



Mission Lenders Working Group

November 19, 2021

The Honorable Isabella Casillas Guzman
Administrator
United States Small Business Administration
409 3rd Street SW
Washington, DC 20416

RE: SBA FY 2022—2026 Strategic Plan Framework and Enterprise Learning Agenda

Administrator Guzman,

The Mission Lenders Working Group (MLWG) thanks you for the opportunity to comment on the Small Business Administration's (SBA) FY 2022—2026 Strategic Plan Framework and Enterprise Learning Agenda. The MLWG is the only organization of active SBA 7(a) Community Advantage lenders, including 24 community development financial institutions (CDFIs) and certified development companies (CDCs) from across the country. We work to support the Community Advantage program through advocacy and peer-led trainings on best practices, with the ultimate goal of ensuring that underbanked entrepreneurs receive the specialized support they need to successfully launch and grow small businesses.

Given our mission of expanding access to capital and business coaching support for small businesses in underserved communities, we appreciate that SBA identified equity as a core value. We also applaud SBA's aim to "equitably support every small business that needs [SBA's] help." In the following letter, we provide recommendations, informed by our community development expertise and deep connections to underserved communities, that are intended to ensure that SBA is successful in its equity-centered goals.

Responses to SBA's Stakeholder Feedback Questions

1. How can the SBA help underserved communities better access its programs and services?

Mission lenders appreciate that SBA has prioritized improving access to programs and services for underserved communities, and that SBA seeks to do so through innovative means. We encourage SBA to collaborate with mission lenders in the early stages of developing new programs targeted to underserved borrowers, to ensure that resources effectively reach intended recipients. We have on-the-ground insights into the unique needs and challenges of underbanked entrepreneurs across the country. New programs must accommodate those specific needs and longstanding barriers in order to be successful. We welcome opportunities to collaborate with SBA on new program concepts and implementation details on an ongoing basis, in FY 2022 and beyond.

In addition to collaborating with mission lenders in developing new programs, we also recommend that SBA reevaluate its policies for existing programs to better reach underserved communities. One such policy is underwriting criteria. Based on our experience, effectively reaching underserved communities requires redefining measures of creditworthiness. Some of SBA's approval requirements create unnecessary barriers and limit SBA's ability to reach underserved communities. For example, SBA's SBSS scoring model excludes many borrowers who have not yet established credit histories or who have experienced credit challenges previously, but who otherwise demonstrate strong potential.

We recognize that SBA must maintain thoughtful borrower qualification standards in order to both support small business growth and serve as a good steward of taxpayer resources. We believe that it is possible to reduce risk-based barriers while preserving strong stewardship of SBA resources. In fact, we believe that SBA can better manage taxpayer resources by modifying underwriting standards for existing programs, such as Community Advantage. Doing so would enable existing programs to increase small dollar lending and lending to underserved communities through regulatory changes that come at a low cost to SBA. Mission lenders are eager to work with SBA to develop revised underwriting policies that will help underserved communities better access SBA programs and services.

Collaboration with mission lenders can help SBA expand the agency's credit box to potentially include character assessments and other alternative underwriting criteria. We must note that while technology can facilitate some aspects of the underwriting and lending process, it cannot replace character-based underwriting. SBA must account for this reality when working to modernize its technology. Mission lenders appreciate the enhanced capabilities that technology can bring to lending processes, but urge SBA to preserve critical elements of relationship-based lending in considering systems enhancements.

Beyond underwriting policies, SBA can also improve its ability to reach underserved borrowers by streamlining documentation requirements. SBA's current requirements can be burdensome for both borrowers and lenders, and this friction reduces lending volume on both the supply and demand sides. Extensive documentation requirements require lenders to dedicate significant staff time and resources towards compliance. Current requirements also discourage many underserved small businesses who are less financially sophisticated but likely to succeed if approved for Community Advantage loans. We hope to work with SBA on revising documentation policies for programs that target underserved communities.

Similarly, we encourage SBA to work with mission lenders on modifying SBA's Uniform Commercial Code (UCC) filing and collateral requirements. These requirements can deter the underserved and underbanked small businesses that SBA intends to reach. Borrowers with the least resources have the most at stake in agreeing to blanket UCC liens, and can be wary of pursuing SBA loans as a result. Low-income borrowers may also lack sufficient collateral to qualify for SBA loans. SBA should consider revising its UCC lien and collateral policies to meet the agency's objectives of increasing small-dollar lending and lending to underserved communities.

2. *How can the SBA better coordinate with its external stakeholders to advance equity in the small business and entrepreneurial ecosystem?*

The Mission Lenders Working Group welcomes opportunities to maintain regular communication with SBA, to share insights from the field and brainstorm policies that could increase equitable access to credit. We hope to discuss the recommendations listed above and offer ideas for ways that SBA can leverage its existing partners to better reach underserved borrowers.

3. *How can the SBA better demonstrate its progress towards these goals and objectives?*

We recommend that SBA establish a working group with Community Advantage lenders to discuss possible program enhancements or modifications that can enable the program to reach even more underserved small businesses. A formalized, regular communication channel with Community Advantage lenders would help SBA to make needed changes thoughtfully and efficiently. SBA can demonstrate progress towards Strategic Goals 1.1, 1.5, 2.1 and 3.1 through convening and reporting on discussions with Community Advantage lenders and carrying out identified regulatory changes.

4. *How do you see yourself working with SBA to achieve these priorities?*

As discussed above, mission lenders are eager to maintain an ongoing dialogue with SBA on recommended policy changes and ideas for innovative solutions. We value our longstanding partnership with SBA that has created opportunities for thousands of underserved entrepreneurs to realize their dreams, and look forward to assisting SBA with its efforts to expand the agency's reach.

Conclusion

We were pleased to hear Administrator Guzman discuss the Community Advantage program's vital role in expanding access to capital and the importance of program permanency in the November 16, 2021 House Small Business Committee hearing. We urge SBA to ensure that the Community Advantage program is made permanent and collaborate with mission lenders on policy changes that can facilitate increased lending to underserved small businesses.

Thank you for the opportunity to comment on SBA's FY 2022—2026 Strategic Plan Framework and Enterprise Learning Agenda. We look forward to our continued work together, for the benefit of underserved small businesses across the country.

Sincerely,

The Mission Lenders Working Group