



## Mission Lenders Working Group

### **Policy Recommendations for the SBA 7(a) Community Advantage Program**

*June 2020*

The Community Advantage (CA) pilot was established in 2011 within the Small Business Administration's (SBA) flagship 7(a) lending program to expand access to capital for underserved small businesses. Through the CA program, Community Development Financial Institutions (CDFIs) and Certified Development Companies (CDCs) provide SBA-guaranteed loans of up to \$250,000 to businesses in underserved markets, such as low-to-moderate income communities and rural areas. CA lenders exist to bridge the capital access gap for businesses that need loans larger than those offered by the SBA's Microloan program (up to \$50,000) but that are still unable to secure financing from traditional 7(a) lenders. Reasons that businesses remain underserved by traditional 7(a) include unprofitability for banks in issuing smaller loans (under \$250,000), lack of collateral, and age of the business (startups).

Thanks to the 7(a) Community Advantage lender network established by the SBA nearly a decade ago, at the onset of the coronavirus crisis, experienced CDFIs and CDCs were prepared to quickly begin delivering urgently-needed relief funding to underserved small businesses nationwide. As CA lenders exist to serve businesses that cannot secure capital from banks or other traditional financial institutions, the CA network provided the necessary infrastructure to immediately support the smallest businesses that were hardest hit by the COVID-19 crisis. If the CA network had not been established within the larger 7(a) program, most businesses that failed to secure Paycheck Protection Program loans from banks would have had nowhere else to turn, and the jobs these businesses supported would have been lost.

To ensure that small businesses that are otherwise unserved by banks continue to receive access to reasonably priced capital, both during the immediate COVID-19 recovery period and in the coming years, the Mission Lenders Working Group offers the below legislative and regulatory recommendations for consideration. We are happy to discuss these recommendations in detail and can be reached at [kim@feighan.org](mailto:kim@feighan.org) or [alison@feighan.org](mailto:alison@feighan.org).

## Recommendations to preserve the long-term impact of CA lenders, all through Sept 30, 2026—

### 1. Codify the Community Advantage (CA) Loan Guarantee

Authorize the Community Advantage Loan Guarantee Program through September 30, 2026

*“In General.—Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended by adding at the end the following:*

*“(37) COMMUNITY ADVANTAGE PROGRAM.—*

### 2. Expand the Definition of “Underserved Markets” for Purposes of the CA Lending

All CA lenders are required to make 60% of their CA loans in one or more “underserved markets” currently defined by SBA as a LMI community, a business where > 50% of its employees are LMI or live in an LMI community, an Empowerment Zones, HUBZone, Promise Zone, Opportunity Zone, a rural area, or business eligible for SBA veteran Advantage We recommend that the list of “underserved markets be expanded to include the following:

*“Any business concern that is:*

*(-) owned and controlled by one or more individuals identified by section 8(a) of the Small Business Act as “socially and economically disadvantaged”, including Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, and other minorities identified by the Administrator;*

*(-) owned and controlled by one or more women; or*

*(-) owned and controlled by one or more veterans, as defined in section 3(q) of the Small Business Act.*

### 3. Codify the CA Associate Lenders Initiative

The original [Community Advantage Participant Guide](#) (11-13-11) created a path for mission-oriented organizations (including smaller CDFIs and CDCs.) to make CA loans available to businesses in their community even if they were not interested or lacked the capacity or capital to make CA loans directly. These organizations could operate as Referral Agents (as defined in 13 CFR 103.1(f)) to existing CA Lenders. Mission-oriented Referral Agents who refer applicants to CA Lenders may be referred to as “Community Advantage Associates” (“CA Associates”). With structural and cost improvements the CA Associates model could expand the reach and impact of Community Advantage lending.

**Recommendations to bolster CA lending during the COVID-19 emergency period, all through Sept 30, 2021—**

1. Increase SBA guarantee on CA loans to 90%, as directed under Section 90011 of the HEROES Act (H.R. 6800)
2. Increase the maximum CA loan size from \$250,000 to \$350,000 through January 1, 2021 or until the maximum 7(a) Express loan size is reduced from \$1,000,000 back to \$350,000
3. Grant Delegated Authority to any CA lender that has approved at least 10 CA loans or 10 PPP loans or a combination of both)
4. Permit any CDFI, CDC, or Microlender that has made PPP loans but is not yet a licensed CA lender to apply to become a CA lender, regardless of whether the lender already holds a 7(a) license
5. Permit CA lenders to refinance any debt (same-institution or external debts, including existing CA loans) without demonstrating a ten-percent cash flow improvement or documenting repayment history as required by existing rules
6. Enable CA lenders to offer lines of credit in addition to fixed-term products
7. Reduce the loan loss reserve requirement for loans sold on the secondary market to three percent

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