



Oversight of the SBA’s Implementation of Final Rules to Expand Access to Capital

Testimony before the
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Committee on Small Business and Entrepreneurship

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Chairman Cardin, Ranking Member Ernst, and distinguished members of the Committee, good afternoon and thank you for having me today. My name is Hilda Kennedy, and I am the President and Founder of AmPac Tri-State CDC in Ontario, California. I am a former board member of the National Association of Development Companies (NADCO), a member of the Mission Lenders Working Group (MLWG), the African American Alliance (AAA) of Community Development Financial Institutions (CDFI's) and the Opportunity Finance Network (OFN).

I appreciate the opportunity to share my perspective on current efforts by Congress, the SBA, and industry participants to improve lending in the communities that struggle the most to access capital to start, sustain, and grow small businesses. As an economic development driven 504 Loan Program lender, an enthusiast participant in the SBA's 7(a) Community Advantage Loan Pilot Program, and an SBA Micro Lender, as well as a CDFI, I care deeply about expanding access to capital through the SBA's lending programs. I strongly believe efforts by Congress and SBA to address inequities for socially and economically disadvantaged businesses can work in concert and complement each other, which is my most urgent message today. Collectively we have strived for decades to fulfill the mission set out with the creation of the Small Business Administration. I believe the ***Community Advantage Loan Program Permanency Act of 2022*** (S. 5102/H.R. 9311), helmed by Chairman Cardin, and its companion House bill championed by my Congresswoman Judy Chu, and the SBA's launch of a Community Advantage Small Business Lending Company (CA SBLC) license are parallel efforts that can provide the traction to finally hit the stride we have been seeking to elevate our nation on this 70th Anniversary of the Small Business Act of 1953 (P.L. 83-163).

I will use the tenets described in the Small Business Act as a guide for my testimony. Section 2 of the Act outlines the findings of Congress and reasoning for creating the SBA. In Section 2(A), the Act states, "*(ii) that certain groups in the United States own and control little productive capital because they have limited opportunities for small business ownership; (iii) that the broadening of small business ownership among groups that presently own and control little productive capital is essential to provide for the well-being of this Nation by promoting their increased participation in the free enterprise system of the United States,*"¹ followed by, "*(B) It is therefore the purpose of the programs authorized by section 7(j) of this Act to— (i) foster business ownership and development by individuals in groups that own and control little productive capital; and (ii) promote the competitive viability of such firms in the marketplace by creating a small business and capital ownership development program to provide such available financial, technical, and management assistance as may be necessary. (iv) that such development of business ownership among groups that presently own and control little productive capital will be greatly facilitated through the creation of a small business ownership development program, which shall provide services, including, but not limited to, financial, management, and technical assistance.*"²

These citations outline the importance Congress placed on the role of small business ownership to the national economy, while acknowledging that there are significant gaps to reaching those potential business owners who do not have access to the necessary capital to

¹ [Small Business Act](#), page 2

² [Small Business Act](#), page 3

participate meaningfully in the U.S. free enterprise system. The Act further acknowledges the particular barriers that exist for socially and economically disadvantaged businesses and the importance of full participation of these groups in Section 2(B)(f), “(A) *that the opportunity for full participation in our free enterprise system by socially and economically disadvantaged persons is essential if we are to obtain social and economic equality for such persons and improve the functioning of our national economy,*”³ and, “(E) *that such conditions can be improved by providing the maximum practicable opportunity for the development of small business concerns owned by members of socially economically disadvantaged groups.*”⁴

These tenets provide a solid foundation for the important discussion the Committee is having today. Since the formation of the SBA in 1953, it has evolved through the creation of new programs by Congress and development of numerous pilot programs by the Agency, all with the goal of meeting the objectives Congress outlined in the Small Business Act. Today, Congress, SBA, and industry participants are still seeking to meet these objectives and to address the barriers that still exist for small businesses. Different approaches have been taken over the years, but we all share the common goal of increasing access to capital to strengthen local communities, build generational wealth, and support the national economy. While significant improvements have been made, socially and economically disadvantaged entrepreneurs, and small businesses with fewer than 20 employees in particular, continue to face barriers accessing the capital they need to succeed.⁵ As such, it is for the “well-being of the Nation,” as the Small Business Act intended, that Congress, SBA, and industry participants make meaningful changes to significantly improve opportunities for underserved small businesses to access SBA’s lending programs.

SBA has worked for years to reach socially and economically disadvantaged businesses, and in 2011, launched the 7(a) Community Advantage Loan Pilot Program with the goal of expanding SBA-backed lending in underserved markets by allowing experienced, mission driven, nonbank lenders to participate in the SBA’s 7(a) loan guarantee program. CA lenders, like AmPac, have demonstrated that Microloan Intermediaries, CDCs and CDFIs have the experience needed to reach, finance and support underserved and undercapitalized businesses. Mission lenders are not simply focused on making loans and sending business borrowers on their way, but strive to improve the outcomes of their borrowers through technical assistance and other business services so the loan is a launching point for growing a successful business, supporting employees, creating jobs, and building generational wealth for entrepreneurs.

Since the first CA loan was approved in 2012, more than 7,673 loans totaling \$1,050,734,400 have been made to small businesses in markets that historically have been socially and economically disadvantaged⁶. In fact, according to data from SBA Weekly Lending Reports from 2018 -2022,⁷ 13 percent of the loans made by CA lenders went to Black-owned businesses and 15 percent went to Hispanic-owned businesses. During this same time period, 4 percent of the loans made by traditional 7(a) lenders went to Black-owned businesses and 8 percent to Hispanic-owned businesses. Similar, though not as dramatic, results were true for women, veterans and start-

³ [Small Business Act](#), page 3

⁴ [Small Business Act](#), page 3

⁵ [Federal Reserve Bank of New York: Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities](#) and [Federal Reserve Banks: Small Business Credit Survey: 2021 REPORT ON EMPLOYER FIRMS](#)

⁶ Small Business Administration: FOIA - 7(a)(FY2010-FY2019) as of 230331

⁷ Small Business Administration: Weekly Approvals Report with data as of 09/30 for each FY 2018- FY 2022

up businesses. Since the CA pilot was launched in 2011, the SBA has issued several short-term extensions of the pilot, including the most recent two-year extension announced in April 2022 that introduced a series of CA program reforms that I will discuss in greater detail later in my testimony.

Most recently, SBA released a final rule, *Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization*, which will be effective on May 12, 2023 and amongst other things, is an effort to increase lending in underserved communities.⁸ According to the rule, the SBA “has determined that certain markets where there are capital market gaps continue to struggle to obtain financing on non-predatory terms. Therefore, SBA is lifting the moratorium on licensing new Small Business Lending Companies (SBLC) and creating a new type of SBLC to help bridge this financing gap.”⁹ The SBA’s creation of a new type of SBLC, a Community Advantage SBLC, is intended to provide a permanent avenue for small dollar lending in socially and economically disadvantaged communities, and create certainty for current and prospective lenders. Current CA lenders will be grandfathered into the Community Advantage SBLC, and new lenders would be directed to apply to the Community Advantage SBLC program since the SBA will not be extending the September 30, 2024 expiration date for the Community Advantage Pilot Program.¹⁰ Additionally, SBA will determine on a lender-by-lender basis the maximum loan size, target market, geography, capital requirements, fees and other programmatic requirements for participation.

While SBA proposed this rule as a solution to meet the needs of more underserved borrowers, Congress has also been hard at work to address the needs of socially and economically disadvantaged businesses. Last November, as noted earlier, Senate Small Business and Entrepreneurship Committee Chairman Ben Cardin and my Representative Judy Chu (CA-28) introduced the *Community Advantage Loan Program Permanency Act of 2022*, which would make the CA program permanent with needed adjustments to expand access.¹¹ I, along with all of the organizations I am part of, supported this important 2022 legislation as the path to the permanency for the Community Advantage Loan Program. Chairman Cardin and Representative Chu have worked diligently for years to codify the CA program and I want to express my thanks for their focus and dedication to the communities that are left behind, and often overlooked. I also want to applaud Ranking Member Ernst, whose fresh leadership and commitment to increasing access to capital for rural small businesses is aligned with the mission of the CA program to reach such businesses and create healthy local communities.

As an industry participant in multiple SBA programs, as well as a CDFI through the Treasury Department, I would like to speak to the work my CDC and CDFI undertakes to reach businesses who desperately need access to capital, and in some cases technical assistance, and our ability to provide this support through SBA’s lending programs. While I am not alone in my focus on socially and economically disadvantaged businesses, each CDC reaches communities in different ways and through different programs, so I will focus on AmPac and our daily work. First and foremost, the founding of AmPac Tri-State CDC is rooted in my faith. We approach our work from an “It Is Possible” mentality, knowing that with God, All Things are Possible. We believe

⁸ [Federal Register :: Small Business Lending Company \(SBLC\) Moratorium Rescission and Removal of the Requirement for a Loan Authorization](#)

⁹ [Federal Register :: Small Business Lending Company \(SBLC\) Moratorium Rescission and Removal of the Requirement for a Loan Authorization](#)

¹⁰ Ibid.

¹¹ [Cardin Introduces Legislation to Codify SBA’s Community Advantage Pilot Program - Press Releases - U.S. Committee on Small Business & Entrepreneurship \(senate.gov\)](#)

we have been divinely appointed to create “possibilities” for the communities who need it most through entrepreneurship, small business formation, job creation, and building generational wealth. It is so impactful to see the zeal and hard work of the borrowers I work with when they are given an opportunity to see what is “possible” after being faced with so many closed doors.

AmPac has created “A Success Capital” micro loan product that provides Black and Brown small businesses with a micro loan up to \$50,000 using alternative underwriting guidelines, and supporting them with training and coaching, or “wrap around services,” to support their success. For businesses that attend three documented business trainings per year and make timely monthly payments, we reduce their interest rate by half a point for the first three years and provide them either a training grant or reduction in the principal of their loan. The Latina led bookkeeping firm who has received this loan, after being denied multiple times by other lenders, has already reduced her loan’s principal by \$2,000 and her interest rate by 1 percent.

After assessing barriers to entry to the 504 Loan Program for socially and economically disadvantaged businesses, we surmised that the reason these businesses were not accessing the program was not because they lacked the business acumen to do so, and not because they were not paying rent that could have been replaced with a mortgage, but because they struggled to meet the downpayment requirements. To address this issue, we raised \$4 million in investment capital through our CDFI from a social impact investor, Edwards Life Sciences in Orange County, California, who set aside investment funds from their profit to support CDFI’s and non-profits doing work to elevate wealth and economic parity for Black and brown communities. We have used these funds to provide down payment assistance or liquidity replacement for these targeted businesses to buy their building with the SBA 504 Loan Program. In 2022, we used almost \$1 million of the investment to leverage over \$39 million in commercial real estate loans to Black and Brown businesses, who otherwise would not have been able to purchase their building. One Black led business owner who grew up in poverty in the Bronx and runs an auto auction company in Riverside, California, said that his greatest aspiration was to buy his mother a home of her own. He used lessons learned from helping his mom to buy the building for his business. The down payment assistance program and the SBA 504 Loan Program made IT POSSIBLE.

In addition to our efforts utilizing the 504 Loan Program, the Community Advantage Loan Program has been game changing for us to serve small businesses and create more opportunities for socially and economically disadvantaged businesses. I want to take time to acknowledge the SBA Administrator, Isabella Guzman, and her team led by Patrick Kelley, who leaned in to hear from lenders in the trenches to discuss much needed reforms to the Community Advantage Loan Program. They spent months seeking to understand the barriers to entry and they executed on what they heard from industry participants. Many of my colleagues who have done this work longer than AmPac, especially in underserved communities, said they were CA lenders in name only until the reforms adopted last year – they have been that impactful. They now have strong pipelines to serve businesses since they can use the prudent credit guidelines that govern their CDFI and other loan programs, and are not hindered by some of the collateral requirements and lending criteria in the original CA guidelines that the businesses in underserved communities simply could not meet.

I would like to share the following example of one of our Community Advantage borrowers. Dr. Zuniga and Dr. Espinosa were referred to AmPac by a large bank who had to turn down their loan. Although they had been medical doctors for five years, they worked for a practice and did not operate a practice on their own. The owner of the practice promised that he would sell them the practice and “carry paper” for them to become the next owner so they would not have to worry about getting a loan. Later they learned the doctor had sold the practice to a large medical

conglomerate, which propelled them to start their own medical practice. They went to the bank where they had their personal accounts, but the lender could not help because they were a start-up with no business ownership experience, significant student loan debt, and a recent residential mortgage. They did not meet the traditional 5C's of credit. AmPac stepped in with our business coach to help them create business projections and because of our credit policy, we were able to place a UCC filing on the business and not require additional real estate collateral, which would have been a challenge for the young couple starting a family and a business concurrently. Now these doctors are providing needed medical care in their community.

Finally, I offer the following recommendations as the Committee and the SBA, in partnership with mission driven lenders like AmPac, continue working to ensure that socially and economically disadvantaged businesses can access the capital and support they need to launch, grow, and ultimately become bankable with the help of SBA's lending programs:

- **First, and most importantly, I believe we need to shift the narrative from “either/or” to welcoming all efforts to improve access to SBA’s lending programs.** This shift in narrative moves us forward in a decades-long effort to realize the intention of the Small Business Act of 1953, *“that the opportunity for full participation in our free enterprise system by socially and economically disadvantaged persons is essential if we are to obtain social and economic equality for such persons and improve the functioning of our national economy.”*
- **Second, Congress should pass Chairman Cardin’s and my representative, Representative Judy Chu’s, bill to make the 7(a) Community Advantage Program a permanent offering of SBA’s Office of Capitol Access.** After operating as a pilot program for more than 10-years, and demonstrating that experienced mission driven lenders, like AmPac, can effectively increase SBA backed lending to businesses and entrepreneurs in underserved communities – the Community Advantage Loan Program has succeeded in meeting its intent and should be made permanent.
- **Third, Congress should consider the capitalization challenges faced by mission lenders and work toward solutions to mitigate these challenges and enable us to reach more socially and economically underserved businesses.** Unlike conventional bank lenders, mission driven lenders do not have access to capital sources like the Federal Reserve discount window. Thus, we spend a good deal of our time raising money to capitalize our loan funds. Non-profit mission lenders are the right lenders to reach underserved businesses, but as non-profits we face unique constraints that make every additional cost in funds, or in raising funds, translate to a reduction in the number of loans to the borrowers we are so passionate about serving. There is a myriad of ideas to make progress on this issue and those conversations should occur as Congress considers legislation and SBA considers the CA SBLC.

- **Fourth, SBA should apply integral provisions from Chairman Cardin’s bill in areas where the CA SBLC final rule lacks clarity for industry participants.** Those provisions include: the definition of underserved community; metrics for success including target market and percentage of loans in that market; capital requirements; and loan loss reserve requirements.¹² Senator Cardin’s bill codifies critical metrics to give Community Advantage, and Community Advantage SBLCs, a bright line for who we are targeting, how much of our portfolio needs to hit that target, and what we need to set-aside in terms of capital in order to maintain SBA compliance. Metrics ensure effective management, and mission lenders are committed to doing this work right so that these targeted communities can be elevated, on purpose and with intention. I appreciate SBA’s efforts to create a permanent pathway for CA lenders to become Community Advantage SBLCs – this is an innovative approach to make the SBA’s 7(a) Loan Program accessible to mission-oriented lenders committed to facilitating economic parity in meeting the capital needs of socially and economically disadvantaged businesses.

AmPac and the mission lending community will continue to provide small businesses with every avenue possible to access capital through the SBA’s lending programs and we look forward with anticipation to action of this Committee and at SBA to create more opportunities for socially and economically disadvantaged businesses. I sincerely appreciate the opportunity to testify this afternoon, and I look forward to answering any questions.

¹² [Cardin Introduces Legislation to Codify SBA’s Community Advantage Pilot Program - Press Releases - U.S. Committee on Small Business & Entrepreneurship \(senate.gov\)](#)