



Mission Lenders Working Group
Building Success in Underserved Communities

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

For the hearing:
“Improving Access to Capital in Underserved Communities: The Community Advantage Program, Microloans, and other SBA Initiatives”

Wednesday, December 14, 2022

Submitted by Alison Feighan on behalf of the Mission Lenders Working Group

Chairman Cardin and Ranking Member Paul, on behalf of the Mission Lenders Working Group (MLWG), I write to thank you for convening a hearing focused on improving access to capital in underserved communities and for the opportunity to reflect on how the SBA’s Community Advantage (CA) pilot program has increased SBA-backed lending to underserved businesses and markets. We were very pleased that CA lender CDC Small Business Finance was invited to testify before the committee alongside representatives from the traditional 7(a) program, and the microloan program.

The Mission Lenders Working Group (MLWG) is a network of SBA 7(a) Community Advantage (CA) lenders that was organized in 2015 as a way for CA lenders to share best practices, offer peer-to-peer training and support, and collaborate on education and advocacy to keep policymakers updated on the pilot’s impact. MLWG members act as agents of change in their communities by intentionally making capital accessible to support and sustain underserved and underbanked small businesses. MLWG membership represents the diversity of the mission lending industry – 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 intentionally mission-driven and committed to financing, supporting and sustaining underbanked businesses.

Together, the MLWG members are responsible for more than half of all CA lending in terms of loan count and volume to date. Based on the experience of the MLWG members, we are sharing comments for the committee’s hearing record on:

- SBA’s Community Advantage Pilot Loan Program,
- Chairman Cardin’s legislation to codify the CA program within the Small Business Act, and
- SBA’s proposed rule released on November 7, 2022, that would negatively impact underserved small business owners and entrepreneurs by lifting the moratorium on Small Business Lending Companies (SBLCs) as well as creating a new category of SBLC known as Mission-Based SBLC, with no accountability to underserved markets.

The 7(a) Community Advantage (CA) pilot was launched by the SBA in 2011 to expand access to SBA-backed loans for underserved small businesses. Initially, CA loans were capped at \$250,000 but on May 31, 2022, the SBA increased the maximum CA loan size to \$350,000. There are approximately 110 CA non-profit lenders consisting of SBA-Authorized Certified Development Companies (CDCs), SBA-Authorized Microloan Intermediaries, and Community Development Financial Institutions (CDFIs).

When the CA pilot was launched, the SBA recognized the unique capacity of nontraditional lenders – particularly CDCs, CDFIs, and SBA Microloan Intermediaries— to finance and grow businesses that traditional 7(a) lenders could not and in many cases should not lend to. The SBA acknowledged that in order to increase lending in underserved markets using SBA’s flagship 7(a) loan guarantee - they needed to enlist the expertise of non-traditional lenders that had experience and a presence in the markets that conventional banks and traditional 7a lenders could not reach. The CA program aims to help these underserved and underbanked small businesses climb the ladder of economic opportunity, contributing to business growth and economic development in emerging markets.

CA lenders are required to deliver at least 60% of their CA loans to businesses in an “underserved market,” currently defined by SBA as Empowerment Zones and Enterprise Communities, HUBZones, Low-to-Moderate Income communities (LMI), Opportunity Zones, rural areas, startups, and veteran-owned businesses.

While not required, CA lenders often provide support or technical assistance to a borrower or prospective borrower and this approach to lending is one of the factors that allows mission lenders to manage the risk involved in lending to businesses deemed ‘unbankable’ by conventional lenders (including start-ups.) As mission-oriented organizations, CA lenders consistently exceed the 60% requirement.

The CA model works and is powerful for reaching underserved and underbanked small businesses and entrepreneurs. CA lenders know their communities and it is within their mission to serve small businesses. The CA program benefits economically and socially disadvantaged businesses that need access to patient capital that is structured as affordable for the businesses to grow.

Since the CA pilot launched in 2011, the SBA has approved a total of \$1,050,734,400 in CA loans to 7,673 businesses with an average loan size of \$139,000. Traditional 7(a) and Community Advantage lending declined during the pandemic as lenders shifted their focus to processing PPP loans. In addition, many States rolled out their own affordable capital programs and provided free business support services to small businesses. In FY 2020, SBA lending started to pick up with CA lenders continuing to target a significant portion of their lending to underserved markets. In FY 2022, 717 CA loans were approved for an average loan size of \$158,995, representing an increase in CA loan approval of 21 percent.

What the SBA has not done is to define or specify what success looks like in terms of acceptable or unacceptable risks. Under the program, mission-based CA lenders were asked to serve the hardest-to-reach markets. While there is an expectation of higher losses, that has never been publicly defined and presented to the CA lenders. A conversation with SBA and agreeing upon the success of the program would assist in further defining the program for new lenders and likely increase participation.

The MLWG is committed to working with the SBA to increase SBA-backed lending to underserved markets and increase the efficiency of SBA lending while at the same time making sure every small business owner seeking an SBA loan is able to access the product(s) and/or service(s) they need. We understand the

importance of a business having access to credit - but it's critically important that loans are "right-sized, priced" and structured to meet the needs of a business.

The Community Advantage Loan Program Permanency Act of 2022

The CA program has been operating as a pilot for more than ten years and based on the success of the pilot the MLWG is urging Congress to codify the program and grant it full status as a mission-driven loan program within the flagship 7(a) program.

We appreciate Chairman Cardin's leadership and support for the codification of CA and the MLWG is pleased to endorse the *Community Advantage Loan Program Permanency Act of 2022* (S.5102) introduced by the Senator last month. In addition to elevating CA from a pilot program, the Chairman's bill incorporates important lessons learned over the pilot period and the bill seeks to improve and strengthen the program to more effectively serve businesses.

The bill expands the definition of "underserved community" to include businesses owned by socially and economically disadvantaged individuals, businesses owned by women, and rural businesses, which is an essential step in achieving parity for small business owners that are underbanked and underestimated.

This critical legislation recognizes the need to institutionalize mission-driven lending as part of the SBA's mission to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns" by identifying markets that have historically been underserved and requiring CA lenders to make at least 70% of the loans to identified markets. This is up from the 60% target threshold in the CA pilot.

We appreciate that The CA program should serve as the SBA's primary vehicle for delivering loans of up to \$350,000 to economically and socially disadvantaged business owners who lack banking relationships. This legislation will help small business owners to navigate and continue to rebuild from the Covid-19 economic crisis.

The legislation seeks to expand the reach of CA lending by seeking to formalize the CA Network Partners. Among other benefits, the CA Network Partners model would provide an on-ramp for mission lenders considering entering the CA program. These mission lenders are touchstones in the local community and have established trust within the community. This local network creates a pathway for small business owners and entrepreneurs to establish a local relationship with a local lender, and, where the business owner may receive technical assistance or simple reassurances as they go through the application process. The small business owners receive financing structured on the historical cash flow available to service the debt while the company grows. The legislation will also allow SBA 7(a) lenders to refinance CA loans after the small business owner has demonstrated key indicators like the need for additional capital and a track record of timely payments.

The Continuum of Capital

Network Partners referrals ➡ CA Lender: TA if needed, financing ➡ SBA 7(a) lenders refinances CA loans ➡ CA lender is reimbursed and had the capital to assist new underserved businesses

During the hearing, there was some discussion about the fate of a business that applied for a 7(a) loan but is turned down for one reason or another, often based on a determination of their inability to repay. This is where CA lenders can step in, possibly with business assistance or with the ability to accept collateral or manage the risk that a conventional lender could not. CA lenders assist these businesses to secure the right-

sized financing to build their financial resumes and get them ‘bankable’ over time. This is where our work begins and places a small business on the ‘continuum of capital.’

The CA program has operated as a “pilot program” for the last ten years, despite its proven success and sustainability in reducing credit disparities. Since 2011, the CA program has received several short-term extensions, leaving lenders without assurance of the program’s long-term outlook and its capacity to serve the most overlooked small businesses. The CA program is currently set to expire at the end of FY 2024.

The multiple extensions of the program over different administrations, along with changing operating rules, have made it problematic for new mission lenders to commit to the program. No large for-profit financial institution would tolerate such programmatic changes, yet mission lenders are expected to continue to reach the hardest to serve and adapt to the changing rules, which are more restrictive than to other 7(a) lenders. This legislation creates a pathway for emerging mission lenders to invest in a long-term CA program.

The CA program, which has a ten-year established, successful track record in supplying capital to underbanked businesses, should be among the core strategies for wealth-building and economic development in underserved communities. CA program permanency would allow mission lenders to grow their CA lending portfolios, invest in the necessary staff and systems, and continue using SBA loan guarantee authority to finance small businesses that traditional 7(a) lenders and other financial institutions do not serve. The MLWG urges the SBA Administrator to publicly endorse Senator Cardin’s legislation.

SBA’s proposed rule on Small Business Lending Companies

We appreciate the opportunity to share our thoughts, questions, and concerns regarding the SBA’s proposal to list the moratorium on Small Business Lending Companies and create a tier of non-profit Mission SBLCs with criteria that differ from those in place for traditional SBLCs.

While we appreciate and share SBA’s commitment to addressing the needs of businesses and entrepreneurs in underserved markets, the MLWG is concerned that the proposed rule as drafted will not actually promote mission lending.

We question the need for having two types of SBLCs and specifically question why the SBA would certify three new for-profit SBLCs without requiring the new entities to abide by any of the mission objectives that would be assigned to the non-profit SBLCs.

The MLWG was also troubled by a statement in the Federal Register notice regarding the limitations of the CA program: “SBA considered leaving the regulations unchanged and relying upon the CA Pilot Loan Program to address the needs of access to capital in underserved markets; however, the low historic loan volume and lack of any CA loan activity in some rural and underserved geographic areas makes this an unviable alternative.”

This statement implies that mission lenders are failing at loan production volume even as that was never an explicit requirement. The CA program was not intended to be a volume-producing program but a program to fill the small dollar loan gaps within the 7(a) program to underserved markets. We urge the SBA to lean into the CA program. The CA model does work and is powerful for reaching underserved and underbanked small businesses and entrepreneurs. The June 2018 Industrial Economics Incorporated Report states “Overall, the evaluation finds that the CA Program is serving an important function for its target market.

The financing and technical assistance provided by mission-oriented CA lenders is reaching the program's target market of small businesses in emerging markets at a critical stage for these businesses..."¹

The MLWG will be submitting a comment letter to the SBA on the proposed rule and we are committed to working with the SBA to strengthen the CA program in a way that will also serve to advance the SBA's equity plan and ensure more lending to underserved businesses and markets.

Closing

As a network of committed CA lenders, members of the MLWG see themselves as stewards of the mission and goals of the CA pilot, and as such we are committed to working with this Committee and with the SBA to intentionally and responsibly advance the stated goals of the CA pilot - to increase access to credit for small businesses in an underserved area and expand points of access to the SBA 7(a) loan program by allowing non-traditional, mission-oriented lenders to participate.

¹ Industrial Economics Incorporated, "Evaluating Technical Assistance and Economic Opportunity Outcomes of the Community Advantage Pilot Program," June 2018. [https://www.sba.gov/sites/default/files/2020-11/Community Advantage Final Evaluation Report - June 21 2018.pdf](https://www.sba.gov/sites/default/files/2020-11/Community%20Advantage%20Final%20Evaluation%20Report%20-%20June%2021%202018.pdf)