Mission Lenders Working Group

May 31, 2022

Mr. Darrel Eddingfield
Office of Financial Assistance
U.S. Small Business Administration
409 Third Street SW
Washington, DC 20416.

RE: SBA docket number SBA- 2022-0003

Mr. Eddingfield,

I submit this letter on behalf of the Mission Lenders Working Group (MLWG) and its member Community Advantage (CA) lenders working to finance, grow and sustain small businesses and emerging entrepreneurs in underbanked and underserved communities across the country.

We appreciate the opportunity to comment on the program changes and modifications made to the Small Business Administration's (SBA) Community Advantage pilot as announced by SBA on April 29, 2022, in Federal Register No. 2022-09162. In addition to commenting on the specific CA program modifications detailed in the SBA Notification, this letter includes a series of MLWG recommendations informed by the experiences and insights of CA lenders to further the goal of the CA pilot – to increase access to credit for small businesses in underserved and underbanked markets through a network of experienced mission driven lenders.

Comments on Changes to the CA Pilot Program

The following comments refer to the specific CA program changes and modifications detailed in the Federal Register Notification SBA Docket: 2022-0003. We recognize and appreciate that the SBA adopted many of the MLWG's recommendations and we look forward to working with the SBA's Office of Capital Access and the Office of Credit Risk Management to implement these modifications.

a. *Modification of 13 CFR 120.410 and 120.440 for Participation in and Use of Delegated Authority in the CA Pilot Program*

The modification will require that a lender applying to participate in the CA pilot after April 1, 2022, have at least twenty similarly sized commercial or business loans in its portfolio. In addition, under the modified CA rule, all new lenders will be granting delegated authority immediately upon approval as a CA lender. Prior to the 2018 moratorium on approving additional CA lenders, a new lender could only apply for delegated authority after 12-months and only if the lender had a minimum of ten[1] CA loans approved. The SBA put these safeguards in place to onboard new CA lenders and to ensure that lenders understand and have adopted SBA policies and procedures, underwriting and credit analysis, working with SBA's Loan Guarantee Processing Center (LGPC) before seeking delegated authority.

The MLWG supports requiring a new lender to have at least twenty similarly sized loans in its portfolio to be considered eligible to apply for CA lender status. However, rather than granting new lenders delegated authority immediately, we recommend that a new lender be eligible to apply for delegated authority six-months after being approved as a CA lender and after having at least 10 CA loans approved.

b. Modification of 13 CFR 120.150 Relating to Lending Criteria

We support the modifications that allow a CA lender to utilize its existing underwriting criteria used for similarly sized, non-SBA guaranteed commercial loans. In making this reform, SBA recognizes the experience of seasoned mission lenders and the systems these lenders have developed and refined that allow them to successfully underwrite loans and manage risk while intentionally financing and growing underbanked businesses and entrepreneurs in underserved communities.

While MLWG members are encouraged by the program changes and SBA's willingness to work with and consult us, us, lenders have questions regarding implementation. Lenders are specifically seeking assurances that when the SBA approves a CA lender's underwriting criteria and credit policies upfront, the lender will not encounter resistance or problems if they have to file a guarantee purchase or repair request. It will be important to clarify SBA expectations regarding what a successful CA lender portfolio looks like in terms of acceptable risk since CA lenders are called on to lend to underserved businesses and markets deemed to be too risky for conventional financing.

The MLWG is pleased that CA lenders will have the option of using the FICO® Small Business Scoring Service (SBSS) credit scoring model used in SBA's 7(a) loan program. If a CA lender with delegated authority chooses to use the SBSS credit score, we ask that SBA allow delegated authority to be used for loans with an SBSS core of 120 or greater. Prior to October 2018, a CA lender could process a loan using delegated authority if the SBSS score was 120 or greater.

c. *Modification of 13 CFR 120.110(n) for the Community Advantage Pilot Program*

The MLWG supports the modification that permits a CA lender to make a loan to a business with an associate who is or was formerly incarcerated, on is on probation or indicted for a felony or a crime of moral turpitude. We encourage the SBA to amend any documents or forms, including SBA Form 1919 and SBA Form 1920, to reflect this allowance for CA lenders and avoid confusion on the part of lenders and potential borrowers.

Recent research shows that over a third of formerly incarcerated individuals turn to entrepreneurship after their release[2]. Yet, these individuals frequently struggle to qualify for commercial loans and are often the victims of identity theft and fraud. Time spent in prison or jail often preclude them from saving initial funding, developing critical networks, and building the credit necessary to start a business. Therefore, we would also suggest that a business owned by a formerly incarcerated individual be

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[1] The minimum number of loans has fluctuated

[2] "Entrepreneurship and Incarceration," Colombia Business School, 2021. https://academiccommons.columbia.edu/doi/10.7916/d8-gj2p-sr53/download

considered an ‘underserved’ business and added to the list of businesses considered to be an “underserved market” for purposes of the CA pilot.

d. Modification of 13 CFR 120.151 to Increase Max CA Loan From $250,000 to $350,000

The MLWG supports increasing the cap on CA loans to eligible small businesses to accommodate the needs of certain small business, including start-ups, seeking to purchase needed equipment, inventory, or real estate in underserved but high-cost markets.

e. Modification of 13 CFR 120.221(a) to Revise Max Allowed Fees a CA Lender May Charge

The MLWG supports modifications made to the fee structure to allow CA lenders or agents the flexibility to charge fees based on the size of the loan and recognizing the cost associated with all CA lending and particularly smaller loans.

The MLWG recommends that the SBA also modify CRF 120.220 to waive both the Upfront Guarantee Fee and the Annual Service Fee for CA lenders. These fees are currently waived for all 7(a) loans under $350,000 through the end of FY 2022. However, we ask the SBA to permanently waive these fees for CA lenders moving forward.

f. Modification of 13 CFR 120.213-120.215 to Revise Max Allowed Interest Rates a CA Lender May Charge

The MLWG supports the modifications made to the interest rates that a CA lender can charge. The structure provided by SBA provides clarity and recognizes the cost associated with making and servicing loans and sustaining businesses in underserved markets.

g. Revise Collateral Requirements for CA Loans

The MLWG supports the modification made to collateral requirement for CA lenders. These changes will enable CA lenders to operate more efficiently and will reduce the cost of lending, particularly impacting to start-ups and businesses seeking smaller loans.

h. Modification of 13 CFR 120.130(c) to Allow Certain CA Lenders To Provide Lines of Credit

While the MLWG supports the modification to allow select CA lenders, with prior SBA review and approval, to offer lines of credit to qualified CA borrowers, lenders have questions regarding how this allowance will be implemented and what criteria SBA will consider in determining when and how a CA lender will be approved to offer a line of credit to a qualified CA borrower.

i. Modification of 13 CFR 120.160(c) Revise Requirement for Hazard Insurance

The MLWG appreciates the modifications made to clarify the insurance requirements and particularly the Hazard Insurance requirements for CA lenders.

j. Modification of 13 CFR 121.301(f) Affiliation Principles for Applicants for CA Loans

The MLWG supports the modifications made to affiliation principles as they apply to CA borrowers and potential borrowers. The modifications reflect the lessons learned by the SBA and the mission lenders working to extend PPP loans to small, underbanked businesses during the COVID-19 pandemic. We applaud the SBA for applying these lessons to increase the efficiency of CA lending.

Additional Recommendations

The MLWG recommends that SBA make the following modifications to further advance the goals of the CA pilot and allow CA lenders to more effectively and efficiently reach, finance and support small businesses in underserved markets.

1. Eliminate Loan Loss Reserve Requirement for CA Loans Sold on the Secondary Market

Currently all CA lenders must maintain a Loan Loss Reserve Account (LLRA) with a minimum balance that is equal to 5% of the outstanding amount of the unguaranteed portion of the lenders CA portfolio. In addition, CA lenders that sell CA loans on the secondary market must maintain a separate LLRA and 5% of the guaranteed portion of each CA loan sold on the secondary market must be deposited in that LLRA no later than 10 days after the CA loan is sold into the secondary market.[3]

The MLWG supports the requirement that a CA lender maintain a LLRA based on the unguaranteed portion of a lenders CA portfolio. However, we ask that the SBA eliminate the additional LLRA requirement for CA loans sold on the secondary market. There is no evidence that this second LLRA is necessary based on the sale of CA loans on the secondary market and the funds a lender deposits in a LLRA are funds a lender cannot use to make impactful CA loans.

2. Provide an 85% guarantee for CA loans of $250,000 or less and a 75% guarantee for loans greater than $250,000.

As the maximum CA loan amount increased from $250,000 to $350,000 the MLWG recommends that the SBA provide an 85% guarantee on loans $250,000 or less and a 75% guarantee on loans greater than $250,000 and up to $350,000. When the maximum amount of a CA loan was $250,000, the SBA provided an 85% guaranty for loans of $150,000 or less and a 75% guaranty for loans greater than $150,000 and up to $250,000.

The MLWG will continue to advocate for a 90% guarantee for CA loans across the board, but that will require legislation. There is precedent for a 90% guaranty on 7(a) loans during economic downturns to assist small businesses (ex. Economic Aid Act.) Assigning a 90% guarantee to all CA loans recognizes that CA lenders are intentionally lending to underbanked small businesses. Increasing the percent of guarantee would encourage more mission-driven lenders to participate in CA, resulting in more lending to underserved markets.

3. Streamline Loan Refinancing for CA lenders

We encourage the SBA to permit a borrower with a CA loan to refinance the loan with a 7(a) loan – a practice that is currently prohibited. CA lenders are encouraged to assist business borrowers to become bankable and that transition should include moving a CA borrower into a conventional 7(a) loan. This practice would free up CA lenders to make additional loans to underbanked businesses once their now-

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[3] Prior to October 2018, the minimum LLRA requirement for CA loans sold on the Secondary Market was 3%.

bankable business borrower transitions to a 7(a) loan. The practice would also encourage traditional 7(a) lenders and mission-oriented CA lenders to collaborate and expand the reach of SBA backed lending.

4. ***Expand the Definition of Underserved Communities to include Woman-Owned and Minority-Owned Businesses***

The MLWG recommends that the already expansive definition of "underserved markets" be expanded to intentionally and explicitly include woman-owned businesses, Black-owned businesses, Hispanic-owned businesses, Native American-owned businesses, and Asian and Pacific Islander-owned businesses, for purposes of the CA pilot. To capture these businesses, we recommend the SBA reference the definition used to qualify a business as "socially disadvantaged" for purposes of another SBA program.

Currently the following areas or business types qualify as an "underserved market" for purposes of the CA pilot: Low-to-Moderate Income Communities (LMI); Empowerment Zones; Enterprise Communities; HUB Zones; Promise Zones,; Opportunity Zones; any county defined as "Mostly Rural" or "Completely Rural" according to the most recent census; a business where more than 50% of the workforce is LMI, or lives in an LMI census tract; start-ups in business for under two-years; and businesses eligible for SBA Veterans Advantage.

In closing, we strongly encourage the SBA to support efforts to codify the CA program. We appreciate SBA stepping up to extend the CA pilot for an additional two years, but it has been 11 years since CA was first launched as a 3-year pilot. The pilot has been extended four times, has enjoyed bipartisan support, and by all accounts has successfully demonstrated that mission lenders, in partnership with the SBA, can increase access to credit for small businesses in underserved and underbanked markets. The MLWG compiled a series of slides to highlight some CA pilot program impacts. These slides are visualizations of publicly available quarterly SBA 7(a) loan data and SBA Weekly Lending data.

We welcome the opportunity to continue our collaboration with SBA to implement the program modifications that take effect on May 31st and to further our join efforts to ensure that entrepreneurs in underserved markets have the financing and support they need to thrive.

Sincerely,

Alison Feighan
on behalf of the Mission Lenders Working Group

Access to Capital for Entrepreneurs, GA
AmPac Business Capital, CA
BBIF Florida, FL
Carolina Small Business Development Fund, NC
CDC Small Business Finance, CA
B:Side Capital, CO
Evergreen Business Capital, WA
Growth Capital Corporation, OH
Justine PETERSEN, MO

Kentucky Highlands Investment Corporation, KY
Latino Economic Development Center, MD
Lendistry, CA
LiftFund, TX
Main Street Launch, CA
MoFi, MT
Northern Initiatives, MI
Opportunity Finance Network, DC
PeopleFund, TX
Prestamos, AZ
Pursuit, NY
Wisconsin Women's Business Initiative Corporation, WI