

2024 Legislative Agenda

Capital Access Fund &
SF4230 (Mohamed) / HF4105 (Sencer-Mura)
Homeownership Assistance Program
SF4077 (Pha) / HF4166 (Frazier)



**GroundBreak
Coalition**

About GroundBreak

GroundBreak is a coalition of over 40 philanthropic, private, and public partners working to create a more inclusive, racially equitable, and climate-ready Metro region (MSP).

Founded after the murder of George Floyd, GroundBreak is working to unlock \$5.3 billion in capital over the next decade to build Black wealth and close racial wealth gaps across the board.

By focusing on Minnesotans who face some of our state's deepest and most persistent disparities, we can create a region where every person can achieve their aspirations.

- Over the last 50 years, philanthropy, nonprofits, banks, CDFIs, and governments have supported pilots that have shown how it is possible to build wealth through homeownership, entrepreneurship, and commercial development, by blending private capital and flexible capital.
- However, these approaches have never been systematized or widely available. GroundBreak is the first initiative in the country that is creating a regional system to blend and deploy capital so it is available at the scale commensurate the need.
- The coalition's breakthrough is a regional financial system that predictably and permanently unlocks capital held by banks and systematically removes financial barriers for wealth-builders.

Public investments are critical for providing flexible capital to bridge gaps and unlock plentiful, private market capital.

Legislative Request

Over the next decade, GroundBreak is raising \$1.2 billion in flexible capital to unlock \$4.1 billion in private market capital to expand wealth-building opportunities.

In 2024, GroundBreak seeks one-time flexible capital investments from the State:

- **\$70 million** for the GroundBreak Capital Access Fund and
- **\$30 million** for the GroundBreak Homeownership Assistance Program

State investments will be directed where they are needed most within GroundBreak's Financial Tools & Products.

The Capital Access Fund will provide flexible capital for:

- \$50,000 forgivable start-up loans for entrepreneurs.
- Partial guarantees for business loans.
- Partial loan guarantees for commercial mortgages for neighborhood commercial developments.
- Low-cost, long-term loans and equity enhancements for commercial developments.

The Homeownership Assistance Program will provide flexible capital for:

- At least \$50,000 in down payment assistance loans (half forgivable, half repayable)
- Forgivable home preservation loans.

Through GroundBreak's system, every \$1 in flexible capital unlocks over \$3 in private market capital.

A Regional Strategy for Expanding Wealth-Building Opportunities



Through a six-month process in 2022, hundreds of community members identified a set of Financial Tools & Products that would address common barriers facing current and aspiring Black entrepreneurs, commercial developers and homeowners. **GroundBreak is working to fully finance these solutions through a regional system that will efficiently and predictably unlock capital at scale commensurate with the need, and keep it flowing.**

Entrepreneurship Work Group



Common barriers identified:

- Generational wealth disparities make it more difficult for BIPOC entrepreneurs to seed start-up costs.
- History of loan denials deter entrepreneurs from applying for a loan.
- Loan applications are more likely to be denied because of overly conservative risk-assessment models.
- The lack of two or more years of business experience and significant personal wealth for collateral means perceived risk keeps applicants from being approved.
- Approved loans often have higher interest rates because of risk-based pricing.



Recommended Financial Tools & Products:

1. **Capital to start a business:** Forgivable start-up loans up to \$50,000.
2. **Loans to grow a business with over a year of revenue:** Early-stage small business loan between \$50,000-\$250,000 with flexible underwriting (with a partial loan guarantee).
3. **Loans to grow a business with over two years of revenue:** Growth-stage commercial loans of \$250,000 to \$1 million with flexible underwriting (with a partial loan guarantee).

Key Terms



Capital: Money or assets that can be used to invest, start businesses, create wealth, or generate income.



Private Market Capital: Financial resources, loans, or investments provided at interest rates determined by market conditions. Terms and interest rates that can fluctuate based on factors like supply and demand, economic conditions, and perceived level of risk.



Flexible Capital: Financial resources, loans, or investments typically provided at a lower interest rate and more favorable terms and conditions, often offered by governments, philanthropy, or other investors to support specific initiatives.



Commercial Development Work Group

Common barriers identified:

- Generational wealth disparities mean developers often lack necessary collateral to secure loans.
- A lack of significant personal wealth and prior successful developments mean lenders view applicants as higher risk, ultimately denying loans or offering insufficient funding.
- It takes years to fill in the gaps left by small loans with a patchwork of additional funding sources.
- Uncertainty and additional costs result from a lack of sufficient, predictable financing sources.
- Repayment is due too soon before properties and businesses can be adequately developed, built, and start generating stable revenue.



Recommended Financial Tools & Products: Make it possible for a developer to secure at least 95% of financing for a neighborhood commercial development through one door.

1. **Commercial mortgage loans for the first 60% of project costs (with a partial guarantee):** Make financing readily available for the first 60% of a project's cost with flexible underwriting.
2. **Low-cost loans from GroundBreak to invest in the next 35% of project costs:** Make low-cost financing easily available for the next 35% of project costs that can be repaid with flexible terms over a long-term period.
3. **Equity enhancements:** Make it easier for developers to come up with the remaining 5% of the project by providing 2% of the project cost in equity enhancements up to \$250,000.

Why State Investments Matter

GroundBreak believes that the onus must be on institutions that hold capital to change systems. Most of the \$5.3 billion in capital that will be unlocked through GroundBreak will come from financial institutions.

However, **flexible capital** provided by the State and other partners is essential for bridging one-time financial gaps and maximizing private capital.

State funds will be used to help fully finance community-identified Financial Tools & Products for entrepreneurship, commercial development, and homeownership.





Homeownership Work Group

Common barriers identified:

- A history of predatory practices deters potential Black homebuyers from exploring homeownership or seeking a loan.
- Generational wealth disparities mean first-time home buyers lack the necessary down payment funds to secure mortgage loans.
- Mistrust is created by inconsistencies in underwriting standards, practices, and products across lenders.
- High rates of mortgage denials stem from overly conservative risk assessment models based on factors like credit scores, debt to income ratios, and savings that are less favorable to homebuyers with limited generational wealth.
- Loans carry greater costs through higher interest rates due to risk-based pricing, mortgage insurance, and closing costs.
- Limited intergenerational wealth means buyers are more likely to spend down their financial resources to purchase a home, leaving insufficient funds for large and unexpected costs that may ultimately result in the loss of the home.

Recommended Financial Tools & Products:

1. **A GroundBreak-aligned mortgage product:** Special bank loans with flexible underwriting. [1]
2. **Funds to close on a home:** At least \$50,000 to cover down payments and closing costs (half forgivable, half repayable) that can be paired with other homeownership assistance programs.
3. **Home preservation loans:** Forgivable loans up to \$10,000 for home preservation in case of a costly emergency like mid-winter furnace replacements.



“Rather than endlessly debating what our region could do or should do for racial equity, GroundBreak’s systematic approach to deploying capital at scale provides an on-ramp for every organization to act now.”

– Kevin Bennett, Program Director, GHR Foundation
GHR is a philanthropic partner of the GroundBreak Coalition



[1] In 2024, multiple lenders will begin to offer a GroundBreak-aligned mortgage with flexible underwriting. This means, they will adopt less stringent methods of assessing risk that have been proven through pilots to expand eligibility for borrowers but are not broadly available. Homebuyers will be able to secure at least \$50,000 in down payment assistance loans that will be paired with GroundBreak-aligned mortgages to make buying a home easier and more affordable.