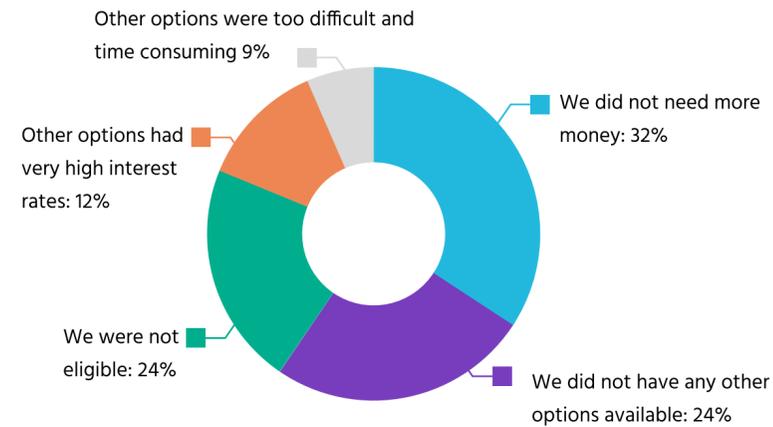
CONTRIBUTION

CONTRIBUTION tells us whether an enterprise's and/or investor's efforts resulted in outcomes that were likely better than what would have occurred otherwise.

How instrumental was this loan for your business ?



Reasons for not getting capital from any other sources



Additional ways businesses supported themselves. The following are open text feedbacks from borrowers.

Finding ways to increase sales like using third party services which we've never done before.

N/A

Defer payments in installment

Deferred A/P

SBA loans

We trimmed our expenses

worked harder

My savings

Personal funds

Withdraw from my SEP Savings account when needed.

Learnings

Throughout the pandemic, many small, minority and women-owned businesses experienced serious difficulties securing PPP loans. The CDFI industry was well-positioned to serve these customers, but for weeks the Small Business Administration (SBA) and U.S. Treasury resisted allowing more CDFIs to become PPP lenders.

On May 28, 2020, \$10 billion in PPP funding was "set aside" for CDFIs to lend with the hope that small, minority and women-owned businesses in low-income markets would be served.

Despite the delay, CDFIs showed remarkable success as PPP lenders outperformed much more established capitalized lenders. The goal of the PPP loans was for small businesses to retain their employees and cover expenses such as utilities and rent.



RISK

Risk, tells us the likelihood that impact will be different than expected.

Learnings:

In the process of reaching out to small businesses owned by women and minorities, we had to move fast. Capital Plus Financial partnered with loan processing organizations to make fund availability easier and faster to better serve their stakeholders. The risk of not being able to sustain all minority and women-owned small businesses negatively affected members of the community and the economy.



NEXT STEPS

Partnerships and Opportunities

To serve our stakeholders more efficiently moving forward, we asked our PPP borrowers if they see a potential need for any future funding to support their business.

Self-employed small business borrowers may need additional future funding compared to larger businesses.

Need for future funding business owners or self-employed

Self-employed

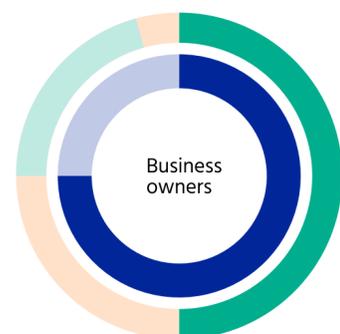
Yes



78% of self-employed borrowers may need future funding

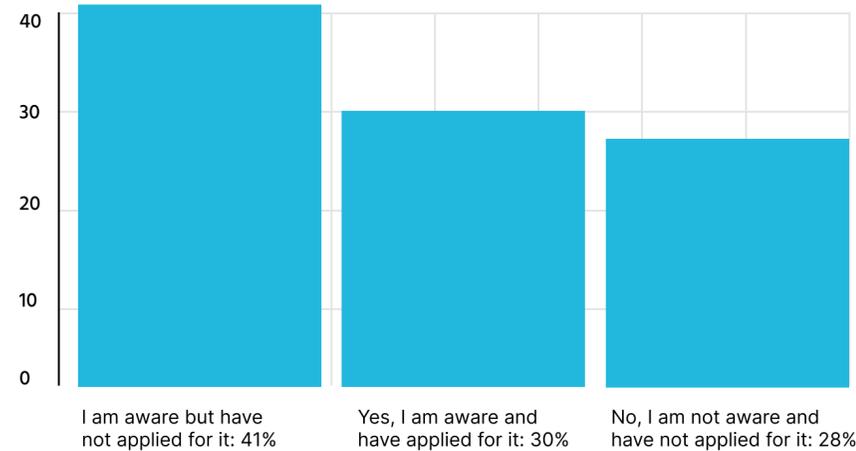
Business Owner

Yes



64% of borrowers who are business owners may need future funding

Awareness of the Employee Tax Credit



Double the impact

In the Fall of 2021, Crossroads Impact Corp, the parent company of Capital Plus Financial ("CPF"), an innovative Community Development Financial Institution (CDFI) and Certified B Corporation, embarked on a bold initiative and partnership with Enhanced Capital Group (ECG) to deploy hundreds of millions of dollars in environmental and social lending. Leveraging its success in 2021, Crossroads continues to use its voice and balance sheet to improve underserved minority and women businesses across the country and invest in initiatives that have a positive environmental impact.

"Together we are committed to creating economic opportunities for minority individuals and small businesses in disenfranchised, underserved, underbanked, and underfunded communities. Through this partnership with ECG, Crossroads intends to combat inequities in the financial system that have existed for far too long."

-Eric Donnelly, Chief Executive Officer of Crossroads Impact





Improving economic security for small businesses

Eliminating barriers to PPP financing for businesses owned by underserved women and minorities

This report was created by [Sopact.com](https://www.sopact.com) along with the help of Capital Plus Financial in the year 2022.

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