Testimony of
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Senate Committee on Small Business & Entrepreneurship

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"Improving Access to Capital in Underserved Communities: The Community Advantage Program, Microloans and other SBA Initiatives"

Chairman Cardin, Ranking Member Paul, and Members of the Committee, I am honored to testify before you today on behalf of Momentus Capital and CDC Small Business Finance (CDCSBF) and the Mission Lenders Working Group. I want to thank the committee for convening this hearing to discuss improving access to capital in underserved communities.

CDCSBF is part of the Momentus Capital family of organizations. Momentus Capital is a mission-driven financial services firm that puts all of its resources into marshaling capital to support the vision communities have for themselves. CDCSBF is also the leading mission-based, SBA lender in the nation. For the federal fiscal year that just ended on September 30, 2022, CDCSBF was once again the number one SBA 504 lender (dollars) and number one Community Advantage lender for both units and dollars.

Over its 44-year history CDCSBF has provided over $22 billion in commercial real estate and small business loans, creating/retaining over 240,000 jobs.

I am also representing the Mission Lenders Working Group (MLWG), which I am a founding member of and which advocates and provides a voice for SBA Community Advantage Lenders. The Mission Lenders Working Group is a national network of SBA-certified Community Advantage (CA) non-traditional small business lenders including SBA Certified

Development Companies (CDCs) and Treasury-certified Community Development Financial Institutions (CDFIs) located in urban and rural areas across the country. Members see their organizations as a coalition and stewards of the SBA Community Advantage Loan Guaranty Pilot program with a shared commitment to financing, supporting, and sustaining underserved and underbanked small businesses.

In these written comments I will review:

- The origins and mission of the Community Advantage (CA) Pilot Program.

- The impacts and successes of the CA Program as well as some of the challenges faced by participating CA lenders *(industry-wide and from the perspective of CDCSBF as a CA lender)*.

- How the *Community Advantage Loan Program Permanency Act of 2022, sponsored by Chairman Cardin,* would strengthen the CA program; and

- Finally, I'd like to share some thoughts and recommendations regarding the proposed rule released by the SBA on the Small Business Lending Companies (SBLC)

Background on the Community Advantage (CA)Loan Guarantee Pilot: Its Origin and Mission

The SBA Community Advantage Pilot Program was launched on February 15, 2011. For the first time, the SBA's flagship 7(a) program expanded the points of access that small business owners had for getting loans from mission-focused financial institutions with experience lending to minority, women-owned, and start-up companies in economically challenged markets along with their management and technical assistance expertise, to help make their borrowers successful.[1] This was an acknowledgment that the lending industry needed to do a better job in providing small-dollar loans to businesses in underserved communities, or those businesses classified as "emerging markets."

The program's goals, per the initial Community Advantage Participant Guide issued by the SBA, were:

- To increase access to credit for small businesses in underserved markets;
- To expand points of access to SBA 7(a) loans by engaging non-traditional mission lenders with experience working in underserved markets;
- To provide management and technical assistance to small businesses as needed; and
- To manage portfolio risk by utilizing the underwriting knowledge of mission lenders with successful track records lending in underserved markets.

As noted above, the critical component of the program was to expand the 7(a) program to mission lenders. The SBA defined mission lenders as falling into one of three groups: SBA-certified development companies (CDCs); SBA microlenders; and Community Development Financial Institutions (CDFIs). The Administration understood that these lenders were best positioned to meet the capital needs of the underserved business populations not being met by traditional SBA lenders. Mission lenders have a deep knowledge of their communities,

[1] SBA, "Community Advantage Pilot Program," 76 Federal Register 9627, February 18, 2011; and SBA, "SBA Announces New Initiatives Aimed at Increasing Lending in Underserved Communities," December 15, 2010, at https://www.sba.gov/content/sba-announces-new-initiatives-aimed-increasing-lending-underserved-communities https://portage.life/print/?article=4112

are accountable to their communities via resident representation on their board of directors, and, as an explicit purpose and mission, assist small businesses that are located in underserved areas or are owned by women and minority entrepreneurs.

To ensure that the underserved markets were met, SBA required that CA lenders make 60% of their loans to a designated Target Market. The Target Markets consist of:

- Businesses located in Low-to-Moderate Income (LMI) communities
- Businesses where more than 50% of the full-time workforce is low-income or reside in LMI census tracts
- Empowerment Zones and Enterprise Communities
- HUB Zones & Promise Zones
- New "start-up businesses (Firms less than two years in business)
- Businesses eligible for SBA Veteran's Advantage
- Business located in Opportunity Zones (added 10/1/2018)
- Rural Areas ((added 10/1/2018)

Accordingly, the CA program offers access to 7(a) guaranteed lending to these institutions, which in turn increases access points to the 7(a) program for small firms who would struggle to access an SB loan from a bank.

Since the launch of the program, there have been additional changes, which are highlighted in the attachment called "SBA Community Advantage Pilot Program Timeline" (please see attachment). Highlights include program extensions in November 2012, December 2015, and April 2022. Throughout the first several months of 2022, SBA worked with the industry in revising the CA Participant Guide, which included increasing the maximum loan amount from $250,000 to $350,000 and streamlining lending requirements. We thank and applaud SBA for making these improvements to the program.

Impacts and Successes of the Community Advantage Program

Since the CA pilot launched, 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.

Both CA and conventional 7(a) lending fell during the pandemic as lenders shifted their focus to processing PPP loans. 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.

In FY 2022, 7(a) lenders made 47,678 loans through the program totaling over $25.6 billion, for an average loan size of $538,903. On April 27, 2022, Administrator Isabella Guzman's testimony before the Committee mentioned the importance of small-dollar lending, and the 7(a) program data revealed a gap in the program's coverage. For instance, the number of 7(a) loans of $150,000 or less declined by almost 52 percent since FY 2016, and the number of 7(a) loans of $50,000 or less declined by nearly 58 percent. In turn, the average 7(a) loan size increased steadily since FY 2016, increasing by more than 87 percent.[2]

[2] Memo from U.S. House of Representatives Chairwoman Nydia Velazquez on the Full Committee Hybrid Hearing: "SBA Management Review: Office of Capital Access" https://smallbusiness.house.gov/uploadedfiles/05-18-22_hearing_memo.pdf

7(a) Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2022	47,678	$ 25,693,805,700
2021	51,856	$ 36,536,756,800
2020	42,302	$ 22,550,171,700
2019	51,907	$ 23,175,811,000
2018	60,354	$ 25,372,539,100
2017	62,430	$ 25,447,458,500
2016	**64,074**	**$ 24,130,000,000**

Community Advantage

Fiscal Year	Approved Loans	Approved Dollars
2022	717	$ 113,999,400
2021	565	$ 82,834,100
2020	538	$ 76,214,700
2019	947	$ 133,813,400
2018	1,118	$ 157,529,200
2017	1,043	$ 137,595,500
2016	**988**	**$ 123,020,000**

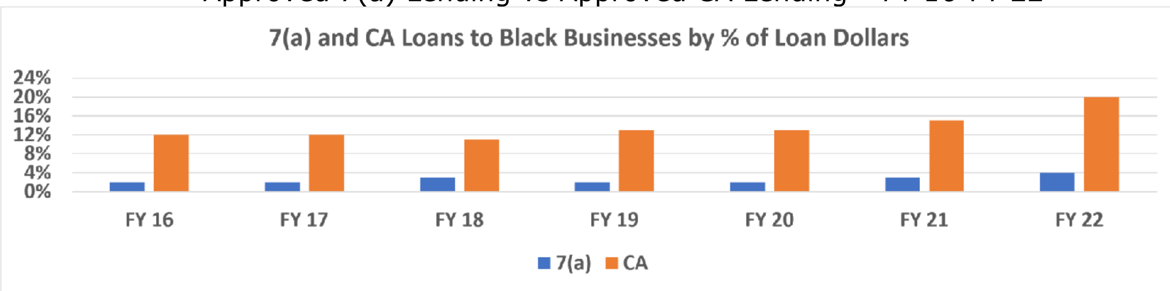
Resource: SBA 7(a) Connect Quarterly Update, October 11, 2022

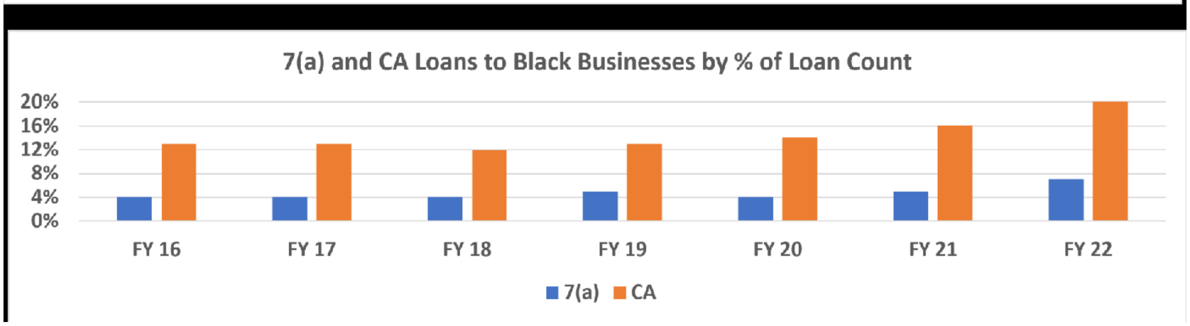
The Mission Lenders Working Group analyzed the SBA's FOIA data on the 7(a) Program and CA from FY2016-FY2022 The comparative data charts are below. While 7(a) lenders have steadily increased their lending to minority and women-owned businesses, CA lenders outpace lending to historically underserved communities. CA lenders particularly lend more to Black entrepreneurs, Hispanic entrepreneurs, and women-owned and startup businesses based on the FOIA Data for Fiscal Years 2012-2022. Of note, in the FY2020 Congressional Budget Justification, SBA recognized that the CA program "reached significantly more women and minorities than the traditional 7(a) loan program. [3]

Over the last ten years, experienced CDCs, CDFIs, and Microlenders participating in the CA pilot have demonstrated their expertise, skill, and capacity as lenders and their ability to finance and support businesses that traditional lenders, including conventional 7(a) lenders, are unable to serve. Compared to 7(a) financing, CA mission lenders have consistently and significantly outpaced lending to Black, Hispanic, and women-owned businesses as well as Veteran-owned businesses and start-ups.

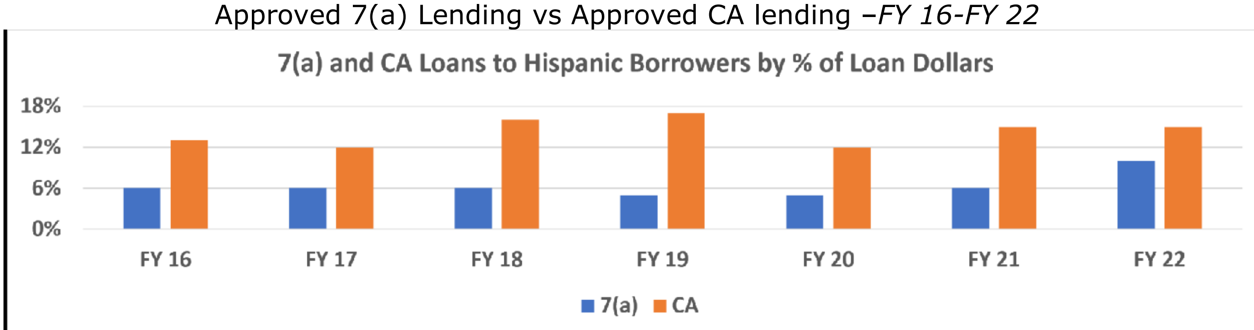
[3] U.S. Small Bus. Admin., FY2020 Congressional Budget Justification and FY2018 Annual Performance Report (2019).

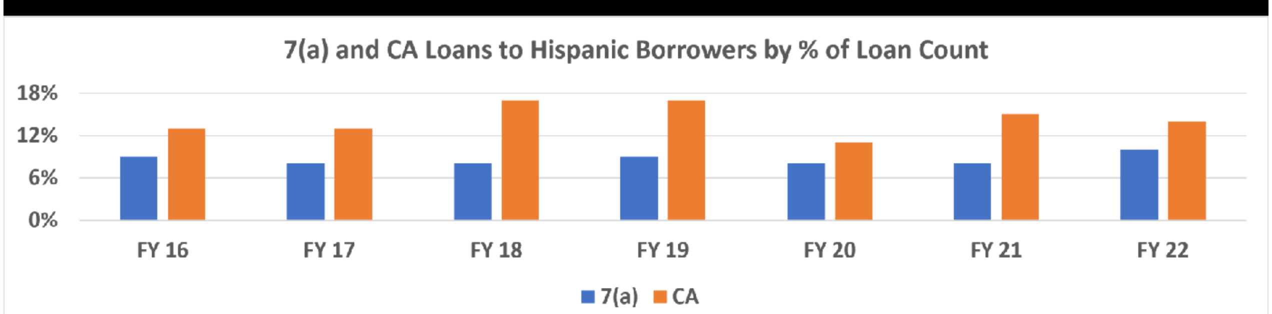
SBA Backed Lending to Black-Owned Businesses –
Approved 7(a) Lending vs Approved CA Lending – *FY 16-FY 22*



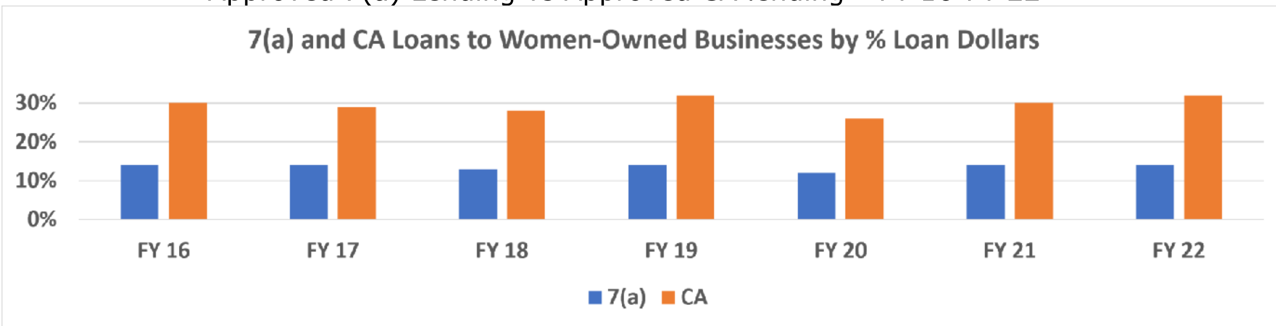


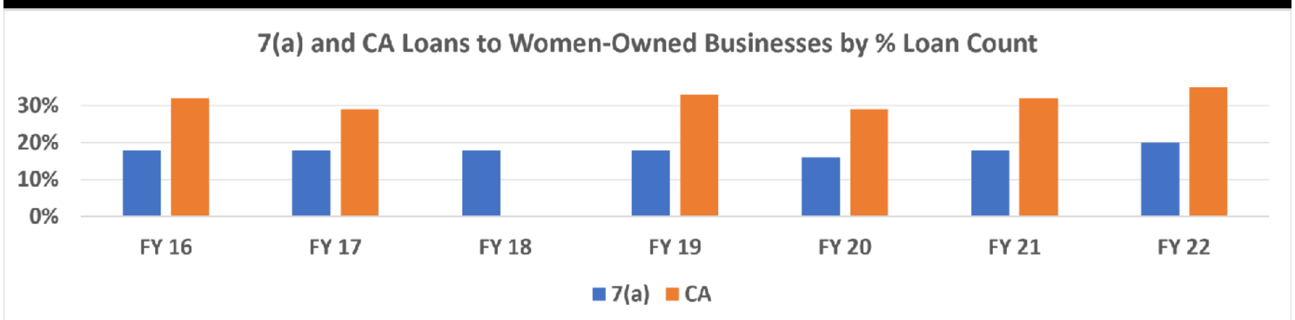
SBA Backed Lending to Hispanic-Owned Businesses –
Approved 7(a) Lending vs Approved CA lending –*FY 16-FY 22*



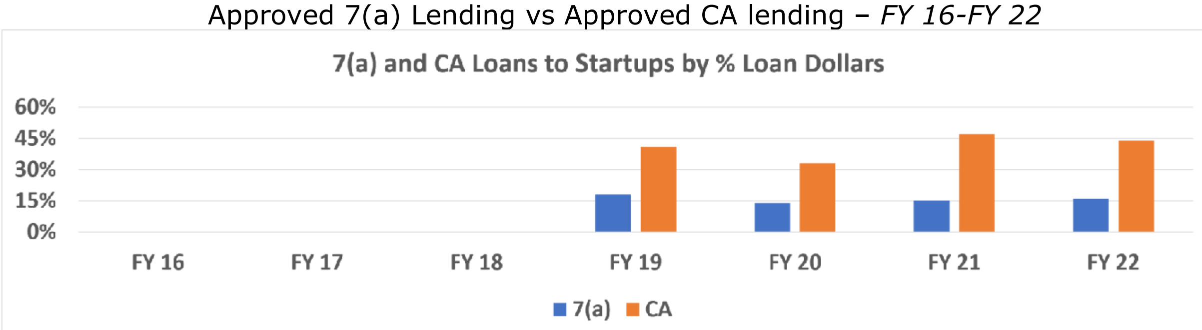


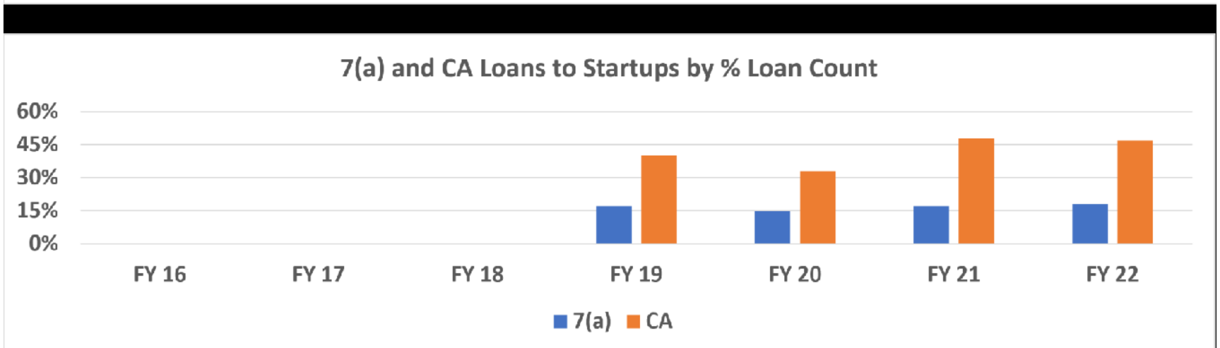
SBA Backed Lending to Women-Owned Businesses (>50%)
Approved 7(a) Lending vs Approved CA lending – *FY 16-FY 22*



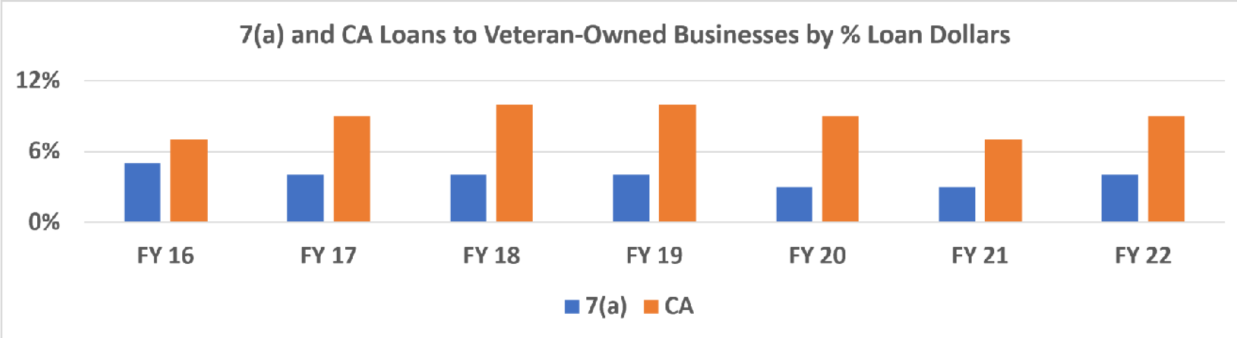


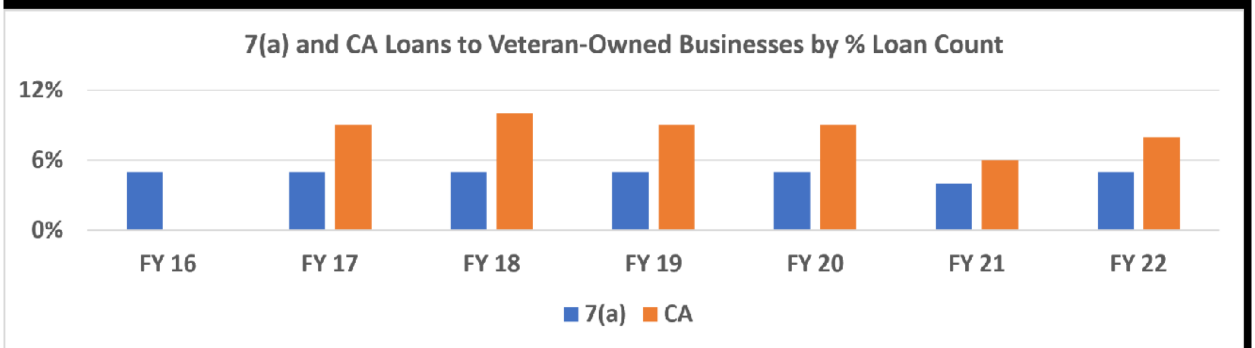
SBA Backed Lending to Startup Businesses –
Approved 7(a) Lending vs Approved CA lending – *FY 16-FY 22*



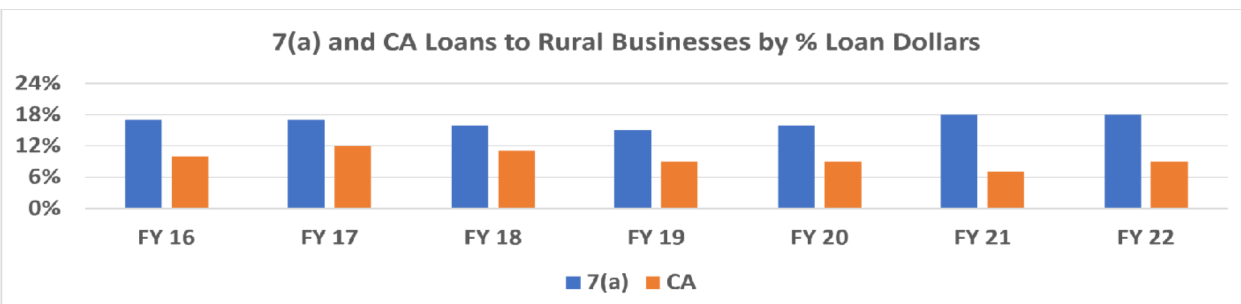


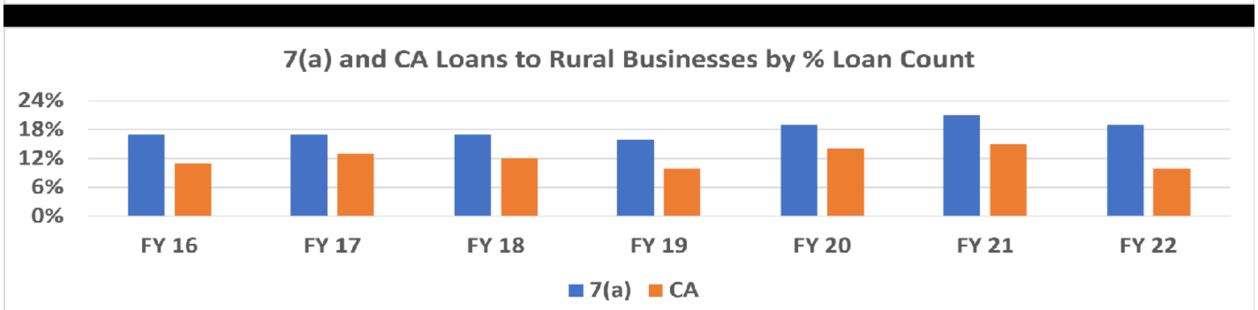
SBA Backed Lending to Veteran-Owned Businesses–
Approved 7(a) Lending vs Approved CA lending – *FY 16-FY 22*





SBA Backed Lending to Rural Businesses[4]–
Approved 7(a) Lending vs Approved CA lending – *FY 16-FY 22*





[4] On October 1, 2018 the SBA expanded the underserved market definitionfor CA to include rural areas.

Additionally, analyzing the FOIA data from FY2016-FY2022 in a given year, the majority of 7(a) lenders make just twenty 7(a) loans or fewer.

FY 2018

- 761 lenders (51%) made 5 7(a) loans or fewer.
- 972 lenders (65%) made 10 7(a) loans or fewer.
- 1164 lenders (78%) made 20 7(a) loans or fewer.

FY 2019

- 766 lenders (53%) made 5 7(a) loans or fewer.
- 963 lenders (67%) made 10 7(a) loans or fewer.
- 1150 lenders (80%) made 20 7(a) loans or fewer.

We share the above information to illustrate that while some in the administration have been critical that CA lenders are doing too few loans, the data indicates that two-thirds of 7(a) lenders make less than ten loans per year. Finally, we want to remind congressional leaders and SBA that mission-lenders were critical partners during the pandemic, in deploying PPP loans and providing technical assistance to America's small businesses. CDCSBF funded nearly 6,000 PPP loans on its own, for approximately $275 million. Our median loan was approximately $20,000 and we provided thousands of hours of free technical assistance. One small business client wrote to us:

> *This is the best I have been treated since I initially started this process with the banks when it all began. I am grateful for the chance to work with all of you. Even if there are no additional funds, at least I feel like I was seen.*

At the end of the day that is what differentiates us as mission lenders; we SEE the clients that traditional lenders overlook and under value.

<u>CDC Small Business Finance's Impacts as a CA Lender</u>

CDC Small Business Finance was the second approved lender in the country, following Kentucky Highlands, when the program was launched and also had the first CA loan approved in the program.

Since the launch of the CA pilot in 2011 CDC Small Business has been "all in" as a CA lender and advocate for the program. Through the conclusion of the last fiscal year-end (9/30/2022), CDCSBF had funded 1,277 CA loans for $178 million in loans to underserved businesses. These CA loans resulted in over 4,800 jobs being created and preserved.

CDCSBF is only one of two CA lenders that has a national license, which has allowed us to provide loans at a wider scale. While the majority of our lending has been in the state of California, we have provided loans in 27 states and the District of Columbia. This also includes twelve loans in Maryland for just over $1 million and 75% of these loans went to Entrepreneurs of Color.

Being a CA lender with a national license has allowed us to reach more underserved businesses and to collaborate with local partners, including other mission lenders, utilizing the SBA technology called Lender Match, which connects small businesses to lenders. We believe this is one of the better SBA programs applying the use of technology to serve small businesses, and we applaud SBA for the program and its upgrades over the years.

I am also proud to report that over 38% of CDCSBF's CA loans have been to Entrepreneurs of Color, even though this is not identified by SBA as an Underserved Target Market per the CA pilot. Overall, 65% of CDCSBF's CA loans have gone to businesses in an SBA designated CA Target Market (the minimum requirement is 60%), with the majority of our loans going to enterprises that have been in business for less than two years. In fact, nearly 40% of our CA loans are to pre-revenue businesses (pure start-ups), which is a category of businesses that traditional financial institutions, including conventional 7(a) lenders, are reluctant to lend to and for which we have developed a deep understanding and an ability to underwrite. I would also note that most non-traditional financial technology companies (fintechs) do not lend to pre-revenue start-ups, as they rely on data driven underwriting to evaluate a borrower and start-up ventures, particularly underserved entrepreneurs, cannot provide that data.

The Challenge for Community Advantage

CDCSBF and MLWF supported the changes introduced earlier this year to the CA Program. We worked with the SBA to implement changes that speed loan processing and the delivery of capital to underserved communities. Reforms included:

- Extending the pilot program for two years (to September 30, 2024)
- Removing the temporary moratorium on new CA Lender Participation Applications
- Granting delegated authority to all CA lenders
- Modification to Lending Criteria to simplify and streamline underwriting and approval of CA applications, including authorizing the use of business credit scoring models
- Modifying regulations to provide equitable access under SBA programs and economic opportunities to justice-involved individuals
- Increasing the maximum CA loan size from $250,000 to $350,000
- Revising fee methodology and maximum interim rate to encourage greater lender participation in the CA Loan Program
- Revising collateral requirements to increase the speed capital being delivered to small businesses while decreasing overall costs to the CA Lender and borrower
- Allowing revolving lines of credit to better meet the evolving capital needs of small businesses
- Revising the requirements for hazard insurance
- Simplifying affiliation principles

These reforms were important and appreciated by the industry. In fact, since the loan size was raised to $350,000, CDCSBF has Approved 20 loans over $250,000 for $6.4 million. These loans will create 93 jobs and 16 of the loans were to businesses less than two years in business. 7 have been to veterans and nearly two-thirds to other underserved communities.

However, there is a need for continued reforms and changes to the program to increase lending by current CA lenders and encourage new lenders into the program. First and foremost is the extension of the program beyond the current two-year sunset of September 30, 2024. The multiple extensions of the program, over different administrations, along with changing operating rules, have made it problematic for 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.

The SBA has also never defined or specified 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.

Some additional reforms, improvements, suggestions and clarifications include:

- We believe it imperative to have SBA's full support for Congressional action to make Community Advantage a permanent program.
- The Loan Processing Center still holds these small loans to the $350K+ standard underwriting SOP requirements – this is a burden and not necessary for the small loan size for example
- Access to the Federal Reserve Discount Window: During PPP, SBA-approved lenders including non-depository institution lenders, were eligible to participate in the PPPLF. This included SBA-qualified PPP lenders, banks, credit unions, Community Development Financial Institutions, members of the Farm Credit System, and small business lending companies licensed by the SBA. This would be an excellent option for so many CA lenders that need access to capital for the CA program.
- Loan Loss Reserve Requirements: Chairman Cardin's legislation, Community Advantage Loan Program Permanency Act of 2022 outlines significant improvements and clarity to the Community Advantage program. Many of the 110+ CA lenders have been active since June 2011 and have a proven track record of managing the Loan Loss Reserve Requirements
- Lender policy does not require Life Insurance for these small loans – but the Loan Processing Center won't accept that explanation and requires underwriting to justify
- Community Advantage lending is very story-based underwriting – explaining why the poor credit history occurred, how it is improving and why it makes sense to give them a chance – But the Loan Processing Center seems to still focus on FICO score and any event of collection account, delinquency and pushes back, regardless of story explanation, and implies "lack of reasonable assurance of repayment"
- Projections and Breakeven – Center still expects "historical" 3 year for existing businesses even though these are small loans
- Business Personal Property (BPP) insurance – we justify not requiring BPP on some small loans when the use of proceeds is not for FF&E and/or Tenant improvements and the balance sheet does not have significant assets to be replaced and in each case we get push back to add the BPP insurance – seems like it is just an Authorization template mindset – not taking into consideration the information for each credit
- A reduction in the minimum CA program SBSS Score – from 140 to 130
- The ability for Community Advantage Lenders to provide 100% financing for all types of use of proceeds. Meaning that for Start-ups no 10% required equity injection and Change in Ownership no required equity injection. The rationale behind this is not that the borrowers are unprepared to start or run a business, but rather that the monies they have saved be left in their hands/control as available liquidity for unforeseen events/bumps in the road

- CA Program Credit Elsewhere – eliminate credit elsewhere test for CA lenders or at a minimum clarify and ease the burden associated with satisfying the test. CA lenders are already required to target underserved markets and underserved business, which do not have access to traditional financial resources

As has been discussed above, the CA program fills a critical gap in access to financing of up to $350,000 for entrepreneurs in underserved communities. By allowing experienced, mission-oriented lenders to utilize the 7(a) loan guarantee, the SBA is promoting access to the affordable capital and technical assistance that mission-based lenders like us need to launch and expand and uplift our nation's economy.

The Community Advantage Loan Program Permanency Act of 2022

CDCSBF and the MLWG commend Senator Cardin (and Representative Chu's bill in the House) for exemplifying true leadership and commitment to small businesses with the introduction of The Community Advantage Loan Program Permanency Act of 2022,' which seeks to codify and strengthen the Community Advantage (CA) Loan Guarantee Program. The bill recognizes the need to institutionalize mission lending as part of the SBA's mission to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns."

This bill would create permanency for the Community Advantage program, which has operated as a pilot program since 2011, and expands the program to cover both economically and socially disadvantaged small businesses, including those owned by women and people of color, and requires a minimum threshold of 70% of loans made in these target markets by CA lenders. It would also require SBA to provide technical assistance and training to mission lenders by existing, seasoned non-profit mission lenders. We also know that data is critical to understanding the successes and areas for improvement. The bill's requirement of weekly reporting as well as annually to Congress on the program's performance, including demographic data disaggregated by racial subgroups, is an essential tool.

Furthermore, the legislation codifies the Network Partner model in order to expand the reach and benefits of CA lending into more underserved markets without necessarily increasing the number of CA lenders. CDCSBF has some modest experience in working with the previous version of the partnership model (Community Advantage Associates), and the Network Partner model as presented in the bill is an improvement on the previous model.

Additional features of the legislation include the ability to graduate a CA lender into a 7a loan with ease when the business borrower is ready – and this continues to build a pipeline of bankable businesses in underserved markets and at the same time frees up CA lenders capital to make new loans to unbanked businesses. The legislation further identifies that a covered institution is not eligible to receive delegated authority from the Administration under the program until the covered institution has approved and fully disbursed not less than 10 loans under the program and the Administration has evaluated the ability of the covered institution to fulfill program requirements.

We know that small businesses are the backbone of the U.S. economy, and yet many entrepreneurs lack access to safe, responsible capital. Research from the Federal Reserve Bank found that 62% of surveyed small firms were denied or discouraged from seeking the financing they needed to grow or maintain their business.[5] These small firms reported low

[5] https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-nonemployer-firms-report.pdf

credit scores and insufficient credit history as the main barriers to credit access.[6] The Small Business Administration and its programs and partners help entrepreneurs overcome these barriers by providing business coaching, lender referrals, and guaranteed lending programs.

Mission Lenders understand that CA is the only SBA program enabling small-dollar lending intentionally targeted to small businesses in underserved communities, including low-to-moderate income (LMI) areas, rural areas, veteran-owned businesses, and startups. With the steady decline of community and small bank branches in recent years, CDFIs and other mission lenders play an important role in ensuring that small businesses are not left behind. Without the CA program, many underserved entrepreneurs would be left unable to secure the financing they need to create and sustain jobs and contribute to a vibrant Main Street economy.

Granting this successful pilot program authorization under the Small Business Act will provide lenders with the assurance needed to invest in the necessary staffing and systems to maintain and grow their CA lending portfolios. This assurance will enable CA lenders to bolster their CA activity just as lending to small businesses overall, and particularly to businesses that are traditionally underserved.

Comments on the SBA's Proposed Rule on Small Business Lending Companies (SBLCs)

On November 7, 2022, the SBA issued a proposed rule[7] that if implemented would lift the moratorium on licensing new Small Business Lending Companies (SBLC) and would create a new type of SBLC license for not-for profit, Mission-Based SBLCs, intended to help SBA fill "capital market gaps" identified by SBA.

While we share the SBA's commitment to bridging the gaps that for too long has prevented aspiring entrepreneurs and small businesses from accessing the financing they need to launch and sustain their enterprises, particularly businesses in underserved and underbanked markets, we have concerns with the SBA's proposal and specifically questions about how the SBA's proposal would increase SBA-backed lending to the underserved communities and entrepreneurs that The Agency is looking to serve - those "struggling to obtain financing on non-predatory terms."

CDCSBF and our lending partners in the Mission Lenders Working Group (MLWG) are 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 SBA customer is getting a loan that is "right sized, priced and structured to its business needs." We want to make sure underbanked businesses have access to responsible financing and are not left without options other than "the easy to access, high, priced predatory products."

Under the Proposed Rule, the SBA would lift the moratorium on new SBLC licenses. This would allow SBA to issue new SBLC licenses to for-profit, non-depository lenders and recognizing the oversight costs associated with bringing on new SBLCs, the SBA would assign only 3 new additional licenses to start. The proposed rule would also create a new type of SBLC license, a Mission-Based SBLC (Mission SBLC), for non-profit, non-depository institutions that would be required to lend to businesses in underserved markets. The rule

[6] https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-nonemployer-firms-report.pdf

[7] Small Business Lending Company Moratorium Rescission and Removal of the Requirement for a Loan Authorization" (RIN 3245-AH92)

states that an existing CA lender "in good standing" can apply for a Mission SBLC license but the rule leaves it to the SBA's discretion to determine what constitutes a "CA lender in "good standing." SBA also states that since Mission SBLCs are already regulated as CA lenders, it has the capacity to regulate Mission SBLCs as they are not increasing the total number of entities supervised.

Lifting the moratorium and adding non-mission SBLCs, on its surface, does not necessarily improve access to mission lending for underserved communities. SBA is proposing to impose additional requirements on Mission-Based SBLCs "*to ensure that Mission-Based SBLCs fill identified capital market gaps and provide targeted financial assistance to underserved communities*. However, while the SBA proposal is designed to address "*certain markets where there are capital market gaps"* the proposal does not identify the specific market gaps that Mission SBLCs are expected to target, and the rule does not establish a percentage of loans to be made in a target market. Unless the SBA clearly and intentionally identifies the underserved market gaps that it is seeking to reach there will be no way to evaluate the success of the proposed rule. And the proposed rule would not require or even request a new for-profit SBLC to target lending to an underserved capital market or markets, which is contrary to SBA's stated goal and may have adverse impacts on programmatic integrity.

Similar to the current Community Advantage program, SBA, to "ensure that Mission-Based SBLCs fill identified capital market gaps and provide targeted financial assistance to underserved communities," proposes to place additional restrictions, requirements and burdens on mission SBLCs, <u>which already have historical track records of lending to underserved communities and individuals</u>. Yet as noted above, it is proposing no restrictions on the three new non-mission-based SBLCs. We have serious doubts and concerns that for-profit, non-mission lenders will provide the level of outreach and service that mission lenders provide.

We believe SBA is focused on increasing loan volume as opposed to ensuring that businesses in underserved or undercapitalized markets get the right sized, structured, and priced loan. Ensuring the businesses have access to capital is critical – but so is ensuring that they have access to financing that leaves them better off than they were before – and mission lenders also understand that some businesses are not ready for a loan, even if the Artificial Intelligence Algorithm says otherwise.

For the duration of the CA program, participating lenders have been "recommended" to provide Technical Assistance (TA) to their clients in the program. While SBA recommends or encourages TA, it is core to how mission-lenders operate and work with their clients. We have provided hundreds of hours to our clients, as have other lenders in the MLWG. And while we assume this will be a continued condition to transition from CA lender to Mission SBLC, no such requirement is being proposed for the three new non-mission SBLCs. As many studies have demonstrated, TA is the "secret sauce" of mission lenders, and which provides for their clients' success and minimizes loan loss.

It is also unclear how the proposed rule will promote mission lending when so many programmatic details are not addressed (i.e., geography, maximum loan size, target markets, etc.). As a current CA lender that has the capacity and willingness to participate in the full SBLC program, the rules as proposed leave too many details to be approved by SBA personnel on a lender-by-lender basis, thus creating separate guidelines for each lender. SBA promotes this individualized approach as flexible in order to fill specific market gaps, yet it lacks clarity for current CA lenders evaluating the program. Further, while we have a level of trust and confidence in the current leadership at SBA, current leadership will change and the rules and requirements for the Mission-Based SBLC could change. This has been clearly evidenced by our experience in the Community Advantage Program.

Per language in the proposed rule, we understand that based on the success of the Paycheck Protection Program (PPP), "*removing the moratorium on licensing new SBLCs and Mission-Based SBLCs opens opportunities for more non-traditional lenders to participate in the 7(a) Loan Program, providing additional sources of capital to America's small businesses and targeting gaps in the credit market.*" However, one need only refer to the recent report and recommendation from the report of the Select sub-committee on the Corona Virus that should give serious pause and concern before allowing new "non-traditional lenders" into the 7(a) program. In fact, the report recommends that congress should continue to fund (mission) community lenders, so they can increase their capacity to directly serve underserved communities. Moreover, the report states that Congress should consider additional federal regulations for non-bank/non-depository lenders, such as being considered under this proposed rule. Report Reveals Fintechs Facilitated PPP Fraud | House Select Subcommittee on the Coronavirus Crisis.

Rather than issuing new for-profit SBLC licenses in order to expand SBA-backed lending into underserved markets, we encourage the SBA to elevate the CA pilot and promote the work of CA lenders

- Immediately extend the CA Pilot program for five years or more and support Congressional efforts to codify CA, as proposed in the *Community Advantage Loan Program Permanency Act of 2022.* The current extension to September 2024, is not sufficient for a prudent mission lender to want to invest in a program with only two years of runway
- SBA should publicly support the proposed bill which makes CA permanent
- SBA could make further regulatory reforms to the CA program as described above. While the changes made earlier this year were extremely helpful, additional changes to the program will allow lenders to reach deeper into underserved markets
- Work with Congress so that CA lenders have access to grant funds to support the TA provided to the small businesses with which it supports under the CA program. This could include accessing the PRIME Program or changes to the SBA Microloan Program

Finally, we *take issue with the following statement made by SBA* in the proposed rule:

> "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 suggests that the SBA has given up on CA – and we think that is the wrong approach. We urge the SBA to lean into the CA program and work to strengthen it beyond the changes made earlier this year. The Cardin bill does that. We certainly hope that the mission SBLC is not a harbinger that the SBA is going to eliminate the CA program. We believe that a robust CA program can exist alongside a mission SBLC program, if that is the direction the SBA takes.

Dated: October 2022

SBA COMMUNITY ADVANTAGE PILOT PROGRAM TIMELINE

SEPTEMBER 29, 2022

SBA amended its small business size regulations and incorporated OMB's NAICS Codes. Effective October 1, 2022. 87 FR 59240

JUNE 30, 2022

Final Rule on Program Changes to all 7(a) & 504 programs became effective August 1, 2022. 87 FR 38900

APRIL 29, 2022

Revised Participant Guide, Major program changes included maximum loan amounts to $350K, lender underwriting, max interest rates & fee lender may charge; - Effective May 31, 2022. 87 FR 25398

APRIL 1, 2022

SBA extended the CA pilot program to September 30th, 2024 and lifted the moratorium on new CA lenders. Effective April 1, 2022. 87 FR 19165

SEPTEMBER 12, 2018

To mitigate risks, a moratorium on accepting new CA Lender applications was put in place. Effective October 1, 2018. 83 FR 46237

DECEMBER 28, 2015

The CA Pilot Program was extended until March 31, 2020. The program adopted the 7(a) Small Loan credit standards, credit score, and CA Lenders were authorized to process apps under Delegated Authority after making initial disbursements on at least five CA loans. Effective December 28, 2015 80 FR 80872

OCTOBER, 23, 2014

SBA Policy notice aligned the credit underwriting and closing updated in SOP 50 10 (G) SBA. Also provides for Delegated Authority SBA Policy Notice 5000-1324 Effective October 23, 2014

NOVEMBER 9, 2012

The CA Pilot Program was extended to remain in effect until March 15, 2017. Effective November 9, 2012. 77 FR 67433

FEBRUARY 8, 2012

SBA increased the maximum allowable rate a CA Lender could charge a borrower to prime + 6%. CA Lenders were allowed to sell loans in the secondary market. SBA removed the initial examination/ review requirements and instead stated that SBA would monitor CA Lenders using various oversight tools. Effective February 8, 2012. FR 6619

SEPTEMBER 12, 2011

SBA released the first CA Participant Guide, & modified regulatory waivers within the CA program in order to permit CA Lenders to pledge loans made under the CA Pilot Program as collateral for lender financings approved by SBA Effective September 12, 2011. 76 FR 56262

FEBRUARY 11, 2011

SBA issued an Notice to introduce the Community Advantage Pilot Program that intended to support SBA's pledge to expanding access to capital for small businesses in underserved markets. Max Interest Rate of Prime +4%. Effective September 12, 2011. 76 FR 9626

Mission Lenders Working Group

This timeline was developed by the Mission Lenders Working Group (MLWG) Staff in October 2022. The MLWG is a coalition of SBA-certified Community Advantage (CA) lenders from across the country with a shared commitment to financing, supporting, and sustaining underserved and underbanked small businesses. For more info check our the MLWG website at missionlenders.net or scan the QR code.

ATTACHMENT