JUST LENDING FRAMEWORK FOR COMMUNITY LENDERS

Maximum Self-Interest	Moderate Self-Interest	Borrower Responsive	Reaching Mutuality
RELATIONSHIP TO BORROWERS & COMMUNITIES			
Lenders wield power over Borrowers in paternalistic and controlling ways that are based in risk-aversion, lack of trust and fear. Lenders use legal documents to claim all maximum rights and benefits.	Borrowers are expected to be responsive to Lender's desires for financial reporting, assessments and participation in activities to de-risk the investment.	Borrowers' changing needs, knowledge, expertise and lived experiences are fully integrated into the design of the transaction and agreements.	*Exploration:* How do Lenders and Borrowers develop authentic partnerships where they co-design the financial solutions that best meet the needs of the enterprise and community?
UNDERWRITING AND DETERMINING CREDITWORTHINESS			
Lenders rely on the 5 C's of Credit (Capacity, Capital, Collateral, Conditions, and Character) to evaluate Borrower credit-worthiness. Credit scores and personal guarantees are requisite. Restrictive agreements with burdensome application, onerous operating covenants, invasive due diligence and frequent reporting procedures.	Lenders move beyond credit scores and personal guarantees and begin to use proxy financial criteria such as rent and utility payment history. They continue to rely heavily on track record of financial performance, operating history and business plans.	Lenders incorporate character-based criteria in decision-making such as reputation in the community, references and referrals from business support organizations, accelerator programs and local leaders. Lenders eliminate use of credit scores and personal guarantees.	*Exploration:* How do Lenders and Borrowers establish alternative predictors of creditworthiness such as Borrowers' involvement in and ties to the community, their reputation and track record, relationships with suppliers and customers?

RESOURCES

- Justice Funders Just Transition for Philanthropy Framework - http://justicefunders.org/wp-content/uploads/2019/01/Spectrum_Final_12.6.pdf
- Community Credit Lab Viewpoint on the 5C's of Lending - https://www.communitycreditlab.org/post/the-5-c-s-of-credit-ccl-s-viewpoint
- Lending on Character not Credit Scores - https://www.yesmagazine.org/issue/a-new-social-justice/2021/11/15/banking-bipoc-businesses

BII & LCR JUST LENDING FRAMEWORK

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ESTABLISHING DEAL TERMS			
Lenders provide specific loan "products" where deal terms, such as loan amount, interest rate, length of loan, security, fees, etc. are set to maximize Lenders' financial interests and have little flexibility or opportunity for negotiation by Borrowers.	Lenders have a selection of loan products geared to small businesses, such as lines of credit for working capital, term loans with competitive interest rates and repayment terms which benefit Borrowers with higher credit scores or strong collateral.	Lenders structure transactions based on the specific funding needs of the business, such as royalty or receivables financing. Lenders have flexibility to provide affordable credit options such as zero interest loans or recoverable grants with extended payment terms and deferred interest.	*Exploration*: How do Lenders and Borrowers shape financing structures that integrate each party's opportunities and constraints– particularly when Community Lenders have a seat at the table?
DECISION-MAKING			
Lenders' underwriting or investment committee, executives and staff have full decision-making power with no transparency to Borrowers and communities.	Community leaders and organizations give input and character recommendations, but decisions ultimately rest with Lender.	Investment recommendations are made by movement leaders/ organizations modeled after such processes as participatory budgeting and participatory grantmaking. *e.g.* *Boston Ujima shared decision-making model*	*Exploration:* How do Lenders and Borrowers develop shared outcomes and decision- making, especially where Lenders are community members to whom Borrowers have accountability?
COVENANTS			
Lenders impose onerous covenants such as extensive reporting, debt ratios, spending and distribution limitations, and restrictions on business transactions that hamper business growth in favor of Lender asset protection. Covenants may be difficult to comply with, even for healthy, high performing businesses. Lenders include as many covenants as they can, then decide if they'd like to enforce them while the loan agreement is in effect. Covenants are communicated in dense legalese that Borrowers may not understand without their own legal counsel.	Operating covenants are communicated clearly to the Borrower, and there is open dialogue between Lender and Borrower about why the Lender needs the covenants in the loan agreement. The Lender still includes some covenants restricting Borrower discretion in decision-making, business owner activity, including distributions, asset disposal, etc. Covenants are written in plain language the Borrower can understand.	Lenders only utilize covenants that are in the Borrower's control. Reporting covenants are structured to provide useful feedback for both the Lender and Borrower. The covenants are easily achievable within the Borrower's business model. Covenants are written in plain language and negotiated on level ground between the two parties. Lenders work with Borrowers to author impact covenants that formalize shared impact goals.	*Exploration:* What might trust-based agreements rather than covenant-based agreements look like between Lenders and Borrower?

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SECURITY TAKEN BY LENDER			
Lenders take security on all assets of the business with liberal rights to seize and monetize assets without interacting with the Borrower. Lenders then decide on a case-by-case basis whether to exercise their security rights, wielding power over the Borrower. Security rights taken by the Lender are written in dense legalese, making it difficult for Borrowers to understand what security rights they're granting. Beyond business assets, Lenders take unlimited personal guarantees to further secure their investment.	Lenders take security only on sufficient business assets to enable investment. Lenders and Borrowers agree to a process on why and how asset liens or seizures by the Lender would take place, e.g. if the Borrower has chosen to close their business. Security rights are written in plain language the Borrower can understand. Lenders do not take personal guarantees.	Lenders offer unsecured loans. Lenders pursue legal remedies only if the Borrower has acted disingenuously or otherwise unfairly. Lenders consider the well-being of owners and workers during business closure and share asset disposal proceeds with owners on a *pari passu* basis to each party's financing of the business. Security rights are written in plain language the Borrower can understand. Personal guarantees may be taken tactically, but never exercised, to protect the Borrower from personal guarantees under future loans with a weaker claim on assets.	*Exploration:* What constitutes "security" in the solidarity economy? Can philanthropy or publicly funded loan loss products be used to securitize investments without negatively impacting the Borrower? .
EVENTS OF DEFAULT AND REMEDIES			
Lender takes as many rights as they can, leveraging their capital to hold power in the relationship. Events of default are defined in ways that are easily triggered. Extractive remedies such as immediate asset seizure, freezing bank accounts, exercising guarantees, negative reporting to credit bureaus, etc. are granted to Lender. Events of Default and remedies are communicated in dense legalese that may be difficult for Borrowers to understand.	Events of default are limited to serious causes for business concern, such as failure to repay after a generous grace period, material defaults of covenants or representations. Events of default, rights, and remedies are communicated clearly to the Borrower, and there is open communication between both parties about which are necessary for the Lender and which the Borrower feels are acceptable. These rights and remedies are conveyed in simple language to Borrowers.	Lender takes only the rights and remedies necessary to protect themselves from fraud, disingenuous or otherwise unfair actions from the Borrower. These rights and remedies are mutually developed and agreed to based on the operating realities of the Borrower. Remedies such as liens, seizing of assets, reporting to credit agencies, etc., are only pursued in the most egregious of circumstances.	*Exploration:* How might Lenders and Borrowers work collaboratively if the Borrower's ability to pay falls apart?