Testimony Submitted by Community Development Corporation of Long Island
to the
U.S. Senate Committee on Small Business & Entrepreneurship
on
May 13, 2009

Thank you Chairwoman Landrieu, Ranking Member Snowe, and honorable members of the Small Business and Entrepreneurship Committee for the opportunity to testify today and contribute to this hearing on alternative sources of credit for small businesses. It is my hope that by sharing the perspective of a not-for-profit lender in suburban Long Island, that your policy making will be informed by realities on the ground, both for the small businesses we assist and for our organization, which is a small business also, employing nearly 90 people.

Background

CDC of Long Island ("CDC") is a forty year old non-profit organization and a chartered member of the NeighborWorks Network since 1999. CDC has been a micro lender for more than thirteen years, with its first micro loan made on April 15, 1996 and formally accepted as an intermediary in the SBA Micro Loan Program on January 6, 2000. CDCLI Funding Corporation, an affiliate, is a Community Development Financial Institution, certified by the U.S. Treasury in 1998. The Community Building Fund, LLC, a subsidiary of CDC is a SBA 7(a) lender, licensed on October 31, 2005 and regulated by the New York State Banking Department. Over the last thirteen years CDC, its affiliate, and subsidiary have made 562 loans to businesses for a total of $15,818,791. Since the inception of the SBA Micro Loan Program, CDC has borrowed a total of $5.2 million and have repaid the SBA $2.2 million, all according to schedule.

Our current portfolio is 205 loans with an outstanding principal of $ 4,699,868. Up until November 2007 our delinquency rate, defined as loans over 30 days past due, was averaging 2%. As of April 30, 2009 it is 25%. Attached is a chart detailing a nineteen month delinquency trend that illustrates the deteriorating portfolio, the result of market conditions.

Our allowance for loan loss at fiscal year end (10/31/08) for our SBA Micro Loans and our CDFI Loans was $850,000, which essentially created a loss for CDC when our other operations were breakeven. As a not for profit organization entering a period where charitable contributions have nearly evaporated, we are being challenged by this sudden turn of events.

Detail on CDC's portfolio of small business loans as of 4/30/2009

SBA Micro Loans:	122 totaling $ 1,572,167	($ 12,887 average loan size)
CDFI Loans:	69 totaling $ 1,500,995	($ 21,754 average loan size)
SBA 7(a) Loans:	14 totaling $ 1,626,706	($116,193 average loan size)
Total Portfolio:	205 totaling $ 4,699,868	($ 22,926 average loan size)

Mission versus organizational sustainability

It is clear to CDC that community development lending, often defined as non-traditional lending because our borrowers have been denied capital from a bank before they apply to us for a loan, is critical to our neighborhoods. Our borrowers are often challenged because they are a start up or because they are in an industry that banks can not lend to, or because they have less than pristine credit histories. We provide technical assistance to our borrowers that lasts for the duration of the loan, and capital that assists the businesses in getting a foothold. Combine these resources with a fire in the belly that is the American Dream of Entrepreneurship, and our loans are paid back. Economic activity is stimulated in our region. Providing such access to capital is our mission.

Darcel Colon, President of Natural Roots Hair Care, located in Amityville, had a dream of opening her own new business. She obtained her license in cosmetology, attended the Suffolk County Community College Entrepreneurial Assistance Center, as well as CDC's CORE 4 business training. She also completed CDC's financial fitness program to improve her credit situation and her ability to manage her money. With her foundation in place, CDC loaned Ms. Colon $10,000 to start up her business in February 2008. What makes her accomplishment so compelling is that she did all the preparatory work required to start her business while being a single mother of two. Today her business is open, she has a 3 year lease with an option to renew and her loan is current.

Since inception CDC has had to do fund raising to implement our mission of delivering capital to small businesses for three reasons: 1) the SBA requires a 25% non-federal match for the technical assistance (TA) grants to intermediaries, 2) the SBA requires a 15% cash loan loss reserve, also from non-federal funds and 3) since neither the TA grants nor the spread on small microloans provides sufficient revenue to support program operations, we traditionally have an operational deficit to manage. The additional challenge this year is that with the growing problems in the portfolio we are finding that loan losses could have a material impact on our organization.

In 2003, Damaris Samolinski, President of Tiny Treasures Day Care Inc. was approved for a $25,000 loan through CDC's Child Care Loan Program (under our CDFI) for the purposes of building an extension for her child care facility. This extension enabled Ms. Samolinski to double her capacity as a group-family provider and give care to 12-14 children. In 2005 Ms. Samolinski was given another loan which refinanced the outstanding balance and gave her additional cash for new equipment for her child care business. As her business continued to thrive all loan obligations were met. Beginning in 2007, Ms. Samolinski started to experience difficulty in meeting her loan payments. The Department of Social Services was delaying reimbursement to in-home day care providers and day care centers to 60-90 days causing cash flow problems. Then last year *when the economic recession hit, child care was severely impacted. As people lost their jobs, they no longer needed day care for their children and registration declined. At one time Damaris had a waiting list and cared for as many as 22 children. She had two assistants working for her and had a waiting list. Tiny Treasures Day Care Inc. is down to 3 full time children, resulting in delinquency on her loan payments to CDC.*

What's different now?
Last fall with delinquencies rising dramatically we placed a three month moratorium on lending so that our loan officers could personally visit our borrowers, starting with those that were delinquent. The visits enabled us to learn which businesses were still viable, which needed some kind of forbearance to survive and which (a very small number) were beyond assistance. We learned that because of market conditions, revenues were down from a third to a half and as a result businesses were having difficulty paying all their expenses, including their loan payments.

The Feedbag East was established in Mattituck in 2005 by Amy and Lorin Cirincione. This is a natural pet feed and supply store and grooming salon. CDC originally provided a $15,000 microloan that was paid in full. Subsequently we provided a $50,000 loan to expand to 2 additional locations in Nesconset and Shoreham. A medical situation with one of the principals and slumping sales in the expansion locations necessitated the closure of the new locations. At the same time their suppliers began to tighten their credit lines. Accounts which had been opened on 15 and 30 day terms were rapidly transformed into COD accounts. This led to seriously depleted inventory and a further downturn in sales. At one point, the Lirinciones attempted to sell their house, but could not find a buyer. Due to these issues, the borrower fell 90 days delinquent on the $20,000 balance outstanding on their loan. After CDC provided personalized TA services, the owners prepared a new business plan which detailed how they would return their business to profitability, including cost cutting measures, product review, and marketing which combined to reduce expenses and increase revenues. CDC refinanced their loan to a new 5 year loan, to reduce their monthly payments. The new loan is performing.

The good news is that the 2009 TA grant from the SBA is larger than in the past and will enable us to hire a business coach and consultants to specifically work one on one with our borrowers to help them survive this downturn. One tool we anticipate offering them is the business stabilization loan that will give them some breathing room for six months to help them deal with reduced revenues without defaulting on their business loan. We can also return our loan officers to their primary work which is evaluating and assisting businesses that need capital now for the first time from us. Our lending has declined as our attention has been focused on our current borrowers.

We are seeing first hand that banks have tightened their credit criteria for business loans. FICO scores must be over 720, and in some cases 750, to be considered. Home equity lines of credit, a usual source of capital for small businesses are all but gone, especially on Long Island where home values have fallen more than 40% and where many homeowners are under water with their mortgages. We are the lender of last resort. We understand that now more than ever our methodology for lending is the best way to deploy capital to businesses that are viable. We take the time to understand the business, the cash flow, sources and uses of funds, capacity and character, etc., to make our decisions. And yes, we take a risk position, and most of the time the risk is worth taking. The business thrives, the owner has a source of income, employment opportunities grow and neighborhoods have services. We are embedded in the community, we network with local community based organizations, local government, and we outreach directly to the small business owner. Further, under our Second Look Program many of the financial institutions in our region refer businesses to us that they cannot make a loan to due to their higher underwriting standards.

Jo-Ann Stokes is a graduate of CDC's CORE 4 business training program. She participated in order to create a business plan to expand her business and to qualify for a $10,000 loan for working capital. Her business, Real to Reel Video Productions creates lasting images from treasured family photos to provide memorial tributes in the form of videos at funeral services. Real to Reel Video Productions assists funeral home directors and staff in providing the most caring, comfortable environment for the bereaved. Moving forward, Real to Reel wants to expand its market territory of initial funeral homes located mainly in central Suffolk County, to include all of Long Island.

Changes the SBA might consider

In the current economic downturn community development lending is both more needed and more risky and the SBA's programs should be adjusted to account for this reality. Micro lenders need a consistent technical assistance grant that would enable us to have predictable revenues for hiring and retaining the staff who deliver services to businesses, both pre and post loan. The work we do with our businesses after we make them a loan, particularly in this economic environment, is critical to their success and to the success and health of our portfolio.

As a temporary measure, until the economy recovers, adjusting the loan loss cash reserve requirement or forgiving a certain amount of the funds we've borrowed from the SBA would be a welcome relief. Businesses lack collateral right now, but need capital to survive and grow. Having government as a partner in sharing the risk as we make this capital available is necessary for us to keep lending. Keeping us in business to do the business of lending is critical for our communities right now.

The President's fiscal year 2010 budget reports that lending in the SBA Microloan Program is down and I would strongly encourage the SBA and this Committee to look behind those numbers and talk to intermediaries about why their lending is down and how it might be remedied. As I testified, we put a 3 month moratorium on our lending which allowed us to reach out and work with some of our troubled borrowers. Because of this 3 month hiatus, our lending numbers for FY 2009 will be down which means that under the current SBA rules, our TA grant will be reduced for FY 2010. If our grant is reduced, we will find it more difficult to expand our lending and at the same time service our existing borrowers. And thus we are in a cycle of reducing our lending.

Conclusion
While our not-for-profit board of directors understands that the need in the community for our small business lending services is more critical now than at any other time in our history, we are concerned about the cost to our organization's overall viability and the risk to other services we provide to the community, which include: rental assistance to very low income households, pre-purchase home buyer education, foreclosure prevention counseling, rental and for sale housing development, a neighborhood stabilization initiative, weatherization, housing rehabilitation and residential lending. We are concerned about achieving our overall mission and service delivery, and our responsibilities to our own employees whose efforts are crucial to these goals. Just as the larger lenders need help to survive for a better day ahead, micro lenders need consideration now to keep capital flowing in our communities and to keep people employed.

Respectfully submitted by Marianne Garvin, President & CEO