



Mission Lenders Working Group
Building Success in Underserved Communities

Statement for the Record Submitted to the
Senate Small Business and Entrepreneurship Committee

For the hearing:
“Promoting Opportunity: The Need for Targeted Federal Business Programs to
Address Ongoing Racial Discrimination”

Monday, May 6, 2024

Submitted on behalf of the Mission Lenders Working Group

Senator Cardin and members of the committee, on behalf of the [Mission Lenders Working Group](#) (MLWG), I write to thank you for convening a hearing focused on ensuring that all small businesses, particularly minority-owned businesses, can access the full range of resources they need to be successful. While the hearing was primarily focused on protecting and strengthening efforts to ensure that minority-owned businesses have access to federal contracting opportunities, witnesses also spoke to the barriers that too many minority and female entrepreneurs, especially those who are under-resourced and/or seeking to launch a new business, continue to encounter as they try to secure responsible and affordable financing for their venture. Our statement is focused on the SBA’s Community Advantage (CA) program and how CA lenders (now CA SBLCs) have intentionally increased SBA-backed lending to under-resourced businesses and underserved communities - including increasing lending to under-resourced Black-owned and Hispanic-owned businesses.

The SBA initiated the CA pilot in 2011 using its authority to establish temporary pilot programs.¹ The CA pilot was explicitly created to increase lending to underserved businesses by granting select mission-driven, non-bank lenders the authority to offer an SBA guarantee on loans of up to \$350,000 to small businesses unable to access a conventional bank loan even with the backing of a conventional 7(a) guarantee. CA lenders are required to deliver at least 60% of their CA loans to businesses in “underserved markets,” currently defined by SBA to be a business entity that is a start-up, Veteran-owned, located in an Empowerment Zone or Enterprise Community, a HUBZone, a Low-to-Moderate Income (LMI) community, an Opportunity Zone, or a rural area.

In 2015, the MLWG network was organized as a way for CA lenders to share best practices as mission-focused lenders that are intentionally targeting under-resourced businesses. Members see their organizations as a coalition and stewards of the CA program with a shared commitment to financing, supporting, and sustaining underserved and underbanked small businesses. The lenders in the working group represent a diverse cross-section of the CDCs, CDFIs, and Microlenders participating as CA lenders including some of the largest CA lenders in terms of volume as well as smaller lenders, rural-focused lenders, and lenders targeting underserved urban centers, but all are seasoned lenders and all are purposefully financing, supporting and sustaining underbanked businesses.

CA lenders understand that access to capital is critical to the success of any small business. The 2022 Federal Reserve Small Business Credit Survey reported that applicant firms owned by people of color were about half as

¹ SBA, “Community Advantage Pilot Program,” 76 Federal Register 9626, February 18, 2011. In identifying this authority, SBA referenced 15 U.S.C. §636(a)(25) and 13 C.F.R. §120.3.

likely as white-owned applicant firms to receive all the financing they sought.² In addition, businesses owned by people of color faced more financial and operational challenges than their white-owned counterparts and often were less successful at obtaining the funding needed to weather the effects of the pandemic.³ The 2023 Federal Reserve Report on Employer Firms further highlighted that of the applicants seeking loans, lines of credit, and cash advances, Black-owned were among those least likely to be fully approved in 2022. For most firm categories, financing approval rates declined from pre-pandemic levels.⁴

The CA program has been successful in addressing the financing gap facing small businesses and emerging entrepreneurs that the SBA deemed to be in underserved markets for purposes of the CA pilot. While Black-owned or Hispanic-owned businesses are not considered to be “underserved” for purposes of meeting the 60% target for CA lenders, SBA-backed lending to these businesses has increased significantly with the introduction of the CA program. In FY 2023 alone, 800 CA loans, including 5 CA Lines of Credit were approved, for a total of \$141 million with an average loan size of \$177,000.⁵ Of the 795 CA loans approved, Black-owned businesses received 157 loan approvals (19.7%), and were to Hispanic-owned businesses received 70 loan approvals (8.8%). In FY 2023, conventional SBA 7(a) lenders made 56,562 loans for \$27.37 billion with 4,414 (7.8%) approvals for Black-owned businesses and 6,815 (12%) approvals for Hispanic-owned businesses.

The SBA recently certified 30 new lenders to participate in the CA program which brings the total number of CA SBLCs to 141. One of the new CA SBLCs is [Baltimore Community Lending](#) (BCL), a Maryland-based and focused Microlender and CDFI dedicated to delivering responsible, affordable lending products to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream. In 2023, before becoming a CA SBLC, 87% of BCL’s small business loan approvals were to minority-owned small businesses, 52% went to women-owned small businesses, and 52% went to start-up businesses. We focus on BCL’s lending track record to highlight their work as a community-based lender intentionally developing and delivering products and services to address the needs of neighborhood businesses in their under-resourced markets.

The CA model works and is powerful for reaching under-resourced communities and underbanked small businesses and entrepreneurs - including Black-owned and Hispanic-owned businesses that are not - at least not yet- bankable. We appreciate Senator Cardin’s leadership and support for promoting opportunity and recognizing the need for federal programs that seek to break down barriers and help create a level playing field where all aspiring entrepreneurs, including under-resourced minority-owned businesses, can access the tools they need to launch, grow and sustain a business. The MLWG looks forward to working with you and your colleagues to protect and strengthen federal programs - like CA - that do just that.

² Board of Governors of the Federal Reserve System (U.S). “Small Business Credit Survey (SBCS): 2022 Report on Firms Owned by People of Color.” Fed Small Business. <https://www.fedsmallbusiness.org/survey/2022/2022-report-on-firms-owned-by-people-of-color>. Page 15.

³ “2022 Report on Firms Owned by People of Color: Based on the 2021 Small Business Credit Survey.” 2022. *Small Business Credit Survey*. Federal Reserve Banks. <https://doi.org/10.55350/sbcs-20220629>

⁴ “2023 Report on Employer Firms: Findings from the 2022 Small Business Credit Survey, page 18.” 2023. *Small Business Credit Survey*. Federal Reserve Banks. <https://doi.org/10.55350/sbcs-20230308>

⁵ SBA 7(a) and 504 Summary Report Dashboard for FY23 <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>