

Purpose Statement

The primary goal of the Small Business Loan Fund Corporation (“SBLFC”) is to act as a financing source to catalyze additional private sector capital formation and combine with other State financing and economic development programs to expand the high wage and job growth industry sectors of the State’s economy (e.g. health & life sciences, defense & national security, marine & environmental technology, information technology and advanced manufacturing). SBLFC’s strategy for transforming from an industrial-based to a knowledge-based innovation economy is to focus on companies that use innovation to create products, processes and techniques to deliver better services and products or use existing technologies in new ways.

Rhode Island’s economy is experiencing the integration of a knowledge based economy into what has been a traditional industrial based economy. Working with entrepreneurs and businesses involved in the innovation of new products and services is a central part of Rhode Island’s economic development strategy. Rhode Island’s economic future will be grounded in existing and newly created companies that are innovators in creating new ideas, processes and technologies to deliver better products and services. Job growth within the Rhode Island market will result from the successful efforts of promoting innovation concepts.

The economic transition described above is expected to come largely from Rhode Island’s start-ups, small and mid-size businesses. These businesses are likely to continue to experience difficulty assembling all of the capital necessary to finance their growth. Small and mid-size companies when confronted with growth opportunities are often constrained by traditional bank lending parameters given their typically weaker balance sheets and constrained cash flows. Specifically, companies that experience rapid growth need working capital levels that exceed the availability of funding provided by commercial bank advance rates on loans collateralized by accounts receivable and inventory. If a company’s growth requires expansion of plant and equipment, their financing requirements often exceed traditional bank leverage ratios. Further complicating small businesses’ access to bank capital has been banks’ adoption of more stringent underwriting standards with exceptions not being tolerated thus leaving many credit requests unmet. Economic viability does not ensure that a business enterprise will receive adequate financing. In addition to business risk and liquidity risk, Private lenders also consider collateral risk and debt service risk. For example, a business may be growing and profitable, but lacking sufficient equity capital to satisfy bank down payment requirements for an expansion. A key objective of the SBLFC program is to leverage private financing by a participating bank through the use of SBLFC subordinated debt.