

Understanding CDFIs, SSBCI, and the Capital Continuum in Pennsylvania

PRESENTED BY

TOM DOWLING, VP, SENIOR BUSINESS
DEVELOPMENT OFFICER, PURSUIT



About SCORE

As a resource partner of the SBA, we help small businesses by:



Providing free
business advice
and mentoring



Offering low or
no-cost business
training



Sharing free business
templates and
resources

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Your Presenter



- Tom Dowling
 - VP, Senior Business Development Officer, Pursuit
 - 215-820-5855
 - tdowling@pursuitlending.com
 - pursuitlending.com



Learning Objectives

- Understand what CDFIs are and their role in small business lending
- Explain how the SSBCI program works in Pennsylvania
- Identify your place on the capital continuum and realistic funding sources
- Prepare documentation needed to apply for business financing
- Know where to find additional resources in Pennsylvania

The Capital Continuum – Overview

NEW BUSINESSES

You & Partners (personal savings, credit cards, HELOC, sweat equity, bootstrapping)

Friends & Family (gifts, loans, crowdfunding)

GROWING BUSINESSES

Alternative Community Lenders (microlenders, SBA lenders, CDFIs, credit unions)

Alternative Institutional Lenders (online lenders, factoring, merchant cash advance)

STABLE BUSINESSES

Conventional Banks (lines of credit, term loans, asset-based loans)

"Understanding where you are helps you target the right capital sources."

The Capital Continuum – Characteristics by Source

Conventional Banks

(Stable Businesses)

Market interest rates

Varying repayment terms

Slower turnaround time

Higher personal credit score required

Based on cash flow or collateral

Personal guaranty typically required

Alternative Community Lenders

(Growing Businesses)

Low to average interest rates

Longer repayment terms

Heavier on paperwork

Slower processing

Cash-flow based

Personal guaranty required

The Capital Continuum – Characteristics

Alternative Institutional Lenders (Growing Businesses)

- Flexible requirements
- Faster turnaround and approval
- Lighter on paperwork
- Higher interest rates
- Shorter repayment terms
- Costly fees
- Personal guaranty (depends on lender)

Friends & Family / You & Partners (New Businesses)

- "Risk-free" capital due to flexible repayment
- Full control over terms
- Potentially risky to relationships
- Limited capital available
- May not build business credit

What is a CDFI?

Community Development Financial Institution

CDFIs are private financial institutions that operate with a primary mission of serving low-income communities.

- Certified by the U.S. Department of the Treasury's CDFI Fund
- There are more than 1,200 CDFIs at work in all 50 states
- Generally have less strict eligibility criteria than traditional lenders

Find CDFIs that serve your community at:
ofn.org/cdfi-locator



What do CDFIs do?

CDFIs offer resources, mentorship, and education to help businesses improve their financial health.

- Provide fair, transparent financing and financial education to small business owners
- Lend to every phase of small business from start up to growth
- Loan products range from financing for working capital to fixed asset purchases



When to Consider a CDFI

- Business operating for 1+ year with positive or break-even cash flow
- Personal credit score ~600–680 (demonstrates creditworthiness)
- Doesn't fit into a bank's traditional lending criteria
- Need funds for working capital, equipment, or improvements
- Located in an underserved community or industry
- Seeking relationship-based lending with business advisory support
- Declined by a bank but have a viable business model

How CDFIs Differ from Banks & Online Lenders

CONVENTIONAL BANKS

Stable Businesses

Low Risk Profile

Lowest interest rates available

Strictest underwriting (credit score, collateral, time in business)

Longest approval process

Best for established, stable businesses with assets

CDFIs

Alternative Community Lenders

Mission-Driven

Mid-range interest rates

Flexible underwriting (cash-flow focused)

Moderate approval timelines

Serve growing businesses and underserved markets

Provide technical assistance

ONLINE LENDERS

Alternative Institutional

High Cost / Fast Speed

Highest interest rates and fees

Most flexible requirements

Fastest approval (often days)

Best for urgent needs with limited options

What is SSBCI? State Small Business Credit Initiative

Federal program administered by the **U.S. Treasury**

Provides funding to states to support small business lending & investing

Goal: Expand access to capital, especially in underserved communities

How Funding Flows



U.S.
Treasury



State
Programs



Approved
Lenders



Small
Businesses

Program Mechanisms



Loan Participation
Programs



Collateral Support
Programs



Capital Access
Programs



Venture Capital
Programs

SSBCI in Pennsylvania

Pennsylvania Capital Access Program (CAP)

- Provides loan loss reserves to participating lenders
- Enables lenders to approve loans they might otherwise decline
- No direct borrower application – work through participating lenders
- Coverage: All Pennsylvania counties, with focus on underserved communities and businesses

Participating Lenders Include:

Community banks, CDFIs, Credit unions, and some conventional banks.



SSBCI-Backed Loans: Eligible Uses

Eligible Uses

- Working capital
- Equipment purchase
- Leasehold improvements
- Technology upgrades
- Inventory
- Debt refinancing (in some cases)
- Expansion costs
- Marketing and business development

Not Typically Allowed

- Speculative investments
- Passive real estate holdings
- Lending to other businesses

Typical SSBCI Loan Features in PA

- **Interest Rates:** Market or below-market (often lower than online lenders; comparable to bank rates)
- **Loan Amounts:** Approx. \$10,000 to \$500,000+ (varies by program/lender)
- **Terms:** Working capital (1–3 years) | Equipment (5–10 years)
- **Fees:** Origination/closing typically 1–5% (may be financed)
- **Approval Timeline:** 1–4 weeks depending on complexity and readiness

Common Eligibility Criteria

BUSINESS REQUIREMENTS

In business for **at least 1 year** with filed tax return

Located in **Pennsylvania**

Break-even or positive cash flow (critical factor)

Annual revenue typically **over \$100,000-\$150,000**

Minimum number of employees (often 2+, some programs allow 1)

OWNER REQUIREMENTS

Personal credit score typically **600-680+**

No recent bankruptcies (or sufficient time passed)

No recent tax liens or judgments (typically last 3 years)

Personal guaranty from majority owners required

Note: These are examples.

Requirements vary by lender and program. Always ask about exceptions.

Understanding the Cash Flow Requirement

- **Why cash flow matters most:** Many SSBCI lenders focus on cash flow over purely collateral-based lending.
- **Debt Service Coverage Ratio (DSCR):**
 - Banks:** Often require 1.20x – 1.25x (cash flow exceeds debt by 20-25%)
 - CDFI/SSBCI lenders:** May accept ~1.00x – 1.05x (break-even or slight positive)
- **What your cash flow must cover:**
 - Existing debt payments + New loan payment
 - Owner draws/salary + Operating expenses

If cash flow is tight: Focus on improving profitability, reducing expenses, or increasing revenue. SCORE mentors can help with this analysis.

Collateral Requirements – What to Expect

LOANS UP TO \$100,000

Blanket lien on business assets

Lien position: highest available

Personal guaranty required

Real estate typically not required

LOANS \$100,000 – \$500,000

Blanket lien on all business assets

Personal guaranty required

May require additional collateral

Often in subordinated position

Personal financial statement required

"SSBCI-backed loans may approve with less collateral than banks require, but some security is always needed."

Documentation Needed to Apply

- Completed loan application (lender-specific)
- Last 2 years personal tax returns (all owners)
- Last 2–3 months business bank statements
- Photo ID for all owners & voided business check
- Business plan or use of proceeds explanation
- Last 2 years business tax returns (1120/1120S/1065/Schedule C)
- Year-to-date profit & loss and current balance sheet
- Business debt schedule (creditor, balance, payment, maturity)
- Personal financial statement (typically for loans >\$100k)

How to Strengthen Your Loan Application

- Improve your financials and ensure tax returns are filed and current

Before you apply:

- Create interim financial statements if YTD performance is stronger than last filed return
- Document revenue trends and cash flow improvements
- Address credit issues proactively

Strengthen Your Loan Application

- Obtain business and personal credit reports; correct any errors
- Pay down collections or judgments if possible; prepare explanations
- Clarify your use of proceeds: be specific (not just "working capital")
- Show how the funds will improve cash flow or grow revenue
- State repayment source clearly (how the loan pays for itself)

Realistic Approval Timelines

Straightforward Applications

Initial review:
3-5 business days

Underwriting decision:
1-2 weeks

Closing and funding:
3-7 days after approval

Total timeline:
2-3 weeks

Exception Approvals (Most Common)

Initial review & Doc requests:
2-3 weeks total

Underwriting committee review:
1-2 weeks

Closing and funding:
1 week after approval

Total timeline:
3-6 weeks

Timeline Depends On:

Completeness of application, response speed to requests, business complexity, and need for exception approvals.

Examples – When SSBCI or CDFI Lending Helps

Collateral Shortfall (Restaurant)

Challenge: Needed \$75k for equipment; Bank declined (no real estate).

Solution: CDFI approved with blanket lien & personal guaranty.

Key Factor: Cash flow supported 1.1:1 debt coverage.

Credit Score (Manufacturing)

Profile: 3 yrs old, \$400k revenue. Owner FICO 655 (Bank needs 680+).

Solution: CDFI approved \$50k working capital loan.

Key Factor: Strong cash flow (1.15:1) and growing revenue.

Time in Business (Tech Services)

Challenge: 18 months old; Bank requires 2+ years history.

Solution: CDFI approved \$35k based on interim financials.

Key Factor: Break-even cash flow + large new contract.



What Happens After Loan Approval?

- **Post-Loan Support Services:** Many CDFIs and SSBCI lenders provide guidance beyond just capital.
 - Business advisory services & financial management coaching
 - Help with accounting systems & growth strategy
 - Preparation for future bank financing
- **Goal:** Help your business grow and become fully "bankable".
- **Graduation (Typically 5-7 Years):** By loan maturity, you may qualify for:
 - Conventional bank financing at lower rates
 - Larger loan amounts and better terms

Strategic View: This is not a permanent solution – it's a vital stepping stone in your capital continuum journey.

Questions to Ask Any Lender

- What is the true APR (Annual Percentage Rate) including all fees?
- What are all fees (origination, closing, prepayment, servicing)?
- What collateral and personal guaranty are required?
- What is your underwriting focus (credit score, cash flow, collateral, time)?
- What is your typical approval timeline and funding timeline?
- Do you require compensating balances or other ongoing requirements?
- What covenants or restrictions apply (debt limits, owner draws, reporting)?
- What technical assistance or advisory services do you provide?
- Can you provide references from similar borrowers?
- What are the prepayment options if I want to refinance later?

Red Flags to Watch For

Warning Signs

- Guarantees approval before reviewing financials
- Large upfront fees before approval
- High-pressure tactics to decide immediately
- Vague about total costs or APR
- Requests payment to a personal account
- Not transparent about licensing or regulation

- "Too good to be true" rates with hidden fees

Verify Legitimacy

- Check state licensing databases
- Review BBB ratings and ask for references
- Verify CDFI certification at **cdfifund.gov** (if claimed)

"If a lender is not transparent about costs or pressures you, walk away. Legitimate lenders want you to understand the terms."

Finding CDFIs and SSBCI Lenders in PA

Pennsylvania SSBCI Program

PA Dept. of Community & Economic Development (DCED)
www.dced.pa.gov

Search for "Pennsylvania Capital Programs" or "SSBCI" on the site.

Find CDFIs

Opportunity Finance Network CDFI Locator
www.ofn.org/cdfi-locator

U.S. Treasury CDFI Fund
www.cdfifund.gov

SBA Resources

SBA Lender Match
www.sba.gov/funding-programs/loans/lender-match-connects-you-lenders

Find SBA-approved lenders, including community lenders.

Local Resources

Your local SCORE chapter
www.score.org/greaterphiladelphia

Small Business Development Centers (SBDC)
www.sba.gov/local-assistance/resource-partners/small-business-development-centers-sbdc

Also: Minority Business Development Centers & Women's Business Centers

How SCORE Can Help You

- Assess capital readiness; review financials and credit
- Identify documentation gaps; determine realistic funding
- Prepare loan package; improve financial statements
- Develop projections; write business plan/executive summary
- Practice your presentation; review loan package
- Navigate the capital continuum; match to lender types
- Ongoing support: financial coaching, growth planning, bank readiness

Case Study – Moving Through the Capital Continuum

1

Year 1 (Startup)

Funding Used \$25,000 personal savings + \$15,000 from family

Status Built initial customer base; Operated from home office

2

Year 2 (Early Growth)

Revenue \$180,000

Need \$40,000 for equipment & working capital

Challenge Credit score 650; limited collateral

Result Approved by CDFI with SSBCI support

3

Years 3-5 (Continued Growth)

Revenue Grew to \$500,000

Action Used CDFI advisory services

Result Improved credit score to 720; Built strong financials

6

Year 6 (Graduation to Bank)

Revenue \$650,000 with strong profitability

Milestone Refinanced CDFI loan with bank at lower rate

Outcome Established line of credit for ongoing working capital

Key Takeaways

- **Match funding to your stage** – understand where you fall on the capital continuum to pursue the right sources.
- **CDFIs fill a critical gap** – especially for underserved borrowers not yet ready for conventional bank financing.
- **SSBCI expands access to capital** – supporting viable businesses that don't meet traditional bank criteria.
- **Cash flow matters most** – positive or break-even cash flow is typically required for CDFI and SSBCI-backed loans.
- **Use CDFIs as a stepping stone** – prepare, build, and grow toward graduation to conventional bank financing.

Questions?

Helpful Links

- Find SCORE resources for small businesses at www.score.org/templates-resources
- Find more SCORE live and recorded workshops and courses at www.score.org/get-business-training
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