



Cedar Hills
Community Bank

(Fictitious Bank)

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Extend

A (Sample) Special Purpose Credit Program

Established February 2024

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Introduction to Cedar Hills Community Bank (*Fictitious Bank*)

Cedar Hills Community Bank, N.A. (referred to as "the bank" or "Cedar Hills") was established in 2007 and is headquartered in Portland, Oregon. The bank operates six branches across Washington, Clackamas, and Multnomah counties in the state of Oregon. Cedar Hills' governance structure is designed to embed the organization in the local community it serves. Its board of directors is composed of local business owners and community representatives. Over the course of its 16 years of operations, the bank has grown to over \$900 million in assets and employs 165 staff members. It offers a wide range of banking services, including personal banking, business banking, and investment solutions. The bank has a strong reputation for its ethical practices, transparency, and commitment to sustainability.

Cedar Hills is committed to serving low- to moderate-income communities and has been a Community Development Financial Institution since 2010. The bank's standard programs were designed with the community in mind, aiming to increase wealth and promote financial justice for those who have been systemically and historically left behind. The bank is a certified B Corp and has received "Outstanding" CRA ratings for the past 12 years. Cedar Hills is one of the largest Small Business Administration (SBA) lenders in its tri-county footprint.

Furthermore, Cedar Hills is a socially responsible bank that believes in making a positive impact not only on society, but on the planet. For example, the Bank has implemented several eco-friendly initiatives, such as reducing paper waste by going digital, installing energy-efficient lighting and appliances in its branches, and using renewable energy sources to power its operations. Cedar Hills also has a program to plant a tree for every account opened, as a way of reducing the carbon footprint of its customers. The bank is dedicated to climate justice as a fossil fuel-free lender.

The Bank's commitment to its customers is also evident in its exceptional customer service. The bank's staff are knowledgeable, friendly, and always willing to help customers with their banking needs. Additionally, Cedar Hills provides financial education resources to help customers make informed decisions about their finances.

Cedar Hills's business banking solutions are tailored to meet the needs of small and medium-sized enterprises, with a focus on providing sustainable financing options that support environmentally conscious businesses. Overall, Cedar Hills is a bank that cares about its customers and the planet. With its focus on sustainability, ethical practices, and exceptional customer service, Cedar Hills has earned a great reputation in the banking industry and is a leader in fostering equity for its community.

Introduction to Extend

Cedar Hills is establishing Extend, a small business and entrepreneurship program to expand access to credit for communities that have experienced long-term societal wealth inequities. Extend is a Special Purpose Credit Program (SPCP) and is made pursuant to the Equal Credit Opportunity Act (ECOA)/Regulation B and is designed to meet the criteria set forth in Section 1002.8 of the regulations of the Consumer Financial Protection Bureau.

The standard small business lending program application process begins with an applicant submitting detailed information about the business's financial history, future projections, and the purpose of the loan. Cedar Hills then assesses the application, considering factors such as creditworthiness, business plan viability, and collateral. If approved, the terms of the loan or service agreement are finalized, including interest rates, repayment schedules, and any applicable fees.

Extend is an overlay product for this existing small business program, the terms of which are automatically applied once a selected classification is indicated on the application. This means that the capital sources, uses, staffing, and processes remain the same, but applicants that indicate their race or ethnicity as Black, Indigenous or Latino will be automatically eligible for the underwriting criteria, and if approved, the pricing and technical assistance services of the Extend program. Cedar Hills has chosen to create the SPCP as an overlay product to the standard small business program to allow for direct performance tracking and impact of the changed parameters.

This overlay SPCP will consider a lowered FICO score requirement and a flat interest rate lower than our standard small business program. In addition, all fees will be waived. The program also offers free business development and capital access services via Cedar Hills Business Resource Center, a nonprofit with 15 years of experience providing small business training services.

Program Standards

Lending Area

The geographic lending area is the same as the bank's CRA assessment area, which consists of Washington, Clackamas, and Multnomah counties in the state of Oregon.

Eligibility and Characteristics of Borrowers

Cedar Hills has designed this program to expand access to credit to those who have been historically and systematically disenfranchised and denied access to, or were charged more for, financial services to meet their needs. The small business, sole proprietorship, or organization applying must be led by, or at least 51% owned by, a qualifying classification of people. Based

on the discovery of data in the bank's lending area, the following classifications shall apply to the Extend program:

- Black Persons
- Indigenous Persons
- Latino Persons

Applicants will be asked to self-identify on their application. If one or more of the classifications are selected during the application process, our proprietary POS system and loan decisioning software has been programmed to adjust the relevant parameters of the loan. The information collected is not used for decisioning, but only for identifying eligibility for this program and the evaluation of this program's effectiveness.

Acceptable Purposes

Uses will vary depending on the specific terms of the loan agreement. There is no change to the acceptable purposes as outlined in the standard small business program, however the uses are listed here for clarity and reference. Small business loan applications can be utilized for various purposes, including:

- Working capital
- Equipment and inventory
- Marketing and advertising
- Business expansion
- Debt consolidation
- Renovations and improvements
- Emergency expenses

Extend Specific Processes and Standards

Analysis of various studies indicate that adjusting two elements of our program and standards will allow us to increase approvals for the persons identified for this SPCP: minimum credit score and pricing. A detailed description of the nexus between the needs and these adjustments are provided in a following section entitled "Need for a Special Purpose Credit Program." All other elements of the Extend program will remain the same as our existing small business lending product.

- Credit Score: The minimum FICO score for a small business loan is set at 670. For this SPCP, the minimum qualifying score will be lowered from 670 to 600. Besides the adjustment in minimum qualifying score, all standard underwriting processes will remain the same.

- Pricing: To mitigate systemic bias, credit scores will not be used to assess the pricing of a loan. The bank will assess a flat interest rate across this program, which will be 100 basis points lower than the standard program's lowest rate. All credit scores at, or above the minimum program threshold of 600 will qualify for this same flat rate upon approval. All fees that are normally assessed will be waived, which includes application fees, credit report fees, and late fees (if applicable).

Loan Amounts and Term

Cedar Hills aims for flexibility with loan terms to assist with manageable payments. The Extend program will have a maximum loan amount of \$100,000 and a maximum loan term of 120 Months.

- Up to \$25,000 – Maximum 60 Months
- \$25,000 to \$50,000 – Maximum 84 Months
- \$50,000 to \$100,000 – Maximum 120 Months

Servicing and Repayment

Extend applicants will be offered free technical assistance services for pre- and post-loan support. Cedar Hills Community Bank has a standing agreement with the Cedar Hills Business Resource Center. Extend applicants will be able to receive help with the loan application process and with cash management strategies should servicing issues arise after closing. As stated above, should the need arise to assist borrowers who are facing difficulties in making timely payments, the Bank will not charge any fees, including late fees. Instead, a representative will contact the borrower to refer them to Cedar Hills Business Resource Center to identify potential solutions to bring the payments current.

To ensure effective deployment of capital, interest-only payments can be scheduled for up to 120 days after origination. This is a standard option for the business lending product Cedar Hills currently offers.

Program Duration and Evaluation

The Extend program will consider new applications for a period of 24 months (expected launch date of April 1, 2024), or until \$3 million in capital has been deployed, whichever comes first. The goal of the evaluation is to measure Extend's effectiveness at providing capital to the intended community in such a way that is as good as, or better than, the standard small business lending program. Cedar Hills will evaluate the following aspects to determine this and the next course of action:

- Access to capital: The bank will evaluate the program application and approval rates by each intended demographic group both within the program and in comparison, with the

bank's standard small business program to measure its effectiveness in increasing access to capital.

- Customer satisfaction: The Bank will collect customer feedback to gauge their satisfaction with Extend. This will be done primarily through two surveys, one sent out after closing and another after payoff. We will also explore focus groups and community feedback. The feedback collected will be used to identify areas for improvement and to measure effectiveness at increasing access to capital for Indigenous, Latine, and Black Americans who have experienced systemic exclusion and inequity with respect to lending.
- Portfolio performance: The Bank will review the performance of the credit portfolio, including metrics such as delinquency rates, charge-off rates, and credit losses. These metrics will be compared with the standard small business program, and industry benchmarks to assess the program's overall performance.
- Operational efficiency: The Bank will review the efficiency of the Extend program operations, including loan processing times, customer service, and technology systems. This review will help identify areas to better implement changes in processes, costs, and metrics.

Need for a Special Purpose Credit Program

There is no single reason for the inequality in wealth and income for people of color today in the United States, but rather it is a cumulation of centuries of denial and oppression. It is impossible to list every action and unique experience that these groups have faced and are still facing today, but there are key data points that indicate the current economic disadvantages for our program's three priority groups and therefore the need for a Special Purpose Credit Program.

The Urban Institute writes, “given the history of banking in the United States—which was created when slavery was still legal, deliberately excluded Black Americans for a century, and then employed discriminatory practices such as redlining and subprime lending—it is not surprising that many Black Americans are hesitant to engage with banks.”¹ In the United States, racial and ethnic minority groups are more likely to be unbanked or underbanked, meaning they do not have a bank account, or they rely on alternative financial services, including lending. According to the National Community Reinvestment Coalition, “two-thirds of banking institutions have disappeared since the early 1980s — declining from nearly 18,000 in 1984 to fewer than 5,000 in 2021... One-third of the branches closed from 2017 to 2021 were in a low-to moderate-income and/or a majority-minority neighborhood where access to branches is

¹ <https://www.urban.org/urban-wire/building-trust-financial-system-key-closing-racial-wealth-gap>

crucial to ending inequities in access to financial services.”² An article on the Federal Reserve Bank of New York by Liberty Street Economics states “access to bank credit, particularly for small businesses, declines as the distance between the bank and borrower grows.”³

Furthermore, a 2022 survey of business owners by the Joint Center for Political and Economic Studies found 58.1% of Black respondents and 35.8% of Latino respondents stated they faced challenges accessing capital, while only 24.2% of white businesses said the same. Challenges indicated included a lack of startup funding, a lack of growth funding, a lack of affordable interest rates, a lack of funding due to poor credit scores and a lack of the right amount of funding.⁴ An annual survey of entrepreneurs by the Kaufman Foundation found that more Black (17.6%), Latino (14.9%) and Indigenous-owned (16.7%) firms rely on personal credit cards than their white counterparts (10.3%). The same study determined that compared to white entrepreneurs (10.1%), Black (28.4%), Latino (17.5%) and Indigenous (15.5%) entrepreneurs were more likely to have profits negatively impacted by access to capital.⁵ This means that there is an unfulfilled need in small business lending, and that it is significantly greater for Black, Latino and Indigenous people.

According to the Urban Institute, “unjust practices created an architecture of wealth extraction from communities of color and produced racial gaps in lending that will persist absent intervention.” The Urban Institute explains that lenders often attribute this disparity to the poorer average credit characteristics of applicants of color rather than to the consequences of discrimination, and that this perspective overlooks the fact that racial disparities are embedded in the credit indicators that drive lending outcomes.⁶ The Aspen Institute further details racial disparities in credit reporting and scoring in their report “Disparities in Debt.” One example shows that “because having a mortgage positively affects scoring, lower rates of homeownership drag down scores (which is self-perpetuating, as low scores make it harder to borrow for a home).”⁷ Accounts such as rent or utilities, which our priority communities are more likely to have positive payments in, are not commonly reported to credit bureaus. Correspondingly, white communities have an average median credit score of 727, while Black

² <https://ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america/>

³ <https://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information/#.Vt5LhtBYG53>

⁴ <https://jointcenter.org/wp-content/uploads/2022/04/Exploring-Challenges-for-Small-Business-Owners-Across-Race-Joint-Center.pdf>

⁵ https://www.kauffman.org/wp-content/uploads/2019/12/ase_brief_startup_financing_by_race.pdf

⁶ <https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting>

⁷ https://www.aspeninstitute.org/wp-content/uploads/2022/02/FINAL-ASP-FSW_Disparities-in-Debt_020722-3.pdf

communities have a median of 627, Hispanic communities have a median of 667, and Indigenous communities have a median credit score of 612.⁸

People of color have also face disparities regarding personal income, business revenue, and liquid assets that can act as a safety net. Income for the intended audience of this program is significantly lower than that of white households, which drastically affects the ability to manage loan payments or weather an unexpected expense. According to the US Dept of Labor, in 2019, for every dollar earned by white people, Black people earned \$0.76, Hispanic/Latino people earned \$0.73, and Indigenous people earned \$0.77.⁹ The National Equity Atlas 2018 tool for business revenue shows that income for sole proprietorships in the state of Oregon have major disparities as well. While white firms averaged \$48.2k in annual revenue, Black revenues came in at \$29.5k, Latino revenues were \$35.7k and Native American revenues were \$31k.¹⁰

A study published by the Federal Reserve Bank of Cleveland finds that the racial income gap is the “one factor [accounting] for the racial wealth gap almost entirely by itself.”¹¹ During the Great Recession, the median wealth of Black households fell by more than 50% and the wealth of Hispanic households fell by 66%, compared to the 16% decline that white families experienced.¹² As of 2022, the Federal Reserve notes “the wealth of the typical Black family (\$44,900) was only about 15% of the typical white family. The typical Hispanic family similarly held only about 20% of the wealth of the typical white family (about \$61,600) ...A diverse group that includes those identifying as American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other race, and all respondents reporting more than one racial identification—had median wealth similar to the typical Black or Hispanic family...” It is important to note that while these households might have some level of wealth, the study points out that these numbers are “concentrated in housing, which is somewhat illiquid and may not be as useful as liquid wealth for covering recurring expenses.... Real average liquid wealth, which includes assets such as cash, checking, and savings accounts, did not grow much for Hispanic families and fell for Black families.”¹³ With less liquid wealth, less business revenues and less income, the amount of dollars available to originate loans, pay fees and place down payments becomes strained.

In a report titled 2021 Small Business Profile by the U.S. Small Business Administration Office of Advocacy, Oregon had a total of 396,925 small businesses with only 7.5% of businesses made

⁸ <https://apps.urban.org/features/credit-health-during-pandemic/>

⁹ <https://www.dol.gov/agencies/ofccp/about/data/earnings/race-and-ethnicity>

¹⁰ <https://nationalequityatlas.org/indicators/Business-revenue?geo=02000000000041000>

¹¹ <https://www.clevelandfed.org/publications/economic-commentary/2019/ec-201903-what-is-behind-the-persistence-of-the-racial-wealth-gap>

¹² <https://www.pewresearch.org/social-trends/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>

¹³ <https://www.federalreserve.gov/econres/notes/feds-notes/greater-wealth-greater-uncertainty-changes-in-racial-inequality-in-the-survey-of-consumer-finances-20231018.html>

up of “racial minorities.” Total business share percentage for small business owners categorized as Black or African American totaled 1.63% (6,468), while Hispanic totaled 5.57% (22,098) and American Indian and Alaska Native totaled 0.38% (1,502).¹⁴ According to the United States Census Bureau, Oregon’s population is estimated to be 2.3% Black or African American, 14.4% Hispanic or Latino, 1.9% American Indian and Alaskan Native, with another group classified as “two or more races” at 4.3%, and White alone, not Hispanic or Latino coming in at 73.5%.¹⁵ In consideration of these statistics, this means only 7.5% of small businesses are owned by people who are either of Black, Latino or Indigenous origins, even though they comprise 18.6% of the population.

Rationale for Extend Program Features

Due to the ongoing systemic exclusion and denial of access to capital for these audiences, and the current data demonstrating that people from this priority audience are unable to access capital at the same rate as white applicants, it is reasonable to expect that the current small business program at Cedar Hills Community Bank may not be achieving the goal of equitable lending to persons of all backgrounds. While Cedar Hills Community Bank has always been committed to equitable banking and has received “Outstanding” lending ratings in CRA assessments, there still lies a deficit in the state of Oregon for lending to businesses owned by people of color, and our bank seeks to be part of the solution.

As business ownership is a key path to wealth and financial stability in the United States, Cedar Hills believes the number of small businesses in Oregon ought to reflect the ethnic demographics of the state; at least 18.6% of firms should be owned by minority groups. Since many small business owners from the target priority groups have stated that they faced challenges accessing capital, we are deploying the Extend program in an effort to reasonably increase lending to this audience and help close the gap of small business ownership. Reasoning for each feature of the program is detailed below.

- **Minimum Credit Score:** As stated in the above section, Black, Hispanic/Latino and Indigenous people have a lower median credit score than our standard program’s minimum credit score of 670. With this in mind, it is reasonable to believe that people of that audience will likely not qualify for the standard program or would qualify on unfavorable terms. For this reason, the Extend program is lowering the credit score minimum from 670 to 600. This will allow for all target groups to have a possibility of qualifying for a small business program under these more preferable terms.
- **Lower Flat Rate and Fee Waivers:** Cedar Hills is committed to removing barriers for those with less available capital. It is reasonable to believe that charging more and

¹⁴ <https://advocacy.sba.gov/wp-content/uploads/2021/08/Small-Business-Economic-Profile-OR.pdf>

¹⁵ <https://www.census.gov/quickfacts/fact/table/OR/PST045223>

assessing fees can be a deterrent for those with less income, as a similar amount of disposable income and savings will inherently be harder to achieve as someone who generates more income. Since families of color have less wealth, stricter disposable income, less money in reserve to originate a loan, and less income generated over time to repay a loan, Cedar Hills is reducing the rate by 100 basis points from the standard program and offering a waiver of all fees.

Cedar Hills is deploying these aforementioned interventions of lowering the credit score requirement, removing fees, and offering a low rate to reasonably increase the number of dollars accessible to minority-owned businesses in the state of Oregon. With the above changes, coupled with free technical assistance from Cedar Hills Business Community Center, Cedar Hills Community Bank expects to increase affordable small business loans to communities of color and ensure their repayment success, thereby increasing the number of Black, Latino, and Indigenous owned small businesses in the Cedar Hills Community Bank lending footprint.

Appendix A – Program Parameters

Extend - Special Purpose Credit Program	
Eligibility	Businesses or organizations who are led by, or at least 51% owned by, applicants who self-identify as one or more of the following: Black Persons, Latino Persons, Indigenous Persons.
Loan Amount	Up to \$100,000
Acceptable uses	<ol style="list-style-type: none"> 1. Working capital 2. Equipment and inventory 3. Marketing and advertising 4. Business expansion 5. Debt consolidation 6. Renovations and improvements 7. Emergency expenses
Adjustments	Waive all fees, including origination, credit report, and late fees
Credit Score	Minimum FICO score: 600
Rate	Flat rate - 100 bps discount from standard Super Prime Tier
Term	Up to \$25,000 – Maximum 60 Months \$25,000 to \$50,000 – Maximum 84 Months \$50,000 to \$100,000 – Maximum 120 Months
Interest-only Payments	Up to 120 days