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Section I – Statement of Purpose

The Pennsylvania State Small Business Credit Initiative (PA-SSBCI) was established with federal funding through the Federal State Small Business Credit Initiative (SSBCI), which was reauthorized by the American Rescue Plan Act of 2021 (ARPA) as a response to the economic effects of the COVID-19 pandemic. SSBCI is administered by the U.S. Department of the Treasury (Treasury). The funding includes a main capital allocation to support small businesses, an allocation for business enterprises owned and controlled by socially and economically disadvantaged individuals (SEDI-owned businesses), an incentive allocation for SEDI-owned businesses, and an allocation for very small businesses (VSBs).

The Commonwealth, acting through the Department of Community and Economic Development (DCED), will enter into contractual arrangements with economic development partners for the implementation and administration of capital programs to support small businesses through loans and equity investments. The funding for the PA-SSBCI program includes three components that support private financing to small businesses:

1. Revolving Loan Fund component
2. Direct Venture Investment component
3. Diverse Leaders Venture Program component

The Revolving Loan Fund component provides funding or capital to economic development organizations in the Commonwealth to create or recapitalize revolving loan funds (RLFs) to support financing for Pennsylvania small businesses. The revolving loan funds will be matched by private funding that will create lending and investments to small businesses that need additional support and resources to expand and create jobs.

The Direct Venture Investment component provides funding or capital to economic development organizations in the Commonwealth to provide seed and later-stage capital for existing and emerging companies involved in the development and commercialization of technologically advanced products and processes.

The Diverse Leaders Venture Program component provides loans to venture capital general partners of diverse status having the wherewithal to invest in Pennsylvania small businesses. The loan will be matched by private funding that will create investments in small businesses led by individuals of diverse status that are in need of support and resources to expand and create jobs. For purposes of the program, diverse status is not limited to race or ethnicity but rather is broadly inclusive of membership in a variety of additional types of underserved populations, such as, for example, those based on geographic location or socioeconomic status. This component is administered by DCED under the direction of the Ben Franklin Technology Development Authority. It is subject to a separate set of guidelines, which can be accessed at www.dced.pa.gov.

These program guidelines outline eligibility for economic development organizations that can apply for approval to be a contracted entity for the implementation and administration of either a revolving loan fund or a direct venture investment. Approved economic development organizations will be subject to following these guidelines, the terms and conditions in the suballocation contractual arrangement, the Treasury State Small Business Credit Initiative – Capital Program Policy Guidelines (dated November 10, 2021) and any subsequent policies, rules, regulations and criteria from Treasury.
Section II – Eligibility

A. Revolving Loan Fund Component

1. Eligible Applicants
   The following economic development organizations are eligible to apply for the Revolving Loan Fund component:
   a. Certified Economic Development Organization (CEDO) – An economic development organization that has been certified by The Pennsylvania Industrial Development Authority (PIDA).
   b. Community Development Financial Institution (CDFI) – A community development financial institution that is certified by Treasury, is a member of the PA CDFI Network (as defined below) or has received accreditation from the Pennsylvania Community Development Bank (PCD Bank), and primarily provides business loans to low-to-moderate income individuals and business owners.
   c. Pennsylvania CDFI Network – The Pennsylvania CDFI Network may apply on behalf of its member CDFIs and non-member CDFIs.

2. Use of Funds
   The eligible applicants for the Revolving Loan Fund component can use funding for the following:
   a. Revolving Loan Funds (RLFs) – The creation or recapitalization of revolving loan funds operated by eligible applicants that have as a purpose providing support for small businesses within the community that they serve that need additional funding and resources to expand and create jobs.
   b. Administrative Costs – Documented administrative costs necessary for administering the revolving loan fund shall not exceed 2% of the suballocation amount. SSBCI administrative costs are defined and governed by the Uniform Cost Principles in 2 C.F.R. Part 200, Subpart E. The Uniform Cost Principles contain criteria that must be used to establish chargeable administrative costs and specific information on allowable costs in various cost categories.

B. Direct Venture Investment Component

1. Eligible Applicants
   The following economic development organizations are eligible to apply for the Direct Venture Investment component:
   a. Ben Franklin Technology Partners (BFTP or Partners) – Independent non-profit institutions that assume a key role in carrying out the mission of the Ben Franklin Technology Development Authority (BFTDA) in their respective regions by providing access to capital, business expertise, technology commercialization services and a network of resources in order to advance the development of new technologies.
   b. Life Sciences Greenhouses (LSG) – Regional biotechnology research centers authorized by DCED under Section 1703 of the Tobacco Settlement Act (Act 77 of 2001) that facilitate biomedical, clinical, collaborative, and health services research through the sharing of funds and infrastructure.
2. **Use of Funds**

   The eligible applicants for the Direct Venture Investment component can use funding for the following:

   a. **Direct Funding or Investment in Companies** – Directly provide seed and later-stage equity capital for existing and emerging companies involved in the development and commercialization of technologically advanced products and processes. Eligible applicants may structure the direct equity funding or investments as convertible notes, Simple Agreements for Future Equity (SAFEs), and/or equity investments.

   b. **Administrative Costs** – Documented administrative costs necessary for administering the direct funding or investment in companies shall not exceed 2% of the suballocation amount. SSBCI administrative costs are defined and governed by the Uniform Cost Principles in 2 C.F.R. Part 200, Subpart E. The Uniform Cost Principles contain criteria that must be used to establish chargeable administrative costs and specific information on allowable costs in various cost categories.

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**Section III – Capital Allocation**

The SSBCI funding includes a main capital allocation to support small businesses (a for-profit enterprise that has less than 500 employees at the time of funding), an allocation for business enterprises owned and controlled by socially and economically disadvantaged individuals (SEDI-owned businesses), an incentive allocation for SEDI-owned businesses, and an allocation for very small businesses (VSBs).

The Commonwealth will receive its allocation of capital in three disbursements as follows: 33 percent, 33 percent, and 34 percent. The transfer of the first 33 percent will occur promptly following the receipt of the fully signed Allocation Agreement between the Commonwealth and Treasury. As a precondition to receipt of the second and third disbursements, the Commonwealth must, among other things, certify to Treasury that it has expended, transferred, or obligated 80 percent or more of the prior disbursement of allocated funds to or for the economic development organizations that have delivered loans or investments to eligible businesses (i.e., it has deployed such funds).

Any portion of the Commonwealth’s allocation that has not been transferred to the Commonwealth may be deemed to be no longer allocated and available to the Commonwealth if:

- The second 1/3 of the allocated amount has not been transferred to the Commonwealth before the end of the 3-year period beginning on the date that the Commonwealth is approved for participation in the SSBCI; or

- The last 1/3 of the allocated amount has not been transferred to the Commonwealth before the end of the 6-year period beginning on the date that the Commonwealth is approved for participation in the SSBCI.

Economic development organizations will be required to utilize funding based on this timing from Treasury to ensure that the Commonwealth receives its full allocation.
A. SEDI Allocation

The Commonwealth has been allocated a SEDI allocation based on the needs of SEDI-owned businesses. Economic development organizations must expend the Commonwealth’s SEDI allocation for SEDI-owned businesses. A separate program is not required for SEDI-owned businesses, but the economic development organizations must maintain records of the total amount of its PA-SSBCI funds that are expended for SEDI-owned businesses. The suballocation agreement will include the amount of funding that must be expended for SEDI-owned businesses.

The Commonwealth will consider PA-SSBCI funds to have been expended for SEDI-owned businesses if the economic development partner expends the funds for meeting the needs of SEDI-owned businesses. “Meeting the needs of SEDI-owned businesses” means that the SSBCI funds are expended for loans, investments, or other credit or equity support to:

1. Business enterprises that certify that they are owned and controlled by individuals who have had their access to credit on reasonable terms diminished as compared to others in comparable economic circumstances, due to their (1) membership of a group that has been subjected to racial or ethnic prejudice or cultural bias within American society; (2) gender; (3) veteran status; (4) limited English proficiency; (5) physical handicap; (6) long-term residence in an environment isolated from the mainstream of American society; (7) membership of a federally or state-recognized Indian tribe; (8) long-term residence in a rural community; (9) residence in a U.S. territory; (10) residence in a community undergoing economic transitions (including communities impacted by the shift towards a net-zero economy or deindustrialization); or (11) membership of another “underserved community” as defined in Executive Order 13985;

2. Business enterprises that certify that they are owned and controlled by individuals whose residences are in CDFI Investment Areas, as defined in 12 C.F.R. § 1805.201(b)(3)(ii);

3. Business enterprises that certify that they will operate a location in a CDFI Investment Area; or

4. Business enterprises that are located in CDFI Investment Areas.

The term “owned and controlled” means, if privately owned, 51 percent is owned by such individuals; if publicly owned, 51 percent of the stock is owned by such individuals; and in the case of a mutual institution, a majority of the board directors, account holders, and the community which the institution services is predominantly comprised of such individuals.

A certification will be required with regard to items (a) to (c) above. Item (c) is intended to cover a business taking out a loan or investment to build a location in a CDFI Investment Area, as defined in 12 C.F.R. § 1805.201(b)(3)(ii), that the business will operate in the future. With regard to item (d), an applicant may reasonably identify businesses located in CDFI Investment Areas, based on the businesses’ addresses from the relevant loan application without additional certification.

1. Incentive Allocation for SEDI-Owned Businesses

Treasury has set aside funding to increase the amount of SSBCI funds that states can obtain, beyond the amounts for the second and third tranches of main capital, for states that demonstrate “robust support” for SEDI-owned businesses in the deployment of the prior allocation amounts. States demonstrate “robust support” for SEDI-owned businesses by expending their previously disbursed SSBCI funds for meeting the needs of SEDI-owned businesses. For this purpose, the terms “SSBCI funds,” “expend,” and “meeting the needs of SEDI-owned businesses” have the same definition as in Section III.A. above.
B. VSB Allocation
The Commonwealth has been allocated a VSB allocation. Economic development organizations must expend the Commonwealth’s VSB allocation for VSB-owned businesses. A separate program is not required for VSB-owned businesses, but the economic development organizations must maintain records of the total amount of their PA-SSBCI funds that are expended for VSBs. The suballocation agreement will include the amount of funding that must be expended for VSBs.

A VSB means a business with fewer than 10 employees at the time of the loan, investment, or other credit/equity support and includes independent contractors and sole proprietors. A business that has 10 or more employees following an SSBCI transaction will not be considered a VSB for purposes of subsequent loans or investments.

Section IV – Private Financing Requirements

A. 1:1 Financing Requirement
At a minimum, every $1 of public investment by the program must “cause and result in” $1 of new private credit. This means that loans and investments made with PA-SSBCI funding cannot exceed 50% of a transaction.

For the Revolving Loan component, private financing includes all loans from a private source to an eligible borrower, whether occurring at or subsequent to loan closing, and whether funded or unfunded. It encompasses term loans and lines of credit.

For the Direct Venture Investment component, private financing includes all investments from a private source to an eligible investee, whether occurring at or subsequent to investment closing, and whether funded or unfunded. It encompasses equity investments, written commitments of future equity investments, and any new infusions of cash by the small business owner into the borrower.

Private financing does not include financing provided by tax-credit supported vehicles, such as funds capitalized by the sale of state tax credits. SBA-guaranteed loans or other financing that is credit-enhanced by federal, state, or local incentives may count, if (1) the financing is caused by, or is the result of, an SSBCI-supported transaction, (2) the capital comes directly from a private entity, and (3) the lender or investor has at least some of its own capital at risk.

1. **Relationship to Tax Credit Programs**
   Generally, financing from private tax-credit supported entities cannot be combined with PA-SSBCI. However, non-profit state-sponsored entities that receive funding from the sale of tax credits are permitted to combine this funding and SSBCI-supported programs for their loans and investments. The tax credit funds are still not considered private capital.

   A PA-SSBCI-supported transaction cannot be used by an entity to increase the pool of funds that generate New Markets Tax Credits or Historic Preservation Tax Credits. If, however, a transaction supported with PA-SSBCI funds meets program requirements, an entity may use SSBCI funds alongside a transaction that generates tax credits.
B. 10:1 Financing Goal

The Commonwealth is required to demonstrate a reasonable expectation that all approved programs under the SSBCI together have the ability to use federal contributions to such programs to generate small business lending and investment at least 10 times the federal contribution amount.

C. Lender or Investor Capital at Risk

Economic development organizations must have a “meaningful amount of their own capital resources at risk.” Treasury has determined that “meaningful amount” differs for various types of lenders and investors:

1. **Lenders**
   Lenders that transact with small businesses and bear the risk of loss in such transactions (e.g., by originating loans supported by loan participation) have a meaningful amount of capital resources at risk if they bear 20 percent or more of the risk of loss in any transaction. If such lenders transfer loans to debt investors, then the lenders must retain at least 5 percent of the risk of loss of the transaction.

2. **Equity Investors**
   Equity investors have a meaningful amount of capital resources at risk if these investors establish terms whereby the private capital is pari passu with, or junior to, the PA-SSBCI investment in cash flow rights.

   Eligible equity investors that make qualifying investments under the Incubation Funding Model or Early-Stage Investor Model have a meaningful amount of capital resources at risk if these investors establish terms whereby the private capital is pari passu with the PA-SSBCI investment in cash flow rights up to the repayment of the PA-SSBCI investment.

   If the equity investor is a fund or similar entity, the fund or entity manager must have exposure to the risk of its portfolio in a manner that is consistent with industry standards.

   A “qualifying investment” means an investment with the following qualities:

   - The investment must be the first PA-SSBCI investment in a company, raising early-stage capital, up to $125,000 per company (with a maximum round of $375,000);
   - The economic development organization conducts robust due diligence on the venture capital fund or early-stage investor, including (but not limited to) ensuring that: (1) the investor has experience and a track record in early-stage investing and understands the early-stage investment process; and (2) the investor has a history of directly or indirectly providing incubator-like services; and
   - For the Incubation Funding Model, the available incubator-like services must be equally accessible to all portfolio companies.

D. Borrower/Investee and Loan/Investment Size Requirements

Economic development organizations are required (1) to target an average borrower or investee size of 500 employees or less, (2) not to extend credit support to borrowers/investees that have more than 750 employees, (3) to target support towards loans or investments with an average principal amount of $5 million or less, and (4) not to provide credit or investment support if a given transaction exceeds $20 million. For the revolving loan fund component, the $20 million restriction applies to the principal amount of the loan directly supported by PA-SSBCI, plus all other loans for the same loan purpose that close on or about the same date. For the direct equity capital /venture investment component, the $20 million restriction applies to a single investment round that includes a PA-SSBCI funded investment, including all classes of equity instruments that close on or about the same date. The $20 million restriction cannot be avoided by dividing a larger loan into smaller loans or by creating separate equity instruments within an investment round.
For the purpose of determining a borrower or investee’s eligibility, Treasury’s calculation of borrower size is consistent with the SBA’s methodology for calculating the number of employees under 13 C.F.R. § 121.106. In determining a borrower’s or investee’s number of employees, Treasury counts all individuals employed on a full-time, part-time, or other basis. This includes employees obtained from a temporary employee agency, professional employee organization, or leasing concern. Volunteers (i.e., individuals who receive no compensation, including no in-kind compensation, for work performed) are not considered employees. A borrower’s or investee’s number of employees includes the employees of its affiliates, as defined in 13 C.F.R. § 121.103.

Section V – Loan/Investment Purpose Requirements and Prohibitions

For each loan or investment resulting from PA-SSBCI funding, the economic development organizations are required to obtain an assurance from each borrower or investee stating that the loan or investment proceeds will not be used for an impermissible purpose under the PA-SSBCI program as set forth in the following sections. The “lender” requirements in this section shall apply to economic development organizations serving as both lenders and investors. The “borrower” requirement shall apply to borrowers and investees. Economic development partners must include the following requirements in the loan/investment documentation to the borrowers/investees:

A. Business Purpose Generally

Each economic development organization must obtain an assurance from the borrower/investee affirming that the loan/investment proceeds will be used for a business purpose. A business purpose includes, but is not limited to, start-up costs; working capital; franchise fees; and acquisition of equipment, inventory, or services used in the production, manufacturing, or delivery of a business’s goods or services, or in the purchase, construction, renovation, or tenant improvements of an eligible place of business that is not for passive real estate investment purposes. PA-SSBCI funds may be used to purchase any tangible or intangible assets except goodwill. The term “business purpose” excludes acquiring or holding passive investment in real estate, the purchase of securities, and lobbying activities (as defined in Section 3(7) of the Lobbying Disclosure Act of 1995, P.L. 104-65, as amended).

B. Business Purpose – Passive Real Estate Investment Guidance

Each economic development organization must obtain an assurance from the borrower/investee affirming that the loan/investment proceeds will be used for a business purpose, which excludes acquiring or holding passive investments in real estate. Loan/investment proceeds are used for passive real estate investment purposes when the proceeds of the loan/investment are used to invest in real estate acquired and held primarily for sale, lease, or investment. Passive real estate investment includes most real estate development (including construction) in which the developer does not intend to occupy or actively use the resulting real property.

A small business owner can deliver the assurance regarding passive real estate investment if the small business leases any portion of a building constructed, acquired, or improved with proceeds of a PA-SSBCI-supported loan/loan if such proceeds are used in the construction of a new building and the small business occupies at least 60 percent of the total rentable property following issuance of an occupancy permit or other similar authorization. Alternately, if PA-SSBCI-supported loan/investment proceeds are used in the acquisition,
renovation, or reconstruction of an existing building, the borrower/investee may permanently lease up to 49 percent of the rentable property to one or more tenants if the small business occupies and uses at least 51 percent of the total rentable property within 12 months following the acquisition, renovation, or reconstruction. If a small business chooses to lease an allowable portion of the rentable square footage to a tenant, the economic development organization may rely on lease agreements, blueprints, or similar documentation in assuring the lease of an allowable portion of the rentable square footage is consistent with these guidelines. PA-SSBCI-supported loan/investment proceeds may not be used to improve or renovate any portion of a rentable property that is leased to a third party. “Rentable property” means the total square footage of all buildings or facilities used for business operations, which (1) excludes vertical penetrations (e.g., stairways, elevators, and mechanical areas that are designed to transfer people or services vertically between floors) and all outside areas, and (2) includes common areas (e.g., lobbies, passageways, vestibules, and bathrooms).

There are two exceptions to the general prohibition on the use of PA-SSBCI-supported loan/investment proceeds for passive real estate investment. An eligible business purpose may include the financing of real estate investments in the following limited circumstances:

1. First, a passive company such as a holding company that acquires real property using a PA-SSBCI-supported loan/investment may have an eligible business purpose where 100 percent of the rentable property is leased to the passive company’s affiliated operating companies that are actively involved in conducting business operations. To meet this exception, the following criteria must also be met:
   - The passive company must be an eligible small business using the affiliate and employee definitions described above;
   - The operating company must be subject to the same sublease restrictions as the owner affiliate;
   - The operating company must be a guarantor or co-borrower on the PA-SSBCI-supported loan/investment to the eligible passive company;
   - Both the passive company and the operating company must execute SSBCI borrower/investment use-of-proceeds certifications and sex-offender certifications covering all principals;
   - Each natural person holding an ownership interest constituting at least 20 percent of either the passive company or the operating company must provide a personal guarantee for the PA-SSBCI-supported loans/investments; and
   - The passive company and the operating company have a written lease with a term at least equal to the term of the PA-SSBCI-supported loan/investment (which may include options to renew exercisable solely by the operating company).

2. Second, a construction loan with an original principal amount of $500,000 or less may have an eligible business purpose if (1) the building will not serve as a residence for the owner, their relatives, or affiliates; (2) the building will be put into service immediately; (3) the loan is underwritten and made for the purpose of constructing or refurbishing a structure; and (4) the building has not been and will not be financed by another SSBCI-supported loan. Excluded from eligible business purposes are loans that automatically convert into permanent financing, except if the converted loans would no longer rely on SSBCI support. The term “construction loan” means a loan secured by real estate made to finance (1) land development (e.g., the process of improving land, such as laying sewers or water pipes) preparatory to erecting new structures or (2) the on-site construction of industrial, commercial, residential, or farm buildings. For purposes of this paragraph, “construction” includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures.
C. Prohibited Loan/Investment Purposes

Each economic development organization must obtain an assurance from the borrower/investee affirming that the loan/investment proceeds will not be used to:

- Repay delinquent federal or state income taxes unless the borrower/investee has a payment plan in place with the relevant taxing authority;
- Repay taxes held in trust or escrow (e.g., payroll or sales taxes);
- Reimburse funds owed to any owner, including any equity investment or investment of capital for the business’s continuance; or
- Purchase any portion of the ownership interest of any owner of the business, except for the purchase of an interest in an employee stock ownership plan qualifying under Section 401 of Internal Revenue Code, worker cooperative, or related vehicle, provided that the transaction results in the employee stock ownership plan or other employee-owned entity holding a majority interest (on a fully diluted basis) in the business.

D. Additional Borrower/Investee Restrictions

Each economic development organization must obtain an assurance from the borrower/investee affirming that the borrower/investee is not:

- A business engaged in speculative activities that profit from fluctuations in price, such as wildcatting for oil and dealing in commodities futures, unless those activities are incidental to the regular activities of the business and part of a legitimate risk management strategy to guard against price fluctuations related to the regular activities of the business or through the normal course of trade;
- A business that earns more than half of its annual net revenue from lending activities, unless the business is (1) a CDFI that is not a depository institution or a bank holding company, or (2) a Tribal enterprise lender that is not a depository institution or a bank holding company;
- A business engaged in pyramid sales, where a participant’s primary incentive is based on the sales made by an ever-increasing number of participants;
- A business engaged in activities that are prohibited by federal law or, if permitted by federal law, applicable law in the jurisdiction where the business is located or conducted (this includes businesses that make, sell, service, or distribute products or services used in connection with illegal activity, unless such use can be shown to be completely outside of the business’s intended market); this category of businesses includes direct and indirect marijuana businesses, as defined in SBA Standard Operating Procedure 50 10 6; or
- A business deriving more than one-third of gross annual revenue from legal gambling activities.

E. Revolving Loan Fund Component: Certification Relating to Sex Offenses

Each economic development organization that makes loans from the Revolving Loan Fund component must also obtain an assurance from the borrower affirming that no principal of the borrowing entity has been convicted of a sex offense against a minor (as such terms are defined in Section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. § 16911)). For purposes of this certification, “principal” is defined as if a sole proprietorship, the proprietor; if a partnership, each partner; if a corporation, limited liability company, association, development company, or other entity, each director, each of the five most highly compensated executives, officers or employees of the entity, and each direct or indirect holder of 20 percent or more of the ownership stock or stock equivalent of the entity.
**F. Direct Venture Investment Component: Certification Relating to Sex Offenses**

Each economic development organization that makes an investment from the Direct Venture Investment component must also obtain an assurance that no principal of the investor or the investee has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. § 16911)). For the purposes of this certification, “principal” is defined as if a sole proprietorship, the proprietor, if a partnership, each managing partner and each partner who is a natural person and holds 50 percent or more ownership interest of any class of the partnership interests; if a corporation, limited liability company, association, development company, or other entity, each director, each of the five most highly compensated executives or officers of the entity, and each natural person who is a direct or indirect holder of 50 percent or more of any class of equity interest in the entity; and if a partnership where the managing partner is a corporation, limited liability company, association, development company, or other entity, each director and each of the five most highly compensated executives or officers of the entity.

**G. Lender/Investor Assurances**

The Commonwealth must obtain an assurance from the economic development organization affirming:

- The PA-SSBCI-supported loan/investment is not being made in order to place under the protection of the PA-SSBCI program prior debt that is not covered under the PA-SSBCI program and that is or was owed by the borrower/investee to the economic development organization or to an affiliate of the economic development organization.

- The loan/investment is not a refinancing of a loan/investment previously made to the borrower/investee by the economic development organization or an affiliate of the economic development organization and complies with all applicable SSBCI requirements to refinancing, described forth below.

- No principal of the economic development organization has been convicted of a sex offense against a minor (as such terms are defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. § 16911)). For the purposes of this certification, “principal” is defined as: if a sole proprietorship, the proprietor; if a partnership, each partner; if a corporation, limited liability company, association, development company, or other entity, each director, each of the five most highly compensated executives, officers or employees of the entity, and each direct or indirect holder of 20 percent or more of the ownership stock or stock equivalent of the entity.

1. **Lender Assurances: Refinancing and New Extensions of Credit**

   **New Lenders.** Under the SSBCI statute, a lender is not prohibited from enrolling or refinancing loans previously made by another, non-affiliated financial institution. However, the purpose of SSBCI is to support small businesses, including by providing new capital. Accordingly, a lender may refinance a borrower’s existing loan, line of credit, extension of credit, or other debt originally made by an unaffiliated lender only if the following conditions are met:

   a. The amount of the refinanced loan or other debt is at least 150 percent of the previous outstanding balance;

   b. The transaction results in a 30 percent reduction in the fee-adjusted APR contracted for the term of the new debt, to help ensure that SSBCI funding is used only for transactions that meaningfully benefit borrowers by providing access to sustainable products; and

   c. Proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.
2. **New Extensions of Credit by Existing Lenders.**

Financial institutions are generally prohibited from refinancing an existing outstanding balance or previously made loan, line of credit, extension of credit, or other debt owed by a small business borrower already on the books of the same financial institution (or an affiliate) into the SSBCI-supported program. However, a financial institution lender may use SSBCI funds to support a new extension of credit that repays the amount due on a matured loan or other debt that was previously used for an eligible business purpose when all the following conditions are met:

a. The amount of the new loan or other debt is at least 150 percent of the outstanding amount of the matured loan or other debt;

b. The new credit supported with SSBCI funding is based on a new underwriting of the small business’s ability to repay the loan and a new approval by the lender;

c. The prior loan or other debt has been paid as agreed and the borrower was not in default of any financial covenants under the loan or debt for at least the previous 36 months (or since origination, if shorter); and

d. Proceeds of the transaction are not used to finance an extraordinary dividend or other distribution.

If the economic development organization enrolls a loan that is used to repay principal under a loan previously made by the same economic development organization or its affiliate, the Economic development organization must maintain records showing that these criteria were met. The limitation on refinancing does not prohibit an economic development organization from originating a new loan under an SSBCI-approved program and subsequently refinancing the same loan under any approved program.

H. **Revolving Loan Fund Component: Conflict-of-interest**

Each economic development organization must obtain an assurance from the borrower affirming that the borrower is not:

1. An executive officer, director, or principal shareholder of the economic development organization;

2. A member of the immediate family of an executive officer, director, or principal shareholder of the economic development organization; or

3. A related interest or immediate family member of such an executive officer, director, or principal shareholder of the economic development organization.

For purposes of these three borrower restrictions, the terms “executive officer,” “director,” “principal shareholder,” “immediate family,” and “related interest” refer to the same relationship to an economic development organization as the relations described in 12 C.F.R. Part 215.

Permissible borrowers may include state-designated charitable, religious, or other non-profit or philanthropic institutions; government-owned corporations; consumer and marketing cooperatives; and faith-based organizations, provided the loan is for a “business purpose” as defined above. Permissible borrowers may also include sole proprietors, independent contractors, worker cooperatives, and other employee-owned entities, as well as Tribal enterprises, provided that all applicable program requirements are satisfied.
I. Direct Venture Investment Component: Conflict-of-Interest Standards

Funds from the Direct Venture Investment component must not be used to make an investment in a business in which an SSBCI insider has a personal financial interest.

The following definitions apply to the conflict-of-interest standards for the Direct Venture Investment component:

1. An “SSBCI insider” of an SSBCI venture capital program is a person who, in the 12-month period preceding the date on which SSBCI support for a specific investment in a venture capital fund or company is closed or completed:
   a. Was:
      • A manager or staff member, whether by employment or contract, in the state’s SSBCI venture capital program;
      • A government official with direct oversight or jurisdiction over an SSBCI venture capital program, or such an official’s immediate supervisor;
      • A member of the board of directors or similar body for a state-sponsored non-profit entity who, through such membership, has authority to vote on decisions to invest SSBCI funds or has authority over the employment or compensation of staff managing processes related to the investment of SSBCI funds;
      • A member of the board of directors or similar body for an independent non-profit or for-profit entity that operates an SSBCI venture capital program; or
      • An employee, volunteer, or contractor on an investment committee or similar body that recommends or approves SSBCI investments under the SSBCI venture capital program; or
   b. Exercised a controlling influence on state decisions regarding:
      • The allocation of SSBCI funds among approved state venture capital programs;
      • Eligibility criteria for the state’s SSBCI venture capital programs; or
      • The processes for approving investments of SSBCI funds under the state’s SSBCI venture capital program.

2. A “business partner” of an SSBCI insider is a person who owns 10 percent or more of any class of equity interest, on a fully diluted basis, in any private entity in which an SSBCI insider also owns 10 percent or more of any class of equity interest on a fully diluted basis.

3. A “family member” of an SSBCI insider means:
   a. Such person’s spouse, domestic partner, parents, grandparents, children, grandchildren, brothers, sisters, stepbrothers, and stepsisters; and
   b. Any other relatives who live in the same household as the SSBCI insider.

4. An “independent non-profit entity” means any non-profit entity that is not state-sponsored.

5. A “personal financial interest” means any financial interest derived from ownership or right to ownership of, or lending to or other investment in, a private, for-profit entity that may receive an SSBCI investment (including any financial interest derived from ownership or right to ownership of, or investment in, a venture capital fund).
6. A “state-sponsored non-profit entity” is a non-profit entity created by state legislation to pursue policies of the state government and over which state officials exercise a controlling influence through budgetary decisions or other legislative action or direction.

Subject to the exceptions described below, SSBCI funds may not be used by SSBCI venture capital programs to make or support investments in a company or venture capital fund if an SSBCI insider, or a family member or business partners of an SSBCI insider, has a personal financial interest in the company or venture capital fund. A prohibited conflict of interest is deemed to exist even if the conflict is disclosed, or the relevant individuals recuse themselves from participating in the investment. Further, accepting a role as an SSBCI insider does not require a person to divest financial interests in a company or venture capital fund resulting from previous employment or personal investment activity. However, if a person is an SSBCI insider, any company or venture capital fund in which the insider has a personal financial interest is prohibited from receiving investments or financial support from SSBCI funds.

Exceptions to the general prohibition are as follows:

- A governmental entity or a state-sponsored non-profit entity may use SSBCI funds for follow-on investments in companies or venture capital funds if the entity has an existing ownership or voting interest resulting from a prior investment of SSBCI funds or non-SSBCI funds. Furthermore, in this circumstance, the entity may authorize investments if an SSBCI insider serves on the board of directors of the company or venture capital fund, if an SSBCI insider does not have a personal financial interest in the company or venture capital fund, and the entity’s prior financial interest is in compliance with all applicable state laws and rules.

- An independent non-profit or for-profit entity managing or investing SSBCI funds for an SSBCI venture capital program is not precluded from authorizing follow-on investments using SSBCI funds in a company or venture capital fund in which the entity previously invested SSBCI funds or the entity has previously appointed a representative to serve on the board of directors in stewardship of the investment. However, such independent non-profit or for-profit may not authorize (or seek approval from the participating state for) an investment of SSBCI funds in a company or venture capital fund in which the entity holds any type of financial interest resulting from an investment made with non-SSBCI funds.
Section VI – Other Requirements

A. Compliance with Civil Rights Requirements

The PA-SSBCI funds are considered federal financial assistance for purposes of legal requirements related to nondiscrimination and nondiscriminatory use of federal funds. The grantee will be bound to not deny benefits or services, or otherwise discriminate, on the basis of race, color, national origin (including limited English proficiency), disability, age, or sex (including sexual orientation and gender identity), in accordance with, but not limited to, the follow authorities: Title VI of the Civil Rights Act of 1964 (Title VI), 42 U.S.C. § 2000d-1 et seq., and Treasury’s implementing regulations, 31 C.F.R. Part 22; Section 504 of the Rehabilitation Act of 1973 (Section 504), 29 U.S.C. § 794; Title IX of the Education Amendments of 1972 (Title IX), 20 U.S.C. § 1681 et seq., and Treasury’s implementing regulations, 31 C.F.R. Part 28; and the Age Discrimination Act of 1975, 42 U.S.C. § 6101 et seq., and Treasury’s implementing regulations at 31 C.F.R. Part 23.

B. Non-Discrimination

No assistance shall be awarded to an applicant under this program unless the applicant certifies that the applicant shall not discriminate against any employee or against any person seeking employment by reason of race, gender, creed, color, sexual orientation, gender identity or expression, or in violation of the Pennsylvania Human Relations Act, which prohibits discrimination on the basis of race, color, religious creed, ancestry, age, sex, national origin, handicap or disability, or in violation of any applicable federal laws.

C. In-State and Out-of-State Loans

A minimum of 90 percent of the PA-SSBCI funds must be used for loans for small businesses headquartered in the state. The applicant must verify the location of the borrower/investee. If a loan is to be provided to an out-of-state borrower, a narrative must be provided to DCED with an explanation as to the benefits that will be provided to the businesses within the Commonwealth due to the investment provided.

D. Enrollment of Loans in Loan-Related SSBCI Programs

Economic development organizations cannot enroll a loan in more than one approved state program at the same time. An economic development organization may not divide one loan into multiple agreements or notes, each enrolled in an approved state program, for the same loan purpose. If, for example, a borrower receives two loans under separately approved state programs, each participating state should maintain documentation showing that the borrower used the loan proceeds from the two loans for different purposes. Examples of documentation include the description of the loan purpose in the two loan agreements, copies of checks paid to vendors with the proceeds of the two loans, or a statement signed by the lender or borrower prior to closing the SSBCI-supported transaction indicating the two different uses of the two loans.

E. Relationship to SBA Lending Programs and Other Federal Loans

Economic development partners may not enroll any portion of an SBA-guaranteed loan or the unguaranteed portion of any other federal loans without the express, prior written consent of the Treasury. Participants must contact DCED for prior approval if they intend to enroll any portion of an SBA-guaranteed loan or an unguaranteed portion of any other federal loan.

If a borrower receives a loan guaranteed by the SBA’s 7(a) or 504 loan programs or the U.S. Department of Agriculture’s Business and Industry (USDA B&I) loan program, PA-SSBCI funds may not be used as credit support to a loan or investment for the same purposes as the SBA- or USDA-guaranteed loan. For example, a borrower may not use a loan guaranteed under SBA’s 7(a) program and an SSBCI-supported loan to
purchase the same real estate, including land and improvements. In contrast, a borrower may receive two sources of federal support in two separate loans if the proceeds for the two loans are for different purposes. For example, if a borrower receives a loan guaranteed under the SBA 7(a) or 504 program or the USDA B&I program to purchase real estate occupied by the borrower, the borrower also may receive a PA-SSBCI loan to purchase equipment. DCED requires documentation showing that the borrower used the loan proceeds from the two loans for different purposes. Examples of documentation include the description of the loan purpose in the two loan agreements or promissory notes, copies of checks paid to different vendors from the proceeds from the two loans, or a statement signed by the participant or borrower prior to closing the PA-SSBCI transaction indicating the two different uses of the two loans.

F. Minimum National Customer Protection Standards

SSBCI funds are intended to benefit small businesses by making capital available for lending and investment. To promote program integrity and ensure that PA-SSBCI transactions primarily benefit small businesses, the participant’s PA-SSBCI lending must conform to the minimum national customer protection standards. These standards do not affect a participant’s obligation to adhere to other applicable state or federal requirements related to customer protection.

1. **Rate Cap.** The interest rate for each individual loan, at the time of obligation, may not exceed the National Credit Union Administration’s (NCUA) interest rate ceiling for loans made by federal credit unions as described in 12 U.S.C. § 1757(5)(A)(vi)(I) and set by the NCUA board. The NCUA’s permissible interest rate ceiling supports its mission to protect credit unions and its consumers.

2. **Exclusion of certain features.** PA-SSBCI transactions may not include any of the following: (1) confessions of judgment; (2) prepayment or “double-dipping” fees; or (3) upfront fees or charges paid by the small business, excluding fees to the state program, that exceed 2 percent for loans greater than $25,000 or $500 for loans under $25,000.

G. Disclosure of Terms

Transactions must include disclosure by the participant of all key terms in an easy-to-understand manner. Such disclosures should include, for example, the loan amount; payment obligation and schedule; any terms giving the participant control over the borrower’s cash balances, cash flows or ownership; any conversion rights and future rights to purchase equity; and any fees or extra costs. This minimum standard does not supersede disclosure requirements that may apply under other applicable law. All applicable federal and state securities and lending disclosure laws, rules, and regulations continue to apply.

H. Internal Controls

In accordance with the Uniform Administrative Requirements, Cost Principles and Audit Requirements (2 C.F.R. Part 200) the recipient must have administrative and Internal controls systems in place to safeguarded against waste, loss, unauthorized use, or misappropriation. In addition, must comply with the subpart F Audit Requirements of 2 C.F.R. Part 200. Applicants must keep the funds segregated, either through separate checking accounts or accounting systems that can maintain records of SSBCI funds.

I. Program Income

Program Income must be used for the purposes outlined in the program guidelines. Program Income is defined as gross income received by the participating jurisdiction that is directly generated by an SSBCI-supported activity or earned as a result of an SSBCI allocation during the SSBCI program period. Program Income includes, but is not limited to, income from: fees for services performed that were funded or supported with SSBCI funds, interest earned on loans made using SSBCI funds, interest on SSBCI funds not invested or lent to a business, and returns on SSBCI-supported equity investments. Program income does not include repayment of principal or return of invested capital.
J. Federal Requirements

SSBCI funding is federal funding that is subject to rules and regulations as outlined by Treasury. Economic development partners that are approved for funding are required to follow all federal requirements for funding during the duration of the SSBCI program.

Section VII – Records and Reporting

The applicant must maintain full and accurate records with respect to the project and must ensure adequate control over related parties in the project. The Commonwealth requires access to such records, as well as the ability to inspect all work, invoices, materials, and other relevant records at reasonable times and places. Upon request of the Commonwealth, the applicant must furnish all data, reports, contracts, documents, and other information relevant to each loan.

The Commonwealth is required to submit quarterly reports, annual reports, SF-425 Federal Financial Reports, and performance results at the final annual report. Applicants are required to provide transaction level data in a timely manner to the Commonwealth for the filing of these reports. Failure to do so may result in the loss of future disbursements.

Section VIII – Application Process

A. Application Procedures

To apply for funding, the applicant must submit the online Department of Community and Economic Development Electronic Single Application for Assistance located at www.esa.dced.state.pa.us. Required supplemental information outlined in Appendix I of these guidelines must be attached electronically to the application as directed on the Addenda tab. For technical inquiries regarding the submission of the online application, contact the Customer Service Center at (800) 379-7448 or (717) 787-3405.

B. Application Evaluation

Applications will be reviewed by DCED. Applications will undergo a comprehensive evaluation of an applicant will include the review of all the following factors:

1. The applicant’s track record, financial strength and current operations.
2. The capacity, skills and experience of the management team.
3. The current and historical performance of the applicant’s loan and/or development investment portfolio.
4. The applicant’s potential to sustain successful operations as a financial institution.

Suballocation agreement amounts will be based on the strength of the application as determined by the evaluation factors.

The applicant must be fully positioned, within 90 days of the execution of the Allocation Agreement between DCED, acting on behalf of the Commonwealth, and Treasury, to act on providing the kind of credit support the program was established to provide.
Section IX – Procedures for Accessing Funds

The PA-SSBCI program is a federally funded program. Applicants will need a Unique Entity Identifier (UEI) (instead of the former Data Universal Number System (DUNS)) and be registered with the System for Award Management (SAM) in order to apply for funding and receive funding under the program.

Following approval of an application by DCED, a suballocation agreement will be issued electronically to the applicant explaining the terms and conditions of the suballocation agreement. The suballocation agreement must be electronically signed and returned to DCED. A fully executed suballocation agreement between the applicant and DCED is required prior to disbursement of funds. Costs incurred prior to the full execution of the contract are incurred at the applicant’s own risk.

The PA-SSBCI funds can be used to make loans and investments from the approval date through December 31, 2030. The Commonwealth reserves the right to require all unused funds to be returned to the Commonwealth at the end of the program.

A. Tranches

The Commonwealth’s allocation will be transferred by Treasury in three equal tranches, with 33 percent in each of the first and second tranches and 34 percent for the third tranche. The first allocation will be disbursed when the Commonwealth is approved for participation in SSBCI. The second and third disbursements will occur when the Commonwealth certifies that 80 percent of its prior tranche of SSBCI funds has been deployed in loan and equity investments made to eligible businesses through approved economic development partners.

The suballocation agreement for approved economic development partners will be for the Commonwealth’s first allocation only. Upon receipt of the second and third tranches, DCED will amend the suballocation agreements with additional approved funding. DCED will be making the amendments for additional funding based on performance of the economic development partners during the previous tranche(s).

DCED reserves the right to modify sub allocations based on performance to ensure that disbursement requirements for each tranche is met.

Section X – Program Inquiries

Program inquiries may be directed to:

PA Department of Community and Economic Development
Business Finance and Workforce Development – Grants Office
400 North Street, 4th Floor
Commonwealth Keystone Building
Harrisburg, PA 17120-0225

Telephone: 717-787-6245
Email: ra-dcpassbci@pa.gov
Appendix I – Application Supplemental Items

Exhibit 1:  Experience and Capacity
A description of the operational capacity, skills, and experience of the organization and lending/investing history and experience. Should address whether the organization has adequate organizational resources, infrastructure, systems, and standard operating policies and procedures to administer the PA-SSBCI funding, including:

a. Description of entity
b. Date of incorporation
c. Depth, breadth and stability of management experience in community and/or economic development lending/investing
d. Management’s capacity to maintain successful operations
e. Date lending operations commenced
f. Date investment operations commenced
g. Explanation for any business interruption or organizational moratorium of lending/investing since inception of operations

Exhibit 2:  Capacity to Manage Increases
A description of the ability of your organization to manage increases in the volume to its small business lending or investing. This could include a description of your organizational infrastructure, resources, and the management team’s skills and experience to handle increases in small business lending or investing.

Exhibit 3:  Underwriting Experience

a. Provide policies for underwriting, loan/investment administration, risk management, portfolio management
b. Description of all relevant practices employed to measure organizational performance, including frequency of reporting, process of reviewing reports and report dissemination.
c. A list of active loan accounts in the format the organization uses to monitor loan activity. If more than one report is used, please attach and describe in what capacity each report is used.
d. A list of delinquent loan accounts, information on loans in default and loans charged off in the past five years. If lending for fewer than five years, reports should reflect information since organization’s inception.
e. An organizational chart and corresponding written job descriptions for each of the key management and lending positions identified on the organizational chart.
f. Summarized community development lending experience of the incumbent holding the following positions:
   i. Executive management
   ii. Board members
   iii. Loan Committee members, if different than Board members
   iv. Key lending/investment personnel
Exhibit 4: Accounting and Administrative Controls

a. A description of the internal accounting and administrative controls systems of the organization and the extent to which such systems can provide reasonable assurance that the PA-SSBCI funds will be safeguarded against waste, loss, unauthorized use, and misappropriation.

b. The most recent audited financial statements of the applicant. Financial statements should include balance sheets, income statements, and notes to financials.

Exhibit 5: Requested Allocation

Please provide your request for how much funding you are seeking from all three tranches of PA-SSBCI funding. Please include any in information on how you determined your request, such as projected number of loans/investments you anticipate making annually, the average size of the loans/investments, and how funding you anticipate utilizing annually.

Exhibit 6: Service Area for Organization and Client Base

Information on the service area for your organization and client based, including:

a. Investment Area(s): Indicate name(s) of county or counties served by the applicant.

b. Client Base and targeted business(es): Identify businesses served, if target market is not defined in geographic terms, including businesses in low-income areas.

Exhibit 7: Outreach Strategy

Description of outreach, including:

a. Your organization’s strategy for outreach and marketing to affected business owners and your plan for efficiently deploying the funds to these businesses.

b. Your organization’s strategy for outreach and marketing to SEDI-controlled businesses and VSBs

c. Your organization’s strategy for providing access to capital for small businesses in low- and moderate-income, minority, and other underserved communities, including women- and minority-owned small businesses (collectively, “underserved communities”)

d. Product offerings, including loan terms and interest rates for loans/investments