



Mission Lenders Working Group

August 14, 2020

Daniel Upham
Chief
Microenterprise Loan Division
Office of Financial Assistance
U.S. Small Business Administration
409 Third Street, SW
Washington, DC 20416

Rosemarie Drake
Chief
7(a) Loan Division
Office of Financial Assistance
U.S. Small Business Administration
409 Third Street, SW
Washington, DC 20416

Re: Docket Number SBA-2020-0041

Dear Mr. Upham and Ms. Rosemarie Drake:

The Mission Lenders Working Group (MLWG) submits the following comments in response to SBA Notice 2020-0041 issued on July 15, 2020, announcing temporary changes to the Community Advantage (CA) loan guarantee pilot program. The views expressed in this letter are the collective views of MLWG members and reflect their experience and insights as 7(a) CA lenders.

About the Mission Lenders Working Group

The Mission Lenders Working Group was organized in 2015 by a group of CA lenders, including SBA Certified Development Companies (CDCs) and Treasury-certified Community Development Financial Institutions (CDFIs). Based on the most recent SBA loan data, 20 of the lenders in the working group representing a cross section of the active CA lenders are responsible for \$451 million in SBA approved CA loans representing over half of all the CA loans approved through 2019.

CA lenders serve small businesses that have long struggled to access capital from traditional financial institutions; including businesses located in a low-to-moderate income communities or rural areas, startups and veteran-owned businesses, and business ventures owned by women and people of color. The MLWG is committed to leveraging the experience of mission-driven, community-based lenders and the power of an SBA loan guarantee to effectively reach, finance, grow and sustain small businesses, especially during the COVID-19 recession.

Community Advantage lenders made sure Paycheck Protection Program (PPP) loan were available to the small businesses that needed them the most but were being shut out because conventional banks were only offering PPP loans to their existing customers and most CA borrowers lack a banking relationship. The CDFIs and CDCs that were established CA lenders were able to step up and start making PPP loans to unbanked and underbanked small businesses that otherwise would have been turned away from PPP entirely.

Comments on the Community Advantage Recovery Loan (CARL) Initiative

On July 15th, the SBA launched the CA Recovery Loan (CARL) initiative as a “temporary” loan product to be made available through a select group of existing CA lenders to qualified small businesses impacted by COVID-19 and operating in an underserved market.

We appreciate the SBA’s effort to target additional lending to small businesses in underserved markets hit particularly hard by the current economic and public health crisis. We were also pleased to see CA lenders recognized for their ability to effectively finance and support businesses unserved or underserved by conventional lenders. However, following the release of the Federal Register Notice announcing CARL last month, SBA has provided limited and inconsistent guidance to CA lenders on the CARL product and expectations for CA Recovery Lenders. The SBA has yet to publish a list of the eligible CA Recovery Lenders, which is problematic since all CA Recovery Loans have to be approved by September 27, 2020 and be fully disbursed no later than October 1, 2020. We urge SBA to consider the following comments.

1. Clarification Needed on Extraordinary Servicing Fee and Required Technical Assistance

According to the SBA notice, a CA Recovery Lender can charge up to \$2,500 or 9 percent of the amount of the CA Recovery Loan, whichever is greater. SBA permits this “extraordinary servicing fee” to cover the cost of the required technical assistance (TA) provided by or on behalf of the CA Recovery Lender to each CA Recovery Loan borrower. The SBA notice indicates that a CA Recovery Lender is not required to obtain SBA's prior approval of the extraordinary servicing fee but must document the type of TA services and the number of TA hours provided to a borrower. According to the notice, the SBA will pay the extraordinary servicing fee to the lender when the CA Recovery Loan is disbursed. During a recent call organized by the SBA and attended by CA Recovery Lenders, there were questions raised and left unresolved regarding when and how the extraordinary servicing fees would be paid to a lender and what documentation would be required from the lender.

We ask that SBA issue a notice to clarify the nature of the extraordinary servicing fee and clarify that the fee is paid in full upon disbursement of the loan. Further, we ask that SBA provide clarity and guidance on the type of review it will perform on the CARL portfolio. We recommend that the review of TA focus on “quantitative” rather than “qualitative” measures and ask that SBA rescind any claw-back provisions or triggers.

Finally, we urge SBA to ensure that the clarifying notice we have requested, and any additional information issued on CA Recovery Loans, or CA lending in general, be circulated among SBA regional offices to ensure that lenders receive consistent guidance from SBA staff.

2. Encouraging the Engagement of CA Lenders as Referral Agents

We also request clarity from SBA regarding the treatment of the allowed referral fees. CA Recovery Lenders can enter into agreements with other mission driven organizations and lenders, including CA lenders not making CA Recovery Loans and other financial institutions, to act as loan referral agents and/or packagers of CA Recovery Loans. The MLWG has previously encouraged the SBA to activate an effective referral system as a way to expand the reach of SBA CA lending using the existing network of CA lenders. However, lenders need to be clarity in terms of when and how the referral agent is compensated in order for a referral system to work. According to the SBA notice, a

participating CA Recovery Lender is permitted to pay up to \$3,000 for the referral and/or packaging of CA Recovery loan and that fee cannot be charged to the borrower. The notice states that “compensation may be contingent upon funding” of the recovery loan. We ask that SBA clarify the timing and process required.

The ability to generate loan referrals and/or interest in the CA Recovery Loan product has been hampered by SBA’s reluctance to provide a list of eligible CA Recovery Lenders. We urge the SBA to issue a list of participating CA Recovery Lenders with information about their CA service area, in order to generate more CA Recovery Lending activity and reach more borrowers in need

3. Expand the Definition of Underserved Markets to Include Businesses Owned by People of Color and Women-Owned Businesses

All loans made by CA Recovery Lender must be to a qualified CA business in an underserved market are defined by SBA in the “Community Advantage Participant Guide” as a business located in a low-to moderate-income (LMI) community, a business where more than 50% of the full time workforce is low-income or resides in a LMI census tract, a business located in an empowerment zones or an enterprise communities or HUBZone or Promise Zone or Opportunity Zone, a business located in a rural area, a new business, or a Veteran owned business. CA Recovery Lenders must demonstrate that 100% of their loans are to businesses in underserved markets as compared to CA lenders, who are required to have a minimum of 60% of their loans in these markets.

By requiring that 100% of CA Recovery Loans go to businesses in underserved markets, without expanding the definition of underserved businesses, CARL will fail to reach many deserving small businesses who face disproportionate challenges accessing capital. Research shows that the pandemic is disproportionately harming Black- and Latinx-owned small businesses; between February and April, 41% of Black-owned businesses had closed and 32% of Latinx-owned businesses had closed, compared to a national average of 22%. CA lenders have an opportunity to serve POC-owned small businesses experiencing greater hardship during the COVID-19 economic downturn, especially those without a prior banking relationship. Women-owned businesses also continue to face greater barriers to accessing capital on reasonable terms.

To ensure that CARL serves its intended purpose of reaching as many underserved businesses as possible, we recommend that the SBA expand the definition of underserved markets for purposes of the CA program in general and CA Recovery Loans to include small businesses owned by people of color and women

4. Support the Extension of CARES Act Section 1112 Debt Relief Payments

All CA Recovery Loans must be approved by September 27, 2020 and fully disbursed no later than October 1, 2020 in accordance with the CARES Act statute. The MLWG supports efforts to extend section 1112 of the CARES Act in order to extend the CA Recovery Loan initiative to include loans approved by December 31, 2020, as well as to extend debt relief payments to CA lenders and other small businesses still struggling in the pandemic.

CA lenders are eager to work with SBA to reach, finance and support unbanked small businesses during this pandemic as has been evident with CA lender participation in PPP. However, we foresee challenges achieving a high volume of CA Recovery Loans with very limited time to deploy them, the 100%-underserved requirement that is not inclusive of POC- or women-owned small businesses, no streamlining of CA loan processing requirements, and the inconsistent guidance shared by SBA to date.

In addition to the considering our recommendations specific to CA Recovery Loans, we strongly encourage the Administrator to support efforts to grant the Community Advantage full program status as part of SBA's flagship 7(a) loan guarantee program. We look forward to working with you and your colleagues to expand the reach of CA lending during this pandemic and throughout the recovery.

Sincerely

alison Feighan
Alison Feighan

The Mission Lenders Working Group

Mission Lender Working Group Members include: Access to Capital for Entrepreneurs, GA; Accion Chicago, IL; Accion East, NY; Carolina Small Business Development Fund, NC; CDC Small Business Finance, CA; Colorado Lending Source, CO; Community Investment Corporation, CT; Evergreen Business Capital, WA; Empire State Certified Development Corporation, NY ; Growth Capital Corporation, OH; Justine PETERSEN, MO; Kentucky Highlands Investment Corporation, KY; LiftFund, TX; MoFi, MT; Mountain West Small Business Finance, UT; Northern Initiatives, MI; Opportunity Finance Network, DC; PeopleFund, TX; Prestamos, AZ; Wisconsin Women's Business Initiative Corporation, WI