

#1 SBA Microlender in Massachusetts

CommonCapital

Small Business Lending. Big Community Impact.

Testimony of
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“Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan
Program”

Good afternoon, Chair Ernst, Ranking Member Markey, and distinguished members of the Committee. Thank you for the opportunity to speak with you today.

I am Raymond Lanza-Weil, president of Common Capital, a 35-year-old CDFI loan fund based in Springfield, Massachusetts. Common Capital makes loans to small businesses that can't get some or all of the financing they need from conventional lenders, such as banks and credit unions. We make loans up to \$300,000 and provide no-cost business assistance, education, and training to our borrowers; our Business Assistance program is primarily funded by annual grants from the SBA's Microloan program.

Common Capital serves a four-county region with 820,000 residents. Our annual operating budget is just shy of \$2 million. Even though we are a small organization serving only a fraction of the state's geography and population, Common Capital is the leading SBA Microlender and SBA Community Advantage lender in Massachusetts.

Since our founding in 1990, we've made over 900 loans totaling more than \$35 million to small businesses in Western Massachusetts—loans that have helped create or retain 2200 jobs.

At the end of 2024, Common Capital's loan portfolio totaled \$9.4 million and 54% of our loans receivable were SBA Microloans or Community Advantage (“CA”) loans. By itself, Community Advantage loans make up 34% of our portfolio.

Common Capital's lending is high impact, and that includes our CA loans. Eighty-seven percent of our CA portfolio dollars is loaned to business owned by people with low-to-moderate income (“LMI”) or located in LMI census tracts. Seventy-three percent is loaned to startup businesses; 47% to woman owned businesses; and 17% to Veteran-owned businesses.

Common Capital was one of the original Community Advantage lenders. Since making our first CA loan in 2012, we've made 41 CA loans totaling \$5.3 million, with only one loss.

Needless to say, Common Capital is a strong supporter of the SBA and the Community Advantage program. It helps us fulfill our mission of creating economic opportunities for people with low-to-moderate income by increasing access to capital for the small businesses they own.

For example, here's a story about one of our CA loans.

Alan had worked in construction in rural Western Massachusetts for over 35 years when, in 2018, he had an entrepreneurial seizure and decided to open his own timber frame construction business. After three successful years, significant supply chain issues and higher prices on construction materials resulted in losses on a large, fixed price contract. But demand for Alan's craftsmanship continued to grow, so the business sought financing for new equipment and working capital from their bank, which was unable to help them due to the company's recent losses. Alan turned to Common Capital. The path to "yes" was challenging because the business's assets available as collateral were well short of our underwriting requirements. Common Capital was able to offset this shortfall with an 85% SBA Community Advantage guaranty and today this rural business has retained its six employees, hired new ones, and is thriving.

As you know, and as this story illustrates, regulated financial institutions can't help every business that applies for a loan- nor should they. Banks necessarily say "no" to some applicants in order to protect their depositors and shareholders, and to contribute to the safety and soundness of our financial system.

Yet, banks and credit unions are our primary source of referrals. We don't compete with banks; we support and augment their customer relationships. Referring banks keep their customers as depositors and continue to provide other banking services to these businesses. When we provide a loan to a bank's customer, it's a win-win-win.

Before I conclude, I want to tell you another story.

Celeste and Jessica had a combined 30 years of experience working as nurses in and around Springfield when, in 2021, they recognized the growing need for home health care in their urban communities; they responded by starting their own home health care agency. Celeste and Jessica's business could not bill to Medicare or other insurance companies until they provided pro bono services to a specified number of clients. This requirement creates a daunting financial challenge. Celeste and Jessica could not obtain financing from a bank due to being a startup and a lack of sufficient collateral for a sizable working capital loan. Once again, Common Capital turned to the SBA's Community Advantage program to overcome these challenges and help two entrepreneurs start a business that is providing essential healthcare services and creating jobs.

Senators, too many small business owners that hear "no" from a bank successfully search online for easy money- it's available, it's expensive, and it's harmful to our business community. To

combat this, CDFIs and other community loan funds try to fill the gap. With our help, these small unbankable businesses are creating jobs, generating economic activity, and paying taxes. These small businesses continue to be bank customers and, if they do well enough, will become bank borrowers, too.

We accomplish this work with the support of the SBA. Our continued success, and the success of the small business community in Western Massachusetts, depends upon the availability of SBA Microloans and the SBA CA program. I urge you to continue supporting the Community Advantage program, and to expand it so that more mission-focused lenders like Common Capital can increase access to capital for low-to-moderate income and low-wealth entrepreneurs.

[End of oral testimony. Written testimony continues below.]

Common Capital is a small CDFI. Our market area is the four counties of Western Massachusetts, which is anchored by Springfield, Massachusetts. Our four-county region has a population of about 820,000 people, which is about 12% of the Commonwealth's total population of 7 million.

Common Capital's annual operating budget is just shy of \$2 million. Our team had 5 or fewer staff members for many years and has grown to 9 people over the last 5 years.

Since our founding in 1990, we've made over 900 loans totaling more than \$35 million to small businesses in Western Massachusetts. Since our inception, Common Capital's average loan size has been \$39,000. These loans helped create or retain 2200 jobs.

About a third of that activity has occurred during the 6 years that I've led Common Capital, during which time we've made \$11.9 million in loans, which helped create or retain nearly 700 jobs. Our average loan size during this period has grown to about \$48,000 and our charge offs have been less than 5% of our portfolio. And we provided 19,000 hours of business assistance, education, and training to small business owners over the last 6 years. This additional service sets us apart from conventional lenders, helps us identify and address risk in our portfolio, and is integral to our impact in the community. Importantly, the SBA is a primary funding source for our Business Assistance Program.

As of December 31st, 2024, our loan portfolio had 127 borrowers with \$9.4 million in loans outstanding. Fifty-four percent of our portfolio (as measured by dollars) are SBA microloans or Community Advantage loans.

Common Capital was one of the original Community Advantage lenders. Since making our first CA loan in 2012, we've made 41 CA loans totaling \$5.3 million. Our CA portfolio currently has 31 loans totaling \$3.2 million and we've had only one loss.

Our CA portfolio is concentrated in Retail, Healthcare, Manufacturing, Transportation, Construction, and Restaurants. Our borrowers are local, main street, mom and pop businesses,

including an Italian bakery and coffee shop; microbreweries; hair salons; an auto repair business; restaurants; sports facilities; physical and mental health care providers; truckers; bus transportation for students; and retailers.

All of Common Capital’s lending is high-impact and that includes our Community Advantage loans:

As of December 31, 2024					
Total Portfolio (216 loans)	\$ 9,369,365		CA Portfolio (30 loans)	\$ 3,247,226	
LMI	\$ 6,824,777	73%	LMI	\$ 2,834,448	87%
Start up	\$ 5,102,840	54%	Start up	\$ 2,376,419	73%
BIPOC	\$ 3,949,497	42%	BIPOC	\$ 1,929,725	59%
Women	\$ 4,273,885	46%	Women	\$ 1,536,103	47%
Opportunity Zone	\$ 2,095,527	22%	Opportunity Zone	\$ 936,204	29%
Veterans	\$ 914,866	18%	Veterans	\$ 542,008	17%

As you know, regulated financial institutions can’t help every business that applies for a loan nor should they. Banks necessarily say “no” to some applicants in order to protect their depositors, their shareholders, and to contribute to the safety and soundness of our financial system.

And when banks say “no,” it creates a financing gap that community loan funds like Common Capital try to fill. We don’t say “yes” to everyone, but we are able to take and manage more risk than banks can. Another important feature of CDFI loan funds is that we can be more patient with our borrowers than banks can be, which is a key factor in our ability to help businesses form, grow, create jobs, and succeed.

Banks and credit unions are important partners for Common Capital: They are our primary source of referrals. We don’t compete with banks; we support and augment their customer relationships. Since loan funds are non-depository financial institutions, banks that refer loan applicants to us keep their customers as depositors and continue to provide other banking services to these businesses. If we can provide a loan to a bank’s customer, then it’s a win-win-win.

How is our lending different from a bank? Of course, we consider the 5 Cs of credit: Character, Capacity, Capital, Collateral, and Conditions. Our primary criterion is Capacity—namely, the applicant’s ability to repay the loan. But in contrast with banks, we often rely on projected revenues and profits in our decision making. Second, we focus on Character, but unlike banks, we do not rely on credit scores. Instead, we carefully evaluate the underlying payment behavior, while also spending a lot of time getting to know the person in front of us. We lend to people, not paper.

Finally, Collateral is not a material consideration for us when we make a loan under \$50,000; many of our microloans are functionally unsecured. For larger loans—in our case, above \$50,000

and up to our \$300,000 loan limit—we are more flexible than banks on Loan to Value and Collateral Coverage calculations. We're flexible, but there are still a lot of businesses we can't help because they don't have enough collateral for even our more relaxed criteria, unless we obtain some sort of credit enhancement. And that's where the Community Advantage program comes in. We primarily use CA guarantees to offset our collateral risk.

Most of these businesses would not have been able to form or grow without the help of Common Capital or another CDFI loan fund. With our help, these small unbankable businesses are creating jobs, generating economic activity, and paying taxes. These small businesses continue to be bank customers and, if they do well enough, will become bank borrowers, too.

Banks and credit unions are essential to the business community, but they can't help everyone. Too many small business owners that hear "no" from a bank successfully search online for easy money- it's available, it's expensive, and it's harmful to our business community. To combat this, CDFIs and other community loan funds try to fill the gap.

Common Capital has been successful in doing so and we could not have done it without the support of the SBA. Our continued success and impact, and the success of the small business community in Western Massachusetts, depends upon the availability of SBA Microloans and the SBA CA program I urge you to continue supporting the Community Advantage program, and to expand it so that more mission-focused lenders like Common Capital can increase access to capital for low-to-moderate income and low-wealth entrepreneurs.