Feb 15, 2021

Ms. Ann E. Misback,
Secretary,
Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue NW,
Washington, DC 20551.

FEDERAL RESERVE SYSTEM 12 CFR Part 228
[Regulation BB; **Docket No. R–1723**] RIN 7100–AF94
Community Reinvestment Act
AGENCY: Board of Governors of the Federal Reserve System.
ACTION: Advance notice of proposed rulemaking; request for comment.

To Whom It May Concern

Dear Madams and Sirs:

My name is Monika Mantilla, and I am a Managing Partner at Small Business Community Capital ("SBCC"), an SBIC Impact Fund. I'm also the CEO at Altura Capital Group. I've dedicated the last 25 years of my life to building financial capacity in underserved communities, which often consist of often low- or moderate-income ("LMI") persons or areas.

My primary professional dedication as an Impact investor is being both a financial and social engineer, striving to deliver elegant financial solutions for institutional investors to achieve strong financial returns, while at the same time providing capital and strategic support mechanisms to small and middle market businesses across our country, with an emphasis on diverse owned businesses. I am also on the Board of a number of industry and business organizations that advocate for small and minority entrepreneurs. Investing in them and helping them grow and succeed is my passion. These times of crisis require all the support we can provide to small business and their ecosystems, and to allow banks to invest in qualified activities that advance our communities and our economy, especially those largely underserved yet with high potential.

Our passion and commitment for helping underserved small businesses is demonstrated by our SBCC fund's LMI and Small businesses successful investment metrics. Currently, 62% of our SBIC Impact Fund investments have been invested in LMI Enterprises. We recognized that underinvestment in women and minority-owned businesses by peers in the SBIC program represented (and still represents) a tremendous opportunity. In 2018, minority-owned businesses received only 4.8% of SBIC Financings and women owned businesses received only 2.2% - continuing to demonstrate that the market fails to recognize the value of these companies. By specifically seeking out opportunities to invest with diverse entrepreneurs, we sought to take advantage of this gap. To date, 60% of our investments have diverse ownership, and 90% have counted minorities or women in ownership roles. The SBIC Program requires at least 25% of financings be directed towards smaller enterprises. We believed (and continue to believe) that companies at the lowest end of the lower-middle market hold the greatest growth potential – potential that is underserved by the many SBICs and lower-middle market firms which require a portfolio company to have a minimum EBITDA of $3 million. For this reason, we set our minimum EBITDA or Operating Cash Flow at $1 million. To date, 100% of our portfolio companies have been Smaller Enterprises. We believe this has become a priority area for SBA and we are proud to deliver investment solutions and support valuable entrepreneurs in this segment. SBCC believes that a successful small business lies at the core of addressing people's educational, housing, healthcare, and financial stability needs and aspirations, all while building a more inclusive society. Moreover, we have experienced firsthand that sustainable small business growth comes as a result of employees that feel valued by and invested in their company – not at their expense. Our LPs ask us to track certain job quality and creation metrics across all of our portfolio companies, and we are proud to report that according to our most recently available data, full time employees at our portfolio companies saw 88% of their healthcare premiums covered by their employers, 100% received supplemental benefits including dental, disability, life insurance, maternity/paternity leave, and retirement savings plans.

Sixteen years ago, I was invited by the United States House of Representatives to present views regarding Latinos in financial services, as financial service users, but also as financial service providers. It was then that I created a commitment to help build financial capacity in minority communities to enable business owners maximize their growth potential. A lot of work still awaits us, but I know the demographics shifts that are happening in our country require that all communities become active economic players and contributors. Meritocracy and access to opportunity is the biggest strength of our country. Fifteen years ago, I lead and co-wrote a white paper about **Hispanics in Financial Services.** It was an attempt to map out what needed to happen for Hispanic American to step up to their role in the asset management arena. We have experienced great progress but at the same time we are still behind in numbers and institutional support when it comes to Hispanic asset managers, MDIs, community banks and CDFI owners or managers, and the overall assets we manage. However, I believe the incredibly rich entrepreneurial strength of our community will allow for significant Hispanic money managers and financial institutions to flourish, and CRA can and should play an important role. Ten years ago, I became the first Latina to ever receive the Hispanic Business Award by the Hispanic Heritage Foundation. The then US Treasurer bestowed me such an honor. I then gave a speech that still informs my thinking: **the dream that we could be architects of our own solutions**. Six years ago, I wrote a paper that was titled "**What we need to do about capital**". I also attempted to design the architecture that was needed to significantly advance the Capital Agenda in underserved communities. My ideas around this subject have evolved, but in some ways continue to be the same:

> **"Provide capital to the prepared and capable entrepreneur, driven by discipline and clear principals, help her/him grow his/her business, facilitate her/his path to success, and open him/her opportunities with Corporate America and Government".**
> **All of the above, through and with the support of effective business ecosystems.**

That recipe has proven to us again and again to be **a winning recipe to achieve above market returns and societal transformation**. Two years ago, I did a Ted talk style presentation at USHCC Legislative Summit about closing the $1.4 trillion gap. Recently I ended a Chapter in the soon to be published book "Advancing US Latino Entrepreneurship", about the fastest growing segment of businesses in the country. I also have been part of the Aspen Latinos in Society working group. We recently published a playbook to help Latinos scale.

Thirteen years ago, during the last recession, our company Altura Capital helped successfully co-manage two significant programs – the Capital Purchase Program (CPP) and the Public Private Investment Program (PPIP) – that helped salvage the CMBS and RMBS markets. It was an extraordinary opportunity to help our country and deliver great performance and financial returns to the US Treasury, the Federal Reserve and Institutional Investors. These programs taught us important lessons of how public private initiative can work effectively to reestablish and rebuild markets.

Based on the above experiences and performance, we have shared with the incoming Biden-Harris Administration some specific ideas around the creation of Special Purpose Vehicles to salvage and support Small Businesses that we believe are direly needed. We stand ready to work on those solutions.

Navigating through Covid times

As we help our portfolio and network companies navigate liquidity and reinvent themselves during these times of challenge, through multiple town halls and virtual sessions we have been in close contact with our industry partners, a large group of business owners, and industry associations. Our goal has been to help companies navigate through these times of turbulence with management tools and all the resources we can provide, and assess their liquidity issues and possible short, mid and long-term debt and equity solutions.

Given our role as an SBIC Impact fund, where we manage $147 million and have access to $750 million in co-investment dollars, our relationship with large Institutional investors and financial institutions that back our work, our visibility on liquidity challenges of approximately 8 million businesses that in aggregate represent approximately $1.4 trillion in annual gross receipts through the organizations we belong to, collaborate with and help lead (including the Stanford Latino Entrepreneurship Initiative, the United States Hispanic Chamber of Commerce, the Billion Dollar Roundtable, Impact Capital Managers, the Aspen Institute and NMSDC) and our experience on the last recession effectively managing TARP programs (both CPP and PPIP), we believe our perspective can be helpful.

The sentiment we gather from the market we so actively participate in is that there is a deep desire to go back to work, to **go back to productivity**. We also understand America needs to become a much stronger manufacturer, and that we need to find a way to effectively compete with China. The only way we will be able to do that is through making our manufacturing fixed costs more competitive. That is the only way to level the playing field, and it starts by providing adequate capital to this country's small businesses.

ANPR Comments:

I applaud the Federal Reserve for the spirit of the ANPR of promoting financial inclusion and addressing systemic inequities in credit access for minority individuals and communities. Here are a few suggestions and comments, primarily in regard to diversity and inclusion for minority-owned or -led small businesses and also the Questions 57 and 58 regarding economic development and financing small businesses.

1. **CRA can and should play an important market making and solutions engineering driver and role, to allow LMI communities and diverse business owners to raise themselves out of poverty, create high quality jobs, and become the driving force in the economy they can and should be.**

   The financial inclusion model has to include new and innovative solutions, and have to include debt and equity solutions, as well as "market support" systems and actors, and the nurturing of ecosystems that increase the chances of success by providing education, peer review, access to specialized professionals, access to corporate and government contracts, to technology, to critical resources and to the human capital and talent required to build solid and defensible businesses that can effectively compete and create value. The most powerful economic development and social justice tool is successful entrepreneurship. **CRA can and should provide the framework and the capital to allow these ecosystems to flourish, lifting the communities they come from, especially communities of color**.

2. **Add minority financial institutions, including asset managers especially those that serve LMI communities and minority business owners to qualifying activities.**

   With regard to qualifying activities, including those that foster greater inclusion, we strongly recommend that along with MDI's, women-owned financial institutions and low-income credit unions, the Board should include "**investments in minority-owned financial entities, including asset managers and fund managers, especially those that serve LMI communities and minority business owners**." By designating these activities as "automatically CRA qualified", and as "impactful and responsive to the current market needs", and providing "ex ante" qualification certainty, much needed capital will flow into these important yet largely undercapitalized segments of the economy.

3. **Comments contained in OCC comment letter**.

   We are enclosing a copy of our April 2020 comment letter to the OCC. This letter includes our view of why eliminating credit for "economic development by financing small businesses" was such a big concern for us. In our case, our new fund will not be an SBIC, but it will continue to invest in small businesses and will be just as impactful in promoting "job creation, retention, and/or improvement," which we will document thoroughly for our bank limited partners' bank examiners. I also want to strongly emphasize that not all jobs created are just "additional low-wage jobs." The correct standard is jobs for LMI persons, which can go up to 80% of area median income. Also, our current fund has created jobs in LMI areas that do not have to be "LMI" wages.

   The OCC's final rule did not retain provisions pertaining to job "improvement," jobs in LMI areas or in areas targeted for redevelopment, all of which are important to our fund. We urge the Board to keep all of the current "economic development" framework and not to follow the OCC in eliminating certain portions.

   From a policy perspective, the OCC's narrowing of the "economic development by financing small businesses" category was exactly the wrong thing to do during this severe economic downturn tied to a global pandemic. This is the time that the Agencies should increase the incentive for banks to lend to/invest in small businesses. The Board should not only should not only retain all of the existing provisions, but should consider *expanding* the list of entities and activities that are "presumed" to promote economic development – especially for minority-owned or -led small businesses.

Neither the OCC's NPR nor its Final Rule acknowledged the significant reversal from the expansions that the Agencies had just enacted in the July 2016 revisions to the CRA Interagency Q&A, and contained no policy discussion at all of why the Agencies would now want to restrict the very category they just expanded a few years earlier.

4. **Retain current "size" standard**

The evaluation of activities that promote economic development by financing small businesses has two parts: a "size" test and a "purpose" test. I urge the Board to retain its current "size" standards and not restrict it to be based only on a certain level of annual gross revenues, which would eliminate several deserving minority-owned small businesses that make meaningful contributions to economic development.

- If the Board were to have the "size" test based only on annual gross revenues of $1 million or less, our fund would likely no longer qualify for CRA credit for our bank investors because the large majority of our investments are in companies with north of $1 million in investments (many of these are companies located in LMI areas, frequently owned by diverse business owners, which direly need and largely benefit from our capital).
- A more tailored approach to promoting additional loans and investments for smaller businesses would be to add them to the list of entities into which a loan or investment by a bank is "presumed" to promote economic development (which we discuss further below).
- In addition to adding "smaller businesses" to the presumed list, the Board should add minority-owned or -led small businesses, financial entities such as debt or equity funds that are minority-owned and predominantly serve minority-owned small businesses.

5. **We would recommend greater awareness of the Agencies' July 2016 revisions to the Interagency Questions & Answers Regarding Community Reinvestment.**

The July of 2016 revisions to the Interagency Qs & As actually expanded the economic development concept and added some additional prongs to the "purpose" test. The Agencies included some policy discussion of *why* they were expanding this provision and the "purpose test" (primarily the importance of economic development and the positive impact on LMI people, communities, etc.), and even emphasized in the final revision that: "examiners will employ appropriate flexibility in reviewing any information provided by a financial institution that reasonably demonstrates that the "purpose, mandate, or function of the activity meets the 'purpose test" (Interagency Q&A §__.12(g)(3)– 1). We believe banks (and at times examiners) may not be aware of the above provision, yet they address some of the issues raised by Questions 57 and 58. Our fund will continue to provide to our bank investors and their examiners very detailed information that documents our compliance with the "purpose" test, including specific references to how each company in our portfolio satisfies the "purpose" test.

In light of the persistent economic crisis we are in, we would urge the Board to conduct forums and other events to explore the policy underpinnings of the CRA "economic development" by financing small businesses, and to explore ways to enhance CRA regulations to encourage expanded financing to small businesses.

In our case, and the case of many other minority-owned financial entities/funds/intermediaries, it's of ***fundamental importance for our investment strategy and continued bank financing to continue to be a CRA qualified investment.*** Our strategy is one that focuses on investments in small and mid-sized businesses in LMI areas. We also have a commitment to high quality job creation (and track it diligently), and investing with diverse entrepreneurs. We want to ensure that we are, and continue to be a "qualified activity/investment."

I thank you immensely for the opportunity to provide comments.

Very truly yours,

Monika Mantilla

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