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CATALYZING ECONOMIC GROWTH THROUGH SBA COMMUNITY-BASED LENDING

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, TAX, AND CAPITAL ACCESS

OF THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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CATALYZING ECONOMIC GROWTH THROUGH SBA COMMUNITY-BASED LENDING

TUESDAY, MARCH 29, 2022

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX, AND CAPITAL ACCESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building and via Zoom, Hon. Sharice Davids [chairwoman of the Subcommittee] presiding.

Present: Representatives Davids, Bourdeaux, Chu, Meuser, Donalds, Young Kim, and Van Duyne.

Chairwoman DAVIDS. Good morning. I call this hearing to order.

Without objection, the Chair is authorized to declare a recess at any time.

I would like to begin by noting some important requirements. Standing House and Committee rules and practice will continue to apply during hybrid proceedings. All Members are reminded that they are expected to adhere to these rules, including decorum.

House regulations require Members to be visible through a video connection throughout the proceeding, so please keep your cameras on. Also, please remember to remain muted until you are recognized to minimize background noise.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move to the next available Member of the same party and I will recognize that Member at the next appropriate time slot provided they have returned to the proceeding.

The COVID-19 pandemic highlighted long-standing inequities in the small business lending market. In March of 2020, Congress stepped in to support small businesses through the Paycheck Protection Program. Under PPP, banks and other private lenders made fully guaranteed SBA loans to small businesses hurt by the virus.

Over the life of the program, PPP delivered over $800 billion in emergency loans. This aid helped small businesses keep employees on payroll and pay necessary expenses like rent and utilities. But as we heard last week in our Oversight Committee, it became clear that access to the program was not equal for everyone.

Prior relationships with big banks led to the exclusion of the smallest of small businesses, putting them at risk of closing permanently.

One of our top priorities for this Committee was empowering community lenders to originate more PPP loans to maximize lending in underserved communities. These institutions typically have deep ties to the smallest businesses.

We incorporated set-asides in multiple pieces of legislation to allocate funds so that community lenders could participate in PPP on equal footing with bigger banks.

Both the GAO and outside experts found these changes proved to be effective in making the program more accessible.

In later rounds of PPP, the average loan size decreased substantially, and more funding reached businesses in underserved markets.

Moreover, small firms reported the highest level of satisfaction with community-based lenders and small banks.

The ability of community lenders to reach underserved businesses should serve as an important lesson moving forward.

Though the PPP portal closed last May, these community lenders can be a vital tool as we work to drive an equitable recovery. In fact, many of the community lenders that helped deliver PPP to underserved businesses are already active in SBA lending programs. Programs like the 504/CDC Loan Program, SBA Microloan Program, and Community Advantage pilot loan program are all delivered by community lenders. Each program has proven effective in helping deliver capital to underserved communities.

By strengthening existing SBA programs that utilize community lenders, we can help ensure that all small firms have access to the capital they need to grow and thrive.

Members of this Committee have introduced and advanced numerous pieces of legislation to bolster these programs to better serve entrepreneurs.

Today, I look forward to taking a close look at these proposals and hearing directly from community lenders about the issues that they face and what we can do to help.

I would now like to yield to the Ranking Member Mr. Meuser for his opening statement.

Mr. MEUSER. Thank you very much, Madam Chair. And thank you for holding this hearing on small business access to capital. It is and will remain one of the top issues for this Committee.

Over the last few years, main street businesses across our vast nation have experienced one hurdle after another. COVID-19 shutdowns devastated our country's small businesses, entrepreneurs, and startups. From forced closures to capacity restrictions, business owners were confronted with a challenging path forward. In response to the emergency period, former President Trump and Congress enacted numerous small business relief measures, including the popular Paycheck Protection Program that was delivered to small businesses through a joint effort with private sector lenders.

Today, small businesses are facing economic headwinds that are preventing their recovery and growth. If it is not scorching inflation price increases, small businesses are facing supply chain disruptions that are preventing goods from reaching their shelves.

On top of ever-increasing costs, small businesses continue to have trouble finding employees. All you have to do is enter a small business and they will be sure to inform you of that. These are not

the economic conditions that instill confidence into a sector of our economy that produces nearly half of the country's gross domestic product and comprises over 99 percent of all businesses in the nation.

Despite these obstacles, small businesses can lead our nation back to economic growth. In order to do this, however, we must ensure the lending environment is healthy, robust, and responsible. That is why a public-private partnership lending model must continue to be the model of choice for our country when it comes to federal access to capital programs. Involving the private sector is the best way to produce efficiencies that cannot be matched or equaled by strictly the federal government.

Furthermore, private sector lenders act as centennials against fraud. Anything less has proven to be very problematic and frankly, is unacceptable.

One example of this public-private partnership is through the SBA's 504 CDC loan program. This program, which focuses on economic development, reached record highs last fiscal year while serving small businesses and communities across the nation.

In my state, Pennsylvania, the program issued 185 loans last fiscal year for over $153 million. It does not seem all that significant but extremely significant to the 185 recipients of those loans. Again, this is an economic development-driven program; therefore, each loan requires a job creation goal or community development goal to be met. While the program continues to be successful, there is more work that needs to be done, especially when it comes to the management of the program by the SBA.

The turn time on delivering loans to small business owners continues to grow, which is concerning, and the SBA has somewhat slow-walked the implementation of the 504 Express Program which it was enacted in a bipartisan manner over a year ago.

Madam Chair, I would like to note that when Republicans asked about the delays in launching this new tool, all we received back from the SBA is that it would be implemented soon. This is really not acceptable. Small businesses are working tirelessly to serve their communities. Unfortunately, the actions of this administration did not always suggest that they are putting the nation's job creators at the forefront. From the SBA inadequately answering our questions to the Treasury Secretary ignoring this Committee, which I think upsets both sides of the aisle and small businesses, by refusing to testify, again, despite what the law requires. This administration must do better.

With that, Madam Chair, I would like to thank you for holding this hearing, and I am looking forward to the conversation on how a public-private partnership lending models can successfully deliver capital to the nation's job creators and the communities that they serve.

And I yield back.

Chairwoman DAVIDS. Thank you. The gentleman yields back.

And with that, I would like to introduce one of our witnesses. Our first witness is Mr. Manny Flores, president and chief executive officer of SomerCor, an SBA-certified development company located in Chicago, Illinois. In addition to making 504 loans, SomerCor is an active lender in the SBA Community Advantage

pilot loan program. SomerCor also participates in the City of Chicago's Small Business Improvement Fund which promotes economic development by providing small firms in Chicago with reimbursable grants for permanent building improvement costs. SomerCor is a Member of the National Association of Development Companies (NADCO) and we are glad to have you with us today. Welcome, Mr. Flores.

And I will now yield to the Ranking Member.

Sorry about that.

Our second witness is Mr. Kerry Doi, the president and chief executive officer of the Pacific Asian Consortium in Employment (PACE), located in Los Angeles, California. PACE is a Treasury certified community development financial institution (CDFI) and an SBA microloan intermediary and Community Advantage lender focusing on supporting primarily Asian American entrepreneurs and those from underserved communities. PACE is also a Member of the Friends of the SBA Microloan Program, a nationwide network of nonprofit microlending intermediaries focused on economic development.

Welcome, Mr. Doi, and we look forward to your testimony.

I would now like to yield to the Ranking Member, Mr. Meuser, to introduce our third and final witness.

Mr. MEUSER. Thank you again, Madam Chairwoman.

Our next witness is Brooke Mirenda. Ms. Mirenda is the president and chief executive officer of Sunshine State Economic Development Corporation, also known as SEDCO, based in Clearwater, Florida. SEDCO is a nonprofit CDC that participates in the SBA's 504 Loan Program. With over 15 years of financial services and banking experience, Ms. Mirenda also serves on the Legislative Committee with the National Association of Development Companies, the main trade association for the 504 Loan Program. Additionally, Ms. Mirenda serves on numerous community boards throughout the State of Florida.

Ms. Mirenda, we are glad to have you back before the Committee. Your extensive experience in the area of economic development lending will benefit this conversation immensely.

And Madam Chairwoman, I yield back.

Chairwoman DAVIDS. Thank you. The gentleman yields back.

And thank you to all our witnesses for being here today.

Mr. Flores, you are now recognized for 5 minutes.

STATEMENTS OF MANNY FLORES, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SOMERCOR; KERRY DOI, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PACIFIC ASIAN CONSORTIUM IN EMPLOYMENT (PACE); BROOKE MIRENDA, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SUNSHINE STATE ECONOMIC DEVELOPMENT CORPORATION (SEDCO)

STATEMENT OF MANNY FLORES

Mr. FLORES. Good morning, Chairwoman Davids, Ranking Member Meuser, and Members of the Subcommittee. Thank you for the privilege of testifying before you today to discuss the Small Business Administration community-based lending programs.

My name is Manuel Flores, and I am here on behalf of SomerCor, a Certified Development Company based in Chicago, Illinois. There are more than 200 nonprofit CDCs nationwide working in their communities to deliver the SBA's 504 loan program, as well as other SBA resources like the 7(a) Community Advantage and Microloan programs.

CDCs are required to invest in economic development initiatives in their areas of operation beyond their participation in the SBA 504 program. To use SomerCor as an example, not only are we one of the nation's larger CDCs by annual loan volume, we also participate in the SBA's Community Advantage loan program and administer small business grants on behalf of the City of Chicago for new investments in under-resourced communities.

We are part of a national CDC network that plays an integral role through a mission-based lens in growing economic development in communities across our nation. The SBA 504 loan program is a public-private partnership that brings together traditional lenders and CDCs to help small businesses finance the acquisition of commercial real estate, make building improvements, and purchase equipment with terms typically not available conventionally. The program provides loans of up to $5 million and $5.5 million for certain industries. The hallmarks of the program include terms of 10 years for equipment and 25 years for real estate with a fixed, below market interest rate.

In the wake of the COVID-19 pandemic and our ongoing economic recovery, I want to take this opportunity to highlight three policy considerations. First and foremost, it is critical for the 504 program to remain open and viable. Increased loan demand under the 504 program exceeded its then-congressionally authorized cap of $7.5 billion in fiscal year 2021, effectively shutting the program down for 3 weeks, causing a myriad of negative issues for small businesses. In fiscal year 2022, program demand continues at an unprecedented rate. We are extremely thankful Congress increased the 504 program authorization level to $11 billion for the remainder of fiscal year 2022, averting a significant disruption in the market.

It is important, however, for Congress to take new steps now to avoid a program shutdown in the future as we anticipate continued growth and demand. As a zero subsidy program that encourages small business expansion, our ask is for certainty and the ability to meet rising demand long term. A step in the right direction is to combine the authorization levels of the regular 504 program and the refi without expansion programs so all 504 programs are under the same authorization level of $15 billion.

My second recommendation is for passage of the 504 Modernization and Small Manufacturer's Act of 2021, H.R. 1490, which increases the 504 loan for manufacturers to $6.5 million, decreases the borrower equity injection from 10 to five percent, and includes other provisions that support small businesses in the manufacturing sector.

I want to be clear that we have an opportunity to do more to catalyze increased investment in new manufacturing here in the United States. The pandemic and global supply chain disruptions laid bare the need for a stronger and more resilient domestic man-

ufacturing sector. H.R. 1490 may provide more capital to help strengthen our manufacturing industry.

Finally, we recommend adoption of NADCO's request to make the Community Advantage program permanent with provisions to set it for long-term success. This includes training for new Community Advantage lenders and viable solutions to alleviate liquidity issues that constrain the lending capacity of nonprofit CDCs. The Community Advantage program has been a pilot since 2011, but for the program to be successful, lenders and borrowers need certainty on the continuity of the program.

Sitting here before you is an honor, and I do so in the spirit of advocating for small businesses who help build our communities. One such example is SomerCor client Osorio Metals Supply, a family-owned business in Chicago started by Rubin Osorio in 1992 as a one-man operation working out of his garage. This past year, Rubin and his daughter Adriana, who is now the company's chief operating officer, turned to SomerCor for an SBA 504 loan to make needed renovations to their 30,000 square foot facility. Now, Osorio Metals has a state-of-the-art facility to better serve its clients. And as Adriana said, and I quote, "Acquiring a new facility and transforming the space to fit our needs has been a dream come true for our family business and it would not have been possible without this program."

It is these businesses and projects that inspire our work. Again, thank you for the opportunity to testify here today, and I look forward to answering your questions.

Chairwoman DAVIDS. Thank you, Mr. Flores.

And Mr. Doi, you are now recognized for 5 minutes.

STATEMENT OF KERRY DOI

Mr. DOI. Thank you, Madam Chair, Representative Meuser, my Congresswoman Judy Chu, honorable Members of the Committee. I am Kerry Doi, CEO of PACE. Thank you for this opportunity to testify before the House Small Business Committee on the all-important catalyzing economic growth through SBA community-based lending.

PACE was incorporated in 1976, and in 1993, began providing business development services to pre-startups, microenterprises, and small businesses. Since inception, PACE Business has trained or counseled more than 68,000 pre-startups, startups, operating micro and small businesses who have established or expanded over 17,000 small businesses that have created or retained over 22,000 jobs.

For over 28 years, PACE has provide comprehensive wraparound services to more than 68,000 businesses across L.A. County.

The SBA microloan program, which was authorized in 1991 to businesses that conventional lenders were and remain unable to finance for a variety of reasons, including lack of sufficient collateral or business experience. Nonprofit community-based intermediary lenders use the SBA microloan program to finance new and emerging businesses in urban and rural communities and eventually moved these businesses into the economic mainstream as bankable ventures.

The average SBA microloan was $14,435 in FY2020. There are 144 active microloan intermediaries serving 49 states, the District of Columbia, and Puerto Rico. In FY21 alone, microlenders made an additional 4,510 loans totaling over $74 million. Of this amount, 63 percent went to existing businesses, 36.9 percent to startups, 48 percent to woman-owned businesses, 66.9 percent to minority-owned enterprises.

This financing led to the creation of 7,500 jobs and the retention of over 10,000 jobs.

Despite intermediaries serving at-risk small businesses, the SBA microloan program has a cumulative default rate of less than 2 percent. PAC's SBA microloan program started in 2010. Since the program launched, our loan team has deployed 323 loans for $3.3 million, with an average loan size of $10,156. As of March 15, 2022, we have 32 SBA microloans in our portfolio totaling $548,472, or an average loan size of $17,139.

We reviewed H.R. 1487 and H.R. 1502. H.R. 1487 establishes a series of reporting requirements for SBA and requires an annual report on the effectiveness of the microloan program. H.R. 1502 makes a number of improvements and updates the microloan program, which we support. Of particular note, it raises the definition of small loans from $7,500 to $10,000.

In addition, it establishes loans of 7 years for loans of $10,000 or less, and up to 10 years for loans that are greater than $10,000. Reviewing the allocation for SBA funds is important by reserving the first 2 quarters of the fiscal year, 15 percent of the annual microloan appropriation for unutilized states.

One issue that the bill does not address is the Executive Order mandating language access that we would urge the Committee to consider. Otherwise, we fully support the bill and the microloan program which has proven itself to be an important tool for economic development. Thank you.

Chairwoman DAVIDS. Thank you, Mr. Doi.

Ms. Mirenda, you are recognized for 5 minutes.

STATEMENT OF BROOKE MIRENDA

Ms. MIRENDA. Chairwoman Davids, Ranking Member Meuser, and Members of the Subcommittee, thank you for inviting me to join in the conversation on community-based lending and the work CDCs are doing to build communities across the U.S.

My name is Brooke Mirenda, and I am here on behalf of Sunshine State Economic Development Corporation (SECD), located in Clearwater, Florida, and I serve as the president and CEO. I remain intimately involved in ensuring the capital access needs of borrowers are being met, primarily via the SBA 504 loan program.

I am also a Member of the National Association of Development Companies (NADC)), a trade organization dedicated to supporting the CDC industry and our collective work in the economic development arena. The SBA 504 loan program not only creates jobs in our economy, it also offers beneficial rates and terms for our small business owners, helping them to preserve capital and grow their businesses while operating at a zero subsidy. Because the core purpose of the program is economic development, all 504 borrowers

must meet at least one of two specified economic development objectives which are outlined in my written testimony.

In fiscal year 2021, the 504 program delivered more than $8.2 billion in financing to 9,700 businesses. The creation of retention of 85,000 jobs and a total capital investment of over $20 billion. In fact, we served so many small businesses that we reached our then-Congressional authorized cap of $7.5 billion on September 7th, and SBA was unable to approve any 504 loans until the fiscal year authorization levels reset October 1st.

Volume did not dissipate in fiscal year 2022, and we began raising with NADCO to raise our concerns about another much longer much longer shutdown of the program. Thankfully, Members of this Committee, as well as our counterparts in the Senate, came together to work with appropriators to ensure businesses have access to the job creating financing they need by increasing the authorization level for the regular 504 program to $11 billion for the remainder of the fiscal year.

I want to take a moment to share my sincere thanks for all the effort put into making this increase a reality. Our borrowers, our lenders, and our CDCs thank you.

I believe a major reason the 504 program continues to grow is the program is a prime example of how public-private partnerships should work. The SBA administers the program and we, the private sector nonprofits focused on economic development, partner with private sector lenders to deliver the program. The CDC and lending partner each complete full loan underwriting which is then reviewed by the SBA. As a result, small business owners are not repaying their debts. The 504 has a charge off rate of $.6 percent over the last 10 years. Because of the soundness of the program, the costs associated with it are paid for by fees so it does not cost taxpayers any money.

The program is performing extremely well and providing much needed capital to our nation's job creators, small businesses. However, there are considerations Congress should keep in mind to make sure it stays successful. First and foremost, the program needs to stay open. I, along with NADCO, urge Congress to work together to come to a long-term solution to the 504 authorization level including combining the regular 504 and debt refinance without expansion caps. It would be devastating to small businesses and to the reputation of the program if the program would have shut down for any period of time.

Secondly, as a result of the increased profile at the SBA and the economic impacts of the pandemic on small businesses, its lending programs are experiencing increased demand. However, SBA is largely operating with the same staffing levels as they were pre-pandemic, and although they are working hard to keep up with the demand of the program, over time and overworked staff is not a permanent solution.

A solution is one passed by Congress in the Economic Aid Act which is a pilot within the 504 program that would allow vetted, proven CDCs with ALP status to more efficiently process loans up to $500,000. SEDCO alone would have been able to process 51 percent of our loans under this program. The CDC industry is still awaiting the rule implementation which is to sunset in fiscal year

2023. NADCO and I recommend Congress extending the sunset to fiscal year 2027 to allow it sufficient time to operate in order for SBA and Congress to be able to make an informed determination on its efficacy.

My final recommendation is for the implementation process of laws that impact the SBA's lending programs to include a dialogue about congress intent. For example, Congress authorized changes to the debt refinance without expansion program in the Economic Aid Act. Those changes we believe were intended to bring parity to the refinancing of government debt among SBA lending programs. However, the implementation of the debt refinance provisions included parameters that limit the ability of CDCs to reach as many small business owners as the changes should allow.

I sincerely appreciate the opportunity to bring these issues to your attention and talk about a program that is doing phenomenally well with $4.48 billion in approved 504 loans as of March 18th.

I look forward to working with you to ensure the future success of this public-private partnership and I am happy to answer any questions.

Chairwoman DAVIDS. Thank you, Ms. Mirenda. And thank you to all of our witnesses for joining us today. We appreciate your expertise and the recommendations and considerations that you've shared with us.

So, I will begin by recognizing myself for 5 minutes.

So, even as we have seen a booming economy in this last year, the reality is that a lot of small business owners are still facing some pretty enormous challenges. Whether that is from inflation or supply chain shortages, a lot of small businesses are still working with very slim margins and pretty uncertain nods.

Mr. Flores, as a 504 and Community Advantage lender, you are able to offer small businesses the full range of eligible loan uses from long-term fixed asset and real estate financing to the 504 program working capital in the Community Advantage Program. With the broad range of eligible uses, how do the SBA community lending programs help small businesses compete amid growing uncertainty around things like energy prices and other costs?

And Ms. Mirenda, if you want to chime in after.

Mr. FLORES. Thank you, Madam Chair, for that question.

In my opinion and my view and in my experience in seeing firsthand how these programs work, it is about providing stability. In particular, the 504 program, because you have these long terms associated with it, it allows businesses for better planning, for preserving capital, and it is also affordable financing. With regards to the Community Advantage Loan program, it is a $50,000 to $250,000 loan program as you know, and that is, frankly, it is a challenging type of loan to find conventionally. So, we can fill a gap in the market to be able to assist these small businesses. And in particular, we are looking to support businesses in low- and moderate-income communities as part of that initiative.

So, it really provides additional support for these businesses that frankly without these programs, they would not have those capital options.

Chairwoman DAVIDS. And so, I am curious with the mixture and breadth that you both see in the work you are doing. Can you talk a little bit about the ability to both plan long term, or longer term, while also being kind of flexible and adaptable to the economic environment that we have seen and the ways that you all engage with your clientele?

Mr. FLORES. So, Madam Chair, the Certified Development Company Network is made up of companies that are working directly in their neighborhoods and communities. And while we take a lot of pride in providing very high quality expertise in the lending process, we also, oftentimes, provide technical assistance. Working hand-in-hand with chambers of commerce and other important community stakeholders in making sure that people are made aware of the resources that the Small Business Administration offers, but then also providing some very direct support in how to access these loans. How to become loan ready if you are not at a point in your business to be able to access a 504 loan. Or with these businesses on how to engage in better planning. We view ourselves as strategic partners in all areas related to economic development and support of strengthening a small business ecosystem. And we do so, again, in reinforcing not only the partnership with organizations such as chambers of commerce, but also with other lending partners * banks, credit unions * that also play an integral role in the deployment of these programs along with CDCs.

Ms. MIRENDA. So thank you for the question. And we are a Community Advantage lender as well. We have funded a little over $2 million just this year in Community Advantage loans.

The other thing is he mentioned management technical assistance. Just so you guys know, that is a requirement on the Community Advantage Loan program. So, we have to, every quarter, we talk with our borrowers and discuss how their financials are going. What does their P&L look like? What does their balance sheet look like? Do they have any questions? Have they been able to hire any folks? Things like that. So, I just wanted to bring that to your attention.

The other thing, too, as far as lenders go, a lot of our deals do come from our bankers. They know about the CA loan program. There are deals that they cannot do conventionally so they will refer deals out to us, you know, for a startup and things like that.

Chairwoman DAVIDS. It takes an ecosystem. And I will yield back and recognize our Ranking Member, Mr. Meuser, for 5 minutes.

Mr. MEUSER. Thank you, Madam Chairwoman, very much. Mr. Flores, Ms. Mirenda, thanks for being with us, as well to other testifier. I appreciate it.

So, I have to say, I like what I am hearing from my years in business and working with small businesses and growing a small business into a large business. You know, when you read things such as I think it is barely 18 percent of small businesses seeking loans or lines of credits, line of credit, actually get what they want and what is sufficient. Having this SBA service and public-private partnership that has worked with you folks is very important, so I want to try to move through some questions relatively quickly if we can.

So, Ms. Mirenda, how many businesses do you work with?

Ms. MIRENDA. How many businesses do we work with?

Mr. MEUSER. Yes. How many loans do you extend? How many businesses do you——

Ms. MIRENDA. Last year we approved 61 loans.

Mr. MEUSER. Sixty-one.

Ms. MIRENDA. Over the State of Florida.

Mr. MEUSER. How about you, Mr. Flores?

Mr. FLORES. Our current portfolio is more than $430 million. We right now are on pace to reach $150 million. So, $130, $150 million in loan originations in the 504 program.

Mr. MEUSER. What is the average amounts? Ninety thousand? One hundred thousand?

Mr. FLORES. For us in the 504 program, it is a loan amount of about $800,000.

Mr. MEUSER. Eight hundred thousand.

Ms. MIRENDA. That is about right. Eight hundred thousand.

Mr. MEUSER. Okay. My mistake. Okay. And how many do you deny? How many come in that you deny?

Ms. MIRENDA. A small amount. And the reason is because we are usually getting referrals from our lending partners.

Mr. MEUSER. Okay.

Ms. MIRENDA. They are well-trained on what works and what does not.

Mr. MEUSER. That is where most of them come——

Ms. MIRENDA. So that is where a lot of our deals come from, exactly, from banks and credit unions.

Mr. MEUSER. So they clearly have other banking relationships?

Ms. MIRENDA. Absolutely. Yes.

Mr. MEUSER. For the most part?

Ms. MIRENDA. Yes.

Mr. MEUSER. Okay. So, we talked about some struggles, of course, that small businesses have—workforce, inflation, energy costs, taxes. I just want to ask you, the idea that the 100 percent depreciation may end at the end of this year which certainly needs to be extended and the idea that a C corporation may go from 21 percent federal income tax to 28 percent is certainly not in the interest of small business because, as you well know, there's well over a million small businesses that are C corporations. Many companies that were family businesses way back and others for various reasons are C corporations. C corporation does not mean that they are a multi-billion dollar business.

So just relatively quickly, tell me what struggles you are seeing, because you deal with small businesses every day, what are you hearing from your clients?

Ms. MIRENDA. So a few things come to mind. The first one is interest rates are starting to rise. Our 504 loan program in the last 6 to 8 months has risen 1 percent. Now, we are still under 4 percent so it is still a very low rate. However, I think we got a little spoiled with 3 percent interest rates. So, our rate is still a little under 4 percent for 25 years. So, they are getting squeezed there. I would also say employees are costing more money. Obviously, the rate has gone up for hourly employees. I was just talking to a franchise owner about 2 weeks ago regarding this and their cost of

goods is going up. So, what happens is price then go up. So, what we are seeing is they are having trouble finding people and they are seeing interest rates going up, so they are really trying to lock in interest rates which is why the 504 program is so advantageous for small business owners because the commercial loan that they partner with, we partner with on the first, they price that however they would price a typical commercial loan. But the SBA thought the portion that we finance, because it is a split loan, basically, is fixed for 20 or 25 years. So that is why they are seeking out this program.

Mr. MEUSER. Okay. Mr. Flores, you mentioned a word before "stability." I think any business would appreciate that thought and that level of consistency. So why do you not expand? What are you hearing from your clients?

Mr. FLORES. So, inflation, labor shortages, and supply chain constraints are big problems. And we need to understand there are still a lot of business out there suffering, particularly in the hospitality industry. So, when we think about opportunities to strengthen programs that we know have a positive track record, at the minimum, we should work strengthening these programs.

Mr. MEUSER. True.

Mr. FLORES. And that stability and being able to count on some support is critical. So, I am just going to use this opportunity to say, looking at ways to making sure that 504 program is adequately funded is critical.

Mr. MEUSER. Okay. And that is very important. My time has run out but I do want to hear from you if we have a second round, or later, even in writing. You deal in the real world so any improvements—you started expanding on this, Ms. Mirenda, I would love to hear more from you on that.

So, I yield back. Thank you.

Chairwoman DAVIDS. Thank you. The Ranking Member yields back.

And the Chair now recognizes Congresswoman Chu for 5 minutes.

Ms. CHU. Mr. Doi, thank you for joining the Committee today to share the incredible story of PACE for the congressional record. Since you are an agency in Los Angeles, which is my area, I have known of the incredible success of PACE for many, many years, and I know how much you have done to help the most vulnerable communities be able to become successful in small business.

So, as we examine the work SBA did with the Paycheck Protection Program, I appreciate that this Committee is taking note of PPP's initial challenges in reaching the smallest businesses and how the reliance on community lenders such as yourselves and community development corporations helped bridge that gap. I have long been a proponent of the Community Advantage program which aims to serve many of the same underserved and micro businesses. One proposal I have long been working towards would be to lift the loan cap that Community Advantage lenders could issue from $250,000 to $350,000. Can you discuss the benefits of lifting the cap on the types of businesses that you serve?

Mr. DOI. Thank you for the question, Congresswoman.

It would be of tremendous benefit. Hundreds of businesses come to us every year. Many of them new entrepreneurs. We provide a whole lot of business counseling to these small businesses prior to offering them microloans, anything under $50,000. And as my testimony indicated, it is averaging $10,000 loans. But as we continue to work with them and help them grow where they learn business basics, a business bootcamp, if you will, and they grow. Also, in my written testimony I talked about one business that we provided a $500,000 loan to that ended up hiring 20 employees. And so, lifting the cap on the Community Advantage Program would help tremendously as these types of businesses grow from being micro to regular bankable small businesses.

Ms. CHU. Thank you for that.

Mr. Doi, in your written testimony you alluded to work PACE does in assisting refugees and those who sought asylum in the U.S. I have heard so many inspirational stories of those that you have helped who maybe did not have the credit history and all kinds of circumstances that they face. In particular, your testimony tells the story of my constituent, Don Wong. Because he was an asylee, Don had limited business credit history so he was not able to get that traditional loan, but PACE helped him secure the loan he needed to purchase a new truck to begin his own trucking business from the Ports of Los Angeles and Long Beach, helping to relieve the supply chain backlog that we are all experiencing in this country today.

With the nation's attention on the needs of refugees, such as those coming here from Afghanistan or Ukraine, Mr. Doi, can you discuss the type of work PACE does in particular to assist refugees starting their own businesses? What kind of impact does this work have on the economy of the Los Angeles area?

Mr. DOI. Thank you again for that question, Congresswoman.

Yes. In working with asylees, as well as refugees, most of them do not understand all of the culture, the nuances of America. And so, we provide not only small business counseling, but social services counseling also so that they understand the rules, the regulations, business licensing, permits, reporting to IRS and accounting. All of those kinds of things. And so, I want to reemphasize the need for technical assistance. It is, indeed, important as we take these people that for many reasons do not have the local work experience, do not have the local education, et cetera, but they do have the entrepreneurial drive. And therefore, can put food on the table and a roof over their heads. And so that is why this program is so critical.

Ms. CHU. Thank you. And I yield back.

Chairwoman DAVIDS. Thank you. The gentlewoman yields back.

The Chair now recognizes, Rep. Kim, Ranking Member of the Subcommittee on Innovation, Entrepreneurship, and Workforce Development.

Ms. YOUNG KIM. Thank you, Chairwoman Davis, and Ranking Member Meuser, for hosting this hearing. And I want to thank all of our witnesses for joining us today.

Over the last 5 years, one of the local CDCs serving my district, the California 39th District, is CDC Small Business Finance. And this has provided over 24 small businesses with financing over $34

million and supporting 667 jobs. For this CDC, it is just a snapshot of what successful private-public partnerships can do to deliver much-needed capital to allow small businesses to expand and generate jobs in our communities.

I have helped introduce a number of 504 bills, including the 504 Modernization and Manufacturing bill that Mr. Manny Flores mentioned today. This bill also includes several new policy goals for the program, including workforce development, which we now know is an ongoing issue for employers across the country.

So, I want to ask you, Mr. Flores, what do you think, or can you anticipate the type of benefit that would come from including workforce development in the policy goals of the program?

Mr. FLORES. Thank you, Madam Congresswoman.

It sends a powerful message. It tells everybody who is applying for a 504 loan who is working in the manufacturing sector that we need to continue to focus on preparing a ready workforce that is going to meet the demands of our dynamic marketplace today. Not tomorrow, today. I often speak to a lot of businesses who are having labor shortage issues. Oftentimes we hear that small businesses cannot find people to employ with the skills needed to meet their needs. So, anything that we can do to promote workforce development and training is a very positive thing to do and tying it directly to a 504 program that is all about job creation makes a lot of sense. So, we strongly support those efforts and I think it would be very well received in the marketplace.

Ms. YOUNG KIM. Right. We are working hard to pass that bill, H.R. 1490, so thank you. I hope to see this stand into law quickly.

And Ms. Mirenda, as you mentioned in your testimony, the CDC industry is still awaiting the implementing the ALP Express Pilot program. How has this delay implementing the pilot program impacted the CDC industry and small businesses, and do you think the SBA would benefit from the pilot program by getting loan processes off their plate?

Ms. MIRENDA. Thank you for the question.

Yes. It was passed in the Economic Aid Act in December of 2020, and so we are still waiting on the implementation of the ruling. And ALP Express, what that would do is that would allow us as ALP lenders, which is Accredited Lender Program to unilaterally approve SBA loans. And right now, SBA's turnaround times are very long. Just as far as 327 actions are concerned, 327 actions are any changes made after an authorization is granted to us. And so, any of those changes, they are taking up to 18 business days, which is over 3 weeks. And so that is really affecting our small business owners. That is where I think ALP Express would come into play where we can unilaterally make decisions. And I am sure we would be vetted by OCRAM, which they would come in and audit us and audit our financials and the things that they do, but that would be okay because we are proven CDCs.

Ms. YOUNG KIM. And so let's look at the 504 program with tasking the premier economic development program at the SBA for decades. And it really has made things strong bipartisanly throughout the years. So, in your estimation, Ms. Mirenda, what are the main drivers or hallmarks behind this continued bipartisan effort?

Ms. MIRENDA. I would say the first thing is it operates on a zero subsidy. I think that is important to both parties. Second is we have a job creation goal. There is an economic job creation goal or an economic impact that for every single 504 loan we do and the default rate, I mean, default rate for 10 years is .6 percent. So, it would be hard to argue on either side why the 504 loan program is not advantageous for small business owners.

Ms. YOUNG KIM. Well, thank you so much. Thank you for being here, again, and I yield back.

Chairwoman DAVIDS. Thank you. The gentlewoman yields back.

The Chair now recognizes Rep. Bourdeaux for 5 minutes.

Ms. BOURDEAUX. Thank you, Chairwoman Davids, and Ranking Member Meuser for holding today's hearing.

Community lenders are critical to expanding access to capital for small businesses, in particularly those in undeserved markets, including many in my congressional district. One of the clearest examples of this is the PPP program which showed how important it is to support community-based lenders and the work that they are doing every day.

This is a question for Mr. Doi. I really appreciate the technical assistance and outreach that you do to small businesses. And one of the things that we found around the PPP loan program was that a lot of our really, really small businesses did not know about the loan and really needed a lot of proactive technical assistance. I went and talked to them and it seemed like we almost needed to go into their barber shop, into their restaurant, set up a laptop, and walk them through the program because they just did not have the lawyers and the accountants and all of that backing support. All of their energy was being thrown into just trying to keep their business up and running.

And so, I was wondering if you could talk a little bit more about technical assistance and what is needed in terms of a more proactive effort to go out there and really support some of our smallest of small businesses and make sure they can access things like the PPP Loan Program or the Microloan program through the SBA?

Mr. DOI. Thank you for that question, Congresswoman. You have pointed out a really big issue in the small business community. And it is not only in LA.; it is throughout the country. In talking to our colleagues throughout the country that are involved in entrepreneurial development and growing new start businesses especially, they do not know. And even the ones that have been in existence for 5 years do not know about all the various products and services that are available to them. What is important is that as a community-based lender that we participate in the economic ecosystem. That would include the chamber of commerces, the banking associations, other economic development organizations. And that helps to spread the word. And even doing so is not enough. I mentioned the need for language access. We are proud to be able to say that our organization speaks over 40 different languages and dialects which is highly unusual for any organization throughout the country. Because so many of these people where English is not their first language do not know anything about the services that are available. And I also mentioned the president's

Executive Order mandating language access. And it is so critically important but it is an unfunded mandate. And so, adjusting the formula for technical assistance would really help, especially in outreaching to those that have never heard of these kinds of services before.

Ms. BOURDEAUX. Thank you for that. And one of the community projects I was very pleased to be able to get into the budget was $100,000 for my Small Business Development Center to provide more in-language access. I have a very diverse community but we have to kind of build our institutions to meet those needs. We still are not in a place where an organization like yours is. It is just taking us some time. We are much newer to that kind of diversity so we are working on that.

One other quick question. One of the programs we talk about an awful lot is the microloan program and that seemed to be a really good fit for some of these really first-time entrepreneurs. Do you have any recommendations of how Congress could continue to improve this program and expand access for these small, often immigrant-owned businesses?

Mr. DOI. I do not like to be redundant but I do not think that it hurts to continue to repeat that technical assistance is so important, not only on the front end but on the back end. It is really an important thing to have in-language business counseling, and so that is why in our small business 101 workshops we do it in language, in as many as eight different languages if necessary.

Ms. BOURDEAUX. Thank you so much. And I really appreciate the good work you do. I yield back.

Mr. DOI. Thank you very much. Thank you.

Chairwoman DAVIDS. Thank you. The gentlewoman yields back.

The Chair now recognizes Rep. Van Duyne, the Ranking Member on the Subcommittee of Oversight, Investigations, and Regulations.

Ms. VAN DUYNE. Thank you very much, Chairwoman Davids and Ranking Member Meuser for holding this hearing.

Over the past 2 years, small businesses have faced seemingly endless challenges to their overall survival. For months, we talked about how ending the pandemic would return us to business as usual but that is no longer the case. Months of stimulus and overly generous unemployment benefits have resulted in excessive demands, hobbled supply chains, and extremely tight labor markets. And now small business owners are being forced to react to these economic realities.

The NFIB February Small Business Report found that 68 percent of small businesses have raised prices and almost half cannot fill staff positions as nominal wages rise at the fastest pace in decades. The administration's unsustainable relationship with spending money we do not have has led us to the next new business crisis, record high inflation, numbers we have not seen since the early 1980s. And in response, the FED and lenders have begun to raise rates adding yet another cost increase to their thin margins.

We would make one thing very clear today. Regardless of how good SBA is at facilitating lending, that cannot make up for the anti-growth environment created by this administration. The NFIB report emphasizes this with zero percent of small business owners reporting financing as their top issue while inflation, labor, and

taxes top their concerns. Unfortunately, this administration appears not to have learned its lesson. Amidst our runaway inflation, the president's budget released yesterday included a more than $1.1 trillion deficit next year and a $6.5 trillion deficit over the next 5 years. It is time to reverse course and for this Congress to emphasize fiscal responsibility by ending unnecessary spending, clawing back fraud, and addressing actual pressing issues like the Medicare Trust Fund that goes insolvent in 2026.

I want to thank our witnesses for their testimony today and for Ms. Mirenda, I appreciate your testimony. We have all seen and read articles about the massive amount of fraud in SBA programs over the last 2 years. NBC News just released a piece yesterday claiming that the SBA's PPP program is the "biggest fraud in a generation." And they said the SBA basically said to people apply and sign. What did not happen was even minimal checks to make sure that that money was getting to the right people. And now the SBA wants to get into the direct lending business. Do you believe the SBA can underwrite and service small business loans as efficiently and as prudently as you do?

Ms. MIRENDA. Thank you for your question. I do not think it is a good idea for SBA to do direct lending. The reason for that is, the reason our 504 program works so well is because we have a dual underwriting process with a lender and there is a fiscal responsibility with the lender. And an example would be EIDL. I mean, we were at dinner last night and a woman came up to us about their EIDL loan and that is direct lending right now with SBA. So, it is my professional opinion that, no, I do not think that would be a wise decision. I think maintaining the 504 as my colleague has pointed out, making sure this program stays open and stays viable, the programs that are clearly working, that are partnership programs. Even the CA loan program that we facilitate is working very, very well. So that would be my response.

Ms. VAN DUYNE. Do you think that the relationship that you have with your banking clients actually has led you to have less fraud because you know actually who you are loaning money to and you are able to actually put that due diligence in that the SBA has not been able to do?

Ms. MIRENDA. Yes. I think that partnership is imperative. I mean, they are regulated as well, and so are we by the SBA. But, yes. I mean, you mentioned PPP. The lenders did it really well and I am not sure what group made CFIs but that worked really well, too, community financial institutions that were doing the smaller PPP loans as well. That was something that changed and I think that the advantages as lenders are doing all their due diligence because they have to. They have to know their customer. They are required to. So that is why this partnership works very, very well in the 504.

Ms. VAN DUYNE. I really appreciate your responses here today and I yield back.

Chairwoman DAVIDS. Thank you. The gentlewoman yields back.

The Chair now recognizes Rep. Donalds for 5 minutes.

Mr. DONALDS. Thank you, Madam Chair. I am going to do something we typically do not do. I am not going to use my full 5 minutes. I just wanted to actually recognize Ms. Mirenda from the

great state of Florida. Thank you for all the hard work that you are doing on behalf of small business owners.

And with that, Madam Chair, I yield back.

Chairwoman DAVIDS. All right. Well, thank you. Thank you again to our witnesses for testifying today. I also want to thank you for all of the work that you have done for American small businesses since the pandemic began. This has certainly been a really rough few years. As we know, small businesses are the foundation of the American economy. Getting our economy back to full strength depends on the well-being of our small businesses. The pandemic recovery is certainly going to take time but we know that the recovery is going to be jeopardized if the smallest of our small businesses are not being thought of.

Accessing capital is a primary concern of a lot of small businesses, and we have to strive to ensure that certainly underbanked and underserved businesses have access to the funding that they need to be able to succeed. And as the Paycheck Protection Program demonstrated [audio malfunction].

[Whereupon, at 10:59 a.m., the subcommittee was adjourned.]

APPENDIX



Catalyzing Economic Growth through SBA Community-Based Lending

Testimony before the U.S. House of Representatives
Committee on Small Business
Subcommittee on Economic Growth, Tax, and Capital Access

March 29, 2022

Submitted by:
Manuel Flores
Chief Executive Officer & President
SomerCor 504, Inc
Chicago, IL

Good morning, Chairwoman Davids, Ranking Member Meuser, and members of the Subcommittee. Thank you for the privilege of testifying before you to discuss the role of Small Business Administration (SBA) lending programs in community-based lending.

My name is Manuel Flores, and I am here on behalf of SomerCor, a Certified Development Company (CDC) with Accredited Lender Program status based in Chicago, Illinois. There is a network of more than 200 non-profit CDCs nationwide working in their communities to deliver the SBA's 504 loan program, as well as other SBA resources like the 7(a) Community Advantage and Microloan programs. Many CDCs also deliver other federal programs through the U.S. Treasury, U.S. Department of Commerce, and U.S. Department of Agriculture. As a critical player in deploying needed capital during the pandemic, CDCs were designated as Community Financial Institutions (CFIs) in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), P.L. 116-136. CDCs participated in emergency relief programs like the Paycheck Protection Program (PPP) and provided technical and other assistance to small businesses seeking emergency relief. Finally, CDCs, like Community Development Financial Institutions (CDFIs), deliver a variety of state and local programs and resources to meet the needs of the businesses we serve. In fact, CDCs are required to provide investments in economic development initiatives in their area of operations beyond their participation in the SBA 504 program.[1]

To use SomerCor as an example, not only are we one of the nation's larger CDCs by annual loan volume - we have originated more than $1.5 billion in 504 loans since our inception with a current loan portfolio of $436 million - we also participate in the SBA's Community Advantage (CA) loan program. CA is a pilot under the 7(a) loan program that provides loans of

[1] Standard Operating Procedure 50 10 6 – Part 1, Section B, Ch 1, pg. 68 SOP 50 10 6 FINAL 8.7.20 LOCKED 0.docx (live.com)

up to $250,000 to small businesses with a focus on serving under-resourced communities, women, minority, veteran-owned businesses, and rural based enterprises. The SomerCor team is especially proud of being named by the SBA as Illinois Community Advantage lender of the year in 2016, 2018, and 2019.

SomerCor also administers the Small Business Improvement Fund (SBIF) and Neighborhood Opportunity Fund (NOF) grant programs on behalf of the City of Chicago. The SBIF and NOF programs provide place-based grants to assist small businesses make building and property improvements to catalyze new neighborhood investment in lower income communities in Chicago. The NOF program specifically is part of a neighborhood investment initiative referred to as INVEST South/West, a public-private partnership between city departments, philanthropy, community leaders, and corporate partners to bring investment to 12 commercial corridors within 10 South and West Side community areas in Chicago. In total, SomerCor has helped the City of Chicago disburse more than $113 million to 1,600 small businesses.

We are proud of our milestones and contributions to help entrepreneurs and strengthen Illinois communities. Our story is one shared by many other CDCs that are also engaged in impactful economic development initiatives to help their respective local small business ecosystems. The national CDC network plays an integral role in helping bring more economic development resources to communities across the nation and has a positive track record, especially through the deployment of the SBA 504 program.

SomerCor's primary work is the origination and servicing of 504 loans. The SBA 504 loan program is a public-private partnership that grows small businesses and enhances local investment and development. The program brings together traditional lenders and CDCs, who

lend on behalf of the SBA, to help small businesses purchase commercial real estate and/or equipment with terms that are typically not available conventionally. The structure of a 504 loan project is as follows: the CDC provides up to 40 percent of the financing through the 504 loan that is backed by the SBA, a third party lender provides 50 percent of the financing, and the borrower provides at least 10 percent.

The program provides loans of up to $5 million and $5.5 million for certain industries. Hallmarks of the program include terms of up to 10 years for equipment and 25 years for real estate with a fixed interest rate. Additionally, the interest rates are below-market and make the 504 loan truly affordable financing. Since August of 2019, the effective interest rate on the 25-year term loan has been below 4 percent.

Coupled with the eligibility requirement that loan recipients create jobs or meet a public policy or community development goal, the 504 program provides small businesses with the capital and loan terms they need to be successful, while creating local jobs and building local economies. Since 1990, CDCs have secured low-cost, fixed-rate financing for nearly 200,000 U.S. small businesses and leveraged $118.5 billion to finance over $338.6 billion in total projects, which supported or created 3.1 million jobs.[2]

During this time of economic recovery, there are several policy issues that Congress should focus on to ensure the SBA lending programs are equipped to best support businesses and grow local economies. First and foremost, it is critical for the 504 program to remain open and viable to meet the capital needs of small businesses. In the wake of the COVID-19 pandemic, the 504 program is positioned to assist small businesses with what they need most: long-term, low-cost capital at a fixed interest rate that provides certainty in the most uncertain times.

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[2] Small Business Administration, 504 Freedom of Information Act (FOIA) Data. 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data

As a result of increased small business demand for the 504 program, it reached its then-congressionally authorized cap of $7.5 billion on September 7, 2021, which effectively shut the program down for three weeks until the new fiscal year began on October 1, 2021. This three-week shut down of the program caused a myriad of issues for small businesses, including loss of real estate, escrow, and in some cases, jeopardizing their businesses.

As we moved into fiscal year 2022, the demand for the 504 program did not dissipate. I can speak to this first-hand – at the March 2022 funding a few weeks ago, SomerCor marked its largest debenture amount total in company history. From fiscal year 2019, the last true fiscal year before the COVID-19 pandemic, through fiscal year 2021, SomerCor saw a 74 percent increase in total dollars authorized and an 87 percent increase in the number of loans. Seeing the program's growing popularity and proven impact, we advocated with our trade association, the National Association of Development Companies (NADCO), to prevent another program shutdown. We recognized earlier this fiscal year the likelihood of reaching a $7.5 billion authorization for the 504 program sometime in the early summer of 2022. The damage to small businesses and to the future of the 504 program, if a three month shutdown occurred, cannot be overstated. As an industry, we are extremely thankful Congress worked together to include an increase to the 504 program authorization level to $11 billion for the remainder of fiscal year 2022. Because of your collective work and leadership, we can meet the growing demand for the SBA 504 program and support our nation's job creators as they expand their operations and investments throughout our communities.

It would be invaluable for Congress to take steps now to avoid a program shutdown in the future. A step in the right direction would be to combine the authorization levels of the regular 504 program and debt refinance without expansion program, so that all 504 programs are under

the same authorization level of $15 billion. For context, no other lending programs at SBA have separate caps for different components of their programs. The regular 504 program authorization level includes both 504 loans and debt refinance loans with expansion, which are usually new projects with a small portion of existing debt being refinanced. In contrast, the debt refinance without expansion program is used to fully refinance an existing loan. This program was originally included as a temporary program in the Small Business Jobs Act of 2010 (P.L. 111-240) under its own authorization level as a tool to stem the damage to the commercial real estate market caused by the financial crisis that first devastated the housing market in 2007 and 2008. At that time, the debt refinance without expansion program was given its own authorization level of $7.5 billion and sunset in 2012.

Congress made the debt refinance without expansion program permanent in the Consolidated Appropriations Act, 2016 (P.L. 114-113) and carried over the $7.5 billion authorization levels included in the Jobs Act for both the regular 504 program and debt refinance without expansion programs, respectively. While we have seen some growth in the debt refinance without expansion program due to the welcome changes made by Congress in the Economic Aid Act (P.L. 116-260), the program has never come close to utilizing the $7.5 billion authorization. In the Consolidated Appropriations Act, 2022 (P.L. 117-103) recently passed by Congress, the debt refinance without expansion received a $4 billion authorization level and the regular 504 program received an $11 billion authorization. Previously, each program received $7.5 billion; combining the two levels would not increase the amount of authority provided to the programs, but allow flexibility for CDCs to lend from each of the three programs organically to meet the growing demand.

My second recommendation also pertains to the 504 program. Though conversations have been ongoing for years, the COVID-19 pandemic starkly highlighted supply chain and manufacturing shortfalls in the American economy. As an economic development program geared toward the acquisition of real estate and equipment, the 504 program is uniquely positioned to support capital intensive industries like manufacturing. Currently, we can provide a 504 loan of up to $5.5 million for manufacturers. I echo NADCO's support of the 504 Modernization and Small Manufacturer Enhancement Act of 2021 (H.R. 1490) that would increase the 504 loan for manufacturers to $6.5 million, decrease the borrower equity injection from 10 percent to five percent, and instruct SBA district offices to work with resource partners, like Small Business Development Centers (SBDCs), to provide training to small businesses in the manufacturing sector.

Though this sector makes up only 10 percent of U.S. gross domestic product (GDP), it drives 20 percent of capital investment, 35 percent of productivity growth, 60 percent of exports, and 70 percent of research and development expenditures by businesses.[3] Furthermore, according to the McKinsey Global Institute, growth and increased competitiveness in 16 key manufacturing industries could increase annual GDP by more than 15 percent.[4] Enhancements to the 504 program for manufacturers will contribute to this kind of growth nationally, which supports the CDC industry's collective effort to do our part to ensure a more resilient and dynamic American economy.

The statistics I just outlined are comprised of individuals, entrepreneurs, and family-owned businesses that build local economies and create jobs. One example is SomerCor client,

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[3] Padhi, Asutosh. Want to drive inclusive economic growth? Start with manufacturing. (January 12, 2022) *World Economic Forum*. Want to drive inclusive growth? Revive manufacturing | World Economic Forum (weforum.org)
[4] Manyika, James, et. al. Building a more competitive U.S. manufacturing sector. (April 15, 2021) *McKinsey Global Institute*. US manufacturing: Building a more competitive sector | McKinsey

Osorio Metals Supply, Inc., a second-generation family metal works business based in Chicago that supplies structural steel and iron products to contractors and fabricators.

Ruben Osorio started the business as a one-man operation in his garage. In 1992, he purchased his first location in the Humboldt Park community. For nearly 30 years the business remained in that space, until the family purchased a building around the corner to serve as the new headquarters. The new property is 30,000 square feet and more than double the size of their original location, allowing for streamlined operations and increased efficiency. However, the new property needed significant renovations to accommodate business operations. In a chance meeting at a National Association of Women Business Owners (NAWBO) Chicago event, Osorio Metals COO, Adriana Osorio, connected with SomerCor loan officer, Lis Williams. By working with SomerCor to use the SBA 504 program, Adriana accessed critical capital needed to complete building renovations and open the new location. "Being able to work with SomerCor to obtain a 504 loan was absolutely vital to the trajectory of our 5-year growth plan," said Osorio. "Acquiring a new facility and transforming the space to fit our needs has been a dream come true for our family business, and it would not have been possible without this program. We are grateful to the SomerCor team, who were as excited and motivated as we were, to help in our lifelong endeavor." Stories like these are why we do the work we do and why I feel so passionately about the 504 program and its ability to affect positive change in our communities.

My final recommendation pertains to another program that we offer and know makes a difference – the Community Advantage program. The CA program was created to fill a gap in the capital markets. One of the program's primary goals was to make it easier for small businesses to find affordable financing in the $50,000-$250,000 range, a loan size that is difficult to secure with conventional lenders. At SomerCor, we have seen small businesses use CA

financing to cover operating expenses, pay for capital investments, and sometimes to even pay off exorbitantly high-interest rate loans that choke cash flow and jeopardize the viability of the small business. Notwithstanding its success, the CA program has been deemed a pilot program at the SBA since 2011. For the program to reach its full potential, both lenders and borrowers need certainty on the continuity of the program. I join NADCO in support of Congress making the CA program permanent with appropriate provisions to set the program up for success, like training for new CA lenders.

Moreover, I would be remiss if I did not bring to your attention the issue of liquidity and the fact that delivering CA program is especially difficult for non-depository institutions like CDCs and CDFIs. We use our own funds to make the loans and carry those loans on our books as non-profit entities. There are a number of ways Congress could address this issue; an example is what Congress chose to do during the pandemic and delivery of programs like the PPP – Congress allowed lenders to access the Federal Reserve discount window to help alleviate liquidity issues for non-depository institutions and small community banks. NADCO and I would look forward to a follow-up conversation on this and any of the issues I outlined in my testimony.

Again, thank you for the opportunity to testify today and dive deeper into the SBA programs CDCs deliver, and the impact we are making in the communities we serve.

Pacific Asian Consortium in Employment

Written Testimony of Kerry Doi

Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access
"Catalyzing Economic Growth through SBA Community-Based Lending."
Tuesday, March 29, 2022, 10:00 A.M. (ET)

My name is Kerry Doi, I am the president and founder of PACE – the Pacific Asian Consortium in Employment, based out of Los Angeles. PACE is one of the largest Asian-led community development corporations (CDCs) in the United States. Annually, PACE serves more than 68,300 low-income ethnic minority residents from across LA County through Employment, Business Development, Affordable Housing, Energy and Environmental Services, and Early Childhood Education. Our annual operating budget is in excess of $28 million and we have more than 300 staff.

In addition to recently being appointed by President Biden to his President's Advisory Commission on Asian Americans, Native Hawaiians, and Pacific Islanders, I was previously appointed by President Barack Obama to serve on the President's Advisory Council on Financial Capability for Young Americans, the Federal Reserve Board of Governors Consumer Advisory Council, and as a Member on the National Environmental Justice Advisory Council for the Environmental Protection Agency.

Thank you for this opportunity to testify today as an intermediary lender to the SBA Microloan Program, and on the success of microlenders like our organization in delivering financial services to underserved low-income urban, rural, minority, veteran, and woman-owned small businesses.

Pacific Asian Consortium in Employment (PACE)

PACE was incorporated in 1976 and began providing business development services in 1993 to pre-startups (entrepreneurs), microenterprises, and small businesses. PACE Business was originally funded by the U.S. Dept of Health and Human Services, Office of Community Services with a JOLI (Job Opportunities for Low-Income People) grant. In 1994, PACE Business began contracting with the City of LA Community Development Department to continue providing business development services and has continuously been a contractor for the City of LA since 1994. PACE Business is a current operator of the Central/West and Mid City LABSCs.

Since inception, PACE Business has trained/counseled 68,300+ pre-startups, startups and operating micro and small businesses who have established or expanded 17,350+ small businesses that have created or retained 22,000+ jobs. PACE Business has also helped clients access more than $27.1MM in equity through earned income tax credits (EITC) and matched

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savings programs (IDAs). Furthermore, PACE and our Community Development Financial Institution (CDFI), PACE Finance Corporation, have packaged, placed, and funded $494MM in small business loans.

PACE Business' multilingual and multicultural staff, along with our reputation as a trusted service provider, enables us to successfully serve clients whom others have difficulty reaching and connecting with - 89% of our clients are Low-to-Moderate Income, 76% are minority (26% Latinx, 20% African-American, 30% Asian Pacific Islander) and 56% are female. Business served by type include: 9% pre-startups, 73% startups, and 18% operating.

For over 28 years, PACE has provided comprehensive "wrap around" business services to more than 68,300 clients across Los Angeles County. Today, PACE Business employs 24.5 management, professional and support staff who deliver business development, technical assistance, training, procurement, loan underwriting and management services in 18 languages across 18 different programs. PACE Business currently operates the following programs:

Small Business Administration (SBA) Programs:

- Microlender — Technical Assistance (TA) and microloans up to $50K. (2006 – Present)
- Community Advantage Lender — Loans ranging from $50K - $250K to small businesses who cannot obtain traditional financing. (2009 – Present)
- Women's Business Center — Workshops/training, 1:1 counseling and capital to female entrepreneurs and small business owners. (2004 – Present)
- CARES Act — Training/counseling, TA, and loans/access to capital to help businesses recover from the COVID-19 pandemic. (2020 – 2021)

Additional Federal Programs Administered:

- Treasury: CDFI Fund Grants and Loans — PACE Finance Corporation provides technical assistance, 1:1 counseling and access to capital up to $1MM. (2009 – Present)
- Treasury: CDFI Rapid Response — A $1.8MM loan fund to assist small businesses impacted by the COVID-19 pandemic. (2021 – 2023)
- U.S. Economic Development Administration: EDA CARES Revolving Loan Fund— A $3.2MM loan fund to help communities prevent, prepare for, and respond to the COVID-19 pandemic. (2020 – 2022)
- HHS: Office of Refugee Resettlement, Individual Development Accounts — IDAs with

matched savings to help refugees/asylees build assets. (2003 – 2021)

- HHS: Office of Refugee Resettlement, Microenterprise Development (MED) — TA and microloans for refugees/asylees seeking to start a microenterprise. (2003 – Present)
- Commerce: Minority Business Development Agency — 1:1 counseling, procurement services and loans to established minority business owners seeking to expand. (2021 – 2026)

California Program Administered:

- Governor's Office of Business and Economic Development (Go-Biz)— Workshops and trainings, 1:1 counseling, procurement services and capital. (2018 – Present)

Though varied in scope and nature, the ultimate goal of these programs is to create and retain jobs; launch, stabilize, and expand businesses; and stimulate economic recovery and growth in underserved areas.

History and Background of the SBA Microloan Program

The SBA Microloan Program was authorized in 1991 (PL 102-140) to provide small loans and technical assistance (TA) to businesses that conventional lenders were and remain unable to finance for a variety of reasons including the lack of sufficient collateral or business experience. Working through a network of non-profit community based intermediary lenders, the SBA Microloan Program is able to finance and support new and emerging businesses in urban and rural communities and eventually move these businesses into the economic mainstream as bankable ventures.

Conventional banks cannot serve this profile of small businesses. Making a small business loan is time-intensive and requires resources to underwrite and service, especially for microloans. Moreover, a hallmark of the Microloan program is the ongoing technical assistance needed to help underserved entrepreneurs succeed at every step of their business's development.

The Microloan program serves small businesses that encounter difficulty in gaining access to from conventional lenders. By serving entrepreneurs that operate start-up and new businesses, lack sufficient collateral, or have limited or poor credit histories, the SBA Microloan program fills a gap in the private market.

An Urban Institute survey of SBA 7(a), 504/Certified Development Company (504/CDC), Small

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Business Investment Company (SBIC), and Microloan borrowers conducted in 2007 found that Microloan borrowers reported having the most difficulty in finding acceptable financing elsewhere. Less than one-third (31%) of Microloan borrowers reported that they would have been able to find acceptable financing elsewhere, compared with 35% of SBIC borrowers, 40% of 7(a) borrowers, and 48% of 504/CDC borrowers.[1]

Intermediary lenders participating in the SBA Microloan Program receive two streams of funding from the SBA: a direct SBA loan to the intermediary lender that is used to capitalize a revolving business loan fund, and grant funds to help support costs associated with providing technical assistance to business borrowers.

Direct SBA loans to the intermediary lender carry a 10-year term with a fixed interest rate based on the 5-year Treasury note and the lender must contribute a non-federal match equal to 15 percent of the SBA dollars borrowed in addition to maintaining a loan loss reserve equal to 15 percent of the lenders outstanding small business loans.

Intermediary lenders are eligible to receive SBA technical assistance (TA) grants on an annual basis, and the amount of the TA grant is based on the number of loans made in the previous year, the lender's outstanding debt to SBA and the availability of appropriated funds. To receive a TA grant a lender must also contribute a match of non-federal funds equal to 25 percent of the TA grant.

The SBA charges intermediaries an interest rate that is based on the five-year Treasury rate, adjusted to the nearest one-eighth percent (called the Base Rate), less 1.25% if the intermediary maintains an historic portfolio of Microloans averaging more than $10,000, and less 2.0% if the intermediary maintains an historic portfolio of Microloans averaging $10,000 or less. The Base Rate, after adjustment, is called the Intermediary's Cost of Funds. The Intermediary's Cost of Funds is initially calculated one year from the date of the note and is reviewed annually and adjusted as necessary (called recasting). The interest rate cannot be less than zero.

[1] Christopher Hayes, An Assessment of the Small Business Administration's Loan and Investment Programs: Survey of Assisted Businesses (Washington: The Urban Institute, January 2008), p. 5, at *(link on next page)* https://www.urban.org/research/publication/assessment-small-business-administration-loan-and-investment-performance/view/full_report

Intermediaries are required to contribute not less than 15% of the loan amount in cash from nonfederal sources and, as security for repayment of the loan, must provide the SBA first lien position on all notes receivable from any microloans issued under the program. Unlike the SBA's 7(a) and 504/CDC loan guarantee programs, the SBA does not charge intermediaries upfront or ongoing service fees under the Microloan program.

Intermediaries are required to deposit the proceeds from the SBA's loans, their 15% contribution, and payments from their Microloan borrowers into a Microloan Revolving Fund. Intermediaries may only withdraw from this account funds necessary to make microloans to borrowers, repay the SBA, and establish and maintain a Loan Loss Reserve Fund to pay any shortage in the Microloan Revolving Fund caused by delinquencies or losses on its microloans. They are required, until they have been in the program for at least five years, to maintain a balance in the Loan Loss Reserve Fund equal to 15% of the outstanding balance of the notes receivable from their Microloan borrowers.

After five years, if the intermediary's average annual loss rate during the preceding five years is less than 15% and no other factors exist that may impair the intermediary's ability to repay its obligations to the SBA, the SBA Administrator may reduce the required balance in the intermediary's Loan Loss Reserve Fund to the intermediary's average annual loss rate during the preceding five years, but not less than 10% of the portfolio. Intermediaries are required to maintain their Loan Loss Reserve Fund until they have repaid all obligations owed to the SBA.

Microloan Program Effects

Intermediaries serve the smallest of small businesses. While the program allows intermediaries to make loans up to $50,000, the average SBA Microloan was $14,435 in FY 2020. There are 144 active Microloan intermediaries, serving 49 states, the District of Columbia, and Puerto Rico. [2]

In FY2020, intermediaries made 5,888 loans, totaling more than $85 million, to small businesses. More than $40.3 million was lent to minority entrepreneurs. Existing businesses accounted for 70% of the loans made, and $60.9 million of loan funds went to these businesses. More than 4,700 businesses spent loan funds on working capital. Overall, the microloans supported 24,594 jobs, with 4,774 loans within urban areas and 1,114 loans within rural areas.[3]

[2] Nationwide Loan Report Data provided by SBA staff to the *Friends of the SBA Microloan Program* on March 5, 2020 and January 28,2022.
[3] Ibid.

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Through FY 2020, intermediary lenders have used SBA Microloan funds to originate more than $1.039 billion in loans to small businesses that have created 123,095 jobs and retained 190,851 jobs since the program's inception in 1992. Of this total more than $260 million to support rural businesses and more than $465.7 million to minority entrepreneurs. $61.4 million has been lent to veteran entrepreneurs, and more than $435.6 million has been lent to more than 41,200 woman-owned businesses. In FY 21, Microlenders made an additional 4510 loans totaling $74.7 million. Of this amount 63 percent went to existing businesses, 36.9 percent to starts-ups; 48 % to women owned businesses; 66.9 percent to for minority owned enterprises. This financing led to the creation of 7500 jobs and the retention of over 10,000 jobs. [4]

Despite intermediaries serving "at risk" small businesses, the SBA Microloan program has a cumulative default rate of less than 2 percent.

The SBA Microloan program is an important tool to ensure that the full spectrum of small businesses and entrepreneurs have access to the capital and technical assistance needed for business survival and growth. Historically, it has cost $1,700 per job supported by the program. Microloan proceeds may be used only for working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. Loans cannot be made to acquire land or property and must be repaid within seven years.

PACE as an SBA Microlender

PACE's SBA Microloan program started in 2010. Since the program launched, our loan team has deployed 323 loans for $3.3MM with an average loan size of $10,156.20. As of Mar 15, 2022, we have 32 SBA microloans on our portfolio totaling $548,472.86 (average loan size of $17,139.78). PACE offers an array of flexible culturally sensitive lending products targeted to minority and women owned small businesses, who are overlooked by traditional financial institutions.

Through the SBA Microloan program, our team has been able to provide pre/post loan technical assistance to these entrepreneurs and business owners. The pre-loan TA includes topics such as business plan, financial projection, budgeting, business formation, licenses and

[4] Ibid.

permits while the post loan TA will focus one on one counseling on business operations/ expansion to business owners after receiving the microloans. The pre/post TA is critical to ensure a long-term success/ minimize loss for entrepreneurs and microenterprises/ small businesses.

For FY2021, PACE received $336,530 to provide technical assistance to 400 prospective borrowers and 61 SBA microloan program borrowers for 1,500 hours each. Additionally, we currently provide Zoom-based digital webinars to assist small business owners that we started during the COVID-19 pandemic. Our webinar topic includes: Access to Capital, Effective Money Management and Debt During Covid-19, Manage Credit to Maximize Savings and Disaster Loan Programs: Issues and Solutions.

Microlending Impact Stories from PACE

Commercial Trucking: Dong Wang of Ling 999 Inc. (Monterey Park, CA)
As an asylee who migrated to the United States in 2018, Dong Wang had to settle into his new life and support his family by taking multiple odd jobs, but nothing that would lead to a career and self-sufficiency. He worked in a warehouse and did various ad hoc handywork projects.

During 2019 and early 2020, Mr. Wang saw the ever-growing demand for truck drivers partly spurred by the huge demand of online business during the early days of COVID-19 and workforce shortage in the trucking industry due to harsh working conditions and driver burn out. As that industry struggled to find new recruits to replace and fill the labor shortage, employers have relied on immigrant labor. Mr. Wang saw this as means through which he could provide a stable income and life for his family in this new country.

Although Mr. Wang had more than 14 years of trucking experience under his belt, he had to re-learn the rules and regulations of the trade in the United States. He had worked closely with PACE's business/loan counselor in establishing this new business. By February 2020, he had completed the industry research needed to launch his own trucking business, and he located his business, Ling 999 Inc., in Monterey Park, California (California Congressional District 27). Before fully operating, Dong needed to purchase a commercial truck.

Mr. Wang initially considered purchasing a used truck for his new business, and although COVID-19 propelled the need for more truck drivers, it also simultaneously increased the cost

of used trucks by 30-40%. To further exacerbate the situation, the limited inventory of certain model trucks added to the soaring price of second-hand trucks. After further examination and consideration, Mr. Wang determined purchasing a new truck would be more cost effective as it would help to avoid enormous and costly maintenance expenses, which could derail truck drivers from making a living wage. The average retail price of a new commercial truck is approximately $160,000. Although Mr. Wang planned to use his personal savings to cover $110,000 of the cost of the truck, he was short $50,000. Mr. Wang was not eligible to get a loan with favorable terms through traditional financial institutions because of his limited business credit history and the startup nature of the business.

Through PACE's assistance and loan program, Mr. Wang was approved for a $50,000 microloan in July 2021 and purchased the commercial truck in August 2021. With favorable terms, his business is projected to generate $175,000 in revenue in the next 12 months, providing financial stability for his family as they resettle their life in a new community.

Le Divina: Candle Line

Le Divina is a premium manifestation and intentional candle line. Their candles are made from phthalate free, sulfate free coconut wax candles with crystals. Georgina Tolentino started Le Divina in June 2018 as small pop-up shop. In July 2019, the e-commerce website was launched, and by September 2019, Le Divina's products were in stores. 2020 was the first full year of operation. Georgina started selling her products online in 2020 and hired a sales representative to oversee the wholesale orders in 2021. Since hiring the sales representative 20 additional wholesale clients were added to the business.

During the COVID-19 pandemic, La Divina's revenue was negatively impacted, and she could not manufacture new candles due to working capital shortfalls and inability to purchase raw materials. Although La Divina received $10,000 in grants in August 2021, it only assisted her with purchasing inventory and resume production once again.

Unable to get a loan with favorable terms through traditional lenders, Georgina reached out to PACE seeking a $5,000 mini microloan. PACE's loan counselor packaged and submitted the loan which was approved and funded on September 30, 2021. The loan proceeds were to be used to produce products with the private label (in gold travel tins and glass boxes) and to fill store orders by mid-October. Le Divina products are in many stores and Georgina will be fulfilling orders for an additional 15 stores for peak season in November and December 0f 2021.

The additional $5,000 loan from PACE further helped her to fill the November and December orders and retain at least one job. Le Davina's candle has gained popularity and has spread to

the east coast, including New York City. She has also seen an increase e-commerce sale and began launching pre-sales. Ms. Tolentino expects approximately $10,000 sales every month.

Appropriations and Program Financing

The Microloan program received a Congressional appropriation of $12 million for loan credit subsidies to support up to $110 million in Microloans in FY2021 ($5 million in regular appropriations and $7 million in supplemental appropriations). In addition, the SBA was provided an appropriation of $85 million for the Microloan Technical Assistance program in FY2021 ($35 million in regular appropriations and $50 million in supplemental appropriations).[5] These grants are awarded to selected Microloan intermediaries and qualified "non-lending technical assistance providers" to provide Microloan borrowers and prospective borrowers marketing, management, and technical training assistance.

The COVID response package included an additional $64 million in loans and $50 million in grants. For FY 22, Congress initially budgeted $41 million in technical Assistance grants, before ultimately budgeting $37 million in its final Appropriations budget.

FY 2022 Appropriations: *($ in million)*		**FY 22 Budget**	**House**	**Senate**	**FY 22 Final**
	Micro Loans	$110 / ($6)	$110 / ($6)	$110 / ($6)	$110 / ($6)
	TA Grants	$41	$41	$41	$37

Recent Legislative Adjustments to the Microloan Program

A pair of bills passed by House of Representatives on April 15, 2021, focused on updating several terms of the SBA Microloan program, and those legislative efforts are next headed to the Senate's Committee on Small Business and Entrepreneurship.

H.R. 1487, the *Microloan Transparency and Accountability Act of 2021* establishes a series of reporting requirements for SBA and requires an annual report on the effectiveness of the Microloan program based on the questions posed in the legislation. We appreciate the

[5] P.L. 116-260, the Consolidated Appropriations Act of 2021, and P.L. 116-260, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Division N, Title III of the Consolidated Appropriations Act of 2021, §329).

importance of providing policymakers and the public information on the use of federal funds and look forward to working with Congress to ensure that information on the Microloan program is both available to policymakers and the public.

H.R. 1502, the *Microloan Improvement Act of 2021* makes a number of improvements to the Microloan program, which we support, including:

(1) Interest Rates for Intermediaries
- Changes the definition of small loans from $7,500 to $10,000. Intermediaries with loans averaging the small loan rate qualify for SBA Microloans with an interest rate 2 percentage points below the Treasury rate.

(2) Lines of Credit
- Authorizing the use of microloans for lines of credit.

(3) Extended Repayment Terms
- Modifies loan terms to a maximum of 7 years for loans of $10,000 or less, and to a maximum of 10 years for loans that are greater than $10,000.

(4) Credit Reporting
- *A* credit reporting process is established to ensure intermediaries are able to provide the major credit reporting agencies with information about borrowers relevant to credit reporting, such as the borrower's payment activity on the loan.

(5) 1/55 rule
- Eliminates the 1/55 rule, and simply leaves in place the existing ceiling of 300 intermediaries able to be funded. Under current law, SBA may only make available the lesser of $800,000 or 1/55 of the amount appropriated for microloans for the first two quarters of the fiscal year. This creates an administrative bottleneck for the agency, and paperwork problem for intermediaries. In order to continue to address the needs of underutilized states, the amendment reserves 15 percent of the appropriation for the first two quarters of the fiscal year for those states.

Additional Comments on Microloan Program Needs

From our experience as an SBA Microloan Intermediary since 2010, we have identified that a grace period option for start-up microloan borrowers would greatly benefit entrepreneurs who

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do not have second source of income and have used their savings for capital injection. Currently, the SBA microloan program only allows for 6 months of deferred payment if the client is unable to pay but doesn't permit any grace period option.

In closing, I would like to express my appreciation and thank the Committee for the opportunity to testify today. I will be happy to answer any other questions that you may have.



Catalyzing Economic Growth through SBA Community-Based Lending

Testimony before the
U.S. House of Representatives
Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access

March 29, 2022

Submitted by:
Brooke Mirenda
President and CEO
Sunshine State Economic Development Corporation (SEDCO)
Clearwater, FL

Chairwoman Davids, Ranking Member Meuser, and members of the Subcommittee: thank you for inviting me to join the conversation on community-based lending and the work Certified Development Companies (CDCs) are doing to build communities across the United States. My name is Brooke Mirenda and I am here on behalf of Sunshine State Economic Development Corporation (SEDCO), located in Clearwater, Florida. I am also a member of the National Association of Development Companies (NADCO), a trade association dedicated to supporting the CDC industry and our collective work in the economic development arena. I am pleased to have the opportunity to discuss our CDCs work helping create jobs with the 504 loan program, as well as providing an update on the 504 program going forward.

First, I would like to share a bit more about SEDCO: we are considered a mid-size CDC and have seen significant growth over the last several years. While the 504 loan program is our primary focus, we also offer other loan programs to meet the needs of our small business borrowers, which includes the SBA Intermediary Lending Pilot (ILP) and 7(a) Community Advantage loan programs. SEDCO also utilizes its own resources to offer financing to small business owners through a Women/Minority/Veterans Loan Program. SEDCO believes that our coordinated lending alternatives are essential to help small businesses grow and create jobs in our communities.

In November 2017, the Board of Directors of SEDCO appointed me President and CEO. As SEDCO President, I continue to be intimately involved in helping small businesses reach their maximum potential and offering a solution that leverages them in a way conventional financing cannot. The SBA 504 loan program not only creates jobs in our economy, it also offers beneficial rates and terms for our small business owners, helping them preserve capital and grow their businesses, while still operating at a zero subsidy.

While the program has operated at no cost to taxpayers for years, small businesses must also meet certain goals to obtain a 504 loan. Because the core purpose of the program is economic development, all 504 borrowers must meet at least one of two specified economic development objectives. First, small businesses must create or retain a job for every $75,000 of 504 project costs and small manufacturers must create or retain one job per $120,000 of their 504 project costs.[1] If the borrower does not meet the job creation or retention requirement, eligibility is still possible by meeting one of five community development goals, or one of 13 public policy goals. The five community development goals are[2]:

- improving, diversifying, or stabilizing the economy of the locality;
- stimulating other business development;
- bringing new income into the community;
- assisting manufacturing firms; or
- assisting businesses in labor surplus areas.

The 13 public policy goals are[3]:

- revitalizing a business district of a community;
- expanding exports;
- expanding the development of women-owned and -controlled small businesses;
- expanding small businesses owned and controlled by veterans;
- expanding minority enterprise development;
- aiding rural development;

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[1] Standard Operating Procedure 50 10 6: Part 2, Section C, Ch 1: 504 Eligibility through Submission of Application SOP 50 10 6 FINAL 8.7.20 LOCKED_0.docx (live.com)
[2] Dilger, Robert Jay. (Updated March 4, 2022) Small Business Administration 504/CDC Loan Guaranty Program. Congressional Research Service, 7. R41184.pdf (fas.org)
[3] Dilger, Robert Jay. (Updated March 4, 2022) Small Business Administration 504/CDC Loan Guaranty Program. Congressional Research Service, 7-8. R41184.pdf (fas.org)

- increasing productivity and competitiveness;
- modernizing or upgrading facilities to meet health, safety, and environmental requirements;
- assisting businesses in or moving to areas affected by federal budget reductions, including base closings;
- reducing unemployment rates in labor surplus areas;
- reducing existing energy consumption by at least 10 percent;
- implementing renewable energy production by more than 15 percent; or
- increasing use of sustainable building designs.

As you can see, small businesses who receive a 504 loan are not only putting down roots and creating jobs, they are also contributing to their communities in substantial ways. In the wake of the economic impact of the COVID-19 pandemic, the increased profile of the Small Business Administration (SBA), and the needs of small businesses for fixed-rate and long-term capital, small businesses are choosing the 504 program to plan for the future. In fiscal year 2020, when emergency relief programs were readily available through the SBA, the CDC industry still delivered $5.8 billion in 504 loans to businesses with a total capital investment of $14.5 billion.[4]

In fiscal year 2021, demand for the 504 program continued with delivery of more than $8.2 billion in Main Street financing to 9,700 businesses, the creation or retention of 85,000 jobs, and total capital investment of $20.5 billion.[5] In fact, we served so many small businesses that we reached our then-congressionally authorized cap of $7.5 billion on September 7, 2021 and SBA was unable to approve any 504 loans until the fiscal year authorization levels reset on October 1,

[4] Small Business Administration, Weekly Approvals Report. Weekly Approvals Report (sba.gov)
[5] Small Business Administration, 504 Freedom of Information Act (FOIA) Data. 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data

2021. This shutdown caused both short-term and long-term issues for small businesses trying to recover and grow. As fiscal year 2022 got underway, volume did not dissipate and we began working with NADCO to raise our concerns about another, much longer shutdown of the program. Thankfully, members of this Committee, as well as the Senate Committee on Small Business and Entrepreneurship, and appropriators in the House and Senate came together to ensure small businesses have access to the job creating financing they need by increasing the authorization level for the regular 504 program to $11 billion for the remainder of the fiscal year in the Consolidated Appropriations Act, 2022 (P.L. 117-103). I want to take a moment to share my sincere thanks for all the effort put into making this increase a reality. Our borrowers thank you! In fiscal year 2021, our CDC was up 20 percent in number of loans and had a 51 percent increase in dollars. So far in fiscal year 2022, we are up almost 10 percent in loan approvals and 20 percent in dollars over our growth in fiscal year 2021.

Though there are many reasons why small businesses continue to choose the 504 program and the program continues to grow, I believe a major reason is the 504 program is a prime example of how public private partnerships should work. The SBA administers the program, and we – private sector non-profits focused on economic development – partner with private sector lenders to deliver the program. The CDC and lending partner each complete full loan underwriting, which is then reviewed by the SBA. As a result, we are providing certainty to small businesses who are creating jobs in communities and we are doing so in a prudent manner: the 504 program has a charge-off rate of 0.6 percent over the past 10 years.[6] Because of the soundness of the program, the costs associated with it are paid for by fees, and in addition to all the benefits I have already outlined, it does not cost taxpayers any money.

[6] National Association of Development Companies (NADCO) via Small Business Administration, 504 Freedom of Information Act (FOIA) Data. 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data

The 504 program is performing extremely well and providing much needed capital to our nation's job creators; however, there are considerations Congress should keep in mind to ensure its future success. First and foremost, the program needs to stay open. I, along with NADCO, urge Congress to work together to come to a long-term solution to the 504 authorization level, including combining the regular 504 and debt refinance without expansion caps, as outlined by my fellow CDC. It would be devastating to small businesses, and to the reputation of the program and CDCs ability to operate, if the program were to shut down again for any period of time. Uncertainty is what small businesses are trying to mitigate: it does not help them if the program is turned on and off.

Secondly, since the onset of the pandemic, the SBA has been tasked with enormous responsibility to quickly implement and support the delivery of major economic relief programs passed by Congress. As a result of the increased profile of the SBA and the economic impacts of the pandemic on small businesses, its core lending programs like the 504 program are experiencing increased demand. However, SBA is largely operating with the same staffing levels as they were pre-pandemic and though they are working hard to keep up with the demand for the program, overtime and overworked staff are not a permanent solution. A solution is one passed by Congress in the Economic Aid Act (P.L. 116-260), which is a pilot within the 504 program that would allow vetted, proven CDCs with Accredited Lender Program (ALP) status to more efficiently process loans of up to $500,000. High risk industries, as defined by SBA, would not be processed through this pilot program and the SBA's Office of Credit Risk Management (OCRM) would continue to robustly oversee participating CDCs, thus mitigating risk while providing a huge benefit to SBA and borrowers – nearly 40 percent of 504 loans are under

$500,000 and could be processed by proven private sector partners. This would immediately alleviate the strain on SBA staff and get capital in the hands of small businesses faster.

Though this program was included in legislation passed in December 2020, the CDC industry is still awaiting the rule implementing the pilot program, called ALP Express. Importantly, the program is set to sunset at the end of fiscal year 2023 and because it has not yet been implemented, NADCO and I recommend Congress extend the sunset date to fiscal year 2027 to allow sufficient time to operate the program in order for SBA and Congress to be able to make an informed determination on its efficacy.

My final recommendation is for the implementation process of laws that impact the SBA's lending programs to include a dialogue about congressional intent. As an industry, we are conscientious about working closely with members of Congress and the SBA on our shared goal of meeting small business access to capital needs and we want to do more, but can be limited by regulation. For example, Congress authorized changes to the debt refinance without expansion program in the Economic Aid Act. Those changes, we believe, were intended to bring parity to the refinancing of government debt among SBA lending programs, as well as a number of other changes to increase usage of the program by small businesses.

However, the implementation of the debt refinance provisions included parameters that limit the ability of CDCs to reach as many small businesses as the changes should allow. The limitations are reflected in comments NADCO submitted to the SBA, and are also borne out by the numbers: the debt refinance without expansion program refinanced $709 million last fiscal year, while we reached our cap in the regular program. Congress also chose to reduce the authorization level for the debt refinance without expansion program from $7.5 billion to $4 billion for the remainder of fiscal year 2022. As an industry, we would like to serve more

borrowers through this program and believe we can do that with adoption of our recommendations to the proposed rule.

I sincerely appreciate the opportunity to bring these issues to your attention and talk about a program that is doing phenomenally well with $4.48 billion in approved 504 loans as of March 18. I look forward to working with you to ensure the future success of this public private partnership and am happy to answer any questions.

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CUNA

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March 29, 2022

The Honorable Nydia M. Velázquez
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U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairwoman Velázquez and Ranking Member Luetkemeyer,

On behalf of the Credit Union National Association (CUNA) and America's credit unions, I am writing to express our continued opposition to any proposals to allow the U.S. Small Business Administration (SBA) to implement a direct lending program. CUNA represents America's credit unions and their more than 130 million members.

Credit unions recognize that financial inclusion and access to capital for entrepreneurs are critical to ensuring the growth and development of vibrant small businesses. As not-for-profit, consumer-owned financial cooperatives, credit unions have a laser focus on our mission of financial inclusion and serving our members. Establishing and retaining a relationship with a credit union is the best way for a small business entrepreneur to partner with a provider of essential financial services.

The SBA government guaranteed lending programs epitomize a successful public-private partnership, and it's one that leverages private sector expertise. Generally, the SBA does not function as a direct lender, but guarantees the repayment of loans made by a lender such as a credit union. SBA's lending programs, such as the 7(a) Loan Program, allow small businesses to work with local lenders or other lenders of a business's choice throughout the loan process. The SBA guarantees these loans ensuring that financial institutions are made whole in an instance of default by the borrower. This public private partnership works as borrowers can obtain loans from financial institutions that they know well and that have vested interests in their borrowers' success. Furthermore, when working with local lenders, small businesses are likely to benefit from guidance and experience from a lender with a stake in helping the borrowing business succeed.

Like the SBA, we agree that the smallest of the small businesses need increased access to capital. However, a government run program is not the solution to this problem. Instead, SBA should be given the necessary funds and resources to bolster the successful 7(a) program. By expanding the existing pool of SBA lenders, providing greater education to small business owners, and committing more resources to reduce application waits, Congress can take proactive steps to ensure more access to capital without undermining existing relationships between financial institutions and their customers.

By becoming a direct lender to small businesses, the SBA is likely to harm local financial institutions' relationships with businesses and possibly hamper these businesses from establishing important banking relationships that can only help their business survive and flourish.

On behalf of America's credit unions and their 130 million members, thank you for the opportunity to share our views.

Sincerely,

Jim Nussle
President & CEO

NADCO
National Association of Development Companies

April 5, 2022

Honorable Sharice Davids
Chairwoman
Subcommittee on Economic Growth,
Tax and Capital Access
Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

Honorable Dan Meuser
Ranking Member
Subcommittee on Economic Growth,
Tax and Capital Access
Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Davids and Ranking Member Meuser:

Thank you for holding the important hearing, "Catalyzing Economic Growth through SBA Community-Based Lending," on Tuesday, March 29, 2022. The National Association of Development Companies (NADCO) – which represents over 200 Certified Development Companies (CDCs) across the country – was pleased to see two CDCs testify, talk about the impact of the Small Business Administration's (SBAs) 504 loan program, and offer policy solutions and ideas to augment its already very successful delivery of capital to our nation's job creators.

As an organization, NADCO supports the testimony and recommendations set forth in the testimony of Mr. Manny Flores representing SomerCor 504, Inc. and Ms. Brooke Mirenda representing Sunshine State Economic Development Corporation (SEDCO) and would like to expand upon the recommendations they provided to the Committee.

First, in order for the 504 program to provide the capital so many small businesses need, it must remain open and accessible. The program has experienced significant growth over the last several years and is serving a record number of small businesses in fiscal year 2022. The growth of the program can be attributed to a number of factors, including the higher profile of the SBA during the course of the pandemic and small businesses seeking certainty as they look to recover and grow in the wake of the pandemic.

For small businesses nationwide, the 504 program provides the certainty they seek. The hallmarks of the program – fixed interest, long terms, and low-cost capital – allow small business owners to plan for the future, conserve working capital, and create jobs in their local communities. The charts below illustrate the growth of the program over the last several years, as well as the volume of the program in fiscal year 2022.[1]

[1] SBA Weekly Lending Reports, 2022 Weekly Lending Reports (sba.gov)

504 & Debt Refinance Production (as of 4/1): FY 2019-2022

Program	FY2019	%	FY2020	%	FY2021	%	FY2022	%
All 504	$2.3 billion		$3.06 billion		$3.6 billion		$5.3 billion	
Debt refi without expansion	$73.47 million	3%	$124.15 million	4%	$242.3 million	7%	$577.7 million	11%

Weekly Regular 504 Program Production: FY 2022

Week	Approvals	Increase	Average
8-Oct	$699,418,000		
15-Oct	$784,107,000	$84,689,000	
22-Oct	$1,104,517,000	$320,410,000	
29-Oct	$1,282,815,000	$178,298,000	
5-Nov	$1,469,143,000	$186,328,000	
12-Nov	$1,607,044,000	$137,901,000	
19-Nov	$1,807,151,000	$200,107,000	
26-Nov	$1,918,685,000	$111,534,000	
3-Dec	$2,068,205,000	$144,520,000	
10-Dec	$2,251,862,000	$183,657,000	
17-Dec	$2,411,897,000	$160,035,000	
24-Dec	$2,540,441,000	$128,544,000	
31-Dec	$2,628,009,000	$87,568,000	
7-Jan	$2,813,487,000	$185,478,000	
14-Jan	$2,952,476,000	$138,989,000	
21-Jan	$3,071,757,000	$119,281,000	
28-Jan	$3,248,976,000	$177,219,000	
4-Feb	$3,442,823,290	$193,847,290	

11-Feb	$3,605,320,290	$162,497,000	
18-Feb	$3,804,995,290	$199,675,000	
25-Feb	$3,954,650,290	$149,655,000	
4-Mar	$4,162,325,290	$207,675,000	
11-Mar	$4,325,659,290	$163,334,000	
18-Mar	$4,482,658,290	$156,999,000	
25-Mar	$4,647,280,290	$164,622,000	
1-Apr	$4,763,570,290	$116,290,000	
FY 22 Avg			$162,366,091*

***Note:** Excludes October 8, 2021 approval numbers (carryover from FY 2021)

It is also important to note that if the program runs out of authority during a fiscal year, it does not just impact borrowers in the application stage; it also impacts borrowers who receive loans during a fiscal year when the authorization cap is reached. For example, when the regular 504 program reached its authorization level in fiscal year 2021, SBA notified the CDC industry that any loans originated during fiscal year 2021 that qualified for a loan increase would be unable to modify their 504 loan because there was no authority remaining to allow a loan modification. An additional benefit of the 504 program is it allows borrowers to request changes to their loan amount. It is not uncommon for a borrower to request an increase several years after receiving a 504 loan – the construction process especially can take quite some time and construction costs have increased exponentially over the last two years. In order for SBA to allow loan modifications, such as increases due to construction cost overruns, authority for that fiscal year must be available. Absent an authorization level that meets small business demand and keeps the program open, small business borrowers would be required to pay for increased costs out of their own pocket, get a second 504 loan (with all the commensurate fees), or cancel their original loan and submit a new loan application (with all the time and fees associated). None of these outcomes are in the best interest of the borrower.

Second, the program is a very successful public private partnership and operates at zero cost to taxpayers, while maintaining a high standard of program integrity. As mentioned in Ms. Mirenda's testimony, the 504 program has a 0.6 percent charge-off rate for the last decade, as outlined in the graphic below.[2] This metric points to the prudent underwriting of both the CDC and lending partner before the loan application is sent to SBA for approval. The data shows the 504 loan program is reaching borrowers who need financing and terms not typically available conventionally, and those borrowers are repaying their loans.

[2] Small Business Administration, 504 Freedom of Information Act (FOIA) Data. 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data

10 Year 504 Charge Off Data by Delivery Method

Delivery Type	Loans Funded				Charged Off Loans				Loss Rate
	# of Loans	% of #'s	$ of Loans	% of Loan $	# of Loans	% of #'s	$ of Loans	% of Loan $	
ALP	38,234	65.0%	$27,367,741,580	62.9%	220	48.7%	$107,757,104	44.0%	0.4%
504	16,833	28.6%	$12,540,681,000	28.8%	187	41.4%	$105,134,171	42.9%	0.8%
504 Refinance	3,514	6.0%	$3,380,915,000	7.8%	45	10.0%	$32,277,266	13.2%	1.0%
PCLP	237	0.4%	$196,115,205	0.5%		0.0%	$0	0.0%	0.0%
Grand Total	**58,818**	**100.0%**	**$43,485,462,785**	**100.0%**	**452**	**100.0%**	**$245,168,541**	**100.0%**	**0.6%**

Explanation
The loans funded and charged off by 504 loan delivery method (ALP, PCLP, 504 Regular and 504 Refinance) over the ten year period for loans funded between Oct. 1, 2011 and Sept. 30, 2021 and ranked by number of loan approved via the delivery method.
Example: Line 1, ALP shows 38,234 loans funded for $27 Billion representing 65.0% of the loans funded and 62.9% of the loan dollars funded. 220 ALP loans totalling $107.7 Million were charged off (representing 48.7% of the number and 44.0% of the dollars charged off).
The Loss Rate was 4.5% (dollars charged off divided by dollars funded).

PLEASE NOTE: DATA IS DERIVED FROM INFORMATION SUPPLIED BY SBA. THE DATA TABLE EXCEEDS 190,000 LINES AND MAY INCLUDE ERRORS, OMMISSIONS, OR "UNKNOWN" DATA.

Third, NADCO supports efforts to increase accessibility and support for the nation's small manufacturers. In recent years, Congress has focused attention on domestic manufacturing and the impact this industry has on supply chains, jobs, and national competitiveness. The COVID-19 pandemic brought the lack of domestic manufacturing and supply chain vulnerabilities into stark relief, making congressional action supporting this sector even more integral, including for small manufacturers seeking capital from programs provided by the SBA. The 504 program, which is used to fund fixed assets like real estate and equipment, is particularly well-suited to capital intensive industries like manufacturing. As such, NADCO has supported the *504 Modernization and Small Manufacturer Enhancement Act of 2021* (H.R. 1490), which the House passed on April 15, 2021. This bill includes provisions to enhance the 504 program to better meet the needs of small manufacturers, including increasing the manufacturing loan size to $6.5 million, reducing the equity injection for these borrowers, and providing education and outreach through SBA resource partners. NADCO also supports a more robust increase in the 504 manufacturing loan to $10 million to better address the capital needs of growing small manufacturers. An increase of this size was included in a draft Chairman's Mark of the Senate Small Business and Entrepreneurship Committee released on July 18, 2019, which was supported by NADCO.

Fourth, NADCO works closely with our partners in the Office of Capital Access at the SBA to improve our internal CDC processes and provide feedback to SBA to ensure the efficient delivery of the 504 program. Though the Agency has been tasked with delivering robust emergency relief programs like the Paycheck Protection Program (PPP) and enhancements to the Economic Injury Disaster Loan (EIDL) program, the permanent staffing levels at the SBA have not changed. Therefore, SBA is operating its core programs with largely the same number of staff as they were pre-pandemic. This reality is not sustainable for SBA staff who are working overtime and weekends to keep up with small business demand for the 504 program.

NADCO affirms testimony outlining the Accredited Lender Program (ALP) Express pilot program passed in the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (P.L. 116-260) and the immediate impact its implementation – if reflective of congressional intent – will have on the efficient approval of loans under $500,000. This program will allow proven CDCs to approve loans with the same level of oversight and prudent underwriting standards, but drastically reduce red tape and the burden on SBA. Additionally, the program is only available to CDCs who have ALP status, which must be renewed every two years, and

excludes high risk industries as defined by SBA. Therefore, this pilot will alleviate staff strain at SBA, get capital into the hands of small businesses faster, and maintain programmatic integrity. Because this is a pilot program scheduled to sunset on September 30, 2023 and the industry is still awaiting the rule implementing the program, NADCO recommends Congress extend the pilot through fiscal year 2027 to allow enough operational time to determine the efficacy and performance of the program.

Fifth, NADCO believes strongly that collaboration and communication between Congress, SBA, and the CDC industry are integral to the implementation of laws that impact the 504 program. Our collective goal is to best support the small businesses seeking capital to maintain and expand their businesses, which we know to be the bedrock of our national economy. As such, collaboration on congressional intent, SBA interpretation, and CDC expertise can only be beneficial to ensuring rules implementing laws are carrying out congressional intent and reaching as many small businesses as possible. Ms. Mirenda's testimony illustrated this point using the example of the rule implementing changes made to the debt refinance without expansion program that were also included in P.L. 116-260. NADCO submitted comments to SBA outlining suggested changes and components of the rule not included in law.

NADCO's comments with regard to the debt refinance proposed rule are included in their entirety below:

"The National Association of Development Companies (NADCO), on behalf of the Certified Development Company (CDC) industry, submits these comments in response to the U.S. Small Business Administration's (SBAs) interim final rule ("IFR") titled, "Debt Refinancing in the 504 Loan Program," (RIN: 3245-AH78). NADCO appreciates the opportunity to comment on these crucial changes to SBAs 504 loan program. It has always been our belief that 504 regulations should not only protect the integrity of the program, but also improve avenues for CDCs to promote economic development through job creation guided by the best interests of the small businesses we all serve. Our comments are based on this philosophy, which we know you share.

Congress reauthorized and made permanent the 504 debt refinance without expansion program under Section 521 of Division E of the Consolidated Appropriations Act, 2016. Since its reimplementation, Congress has authorized a $7.5 billion cap for the loan program. However, the program has historically been underutilized, due in part to conditions and limitations placed on the program by SBA in its regulations and policy guidance. In the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues" Act ("Economic Aid Act"), Congress revised the requirements for refinancing debt in the 504 loan program to expand small business access to, and use of, this critical capital resource.

The Senate Small Business and Entrepreneurship Committee released a section-by-section guide to the Economic Aid Act, Division N, Title III: Continuing the Paycheck Protection Program and Other Small Business Support. In "Section 328: Low-Interest Refinancing" of that section-by-section guide, the Committee states the statute, "(e)nhances the 504 refinancing rules in order to create reciprocity for refinancing between 504 and 7(a) programs." It is clear the legislative intent of the statute was to create parity in the ability to refinance existing debt under either the

504 or 7(a) loan programs – both should be equally accessible and guided by what is in the best interest of the small business borrower, while protecting program integrity.

SBA initially implemented the 504 debt refinance without expansion program through an interim final rule on May 26, 2016, and a final rule on June 6, 2018. As originally authorized by Congress and implemented by SBA, "(t)he Debt Refinancing Program shall be in effect only in those fiscal years during which the cost to the Federal Government of making guarantees under the Debt Refinancing Program and under the 504 Loan Program is zero." SBA introduced conditions that limited and restricted the usability of the debt refinancing program under this "zero cost" requirement. The Economic Aid Act removed the "zero cost" requirement. While remaining cognizant of prudent underwriting and program integrity, NADCO believes that certain program guidance can be revised to increase access and usability.

NADCO's comments focus on suggested changes to the Interim Final Rule and policy guidance, which we believe will simplify the program, making it more accessible and efficient without adding undue risk –

13 CFR 120.882(g)(3)
NADCO has two specific recommendations in this section. First, NADCO recommends that SBA not include in regulation any conditions or requirements that restrict or limit the ability to refinance a loan that is subject to a guarantee by a Federal agency or department since no such conditions or restrictions exist in statute. NADCO recommends SBA use similar language the agency previously used in regulations for the 504 debt refinance with expansion program at 13 CFR 120.882(e)(3) – there, SBA simply states, "Existing 7(a) and 504 loans may be refinanced under this section in accordance with SBA policies or procedures." Using the same language in 13 CFR 120.882(g)(3) would prevent unnecessary restrictive conditions from being incorporated into regulation and will provide the agency with maximum flexibility to allow refinancing through policy guidance that is in the best interest of the small business borrower.

Second, NADCO recommends removal from policy and procedure guidance the written verification of the existing 7(a) lender's inability or unwillingness to modify the current payment schedule as a requirement to allowing the refinance of an existing 7(a) loan. NADCO takes strong exception to the limitations that SBA is imposing on the CDCs ability to refinance an existing 7(a) loan in Section 120.882(g)(3)(ii) and in its SOP Policy Notice 5000-808830, paragraph 10.e)ii) –

> "An existing 7(a) loan may be refinanced if the CDC verifies in writing that the present lender is either unwilling or unable to modify the current payment schedule. In the case of same institution debt, if the Third Party Lender or the CDC affiliate as authorized under § 120.820 is the 7(a) lender, the loan will be eligible for 504 refinancing only if the lender is unable to modify the terms of the existing loan because a secondary market investor will not agree to modified terms."

Just like the ability to refinance an existing 504 loan in § 120.882(g)(3)(i), the ability to refinance an existing 7(a) loan should be unfettered and guided by what is in the best interest of the small business applicant. In § 120.882(g)(3)(iii), SBA establishes a "substantial benefits test" for the

refinance of existing government-guaranteed debt that already assures the debt refinance is advantageous to the small business borrower. Any further restrictions only benefit the best interest of the 7(a) lender, potentially a secondary market investor, and not the small business applicant. To expand upon this point, the written verification requirement should be removed from the IFR and policy guidance for the following reasons:

1. This requirement is not in the best interest of the small business borrower. The small business borrower should be able to obtain the loan product that best meets the needs of his/her business. This requirement essentially takes that choice away from the borrower, if his/her existing 7(a) lender will not issue a written verification.
2. This requirement continues to allow an advantage for the 7(a) program over the 504 program, which effectively nullifies the parity that was the original intent of the law. This rule essentially provides a "first right of refusal" to the existing 7(a) lender, which is neither customary nor reasonable in the commercial lending industry and puts the onus on the small business borrower to advocate in their best interest. We have already heard from small business borrowers that, prior to issuing a written verification, existing 7(a) lenders are requiring the small business borrower to submit a full application for credit review. This adds unnecessary time and complexity to the refinance process, serves the interest of the existing 7(a) lender, and does not promote the best interests of the small business borrower.
3. SBA is already adding a "substantial benefits test" to the refinancing of existing government-guaranteed debt in Section 120.882(g)(3)(iii), which ensures the debt refinance is beneficial to the small business borrower.

13 CFR 120.882(e)(3)
NADCO recommends that SBA remove this same "written verification" restriction/limitation from the 504 debt refinance with expansion program at 13 CFR 120.882(e)(3) when refinancing an existing 7(a) loan for all the same reasons outlined above. Additionally, SBA has always required a "substantial benefits test" in 13 CFR 120.882(e)(5), which ensures the debt refinance is beneficial to the small business applicant.

13 CFR 120.882(g)(6)(i)
NADCO recommends that SBA remove the restriction that if a Borrower's application includes a request to finance Eligible Business Expenses, "the portion of the Refinancing Project provided by the 504 loan and the Third Party Loan may be no more than 85% of the fair market value of the fixed assets that will serve as collateral and the Borrower may receive no more than 20% of the fair market value of the Eligible Fixed Asset(s) securing the Qualified Debt for Eligible Business Expenses."

No such restrictions or limitations exist in statute – not in the original enabling legislation in Section 521 of Division E of the Consolidated Appropriations Act, 2016 nor the revised statutory language in Division N, Title III, Section 328 of the Economic Aid Act. SBA implemented this limitation in regulation and policy guidance in part to address the original statutory requirement that the Debt Refinancing Program must operate at "zero cost," which was eliminated in the Economic Aid Act. In its Final Rule published in the **Federal Register**, Vol. 83, No. 88 on May 7, 2018, SBA stated –

> "When SBA first implemented the reauthorized Debt Refinancing Program in 2016, SBA applied a maximum 75% loan-to-value (LTV) for any project that financed business expenses and limited such financing of business expenses to no more than 25% of the value of the Eligible Fixed Asset(s) securing the Qualified Debt. See Policy Notice 5000–1382, effective May 26, 2016. Thirty-six commenters expressed concerns that the 75% LTV was severely restrictive and would impair utilization of the program, and many urged SBA to allow for a 90% LTV for all Refinancing Projects. SBA considered these comments and decided to revise 13 CFR 120.882(g)(6)(i) to allow a maximum LTV of 85% for any project that includes the financing of Eligible Business Expenses. SBA concludes that this higher LTV will provide increased access to credit without adding undue risk to SBA...In addition, with the statutory requirement that SBA maintain the Debt Refinancing Program at zero subsidy in order for the program to be in effect during any fiscal year, SBA must be diligent in placing prudent controls on the program to mitigate SBA's risk and exposure. Accordingly, SBA has decided to limit the portion of the financing that may be for business expenses to 20% of the value of the Eligible Fixed Asset(s). In addition, if the Refinancing Project includes the financing of Eligible Business Expenses, SBA will not accept as collateral any fixed assets other than the Eligible Fixed Asset(s) securing the Qualified Debt. Accordingly, SBA is revising 13 CFR 120.882(g)(6)(i) and (ii) and the definition of ''Refinancing Project'' in 13 CFR 120.882(g)(15)."

The restriction has continued to impair program utilization. In the Interim Final Rule published in **Federal Register**, Vol. 86, No. 143, July 29, 2021, and despite a program authorization of $7.5 billion, SBAs own data shows the depressed utilization of the 504 Debt Refinancing Program due in part to restrictions imposed by SBA beyond statutory language or legislative intent –

504 Debt Refi Without Expansion – Unit & Dollar Volume by FY				
FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
45	266	181	166	386
$41,598,000	$289,491,000	$154,745,000	$156,114,000	$374,749,000

NADCO recommends removal of the restriction for the following reasons –

1. The restriction is not authorized in law and is a barrier for small businesses to utilize the program.
2. The SBA acknowledged user concerns in its May 2018 Final Rule that the restriction was limiting and impaired utilization of the program. While SBA revised the restriction in the Final Rule to increase the maximum LTV from 75% to 85%, the agency reduced the financing of Eligible Business Expenses from 25% to 20%, further impairing program utilization.
3. The legislative intent of the Economic Aid Act was to increase program access and utilization, as well as to create "reciprocity for refinancing between 504 and 7(a) programs;" no such restriction exists in the 7(a) loan program.
4. The Economic Aid Act removed the requirement that the 504 Debt Refinancing Program operate at "zero cost," which SBA used as justification for imposing this restriction as

outlined above. Though this requirement was removed, it is important to note that the program has performed well over time, allowing SBA to drop its Congressionally-mandated supplemental annual guarantee fee each year since program launch in May 2016 – dropping from 4.4 basis points at program launch to 1.15 basis points for fiscal year 2022. Removing this requirement, and subsequent restrictions based on the "zero cost" requirement, do not jeopardize the integrity of the program.

NADCO believes removing this restriction will improve program access and utilization without adding undue risk to SBA. In fact, during the COVID-19 pandemic, allowing small business borrowers to access equity in fixed assets to fund working capital and business operating expenses provided much-needed relief and stability as businesses recover and position themselves for future growth. Through September 10, 2021, 606 borrowers have been approved for 504 debt refinance projects totaling $621,358,000.[3] This is a significant increase from prior years, further demonstrating the need for low-cost, long-term, fixed rate financing for small businesses to reposition their balance sheets for immediate relief and growth.

13 CFR 120.882(g)(6)(ii)

NADCO recommends that SBA broaden the definition of Eligible Business Expenses to include "or other obligations of the business." In its Final Rule published in the **Federal Register**, Vol. 83, No. 88, May 7, 2018, SBA specifically removed the phrase, "or other obligations of the business," from the definition of Eligible Business Expenses, "to clarify that, except as described below, other debt of the business is not included as Eligible Business Expense." SBA clarified that business credit card debt and business line of credit debt could be included as an Eligible Business Expense if the credit card and business line were in the name of the Applicant small business and the Applicant certified that the credit card debt and business line of credit debt were incurred exclusively for business related purposes. By removing "other obligations of the business," SBA specifically excluded other debt obligations that were not business credit card or business line of credit debts. In fact, in its regulations at 13 CFR 120.882(g)(6)(ii), SBA specified that "Debt is not included as an Eligible Business Expense, except debt that was incurred with a credit card or business line of credit...."

NADCO recommends broadening the definition of Eligible Business Expenses to also include any other debt of the business that is not Qualified Debt. For example, under current regulations and policy, a small business that has a permanent working capital term loan secured by a second mortgage on its company headquarters building cannot refinance that loan in the 504 Debt Refinancing Program – the permanent working capital loan does not meet the requirements of Qualified Debt, as it was not used to acquire Eligible Fixed Assets, and it is not a business line of credit or business credit card qualifying as Eligible Business Expenses. So, the small business is unable to refinance this debt even though it is secured by Eligible Fixed Assets. And, to compound the dilemma, the small business can refinance its existing first mortgage loan if that loan meets all conditions of Qualified Debt and can even obtain new funds for Eligible Business Expenses, but the lender of the existing second mortgage must agree to subordinate its second mortgage to the 504 debt refinancing project. In the commercial banking industry, it is highly unlikely that a lender will agree to such a subordination or a diminishing of its lien position. Therefore, the small business borrower is precluded from accessing and using the 504 Debt

[3] SBA Weekly Approvals Report for 9/10/2021

Refinancing Program to consolidate its debt and potentially benefit from long-term, low-cost fixed rate financing to better position the business for the future.

In its Interim Final Rule dated May 25, 2016, SBA previously allowed this junior lien debt to be considered part of Eligible Business Expenses, just like business credit card debt and business line of credit debt. However, SBA eliminated this allowance for junior lien debt in its Final Rule dated May 7, 2018, thereby decreasing small business access to and usability of the 504 Debt Refinancing Program. NADCO recommends SBA reverse this position.

13 CFR 120.882(g)(7)
NADCO recommends SBA clarify in its policies and procedures that a partial refinance of any Qualified Debt is allowed, including a partial refinance of an existing government-guaranteed debt or conventional debt. SBA's Interim Final Rule (IFR) retained 13 CFR 120.882(g)(7) requiring –

> "(7) If the qualified debt is not fully satisfied by the funding provided by the Refinancing Project, the lender of the qualified debt must take one of the following actions, or some combination thereof, to address the deficiency:
>
> (i) Forgiveness of all or part of the deficiency;
> (ii) Acceptance of payment by the Borrower, or
> (iii) Acceptance of a Note executed by the Borrower for the balance, or any portion of the balance. Such Note must be subordinate to the 504 loan if the Note and the 504 loan are secured by any of the same collateral. The Note is subject to any other restrictions that SBA may establish to protect its creditor position, including standby requirements;"

It is clear from the regulatory language that SBA has historically allowed and continues to allow a partial refinance of a Qualified Debt. The portion of an existing indebtedness that meets the conditions of Qualified Debt can be refinanced in the 504 Debt Refinancing Program, and the remaining portion of the existing indebtedness that, "is not fully satisfied by the funding provided by the Refinancing Project," must be addressed according to the actions outlined by SBA in the regulation.

For example, a small business acquired its company headquarters facility with a conventional bank loan secured by a first mortgage on the property. The conventional lender advanced funds to allow the small business to acquire the property and include permanent working capital to help fund a new product line the business was launching when it moved into this new location. 75% of the loan proceeds were used for the purchase of the property with the remaining 25% funding the permanent working capital. Under existing regulation and policy, among other requirements, SBA requires that to be a Qualified Debt, "substantially all (85% or more) of the proceeds of the indebtedness were used to acquire land, including a building situated thereon, to construct a building thereon, or to purchase equipment. The assets acquired must be eligible for financing under the 504 loan program." In the current example, only 75% of the loan funds were used for 504-eligible purposes. Under current policy and procedures, SBA would deem the current loan ineligible to be refinanced in the 504 Debt Refinancing Program, as the entire loan must meet the 85% requirement, or the entire loan is ineligible. However, it is clear from SBAs own

regulations that that portion of the indebtedness that meets the 85% test should be eligible for refinancing under 504 and the remaining balance should be addressed through one, or some combination, of the three deficiency options outlined in 13 CFR 120.882(g)(7). In fact, SBA applies this partial refinancing methodology now to the partial refinance of an existing 7(a) loan in SBA Policy Notice 5000-808830, paragraph 10.a.(1)e)ii), which states in part that, "...The existing 7(a) loan may be refinanced in whole or in part."

NADCO recommends that SBA simply apply this same policy guidance to refinancing conventional debts in the 504 Debt Refinancing Program and allow partial refinances of all Qualified Debt.

UPDATE – 9/23/2021
13 CFR 120.882(e)(1) and definition of "Qualified Debt" in 13 CFR 120.882(g)(16)
NADCO recommends that SBA modify its definition for debt eligible to refinance in the 504 loan program [for 504 debt refinance with expansion program at 13 CFR 120.882(e)(1) and for the 504 debt refinance without expansion program at 13 CFR 120.882(g)(16)] by lowering its "substantially all" (85% or more) standard to a "majority" standard (51% or more).

The Small Business Investment Act establishes in law the following requirements related to this matter –

> For 504 debt refinance with expansion, Section 502(7)(B)(i) –
>
> > "[t]he proceeds of the indebtedness were used to acquire land, including a building situated thereon, to construct a building thereon, or to purchase equipment;"
>
> For 504 debt refinance without expansion, Section 328 of the Economic Aid Act updates Section 502(7)(C) of the Small Business Investment Act with the amended Section 502(7)(C)(i)((III)(cc) –
>
> > "The term 'qualified debt" means indebtedness – the proceeds of which were used to acquire an eligible fixed asset;"

In both cases, SBA has chosen to implement in regulation and policy, a "substantially all" standard meaning "almost all" or "nearly all" of the proceeds, and a Borrower will satisfy this standard when it used at least 85% of the proceeds of the existing debt "to acquire land, including a building situated thereon, to construct a building thereon, or to purchase equipment" (for 504 debt refinance with expansion) or "to acquire an Eligible Fixed Asset" (for 504 debt refinance without expansion). SBA applies this standard to the original loan used to acquire, construct, or purchase the asset.

NADCO recommends that SBA lower in regulation and policy the "substantially all" standard (85% or more) to a "majority" standard of 51% or more. We believe this change will promote increased access to and utilization of both 504 debt refinancing programs without adding undue risk to SBA while honoring the original intent of the law.

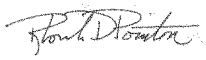
Conclusion
NADCO has no comment on any other parts of the Interim Final Rule not specifically addressed above and welcomes these changes, as they will improve the accessibility and utilization of the 504 Debt Refinancing Programs to the benefit of small businesses and entrepreneurs across the country."

Finally, NADCO supports SBAs recent extension of the 7(a) Community Advantage (CA) program through September 30, 2024, increase of the maximum loan size to $350,000, and allowance of more lenders to deliver the program. We look forward to reviewing the details of the expansion of the program when they are released by SBA.

NADCO also supports making the CA program permanent to ensure certainty for lenders and borrowers alike and will continue to work with SBA and Congress on ways to address the liquidity issues faced by Community Financial Institutions (CFIs) that deliver the program. CFIs, including CDCs, are non-depository institutions that want to do more to support hard-to-reach small businesses through this program and liquidity is a major barrier to achieving this goal.

Thank you for all you are doing to support a robust small business ecosystem and economic growth in local communities. NADCO, and the CDCs we represent, are your partners in this effort and look forward to our continued collaboration.

Sincerely,



Rhonda Pointon
President & CEO
National Association of Development Companies (NADCO)

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