GroundBreak Capital Access and Innovation Fund

2025 Legislative Session

GroundBreak Coalition

BACKGROUND

GroundBreak is a coalition of philanthropic, private, and civic organizations working to create a more inclusive, racially equitable, and prosperous region. **Over the next decade, the GroundBreak Coalition is working to unlock over $5 billion in capital to build Black wealth, close racial wealth divides, and create a more vibrant Minnesota for all.**

LEGISLATIVE REQUEST

The GroundBreak Coalition seeks a **$50 million investment in FY26-27** to expand access to capital for aspiring **entrepreneurs, commercial real estate developers, and homeowners.**

Together, we can ensure that people and communities who have been historically excluded can **access financing** and **build wealth**.

Through GroundBreak's innovative system, State investments will:

- Be **paired** with financing from philanthropic and private sources**.**
- **Close one-time financial gaps** for families and entrepreneurs at a scale commensurate with the need, through an efficient, cross-sector financial system.
- Contribute to Minnesota's **economic growth** and **prosperity for all.**

State investments will provide:

- Up to $50,000 in forgivable startup business loans
- Equity enhancements up to 2% of project costs for commercial real estate developments
- $25,000 in forgivable down payment assistance loans for homeownership

GroundBreak will provide:

- Partial loan guarantees for **business growth loans** designed to **welcome and work better for Black and BIPOC entrepreneurs**
- **95% of financing** - including low-cost, patient capital - for commercial real-estate projects to **help developers secure financing through one door**
- **A match of $25,000** in flexible loans to help homeowners build equity faster

These State investments will impact approximately:

480	12	1,000
growing businesses	**neighborhood developments**	**new homeowners**

A Regional Strategy for Building Wealth and Prosperity for All

In 2022, hundreds of community members came together to dream big and co-create financial solutions that address common barriers to capital that Black & BIPOC aspiring entrepreneurs, commercial real-estate developers and homeowners often face. Over the next two years, GroundBreak secured early capital commitments and built infrastructure for a new regional financial system that can deliver these solutions at a scale commensurate with the need. **In 2025, GroundBreak is starting to flow $90 million in flexible capital provided by philanthropic and private partners, alongside traditional bank loans designed to work better for communities. Together, we are working to unlock capital at scale 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 due to risk-based pricing.

Recommended Financial Tools & Products:

1. **Capital to start a business**: Forgivable business 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 risks, 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. **Flexible 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

Most of the $5.3 billion in capital that will be unlocked through GroundBreak will come from financial institutions, as well as philanthropic and private partners. **State investments are critical for bridging one-time gaps, scaling solutions, and maximizing private investments.**

Through deep cross-sector collaboration, we can close racial wealth divides for good and create a more vibrant and prosperous state for all Minnesotans.

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-endorsed' mortgage:** 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.

[1] Five major financial institutions now offer what we view as a 'GroundBreak-aligned' mortgage with flexible underwriting. These products have a less stringent method of assessing risk that have proven through pilots to expand eligibility for borrowers.

Contact: Kenza Hadj-Moussa, khadjmoussa@oconnellconsulting.net