

## Calendar No. 485

114TH CONGRESS }  
2d Session }

SENATE

{ REPORT  
114-301

### MICROLOAN PROGRAM MODERNIZATION ACT OF 2016

JULY 13, 2016.—Ordered to be printed

Mr. VITTER, from the Committee on Small Business and  
Entrepreneurship, submitted the following

## R E P O R T

[To accompany S. 2850]

The Committee on Small Business and Entrepreneurship, to which was referred the bill (S. 2850) to amend the Small Business Act to provide for expanded participation in the microloan program, and for other purposes, having considered the same, reports favorably thereon with amendments and recommends that the bill, as amended, do pass.

### I. INTRODUCTION

The Microloan Program Modernization Act (S. 2850) was introduced by Senator Deb Fischer on April 26, 2016, with Committee members Kelly Ayotte, Tim Scott, Christopher Coons, Jeanne Shaheen and Gary Peters as cosponsors. The Act would provide for expanded access to the Small Business Administration's (SBA) microloan program. During the markup of the bill, the bill was approved by roll call vote, without amendment.

### II. HISTORY (PURPOSE & NEED FOR LEGISLATION)

The SBA Microloan Program provides credit for entrepreneurs who do not otherwise have access to credit of any kind, primarily assisting low-income individuals with extremely-limited financial and other resources needed to establish a small business. While Congress authorized a demonstration program to provide microloans in 1991, the Microloan Program did not receive permanent authorization until 1997.

The program operates through SBA designated microloan intermediaries. The SBA makes loans at below market rates to the intermediaries who then in turn make loans of up to \$50,000 to

borrowers. The SBA provides loans at lower interest rates to intermediaries that maintain an average loan size of under \$7,500. Borrowers then repay the intermediaries who in turn repay the SBA. The default rate on loans made by the SBA to intermediaries is effectively zero.

### III. HEARINGS & ROUNDTABLES

In the 114th Congress, issues related to the SBA Microloan Program were addressed at a hearing in the House Subcommittee on Economic Growth, Tax and Capital Access of the Committee on Small Business entitled “Improving Capital Access Programs within the SBA” on May 19, 2015. At the hearing, witnesses testified that modernization of the Microloan Program was needed to ensure that it continues to generate jobs from microbusinesses.

### IV. DESCRIPTION OF BILL

This bill would increase the limit on microloan funds given to an intermediary from \$5 million to \$6 million and would eliminate the 25/75 rule for Technical Assistance (TA) funding, which limited TA funding that could be spent prior to a borrower being approved for a loan to 25 percent of the total TA funding provided. It also mandates two studies: one by the SBA to determine why qualifying intermediaries don’t participate in the microloan program and a second one from the Government Accountability Office, addressing SBA’s oversight of the microloan program.

### V. COMMITTEE VOTE

In compliance with rule XXVI (7)(b) of the Standing Rules of the Senate, the following vote was recorded on May 11, 2016.

A motion to adopt the Microloan Program Modernization Act, a bill to amend the Small Business Act to provide for expanded participation in the microloan program, and for other purposes, was approved by roll call vote with the following Senators present: Vitter, Risch, Scott, Ernst, Ayotte, Shaheen, Cantwell, Cardin, Heitkamp, Markey, Booker, Coons, Hirono, and Peters.

### VI. COST ESTIMATE

In compliance with rule XXVI (11)(a)(1) of the Standing Rules of the Senate, the Committee estimates the cost of the legislation will be equal to the amounts discussed in the following letter from the Congressional Budget Office:

JUNE 28, 2016.

Hon. DAVID VITTER, *Chairman,*  
*Committee on Small Business and Entrepreneurship,*  
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 2850, the Microloan Program Modernization Act of 2016.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Stephen Rabent.

Sincerely,

KEITH HALL.

Enclosure.

Summary: S. 2850 would amend the Small Business Administration's (SBA) microloan program. CBO estimates that implementing S. 2850 would have no significant effect on the federal budget.

Under current law, SBA operates a program that makes loans and grants to eligible not-for-profit entities (known as intermediaries) that use those funds to make microloans (loans that are less than \$50,000) to newly-established or growing small businesses. Participating intermediaries can use grant funds from SBA to provide technical assistance to small businesses that receive a microloan. S. 2850 would raise the amount SBA may commit to an intermediary and eliminate the cap on the amount of grant funds that intermediaries can spend on pre-loan training and technical assistance for prospective borrowers. The bill also would direct SBA to conduct a study to determine why some intermediaries that are eligible to participate in the program fail to do so and to recommend ways to increase program participation and decrease costs. Based on information from SBA, CBO estimates that the costs to conduct the study and update SBA rules would not be significant.

S. 2850 also would direct the Government Accountability Office to evaluate SBA's oversight of intermediaries and the microloan program. Based on the costs of similar reports, CBO estimates that the costs to report on those activities would not be significant.

Estimate: Enacting S. 2850 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply. CBO estimates that enacting S. 2850 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

S. 2850 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contact for this estimate is Stephen Rabent. The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

## VII. EVALUATION OF REGULATORY IMPACT

In compliance with rule XXVI (11)(b) of the Standing Rules of the Senate, it is the opinion of the Committee that no significant additional regulatory impact will be incurred in carrying out the provisions of this legislation. There will be no additional impact on the personal privacy of companies or individuals who utilize the services provided.

## VIII. SECTION-BY-SECTION ANALYSIS

### *Section 1. Short title*

This Section designates the bill as the "Microloan Program Modernization Act of 2015."

### *Section 2. Definitions*

This section defines both the term intermediary and microloan program.

*Section 3. Microloan intermediary lending limit increased*

This section amends the Microloan Program by raising the total limit on outstanding loans from by \$5 million to \$6 million.

*Section 4. Elimination of 25/75 rule*

This section repeals the Microloan Program “25/75” rule, which permits the SBA-designated microloan intermediary lenders to expend up to 25% of the intensive marketing, management, and technical assistance grant funds they receive from the SBA to provide information and technical assistance to small business concerns that are their prospective borrowers.

*Section 5. SBA study of microenterprise participation*

This section requires the SBA to conduct a study that compares the operations of a representative sample of eligible intermediaries that participate in the microloan program and of eligible intermediaries that do not; study the reasons why the latter do not participate; recommend how to encourage increased participation by intermediaries in the microloan program, and recommend how to decrease the associated costs for intermediary participation.

*Section 6. GAO study of microenterprise participation*

This section requires the Government Accountability Office (GAO) to conduct a study to evaluate: SBA oversight of the microloan program, including oversight of participating intermediaries; and the specific processes the SBA uses to ensure program compliance by participating intermediaries and overall microloan program performance.