



**Cedar Hills**  
Community Bank

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## Extend

A Special Purpose Credit Program  
Established May 2023

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## Introduction to Cedar Hills Community 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.

Extend is an overlay product for the bank's existing small business program. This new program will have no fees, a lowered FICO score requirement, and a flat interest rate lower than our standard small business program rate. The program also provides 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. The following characteristics differentiate it from the standard internal loan program.

## 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. Classifications include, but are not limited to, the following:

- Black Persons
- Indigenous Persons
- Persons of Color
- New Americans

Applicants will be asked to self-identify on their application. They will automatically be eligible for Extend program terms if one or more of these classifications are indicated. The small business, sole proprietorship, or organization applying must be led by, or at least 51% owned by, people of the above classifications.



## Acceptable Purposes

Uses will vary depending on the specific terms of the loan agreement. Small business loan applications can be utilized for various purposes, including:

1. Working capital
2. Equipment and inventory
3. Marketing and advertising
4. Business expansion
5. Debt consolidation
6. Renovations and improvements
7. Emergency expenses
8. Other

## Underwriting Processes and Standards

Analysis of various studies indicate that adjusting three main elements of our underwriting process and standards will allow us to increase approvals for the persons identified for this SPCP. All other elements of the Extend program will remain the same as our existing small business lending product.

- Lower the FICO qualifying score threshold from 670 to 600
- Implement global cash analysis using personal and business bank statement data
- Waive all fees

In addition, 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 clients can receive help with the loan application process and with cash management strategies should servicing issues arise after closing.

## 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, which currently is set at 4.25%. All credit scores at, or above the minimum program threshold of 600 will qualify for this same flat rate.

## 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 Adjustments

To ensure effective deployment of capital, interest-only payments can be scheduled for up to 120 days after origination. To assist borrowers who are facing difficulties in making payments on time, the Bank will not charge late fees. Instead, a representative will contact the borrower to refer them to Cedar Hills Business Resource Center to identify potential solutions to get the payments current.

## Program Duration and Evaluation

The Extend program will consider new applications for a period of 24 months (expected launch date of October 1, 2023), or until \$3 million in capital has been deployed, whichever comes first. The goal of the program 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. Community 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 those who have been treated unfairly 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

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 rely on alternative financial services, including lending.<sup>1</sup> A 2022 survey 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.<sup>2</sup>

Furthermore, in a report titled *The State of Minority Business: Oregon*, the Minority Business Development Agency (MBDA) calculates that Oregon has a population of approximately 4.2 million people, with minority groups comprising around 25% of the population. There were 48,941 firms in Oregon owned by people in the minority groups, accounting for only 12.9% of all businesses in the state.<sup>3</sup> The group in the assessment includes people who have self-identified as Black or African American, Hispanic, Asian, American Indian and Alaskan Native, or Native Hawaiian and Other Pacific Islander.

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 25% of firms should be owned by minority groups. The Extend program aims to make capital available to those who need it the most. Cedar Hills Community Bank believes that lowering their credit score requirement, removing fees, and offering a low rate will increase the number of dollars accessible to minority-owned businesses in the state of Oregon.

## Rationale for Changes

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, but this perspective overlooks the fact that racial disparities pervade the credit indicators that drive lending outcomes.

Historically, banks have denied communities of color the same access to capital that allows people to build their credit. The median credit score for Black people in the United States is

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1 Johnson, S. L., Razafindrakoto, C. M., & Hughes, T. L. (2020). Demystifying the role of financial underwriting in lending to small and medium-sized enterprises. *Journal of Small Business Management*, 58(2), 370-387. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7173312/>

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

3 U.S. Department of Commerce, Minority Business Development Agency. (2018). *Oregon State Profile*. Retrieved from <https://www.mbda.gov/sites/mbda.gov/files/2018-oregon-state-profile.pdf>



629, nearly 100 points lower than that for white people.<sup>4</sup> Due to this reason, we are lowering the minimum required FICO score to 600.

Also, according to the Economic Policy Institute, the exclusion of these communities has drained collateral value and diminished access to equity accumulation in communities of color. Even after federal legislation made banking discrimination illegal, infrastructure and projects and industrial sites were still disproportionately located near urban communities of color, which exposed them to health hazards and lowered the value of their homes, limiting wealth generation for these families.<sup>5</sup>

Furthermore, the same practices that worsened credit and collateral for communities of color have done the same to these borrowers' capacity. Funds for origination, fees, down payments, and monthly payments are more restricted compared to the conditions that white families more frequently experience. The Great Recession alone lowered the median wealth of Black families by more than 50 percent. That is three times the decline that white families experienced.<sup>6</sup> Since families of color have less wealth, stricter disposable income, and less money in reserve to originate a loan, Cedar Hills is offering a waiver of all fees, including late fees for these families.

We aim to address the unequal wealth status of many people from BIPOC groups due to historical and present-day systems of asset and financing inequality. We will also employ global cash analysis to determine cash capacity for debt-service coverage. We have found that combining personal and global cash sources provides a more accurate picture of an applicant's ability to service debt. With the above changes, the Extend program expects to increase affordable small business loans to communities of color and ensure their repayment success.

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4 Urban Institute. Closing the homeownership gap will require rooting systemic racism out of mortgage underwriting. Retrieved from <https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting#:~:text=Applicants%20of%20color%20experience%20higher,to%20the%20consequences%20of%20discrimination>.

5 <https://www.epi.org/event/reconstruction-2020-valuing-black-lives-and-economic-opportunities-for-all/>

6 Pew Research Center. Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics. <https://www.pewresearch.org/social-trends/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>





## Appendix A – Program Parameters

<b>Extend - Special Purpose Credit Program</b>	
<b>Eligibility</b>	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, Persons of Color, Indigenous Persons, New Americans, Other Historically Marginalized Communities
<b>Loan Amount</b>	Up to \$100,000
<b>Acceptable uses</b>	<ol style="list-style-type: none"> <li>1. Working capital</li> <li>2. Equipment and inventory</li> <li>3. Marketing and advertising</li> <li>4. Business expansion</li> <li>5. Debt consolidation</li> <li>6. Renovations and improvements</li> <li>7. Emergency expenses</li> <li>8. Other - Consult Regional Credit Administrator for Exceptions</li> </ol>
<b>Adjustments</b>	Waive all fees, including origination, credit report, late, etc.
<b>Credit Score</b>	Minimum FICO score: 600
<b>Rate</b>	3.25 (100 bps discount from standard Super Prime Tier)
<b>Term</b>	Up to \$25,000 – Maximum 60 Months \$25,000 to \$50,000 – Maximum 84 Months \$50,000 to \$100,000 – Maximum 120 Months
<b>Interest-only Payments</b>	Up to 120 days

