SMALL BUT MIGHTY: A REVIEW OF THE SBA MICROLOAN PROGRAM

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THURSDAY, MARCH 7, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX, AND CAPITAL ACCESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:02 a.m., in Room 2360, Rayburn House Office Building. Hon. Andy Kim [chairman of the Subcommittee] presiding.

Present: Representatives Kim, Davids, Crow, Delgado, Radewagen, Hern, Stauber, and Spano.

Chairman KIM. Good morning, everyone. I will have the Committee come to order now.

I want to thank everyone for joining us this morning. I want to especially thank the witnesses for being here today.

On this Subcommittee, our primary focus is ensuring that America's small businesses and entrepreneurs have access to the capital that they need to start and grow their businesses and create good paying jobs. Unfortunately, many entrepreneurs, particularly from traditionally underserved communities, lack the skills, training, and experience needed to demonstrate to conventional lenders that they are worth the risk.

This leaves two main challenges facing entrepreneurs. The first being a lack of access to capital. The second being the skills and tools it takes to become credit worthy. As legislators, it is incumbent upon us to address these challenges, and it is the reason that we are here today.

The Small Business Administration has an array of programs designed to boost access to capital and to promote entrepreneurial development. However, SBA's Microloan program is unique in that it offers entrepreneurs both opportunities to unlock affordable capital and the technical assistance they need.

Here is how it works: SBA lends qualified, nonprofit intermediary lenders money these intermediaries then use to make their microloans to small businesses and entrepreneurs. SBA also provides the intermediaries with grant funding to offer marketing, management, and technical assistance to borrowers and potential borrowers.

In many cases, intermediaries begin by providing technical assistance to a potential borrower to enhance their credit readiness prior to making a microloan to the entrepreneur. That program began as a pilot program in 1991, and following a successful start was made permanent in 1997.

2018 was a record year for the Microloan program, and the program is currently 3.5 percent ahead of where it was at this point last year. Last year in my home state of New Jersey, 150 microloans totaling approximately $2.5 million were approved. Since then, it has grown considerably, and many intermediaries report that some of the program's original rules are now restricting them from meeting existing demands for small business financing and providing more technical assistance. In other words, they feel the program has outgrown many of those rules and have expressed the need for Congress to review some of those rules in order to enhance flexibilities for intermediaries.

That brings me to why we were here today. I look forward to hearing the recommendations and feedback of our distinguished witnesses to continue strengthening the Microloan program. Doing so will allow us to provide intermediaries with appropriate flexibility to enable them to continue offering affordable capital and essential technical assistance to America's smallest businesses.

I hope today's hearing will be a productive opportunity to explore the ways Congress can continue modernizing and optimizing SBA's Microloan program.

And now I would like to yield to the Ranking Member, Mr. Hern, for an opening statement.

Mr. HERN. Thank you, Mr. Chairman.

Although the country continues to record above average economic marks, the Nation's smallest firms still face challenges when it comes to financing their businesses. This is even more pronounced for the category of small businesses known as microbusinesses. Recognizing the difficulties the Nation's smallest firms face, Congress sought to alleviate the capital access issue with the creation of the Small Business Administration's Microloan program in 1991, and after a brief trial period, Congress made the loans permanent in 1997. And the Microloan program has been assisting entrepreneurs ever since.

Unique to the program is the financial transaction that includes SBA making a direct loan to a microloan intermediary or a nonprofit that is working within the program. From there, the intermediary provides loans directly to the small businesses in need. Importantly, these small businesses are not left by themselves to fight for their survival. Built into the program is a requirement of technical assistance or counseling by the intermediary. This program is what we are going to be discussing today.

Last year, members of this Committee were able to enact a number of reforms to the Microloan program. Included in the legislation were two important studies. First, SBA is required to study the utilization levels of the program by microlenders. Second, the Government Accountability Office is required to examine SBA's microloan oversight capabilities. With any government program, it is critical to have comprehensive oversight to safeguard American taxpayer dollars.

As we eagerly await both reports, which are due to Congress this August, I look forward to today's hearing that will review the program from the perspective of you, the participants and the witnesses directly involved on the ground. SBA's capital access programs are transforming neighborhoods and communities from my home state of Oklahoma to Florida and beyond. Following in last year's footsteps, we must continue to create an environment where small businesses are able to grow, expand, and create jobs. As the hearing title implies, these companies may be small, but they have an outsize effect on our economy.

Thank you, Mr. Chairman, and I yield back.

Chairman KIM. Thank you, Mr. Hern. The gentleman yields back.

If Committee members have an opening statement prepared, we would ask that they be submitted for the record.

I would just like to take a minute to explain the timing rules. Each witness gets 5 minutes to testify and each member gets 5 minutes for questioning. There is a lighting system to assist you. The green light will be on when you begin, and the yellow light will come on when you have 1 minute remaining. And the red light will come on when you are out of time. And we ask that you stay within the timeframe to the best of your abilities.

I would now like to introduce our witnesses.

Our first witness is Ms. Ceyl Prinster. Ms. Prinster is president and CEO of Colorado Enterprise Fund, a position she has served in for over 30 years. Her current service roles include trustee of the Denver Foundation and Chair of its Impact Investing Committee, board and executive committee member of the National CDFI Coalition, and board member of the Other Side Academy. She previously served as trustee for the University of Notre Dame and president of its alumni association, and was a founding member of the Denver Sustainable Food Policy Council. Her awards include the 2018 David E. Bailey Small Business Advocate Award from the Denver Metro Chamber, Outstanding Woman in Business from the Denver Business Journal, and the Financial Services Advocate of the Year from the SBA, the Tom Dooley Award from the University of Notre Dame. Ms. Prinster is a graduate of, you guessed it, University of Notre Dame. Welcome, Ms. Prinster. We are lucky to have you today.

I will continue on and then I will get back to you.

Our second witness is Ms. Carolina Martinez. Ms. Martinez is the CEO of CAMEO, the California Association for Micro Enterprise Opportunity, a statewide association that represents over 220 lenders, training programs, job creators, agencies, and individuals dedicated to furthering microbusiness development in California. Ms. Martinez has over 13 years of experience working in the economic development and business consulting with a variety of nonprofit organizations and universities across the Western Hemisphere. She has developed bilingual, culturally appropriate, entrepreneurial training programs, trained and coached pre-venture and startups, developed international networks promoting partnerships among private corporations, provided consulting services to vulnerable communities, and has owned her own business consulting firm. She is a graduate of the University of the Andes in Bogota, Colombia, and received her Masters of Business Administration from the University of North, Barranquilla, Colombia. Welcome, Ms. Martinez.

Our third witness today is Ms. Mariama Jallow. Ms. Jallow is the owner of Mariama's Beauty Supply in Portland, Maine. Mariama went to school in The Gambia, a country in West Africa and grew up helping her mother manage the family grocery store. Because of that experience she knew she wanted to open her own business someday. She arrived in the United States in 2012 from The Gambia. Her dream of opening a business came true in Maine where she operates and continues to expand her business. Welcome, Ms. Jallow.

I would now like to yield to our Ranking Member, Mr. Hern, to introduce our final witness.

Mr. HERN. Our witness is Michelle Richards. Ms. Richards is the executive director and a founding board member of the Great Lakes Women's Business Council outside of Detroit, Michigan. She was a pioneer in the microlending movement, and has been a microloan intermediary with the Small Business Administration for over 2 decades. Her organization has helped countless startups, entrepreneurs, and small businesses with financial assistance and counseling. She is also a previous winner of SBA's Women's Business Advocate of the Year Award for the State of Michigan. Ms. Richards is testifying today on behalf of Women Impacting Public Policy. Thank you.

Chairman KIM. Thank you very much. Welcome.

We are going to start with Ms. Prinster. Over to you. You are recognized for 5 minutes.

STATEMENTS OF CEYL PRINSTER, PRESIDENT & CEO, COLORADO ENTERPRISE FUND; CAROLINA MARTINEZ, CEO, CALIFORNIA ASSOCIATION FOR MICRO ENTERPRISE OPPORTUNITY; MARIAMA JALLOW, OWNER, MARIAMA'S BEAUTY SUPPLY; MICHELLE RICHARDS, EXECUTIVE DIRECTOR, GREAT LAKES WOMEN'S BUSINESS COUNCIL

STATEMENT OF CEYL PRINSTER

Ms. PRINSTER. Good morning. Thank you.

I am here today to suggest some improvements to the SBA Microloan program, but first I will tell you a little bit about my organization and myself.

I have served as president and CEO of Colorado Enterprise Fund (CEF) for over 30 years, starting as its first employee.

We were founded in 1976 as a nonprofit providing loans to disadvantaged small businesses. We are certified both as a community development financial institution and an SBA microloan intermediary. Overall, we have made over $81 million in loans to more than 2,400 businesses in Colorado, and have created or maintained over 12,000 jobs. These loans have helped businesses that could have not obtained the capital they needed to start or grow from traditional banks.

CEF started with the Microloan program in 1992 when the program first began. We have received 15 rounds of program loans totaling $11.5 million, with 11 of our loans now paid off. With Microloan program funding, we have made 1,500 small business loans totaling $18.7 million. A significant percentage of our loans, 85 percent, have been made to minority, women, veteran, or low-income entrepreneurs.

The Microloan TA grants have helped us create and administer a robust program of business advising, coaching, and training using in-house consultants and lending staff and a pool of outside legal and accounting professionals, all trained to provide trusted guidance to our clients. We deliver an average of over 3,000 hours of technical assistance per year and over 80 percent of our borrowers utilize our TA services.

I have led CEF for the entire time since we began in the Microloan program 27 years ago and have been a member for many years of the Friends of SBA Microloan Program, an informal network of microloan intermediaries. I also serve as a board member of the National CDFI Coalition representing microlenders within the broader CDFI community.

With this experience, I am confident that I speak for a consensus of other microlenders to say that as good as the program has been for businesses in Colorado and across the Nation, it could be even better. There are two changes I suggest to the program that would reduce administrative burden on both the nonprofit intermediaries and the SBA to help microlenders better support small businesses seeking credit.

The first improvement is elimination of the 1/55th rule, which affects intermediaries' ability to get loan capital from the program. This rule was part of the early pilot phase of the program and limits the distribution of loan funds for the first half of each year to the lesser of 800,000, or 1/55th of the new funds appropriated. In some years, the maximum capital available gets capped at about 350,000, which will only fund a handful of small business loans. Having to wait for additional loan funds until the third or fourth quarter of the year creates an administrative bottleneck for the agency and undue cash restrictions and paperwork for the intermediaries. Elimination of this rule will allow SBA to more efficiently get loan capital to the microlenders where and when the funds are needed and help intermediaries fund their pipeline in a timely way.

The second improvement is elimination of the 50/50 rule, which also is a burdensome rule enacted in the pilot phase of the program and it affects the administration of our TA grants. It limits funds for pre-loan support to 50 percent of the grant amount. Microlenders support many startups needing intensive business counseling. We cultivate our borrowers by helping them with training and counseling to become ready for credit and debt. This rule also limits funding for underwriting, which is a costly challenge when working with startups and nonbankable borrowers. Elimination of this 50/50 rule would enable microlenders, many of which are very seasoned in this work, to determine the best use of their grants to support their market. They would be able to provide the needed upfront assistance to help the entrepreneur build a solid base for their startup, in addition to the post-loan assistance to support the ongoing growth of the business.

We are very grateful for the support of this Committee for the very impactful SBA Microloan program and hope you will consider elimination of these two rules which would greatly improve it. Thank you.

Chairman KIM. Thank you so much for sharing that.

I want to move it on to Ms. Martinez. Over to you for 5 minutes.

STATEMENT OF CAROLINA MARTINEZ

Ms. MARTINEZ. Chair Kim and Ranking Member Helm and members of the Subcommittee, my name is Carolina Martinez, and I appreciate the opportunity to testify on behalf of the California Association for Micro Enterprise Opportunity (CAMEO). CAMEO is California's statewide network, microbusiness network of over 220 organizations, agencies, and individuals that provide entrepreneurs with loans, credits, and business technical assistance. Annually, CAMEO members serve about 21,000 businesses. These firms, largely startups with less than five employees, support or create 37,000 new jobs in California and generate a total of $1.5 billion in economic activity.

Congressional investment in microbusiness development maters. Business ownership increases income and generates wealth in both urban and rural underserved communities. Business coaching and capital are critical tools for success. Thus, the SBA's Microloan program is of great importance to CAMEO and our members.

Historically, small businesses have struggled to obtain access to sufficient capital and credit to enable them to lead job growth. The struggle can be even greater for startup and microbusinesses.

Take, for example, Maria Palacio. She is a fifth-generation Colombian coffee farmer who started her U.S.-based coffee roasting business to help coffee farmers get a fair price. Maria secured a contract with Facebook but needed a loan to purchase the beans to fulfill the contract. Since Maria's company, Progeny Coffee, was a startup, banks could not make that loan. Maria turned to Working Solutions, a CAMEO member, who lent her $25,000 with SBA funds to help her purchase inventory at this critical moment. Working Solutions helped Maria manage her exponential growth. Over the last 3 years, Progeny grew from $10,000 in revenue to over $1 million in revenue.

To address challenges faced by small business owners such as Maria, Congress authorized the SBA Microloan program as a 5-year pilot program in 1991 and made it permanent in 1997. The rules of the program have remained basically the same, while the lending landscape has dramatically changed. Congress has moved to modernize this program, most recently modifying the 25/75 rule to 50/50.

While this was helpful, CAMEO offers the following four suggestions to further modernize the program. First, eliminate the 50/50 rule. The Microloan Technical Assistance Program previously required that 25 percent of the technical assistance given to the entrepreneur by the lender be provided pre-loan and 75 percent post-loan. In 2018, the Congress changed its percentage from 25/75 to 50/50. While the relaxed requirement is a welcome change, the microloan industry has long advocated for this percentage to be lifted altogether as every business is unique.

Second, amend the 1/55th requirement to provide greater flexibility. This rule is a left-over requirement from the pilot program and is not a sufficient way to distribute funds. We, too, support the elimination of the 1/55th rule. Additionally, we would support the flexibility of having a reserve fund for SBA to deploy capital throughout the year in the event of a lapse in appropriations that result in a continuing resolution.

Third, provide access to microloan data. SBA should make available publicly data on borrowers who use the Microloan program similar to the data available for the 7(a) program. Supporters of the program would benefit from having information such as geographical location, loan amount, interest rate, terms, et cetera. Requiring individuals to file a Freedom of Information Act (FOIA) request is burdensome.

Fourth, increase support for microloan funding. We appreciate this Committee's history of strong bipartisan support for this program. In 2019, SBA is expected to support around $42 million in lending to intermediaries. In addition, an appropriation of $31 million was allotted for technical assistance. CAMEO requests that this program's growth continue, and we will advocate for a 10 percent increase in the program.

In closing, I am compelled to mention the exponential rise of online lending. In 2015, the volume of online lenders was five times that of SBA lending and growing at an increasing rate. The access to fast money comes at a price, in many cases a price too high for many small businesses. Last year, California became the first state to pass a transparency in small business lending bill to protect entrepreneurs from predatory lending. CAMEO believes that the access to capital issue has moved beyond access to affordable capital to financing that will help it to grow, not force it into bankruptcy. We support a federal truth-in-lending bill and would welcome this Committee's inquiry into the feasibility of such a bill.

Thank you for inviting me to testify here today. I look forward to answering any questions you may have.

Chairman KIM. Thank you for sharing that. That is all very helpful.

Why do we not move on? Ms. Jallow, over to you. You are recognized for 5 minutes.

STATEMENT OF MARIAMA JALLOW

Ms. JALLOW. I am Mariama Jallow, owner of Mariama's Beauty Supply in Portland, Maine.

I arrived in Maine from a small village where my family owned and operated a local grocery store. My mother also is a leader of a woman's association where every Saturday, 40 to 50 women meet at our house to make soap. With the money earned by selling the soap at the local market, they make loans to members of their group so that each woman can start, expand, and own their own small business or to help in emergency situations.

After working in Maine for about 3 years, I began to think about opening a small grocery store, like the one my family owns in our village, which I had helped manage with my mother. I soon discovered that despite my business skills, owning a store here is nothing like back home. I then saw that I would need help to start any business in Maine, as the licensing, credit card, and banking systems are all different.

That was when I learned about Coastal Enterprises (CEI), a Community Development Financial Institution (CDFI), and began to work with John Scribner of the StartSmart program manager. StartSmart works with immigrants, at no cost to them, throughout Maine, who are looking to start or expand their businesses. When it became apparent that the market for new immigrant-owned grocery stores in Portland stores was already saturated, I saw that there was a potential for a hair and braiding business because there was nothing like that in Portland, Maine.

CEI helped me in all aspects of locating and setting up my store, including permitting, recordkeeping, negotiating the lease, and many other details. In addition, also, CEI helped in passing legislation to allow hair braiders to work in the state without a cosmetology license, which at that time was required. John and I both testified before the State of Maine legislature, in the effort to update the licensing requirements at the state level. The bill passed, and then the new regulations made it possible for me to offer hair braiding at the store without having to obtain the full cosmetology license, which has been essential to the cash flow of my business.

CEI continues to support me to meet the necessary requirements and obligations related to operating a business, such as bookkeeping and the expansion plans that I have. In fact, after Mariama's Beauty Supply had been in business for 2 years, CEI loaned me funds using the Small Business Administration (SBA) Microloans. This allowed me to increase my retail stock and to renovate my store to include a full-service salon, which will employ a hair stylist and makeup artist, in addition to the existing hair braiders.

Whenever I have a question, I call John for advice.

If it were not for CEI, where would I go for business advice?

I hope and pray that CEI will be here for the next generation of people who are coming to Maine, as well as those who are already here.

Just as the women's association in my home village is making a difference in their community, I see how CEI is having an impact on lives in Maine, including mine.

Thank you so much.

Chairman KIM. Thank you so much for sharing your personal experience. It is very helpful for us to understand how this all works on the ground.

We are going to move on. Ms. Richards, you are recognized for 5 minutes.

STATEMENT OF MICHELLE RICHARDS

Ms. RICHARDS. Thank you. Good morning, Chair Kim, and Ranking Member Hern, members of the Committee. I would like to thank you for the opportunity to testify.

My name is Michelle Richards, and I am testifying on behalf of Women Impacting Public Policy, a national nonpartisan policy organization advocating on behalf of women entrepreneurs.

I serve as the executive director of the Great Lakes Women's Business Council (Great Lakes WBC), which is a nonprofit that services women and minority small business owners and entrepreneurs through capital, women's business certification, training, coaching, and counseling.

When I started Great Lakes WBC over 34 years ago in 1984, microlending was not an industry. We did not know we were a microlender because nobody had yet labeled it. But, when the SBA Microloan program began, we became one of the first organizations to receive funding. We have made $7 million in microloans, creating 1,800 jobs, of which 89 percent were to women.

Capital is often the determinant of an entrepreneur's ability to start or grow a business. There are nearly 10 million women-owned businesses in the United States generating $1.6 trillion in revenue and employing nine million Americans. Yet, for women, accessing capital continues to be difficult. Women account for only 16 percent of conventional small business loans and receive only 4 percent of the actual loan dollars.

For entrepreneurs in rural areas, the challenge of obtaining capital is even greater. As of 2017, only 30 percent of community bank branches were in rural areas. Twenty-one years have passed since the implementation of the very successful Microloan program. It is time for Congress to modernize the Microloan program.

WIPP supports the following three changes: Amending the 1/55th rule to provide greater flexibility to SBA microlenders, as you have heard; eliminating the 50/50 technical assistance rule; and providing access to SBA microloan data. The 1/55th rule is the number one pain point for microlenders. Under this rule, as you have heard, only $800,000 or 1/55th of available loan funds are made available to intermediaries. It is divided equally among states. The SBA asked for authority to eliminate this rule, stating that it restricts the ability of capital for small businesses without considering the size of the states or the needs of the small business community.

When the SBA is operating under a continuing resolution, loan amounts are even more restricted. We had a loan in which we requested a half million dollars and had a pipeline to support it, but only received $164,000, because that was all that was available for Michigan. Our options were to take the smaller loan or forgo it altogether and lose our place in the queue for the second half of the year. In another instance, we ran out of money at the end of the fiscal year but had to wait five months until March when funding was available. This affects our credibility and our ability to serve communities.

WIPP supports the elimination of the 50/50 rule. The Microloan program has strict requirements for microlenders. The TA program for many years, as was stated, provided 25 percent for pre-loans and 75 percent for post-loans. WIPP asked Congress to give microloan lenders the flexibility to use TA as they see fit. Rather than set a percentage prescribed by the Federal Government, many of these organizations like ours have more than 2 decades of experience and need the ability to shape the program to be the most effective for our clients.

SBA should make available data on borrowers who use the Microloan program, similar to the data that is available through the 7(a) program. Data on geographic location, loan amount, interest rate, and term would be helpful not only to supporters of the program, but to microlenders in determining gaps and needs.

In conclusion, Great Lakes WBC is an example of how organizations, in partnership with the SBA, can serve the needs of entrepreneurs and their communities, turning them into job creators. Making the suggested changes to the Microloan program would go a long way toward making the program even more impactful.

Thank you for inviting me to testify here today. I look forward to answering any questions you may have.

Chairman KIM. Thank you. We all appreciate everything that you have shared with us today.

So why do we not move on? We have a lot of questions for you and look forward to this conversation.

I will begin myself. I will recognize myself for 5 minutes. Thank you again for being here.

Capital access is critical, is a critical need for small businesses. We all know that. It provides an important financial foundation which often determines whether a business is going to be able to successfully grow. Predatory lending has been a growing issue in the small business community, and unfortunately, as capital availability from traditional sources has declined, predatory practices have emerged. Predatory lending has devastated many small businesses throughout my state and certainly across the country.

I wanted to start with Ms. Martinez. In your testimony you mentioned the rapid rise of predatory online small business lending and how in many cases access to this fast money comes with a price much higher than most small businesses can afford.

I wanted to just drill down in this because I think it is a very important point. Unfortunately, this often leads to entrepreneur insolvency and/or small business bankruptcy. How often does your organization, or its members encounter an entrepreneur or small business struggling with the consequences of agreeing to such a loan with predatory, unfair, or unreasonable terms?

Ms. MARTINEZ. Thank you, Chairman Kim.

Yes. Unfortunately, our members do encounter these cases more often than we would like to. So sometimes it is daily. And most of our borrowers are actually arriving to us to try to save their businesses and save their way of life sometimes. So, this predatory lending is really affecting. And one of the things that I would say probably is that they are trying to serve the clients as efficient as they can, and they are trying to use the loan capital that our members have to really help the business owners to refinance. But it is something that is coming to terms really often and we could say that every day they are seeing these kinds of cases.

Chairman KIM. Well, as you were saying, with the refinancing, since microloans may not be used to refinance existing debt, how does your organization's work with the microloan intermediaries in its network to remedy this problem for the borrowers then?

Ms. MARTINEZ. Yeah, well, CAMEO is helping our members to find other alternatives, not restricted loan capital, to be able to refinance. So, they are not allowed to use microloan capital to do these kinds of loans. Sometimes it is not possible, and they get to us really late, and your members have to find additional capital to be able to do the refinancing and help the small businesses.

Chairman KIM. Thank you. I believe if Congress is to effectively confront this issue of predatory lending we must have accurate and current data available as well, and I think that gets to a lot of the points you raised, Ms. Richards. In your testimony you mentioned challenges in accessing Microloan program data. Is the problem that the data around microloans is not being collected or that SBA is not reporting it?

Ms. RICHARDS. SBA is not reporting——

Chairman KIM. Would you mind using——

Ms. RICHARDS. Sorry. Technology is never my friend.

SBA is not reporting it. The data is available.

Chairman KIM. So I guess from my perspective here, would it be unduly burdensome for SBA to require participating intermediaries as it collects certain data and to report it to the SBA and then obviously we need to address what you just mentioned as well about making sure SBA is going to be reporting this coming out.

Ms. RICHARDS. So as a microlender, we report in a system that is called MPERS, Microloan Program Economic Reporting System, I suspect. And so, in fact, today is the deadline for reporting from last month. We report all of this data every month. It is available. It is part of the database. It is not published. It is not made available.

Chairman KIM. And from what you have heard so far, what is the reasoning you are hearing why this data has not been made available?

Ms. RICHARDS. I am not familiar with the reason why.

Chairman KIM. Okay. Well, we will make sure we come to the bottom of that.

Well, my time is coming to an end. I want to turn it over to Ranking Member, Mr. Hern, who is now recognized for 5 minutes.

Mr. HERN. Thank you all. Thank you for your story, Ms. Jallow, about the American dream coming here and starting with an idea and finding access to capital and realizing that you can put people to work. So thank you so much for that story.

To the entire panel, can you each briefly describe the small business environment in your local area, very briefly, the optimism? Is there optimism? Very briefly. I have a ton of questions.

Ms. PRINSTER. Colorado has a very strong economy. We have a very high level of small business ownership and entrepreneurial spirit, and I would say that our level of small business startups and growth is very high.

Mr. HERN. Thank you.

Ms. Martinez?

Ms. MARTINEZ. Yeah. California is also a very strong economy, and we do see a lot of businesses starting. And I think one of the challenges we see definitely is the access to capital, and obviously, to the business consulting. But we do see also an interesting rise in small businesses, very small businesses, and also some of the freelancers and contractors.

Mr. HERN. Thank you.

Ms. Jallow?

Ms. JALLOW. In Portland, there are a lot of immigrant businesses starting in Portland. Like, in all of Forest Avenue, there are mostly immigrant businesses. And then they are having a lot of help from CEI because when I wanted to start my business I went to one lady who had a business and then she recommended CEI to me. So that is the way we started. And there are a lot of us starting.

Mr. HERN. So, well, I am going to have a follow-up question for you.

Ms. Richards?

Ms. RICHARDS. Michigan has a shifting economy——

Chairman KIM. Could you use the microphone?

Ms. RICHARDS. Michigan has a shifting economy with the changes in the automotive industry but actually, three-quarters of Michigan is small cities and rural. And so there is still a great deal of struggle for enough sufficient support for small businesses. But actually, 87 percent of all the businesses in Michigan have five employees or less. So that is the bread and butter of our state.

Mr. HERN. That is awesome.

So I am sure you all looked at our backgrounds or bios. I have been a small business owner for 34 years and never ran for office before I came here, but I ran on one principle, and that was getting out of the way of job creators. Let them create more jobs and put people to work. One of the biggest problems we have in America is we have people with great ideas, like Ms. Jallow, that are having trouble trying to find opportunities to get access to capital so they can start. Also along that line, I am also in banking in the sense that I got to help start a bank many years ago. One of my frustrations was, and I am sure you all have heard of the infamous two words, Dodd-Frank. And Dodd-Frank really destroyed the ability for the small community banks to come out and take a chance on people like Ms. Jallow. And so I am sure you all have seen a lift in your opportunities, but as Ms. Martinez said, you also have people who are taking advantage of this inability for community banks to provide access to capital. And so therefore, that is the byproduct of what we sometimes do not hear about how when we get really engaged in Washington, D.C., in policy that there are alternatives that happen, bad things happen.

So with that, Ms. Richards, we often hear about small businesses. They do not have the idea to be able to find like CEI like Ms. Jallow did. How are we supposed to find people with ideas like Ms. Jallow, how are we supposed to find folks like yourself?

Ms. RICHARDS. Well, first of all, the internet is really critical. The Small Business Administration website has a list of the microlenders. Or had. They are updating it currently. They use our website. The Small Business Development Center, another SBA resource partner, is a critical component. Last year we received more referrals from the SBDC than any other source. We receive referrals from the banks and from former lenders, borrowers from our program also. The word is spread very widely and the biggest issue is there are still some gaps with the Microloan programs where they do not cover all the areas of a state. Just officially this month, the last nine counties were given to a microlender, so finally, Michigan is fully covered.

Mr. HERN. Ms. Jallow, how did you find CEI in my remaining 30 seconds.

Ms. JALLOW. Through a business owner in Portland where I used to go and buy groceries. So I was talking to her. I said I want to start a grocery store. And then she was like, okay, I will give you a name of an organization that helped me, that are working with me. And then it was like, okay, I am going to call them. And then she gave me CEI's number and then I contacted John.

Mr. HERN. If I may, we hear testimony a lot in our Committee about opportunities to loan money. It seems like one of our biggest issues is being able to get the message out to people with ideas because we have a lot of programs but very little awareness on the entire program itself. Thank you.

Ms. JALLOW. You are welcome.

Chairman KIM. Thank you. The gentleman's time has expired and he yields back.

And I agree wholeheartedly about wanting to make sure we can find ways to inform people about those programs and that is something that the Ranking Member and I are committed to doing together.

I wanted to recognize Representative Sharice Davids for 5 minutes.

Ms. DAVIS. Thank you, Chairman Kim.

I am Sharice Davids from Kansas. It is the Kansas City metro area. I got really excited. I am going to say what I have here but I got really excited about a couple of things that you all have said.

You know, the reason I get so excited is because entrepreneurship is kind of baked into the DNA of the place that I represent and that I live in. And this concept of an entrepreneurial ecosystem and the ways that different enterprises can make use of programs and that sort of thing plays out, at least from what I have seen, there is an organization that I know, a CDFI, which I love CDFIs, a CDFI called Alt Cap in the Kansas City area. They were only on the Missouri side. They are moving over to the Kansas side as well. And they have found different ways to collateralize some of the loans. And I know that is sometimes an issue, particularly for like artisans. They started a program called Art Cap that helps artists collateralize in different kind of ways than what we might see ordinarily, which I think is one of the great things about microlending and CDFIs. So I might come back to that.

But I really got excited when you started talking about the relationship with SBDC, the Small Business Developments. Can you talk, and maybe this will be something that each of you could speak to for a moment, about how important it is either to build that relationship if it does not exist or if it does, and maybe any others, like the PTACs and community colleges. I know Johnson County Community College where I went to school has a Small Business Development Center. Can you talk a little bit about that?

Ms. RICHARDS. Certainly. The Small Business Development Center's purpose is, in fact, to assist the growth or development of small businesses. And so they see us as a strategic partner. So as soon as they are meeting with someone who is going to need financing they alert us so that if we have additional questions to ask or direction to give, we work at the very beginning stages with them. We also work with the PTACs in the area. And many of the community colleges have entrepreneurial tracks now. And they frequently ask us to come and speak to their class before they graduate so that they know about the resources available to them because startup capital is very difficult for banks to provide. And so alternative financing, like the microloan programs, are very critical.

Ms. JALLOW. For me, having the experience back home, to come over here and then to start is a huge difference because the licensing, the insurance and everything is different, whereas back home you can just start. But when I learned about CEI they definitely helped me because I was thinking that I cannot do it after talking to people. I was thinking that I cannot do it but after meeting with John and talking about it, I always get excited whenever I leave the office because I am like, okay, I can do it. And then we have people that are working in there, too, that are from different countries.

Ms. MARTINEZ. Well, from CAMEO, we do believe that the only way that we are going to be supporting the entrepreneur is if we provide the resources in a comprehensive way. And I think the entrepreneurial ecosystem dimension is something that we are very interested in continuing to develop. The resources are available. There are the SBDCs, the WBCs. There are a lot of independent, nonprofit organizations that are providing business counseling to the entrepreneurs, but we just need to be aware of these resources. And building really strong networks where we share what programs are in existence and we determine what gaps are needed. It is important to be able to fulfill that need of the entrepreneur and find the right capital for them as well.

Ms. PRINSTER. We work very closely with the SBDCs across our state in Colorado. In fact, some of our lending team will have office hours within the SBDC to talk specifically about financing, and particularly, our ability to help them. Most of our SBDCs do a very good job on classes, and we do refer businesses to them for counseling and training. Sometimes, and this addresses the 50/50 rule, sometimes the SBDCs have long waiting times for their counselors, or their counselors might not be as attuned to some of the populations that we serve. So, we would like to have more flexibility with our grants to do that pre-loan technical assistance. And then, of course, we will also support them post-loan because we have the loan to them. Therefore, that 50/50 rule does play into this issue about SBDCs and what they do well and what we feel we have the better opportunity to provide.

Ms. DAVIS. Thank you. I appreciate that. And I appreciate your time. And with that I yield back.

Chairman KIM. Great. Thank you.

I now want to recognize for 5 minutes Representative Radewagen from American Samoa.

Mrs. RADEWAGEN. Talofa. And good morning.

Thank you, Chairman Kim and Ranking Member Hern for holding this hearing. And I want to thank the panel for appearing today. Each of you has a fascinating story and I just am very interested in it.

My main goal while serving on this Committee is to see small business development in my home district of American Samoa, and it is my belief that microloans are the way forward for American

Samoa. Now, I have seen the wonder of microloans in the neighboring independent Nation of Samoa, which has been a great boon for their small businesses. And I actually went into their villages and talked with many of the small business owners. And interestingly enough, it turns out almost all of the ones who get microloans are women. So they have discovered, the people who administer the microloan program, discovered men are not really as good at paying their loans back on time. So women have a better chance at it, so whatever that means.

But I have a few questions. I would love to ask all of you questions, but Ms. Richards, because our time is so limited, when you are speaking with small businesses, what is the number one issue they raise?

Ms. RICHARDS. Well, truthfully, the number one issue they raise is that they need capital. What we recognize is that what they need is capital, and usually they need assistance either with focused marketing strategy or operational excellence. They have business operations that are not successful. And so the biggest issue is getting them to understand that it is not just the money they need from us; it is the technical assistance and us to be a partner in their business growth.

Mrs. RADEWAGEN. So after assisting a small business, I presume the relationship you built with small business does not stop, correct?

Ms. RICHARDS. It does not stop. They are much like children and they never go away. They come back. They come back in a good way. And so truthfully, as they hit key milestones, whether that is moving to a new location. We had a company that went actually into manufacturing the product instead of importing it, that they will come to us first to help strategize, create a financing plan, and to move it forward.

Mrs. RADEWAGEN. I see. So in your statement you explain that 93 percent of all your loans are through SBA's Microloan program. What is the makeup of the remaining 7 percent of loans?

Ms. RICHARDS. The 7 percent is from investments from some foundations and some area banks that have key target areas that they want to invest money in.

Mrs. RADEWAGEN. So do you know on average how many hours of technical assistance you might supply to a single small business in a given year?

Ms. RICHARDS. We tend to estimate about 15 hours of technical assistance. Now, that will include any preparation time that a counselor, business counselor, will be doing in preparation for that meeting.

Mrs. RADEWAGEN. So that would be 15 hours in a given year? Okay.

Thank you, Mr. Chairman. I yield back.

Chairman KIM. Thank you.

We are going to move forward, and I would like to recognize Representative Crow from Colorado for 5 minutes.

Mr. CROW. Thank you, Mr. Chairman.

Ms. Prinster, always good to see a fellow Coloradan in D.C. Thank you for coming and joining us here today. And to all of the witnesses, really appreciate your hard work and what you are doing for small businesses and your leadership in your communities.

This is a general question, and I would invite all of you to respond to it. But I represent one of the most diverse districts in the country. There are over 140 languages spoken in my largest city, but one in five residents of my community were born outside of the United States. And one of the biggest issues that they face, and this tends to be a very entrepreneurial community, they start their own businesses, and one of the biggest issues they face is just the lack of transferability of credit. These are folks that own businesses from where they came, but they come over here and they are coming with a blank slate and it is very hard for them to access capital and to start businesses. And I would love to hear your thoughts on whether you have experienced that, maybe starting with Ms. Jallow. What are the ways we can address that?

Ms. JALLOW. Yes. For me, at the start, I had capital to start but in 2 years I needed some to grow, to add more inventory in the store and then to renovate the store for a full license salon because right now we just do braids, braiding, which some ladies rent from me and start their own businesses. Because, when they arrive some cannot speak English but having that opportunity to rent from me and sit and do hair braiding does not require much English to do that. But definitely the loan helped me to now renovate and put a full hair stylist that I will be employing and a makeup artist to do makeup.

Ms. PRINSTER. I am familiar with your district, Representative Crow. Your point about people who lack credit history is one of the reasons why the SBA Microloan program is so important. We are very familiar with this type of situation. Because we are a non-profit, we see it as part of our mission to help immigrants, refugees, re-entering citizens, and veterans who may not have any or a very deep credit history or may have a troubled credit history. We really see this as part of our mission to help them to establish a business and establish their credit. We report credit monthly through an agency that works with Equifax and TransUnion so it is a credit-building function and we see this as very important for those businesses that are trying to establish credit. But as far as making the loan in the first place, we have the flexibility to look past imperfect credit, look at their business plan, work with them, and again, more funding for this pre-loan technical assistance would help us. These are the kind of populations that really need that more dedicated handholding to get to a point where they are credit-ready.

Ms. MARTINEZ. Well, among our members we do have several of them that are providing alternative underwriting criteria when they are actually offering loans to a specific population such as immigrants and refugees and people with credits that are very troubled. So, considering that kind of alternative ways to provide the loan and assess the loan before doing it and providing that pre-loan technical assistance is key to actually help them build the credit and actually access capital to grow their business. So, we do believe that needs to be kind of a partnership again and with different organizations and the microlenders, the SBDCs and WBCs and all of them to really work between themselves to provide that pre-loan technical assistance and also to consider for the lenders an alternative way of considering and assessing the loan before approving.

Mr. CROW. Thank you.

Thank you. I yield back.

Chairman KIM. Thank you.

I would like to recognize for 5 minutes Representative Spano from Florida.

Mr. SPANO. I have a defective microphone so I am just going to hold it.

First of all, I want to thank the Chairman and the Ranking Member for highlighting the need to make sure that small businesses know what SBDC does. That has been a frustration for me and my community as well.

I have a couple questions. I think the first maybe I would like to direct to Ms. Richards, if you may. You suggest that the 1/55th rule should basically end and essentially, that loan funds should be allocated according to state size, needs of the business community. I would like for you, if you would, just to drill down for me, maybe take 30 seconds, drill down. So would it just be an allocation, a proportionate share based on the population of the states, and then as it relates to the business needs of the community, what would be the types of criteria that you think we should look at in order to better distribute these funds?

Ms. RICHARDS. Some of those practices are in place. The SBA requires a pipeline, for us to show a pipeline of loans and that we are in good standing with the program before we can borrow. And I think those need to continue to stand in place.

So I think that the criteria should hold that an intermediary has to show that they are in good standing but that the funds should be available to the intermediaries who are able to effectively deploy them because that is really a better indicator I think to Congress of how much funding is really needed if we take some of these caps off as to how effective we could be at microlending everywhere.

Mr. SPANO. Okay. So in your opinion, the most important criteria would be the effectiveness of the intermediary rather than the population of the states or the specific business needs of the community?

Ms. RICHARDS. That is right. That is right. We have become very well-powered machines at creating jobs and businesses.

Mr. SPANO. Do you have any concern that that might negatively affect some of the states or the businesses needs of the small business community who just happen to be in a region that do not really have an effective intermediary?

Ms. RICHARDS. There are so many great associations that support intermediaries at becoming best in class, and there are so many resources to incur those skills that I do not think that that is really the issue. More and more intermediaries are both emerging and growing, and I think that the real issue is that because of the way the funds are structured, they ensure that great opportunities cannot occur in two intermediaries in one state. Someone gets the bulk of the money and someone does not.

Mr. SPANO. Follow-up questions. You had also mentioned about the 50/50 rule and you guys really are not in the best position to provide this technical assistance. And so do you know what the rationale was, SBA's rationale when they implemented this rule to begin with? What was their expectation or anticipation for intermediaries in terms of technical assistance? Why did they think it was important?

Ms. PRINSTER. If I may answer that question since I was around at the early stages of the SBA Microloan Program myself. I think the rationale, which originally it was 25/75, 25 being for pre-loan, then was changed to 50/50, I think the rationale was that they wanted the intermediaries to support the businesses who had loans, and to spend most of their time working with the borrowers that had an investment from the microlender. I think the main rationale was to force us to put our focus on businesses that took out loans from us. As the industry has grown and matured, we have seen that there are many businesses and business owners, including what we were talking about with Mr. Crow, not just in Colorado but everywhere, that need a lot more of handholding and intense work before they are ready for credit. We like being able to support them in getting there.

Mr. SPANO. So what would you say, and you can answer that question, too, Ms. Richards as well, but I also wanted to interject there, what would be, you had mentioned that processing the loan and working on the loan and getting ready for the loan is included in this category of technical assistance. What other types of technical assistance do intermediaries provide, if any, or is it just processing a loan?

Ms. RICHARDS. It is absolutely not just processing a loan. Most of the work that is really key is what is going to make this business successful and this loan get paid back. And so sometimes it is helping people to get into new markets. We helped a woman who had a battery franchise get an industrial contract with a utility company which allowed her to be able to grow at a great rate, use the expertise she has and basically open up new markets. Our reach is much greater than their reach.

Mr. SPANO. Just really quickly. Do you have any concern that doing away with the 50/50 rule requiring any technical assistance at all would create a problem where intermediaries would not have really an interest to provide those resources?

Ms. RICHARDS. Absolutely not. I think it was originally designed because the only benchmark they had was banking, and so banks inherently are not going to spend that kind of time upfront cultivating those deals. That makes sense. That is a good business decision. But we are in a different category and we need the flexibility to do what we need to do.

Mr. SPANO. Thank you, Mr. Chairman.

Chairman KIM. Thank you.

Moving on I would like to recognize Representative Delgado from New York for 5 minutes.

Mr. DELGADO. Thank you, Chairman. And thank you, all the witnesses for taking the time to educate us today. It is important, this work.

And I wanted to stress, as someone who represents Upstate New York, New York 19, the home of over 27,000 small businesses, one of my priorities is to figure out how to increase capital for folk back home. And one of the things I often hear from folks back home is that they do not feel that the Federal Government is helping to revitalize the economy in rural communities, and my district is very rural. They cannot discussed loans, as we have discussed, to start their business. They do not even know where to start, as we have discussed. And they want to stay in the community but there are so many hurdles for folks to overcome. So Ms. Jallow, what I would like to hear from you is to elaborate more on your personal experience in trying to get a loan for your small business before you began working with the intermediary. What was that experience like?

Ms. JALLOW. Before I started working with CEI I would not be able to start anything if it were not for them. I would not know where to go in the first place because I was thinking like the concept that I have that you can just come and start similar to back home. But when I talked to people they are like, oh, it is not that way. You have to do this and that. And then that is the time I contacted CEI, which is really, really helpful. Like, whenever I need something, they are always there. Whenever I call, John is ready. Sometimes I will be even late. He will be like, you know, it is okay. You can come. So it is really helpful for me. And then I know a lot of people over there, too, that really get help from them.

Mr. DELGADO. And can you speak a little bit about how long it took before you were made aware of this option, and how did you come to learn about it?

Ms. JALLOW. I learned about it with a business owner in Portland who is an immigrant from Cambodia. She is the one who told me about CEI. And when I contacted them, it took me like 5 days for them, you know, when I called him they just told me we can set up an appointment. You can come in. So that is the time I went in and we talked about it and it was really helpful for me to start and I was like, yeah, I can do this.

Mr. DELGADO. Excellent. Thank you.

And to anybody on the panel, happy to hear about your experiences working with rural businesses that have benefitted from the Microloan program and some of the challenges that are specific to rural communities when it comes to accessing capital.

Ms. MARTINEZ. Well, we do have a lot of rural businesses also that are member-served in California. And I think the challenges are high as you mentioned or there are not as many microlenders as they would like but there are also alternative ways. So definitely they have really strong ones I might say, so the lenders that are there might be just one or two, but they are really strong. And then also they are considering alternative ways to reach them. So, when we are talking about online lending it is actually a good way to reach more rurals. It is just it has to be the right way. So, we want to make sure that when we are talking about lending and being able to optimize the process and make it faster and more accessible for our rural business owners especially, we are able to provide the right programs and loans. We, being in CAMEO, actually are supporting a lot of our members to get more online applications and just being able to connect with the members through online solutions. And I think that is a really good way to make sure that you reach the right business owners without them having to travel so far or being able to really experience all the issues they might have to find the right partner in the location.

Mr. DELGADO. Yes. On that point, broadband access would probably be important then.

Ms. MARTINEZ. Totally. Absolutely.

Mr. DELGADO. Okay. Anybody else want to——

Ms. PRINSTER. Colorado has many rural areas as well as metropolitan areas. Our primary service area is the Front Range which is more the metropolitan and small city area but one of the difficulties we have in reaching some of the rural communities is our ability to fund that outreach. We create partnerships very frequently with SBDCs, banks and economic development organizations within those communities to be able to get the referrals. We have an online application. So there are ways that we can serve a business in a rural area without always having to be there, but it is important to have those connections.

I would also say that outreach and visibility are critical to this program. Once we are connected with a business we can help them, but it's hard to reach them if they don't know about us. So I suggest that the cost of outreach should be allowed under the technical assistance grants because the awareness and education of our partners in other communities is a really important part of making this program accessible to businesses across our state, including rural areas.

Mr. DELGADO. All right. Thank you.

I yield back.

Chairman KIM. Thank you.

I would like to move on to Representative Stauber from Minnesota. You are recognized for 5 minutes.

Mr. STAUBER. Thank you very much, Mr. Chair, and to the witnesses, I appreciate your comments.

I just want to follow up a little bit on our Ranking Member Hern's comments about Dodd-Frank and loaning to small businesses. However, well-intentioned that was, I can tell you back home it was devastating for our small, local community lenders and they are feeling it today. And so when we talk about access to capital, that was one of the, I think, the negative effects of that law. And so I think our goal is to allow this capital, allow our small lending institutions across rural American have the ability to have that capital ready and available when that entrepreneur comes in. So I think what I am hearing back home is from our lending institutions, our community lending institutions, that was devastating for them. A third of their time, approximately a third of their time making sure that they are following the government mandates in case they are audited or investigated, which does not seem right. Our lending institutions, you have all built trusting relations with the lending institutions. I think they are a big part of our economy.

We have talked about broadband. I am on the Transportation Infrastructure Committee as well. Broadband is important for rural America, rural Minnesota, Northern Minnesota, where I represent, and so Ms. Richards, you talk about the Microloan program. It is currently operating with half of the number of intermediaries that are allowed. So in your opinion, how can we attract more intermediaries in that rural area of our country? Because we know that once we work broadband in the rural areas, that is where our small businesses can relocate or start up. Can you just answer that question?

Ms. RICHARDS. Well, first of all, the current regulations around the program, the 25/75 really limit your ability when you have a rural area. There is a significant amount of time of going to meet with people because you have to go see their business. You have to see what it looks like before you go and make the loan. So the upfront costs, the pre-loan costs are so much higher. It helps that it was moved up to 50 percent which gives us some more flexibility because we have some clients that we travel 2-1/2 hours or 3 hours to visit in rural areas. So the first is that 50/50 rural is really hampering many organizations from stepping up to the plate and becoming microlenders. Community action agencies, you know, other agencies that exist within the rural construct.

Secondarily, I think that there are networks that are continuing to work, and associations. AEO is an association and others that are trying to identify organizations that can serve those communities. We see this movement as critical that every county in this country should be covered. And so that is why I was so proud that finally every county in Michigan is covered. There are four other microlenders and we mentored every single one of them to get started. So part of it is we need to have a mentoring network of successful Microloan programs that go in and mentor an organization, identified resource to actually become a lender. Get the best practices out of the way right away.

Mr. STAUBER. And thank you for those comments.

I would say that the testimony today, and I am very privileged to be on the Small Business Committee. As a small business owner myself, what you are doing is vital to the startups and to the entrepreneurial spirit because when somebody has a good idea they are excited. The door has got to be open when they are ready. When they run into roadblocks and stumbling blocks, they are not going to pursue it as you described. And I think we call can agree that when that entrepreneur comes knocking that is where the excitement phase is. They have probably done a lot of research where you can assist them in getting or developing their small business because I think each of you know, and everybody on this Committee knows small businesses are the engine of our economy. Main Street America depends on small businesses.

I appreciate all your efforts that you have put forth. And Mr. Chair, I yield back.

Chairman KIM. Thank you so much. And I just want to echo your sentiments there. That is certainly the focus of what we are trying to do on this Subcommittee and this broader Committee. And just in my short time here in Congress already I have certainly seen this Committee try to do everything we can to put aside any partisan differences and work together to be able to figure out how we can help small businesses and entrepreneurs, and the work that you are doing is really where the rubber hits the road and that is what we need to be investing in and figuring out what we can do to make sure to help you do your jobs better and help small businesses grow. So I just appreciate that sentiment there at the end.

I think that is the conclusion here of the questions. I just wanted to take a moment—did you——

Mr. HERN. Well, I just want to again say thank you so much. What you all do goes thankless sometimes, but thank you so much for your relentless pursuit of trying to make this a better program.

Chairman KIM. Absolutely. We all share that sentiment. We are grateful for all of you coming out today, and we also just want to take a moment to just recognize how exciting it is that we have an all-women panel to celebrate Women's History Month as well. So I just want to thank you for participating there.

As we have heard today, there is a lot of good work the Microloan program and its partners, intermediaries, are doing to enhance access to capital and entrepreneurial development for America's smallest businesses. In the 20-plus years the program has been in existence it has grown significantly, and as we heard today, some of the rules governing the program have not kept up with its growth. I look forward to working with my colleagues on both sides of the aisle to find policy solutions that will thread the needle to provide the flexibility intermediaries need to continue funding and training America's entrepreneurs.

I would ask unanimous consent that members have 5 legislative days to submit statements and supporting material for the record.

Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned. Thank you.

[Whereupon, at 11:14 a.m., the subcommittee was adjourned.]

APPENDIX

Written Testimony Submitted to the House Small Business Committee
by Ceyl Prinster, President and CEO
Colorado Enterprise Fund
for a Hearing on March 7, 2019

Colorado Enterprise Fund is (CEF), an award-winning nonprofit Community Development Financial Institution (CDFI) and SBA Microloan Intermediary. Founded in 1976, CEF's mission is to provide small businesses with access to capital and capacity-building support to build prosperous, diverse and equitable communities across the State of Colorado. CEF has received numerous awards and recognitions, most recently the 2017 Impact Catalyst Award and the 2018 Martin Luther King, Jr. Award.

I have served as the chief executive of my organization for over 30 years, starting as its first employee, and we currently have a staff of 23, with offices in Denver and Fort Collins. I would like to tell you about my organization and its participation in the SBA Microloan Program. I will then suggest some improvements to the Program and close with a small business success story.

Since CEF began in 1976, we have made more than $81 million in loans to start and grow over 2,400 small businesses in Colorado and have created or maintained over 12,000 jobs. These loans helped entrepreneurs who could not obtain the capital they needed from traditional sources like banks. A significant percentage (85%) of our loans have been made to minority, women, veteran or low-income entrepreneurs. CEF's current portfolio consists of 614 loans totaling $24.6 million outstanding. Our small business loan repayment rate averages over 97%.

CEF became an SBA Microloan Intermediary (Intermediary) in 1992 in the first cohort at the inception of the SBA Microloan Program (the Program). The Program provides certified Intermediaries with 10-year direct loans from the SBA for relending to small businesses and grants (TA Grants) to support business technical assistance services provided by the Intermediary. The loans from the Program to the Intermediary are priced below market so that when the Intermediary relends the funds to small businesses at a prescribed margin above its cost of funds, it can use the spread to support its administrative expenses.

In our 27 years in the Program, CEF has received 15 rounds of Program loans totaling $11.5 million, with 11 of our loans now paid off. With this funding from the Program, we have made 1,476 small business loans totaling $18.7 million, thus revolving the Program funds 1.6 times during their 10-year amortized term to achieve greater impact.

The TA Grants have helped us create and administer a robust program of business advising, coaching and training using in-house consultants and lending staff and a pool of outside legal and accounting professionals – all trained to provide trusted guidance to our clients. We deliver an average of over 3,000 hours of technical assistance per year and over 80% of our borrowers utilize our TA services. These business advisory (TA) services mitigate risk on our loan portfolio by helping businesses work through challenges and tough times so they can continue making payments on their loans. Most importantly, it contributes to their stability and growth, ensuring business success for them, their families and employees, and their community.

The SBA Microloan Program helped CEF build its track record, which enables us to attract significant additional capital from investors such as banks, foundations and other governmental sources, leveraging the impact of the Program even further. Our first loan from the Microloan Program in 1992 of $250K doubled our total assets at the time to $500K. We have since grown our asset base to $33.8 million, with $4.1 million from the Program currently outstanding on our balance sheet. It is this larger capital base that has funded over $81 million in loans to 2,400 Colorado small businesses, with the SBA Microloan Program providing the foundation for this growth over the last 27 years. We have created targeted programs utilizing Microloan Program resources for veterans with our VALOR loan program, and for food-based enterprises through our Healthy Foods Fund.

CEF was there when the SBA Microloan Program first began in 1992. We have seen and participated in its evolution from a startup pilot to the mature, permanent federal Program it is today. It has done a lot of good in Colorado and across the country, serving tens of thousands of small businesses with access to capital they would otherwise have not obtained and helping Intermediaries grow as stable and trusted resources in the small business financing ecosystem.

For over 25 years, I have been a member of the Friends of the SBA Microloan Program, an informal network of nonprofit SBA Microloan Intermediaries that educates policymakers and the public about the needs of small business entrepreneurs, how microlending fits into the financing ecosystem, and works to improve the SBA Microloan Program. I also serve as a Board Member and on the Executive Committee of the national CDFI Coalition, representing microlenders within the broader CDFI community.

With my experience and industry involvements, I am confident that I speak for a consensus of other practitioners to say that, as good as the SBA Microloan Program has been for businesses in Colorado and across the nation, it could be even better. There are two changes to the Program that Intermediaries agree would reduce administrative burden on both the Intermediaries and the SBA and facilitate improved processes to support small businesses seeking credit.

The first is elimination of the "one-fifty-fifth rule" (1/55) which places an annual limitation on the distribution of loan funds for the first half of the year to the lesser of $800,000 or one-fifty-fifth of the new funds appropriated, which in some years has translated into a maximum of $350K available and will fund only a small handful of small business loans. The original intent of this rule was to ensure that Program funds were available to all states and not concentrated in just a few. Today, there are over 150 Intermediaries in nearly every state, but they often are not able to access additional loan funds until the third or fourth quarter of the year. This rule creates an administrative bottleneck for the agency and undue cash restrictions and paperwork nightmares for Intermediaries. Elimination of this rule will allow SBA to more efficiently and effectively get funds to the Intermediary lenders where and when the funds are needed. Striking 1/55th rule will not impede the funding opportunities for Intermediaries, as the microloan statute also includes a provision requiring equitable distribution of funds among states.

The second improvement I support is elimination of the "50/50 rule" (originally the 25/75 rule) which also is a needlessly burdensome provision enacted in the pilot phase of the Program. It stymies Intermediaries by dictating how much of their TA Grant funds can be used for pre-loan support vs. borrower support. This rule ignores how the microlending industry works with startups and how we must cultivate borrowers by helping them get credit-ready with training and counseling to ensure they are prepared to take on debt obligations. It also overlooks the cost to cash-strapped nonprofit Intermediaries for underwriting startups and non-bankable borrowers by restricting the funding support for this essential function. Lastly, Intermediaries must build and maintain a pipeline by doing outreach to banking partners, SBDCs and other referral sources. This critical aspect is not supported within the 50/50 rule and thus constrains access to capital by limiting the visibility of Intermediaries to their potential market.

Elimination of this 50/50 rule would enable Intermediaries, many of which have been in the Program for many years, to determine the best use of their grants to support their market. They would be able to provide the needed "upfront" assistance to help the entrepreneur build a solid base for their startup in addition to post-loan assistance as the business grows and the entrepreneur seeks to expand his/her knowledge base in running a business.

We are grateful for the support of the House Small Business Committee for this very effective Program and hope you will consider these changes to improve it.

With that, I would like to leave you with a story about one of our favorite microloan borrowers, Lorena Cantarovici, who founded a company called Maria Empanada.

A former Argentinian bank manager found her passion and the American Dream: making savory gourmet empanadas for Coloradans to enjoy a taste of her Argentinian culture. Like many immigrants seeking a better life, Lorena came to Denver with only a backpack and a few hundred dollars. After working in low-wage jobs and becoming a United States citizen in 2008, she started her business in her garage and opened her first small storefront in 2011. "I wasn't happy working in a corporate environment, and wanted to do something different," she said, "so I started making empanadas for friends and family. Before I knew it, people started ordering them and it just kept growing." She named the business Maria Empanada after her mother, who taught her how to make empanadas.

In 2014, after being turned down many times by banks to finance a move to a bigger restaurant space, Lorena was referred to Colorado Enterprise Fund (CEF) for her first loan. That financing and the success of the restaurant helped her get a bank loan to purchase the necessary equipment and hire personnel to expand to a second location. Lorena came back to CEF to expand her business model again between 2016 and 2019, securing three more retail locations in Denver and Aurora. "I couldn't have built my business without CEF. Their funding and advising helped us grow into a viable enterprise."

Recently, Lorena received a $3.5 million equity investment from the Colorado Impact Fund to scale her production by building a new industrial-sized kitchen and to fund the expansion of her retail presence to more locations. She plans to produce empanadas for grocery store sales from her new production facility. Lorena currently employs 41 people, 80 percent of whom are LMI and are paid above market wages including benefits. With CEF's assistance, Lorena went from a small-scale caterer, to the owner of an award-winning, Zagat-rated restaurant and is ranked as "One of the 12 Hottest Bakeries in the U.S."

California Association for
Micro Enterprise Opportunity

Written Testimony of

Carolina Martinez

Before the House Committee on Small Business

Subcommittee on Economic Growth, Tax, and Capital Access

"Small but Mighty: A Review of the SBA's Microloan Program"

March 7, 2019

Chair Kim and Ranking Member Hern, members of the Subcommittee, my name is Carolina Martinez and I appreciate the opportunity to testify on behalf of the California Association for Microenterprise Opportunity (CAMEO). CAMEO is California's statewide micro-business network made up of over 220 organizations, agencies, and individuals dedicated to furthering micro-business development in California. We expand resources and build capacity for our member organizations that provide entrepreneurs with small and micro-business financing such as loans and credit, technical assistance and business management training. Annually, CAMEO members serve about 21,000 very small businesses in California with training, business and credit assistance and loans. These firms – largely start-ups with less than five employees – support or create 37,000 new jobs in California and generate a total of $1.5 billion in economic activity.

Congressional investment in micro-business development matters: 88% of small businesses that receive business development services are still in business after five years. This compares to an overall five-year business success rate of less than 50 percent. Businesses that receive training tend to have average annual revenues that are 38 percent higher than those that do not. Business ownership is also a means to increase income and generate wealth. In underserved communities – whether urban or rural – microbusinesses are creating jobs and uplifting their communities.

The SBA reports that micro-businesses play a critical role in new hiring, and were responsible for more than one in 10 private-sector job gains from 2010 to 2016; however, this requires focusing on supporting entrepreneurs and providing them with critical capital, counseling, and business assistance. Thus, the topic of today's hearing, an overview of the SBA Microloan Program, is one that is of great importance for CAMEO.

The SBA Microloan Program offers small businesses loans of up to $50,000 from not-for-profit lending intermediaries, which, in turn, lend to small businesses. It also provides marketing, management, and technical assistance to microloan borrowers, including women, low-income, veteran, and minority entrepreneurs. In Fiscal Year 2018, Microloan intermediaries provided 5,459 microloans totaling $76.8 million. The average size of a microloan through the program was just over $14,000.[1] Historically, small businesses have struggled to obtain access to sufficient capital and credit to enable them to lead job growth.[2] The struggle can be even greater for startups and micro-businesses.

Take for example, Mirna Aracely Garcia who was born in Guatemala. She came to the United States in 2000 and eventually opened a party supply store in downtown Los Angeles simultaneously working a separate job for three years while the business started. After running into cash flow issues and unable to obtain capital from traditional banks, Mirna went to the SBA district office to seek help with financing. SBA referred her to Valley Economic Development Center (VEDC), a CAMEO member, where she was able to obtain a $50,000 SBA loan. She received counseling and training through the Women's Business Center and experienced an increase in sales, helping her overcome cash flow issues. As a result of the loan, she was also able to become a distributer, now fulfilling orders not only nationwide, but also internationally.

Maria Palacio is a fifth generation Colombian coffee farmer who started her U.S.-based coffee roasting business to help farmers get a fair price for their coffee. Maria secured a contract with Facebook to provide coffee for their campus cafeterias; however, she needed a loan to purchase the beans to fulfill the contract. Since Maria's company Progeny Coffee was a start-up, local banks could not make that loan. Maria turned to Working Solutions, another CAMEO member, who lent her $25,000 loan with SBA funds to help her purchase inventory at this critical moment of business development. Working Solutions has also provided Maria with technical assistance to help manage her exponential growth. Over the

[1] CRS Report: The Microloan Program.
[2] CRS Report: Small Business: Access to Capital and Job Creation.

last three years, Progeny has grown from $10,000 in revenue per year to over $1 million in revenue.

To address challenges faced by small businesses, Congress authorized the SBA Microloan Program as a five-year pilot program in 1991.[3] While the program was made permanent in 1997, in the twenty-one years since its reauthorization, the rules of the program have vastly remained the same while the lending landscape has changed. However, Congress has taken some action in the past. Two bills were introduced in the 115th Congress to address this issue.

The Microloan Modernization Act (S. 526) was introduced by Senator Deb Fischer (R-NE) and a companion bill, H.R. 2056, was introduced by Representative Stephanie Murphy (D-FL). The bills sought to eliminate the 25/75 rule as it pertained to pre-loan technical assistance and the use of third party contractors, as well as increase the cap on microloans to intermediaries from $5 to $6 million. It also included an SBA study of microenterprise participation and a GAO study on SBA oversight of intermediaries. H.R. 2056 passed in the House in July 2017 with amended language on the 25/75 rule, changing the limit to 50 percent for both pre-loan technical assistance and third-party contractors. The Senate Small Business Committee passed S. 526 in March 2018, with amendments mirroring the language from H.R. 2056.

While these changes were helpful, it is time for Congress to further modernize the Microloan Program. CAMEO offers the following four suggestions: (1) eliminate the 50/50 rule, (2) amend the 1/55th rule to provide greater flexibility, (3) provide access to Microloan data, and (4) increase support for Microloan funding.

1. Eliminate the 50/50 Rule

The Microloan Program has specific eligibility standards and operating requirements for lenders and borrowers. For example, the Microloan Technical Assistance program previously required that 25% of the technical assistance given to the entrepreneur by the lender be

[3] P.L. 105-135.

provided pre-loan and 75% post-loan. In 2018, the Congress changed these percentages from 25/75 to 50/50.

The Consolidated Appropriations Act of 2018 relaxed the requirement on Microloan intermediaries that prohibited them from spending more than 25% of their technical assistance grant funds on prospective borrowers and more than 25% of those grant funds on contracts with third parties to provide technical assistance. The law increased those percentages to 50%.[4] Additionally, the National Defense Authorization Act for Fiscal Year 2019, among other provisions, increased the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program from $5 million to $6 million.[5]

While the relaxed requirement on technical assistance grant funds is a welcome change, the microloan industry has long advocated for this percentage to be lifted altogether, as every business is unique. CAMEO supports elimination of the prohibition on percentage of funds to be used on pre- and post-loan technical assistance.

2. Amend the 1/55th Requirement to Provide Greater Flexibility

During the first six months of each Fiscal Year, at least $800,000 or 1/55th of available loan funds, whichever is less, is made available for loans to Intermediaries in each state. The 1/55th of available loan funds is divided equally among all states. The percentage is determined by dividing the value of all funds currently appropriated in the current fiscal year for lending, which may be only a partial budget if operating under a continuing resolution, under the Microloan Program by 55.[6] In its Fiscal Year 2019 Congressional Budget Justification, SBA asked for authority to eliminate the 1/55th rule, stating that this prohibition restricts availability of capital for small businesses regardless of the size of the state or the needs of the small business community.

[4] P.L. 115-141
[5] P.L. 115-232
[6] *Supra* n. 1.

Because loan amounts are small under a continuing resolution, the $1/55^{th}$ rule leads microlenders to wait to request loans from SBA until the Microloan program is fully funded. Consequently, intermediaries receive all of their capital through this program in the latter six months of the Fiscal Year, as opposed to the first. Further, because all states are treated equally, states like California, New Jersey, and Texas end up with significantly less than what they need while small states end up with more than what they need.

While this rule is a leftover requirement from the pilot program, this no longer seems like an efficient way to distribute funds. We support the elimination of the $1/55^{th}$ rule. Additionally, we would support the flexibility of having a reserve fund for SBA to deploy capital throughout the year in the event of a lapse in appropriations that results in a continuing resolution.

3. Provide Access to Microloan Data

In order to provide a better understanding of the needs of the program, SBA should make publicly available data on borrowers who use the Microloan Program, similar to the data available for the 7(a) loan program. Supporters of the program would benefit from having access to data on information such as geographical location, loan amount, interest rate, term, and NAICS Code, just to name a few. Requiring individuals to file a Freedom of Information Act (FOIA) request in order to obtain such information is time consuming and laborious.

4. Increase Support for Microloan Funding

An important part of success of the Microloan Program is robust funding. We appreciate this Committee's history of strong bipartisan support for this program. The Microloan Program's administrative costs are funded through the SBA's salaries and expenses and business loan administration accounts. Further, each year the SBA receives an appropriation for credit subsidies for its direct lending through the Microloan program. In Fiscal Year 2019, SBA was expected to support around $42 million in lending to intermediaries.[7] In addition, an appropriation of $31 million was allotted for technical assistance. CAMEO requests that this program grow to continue to be an important source of affordable capital for underserved communities, and will advocate for a 10 percent increase in the program.

Only two-thirds of small businesses survive two years in business, and half of all businesses do not survive five years.[8] According to the Annual Member Survey conducted by Friends of the Microloan Program, small businesses financed through the SBA Microloan Program have significantly higher rates of success.[9] Microbusinesses are an important part of California's economy and the SBA Microoan is an important tool on making sure that our underserved entrepreneurs succeed.

In closing, I am compelled to mention the major change in the small business lending landscape – the exponential rise of online lending. In 2015, the volume of online lenders was five times that of SBA lending and growing at an increasing rate. The access to fast money comes at a price, in many cases, a price too high for many small businesses. Last year, California became the first state to pass a transparency in small business lending bill to protect entrepreneurs from predatory lending, SB 1235. CAMEO believes that the access to capital issue has moved beyond access to 'appropriateness' of capital, i.e., capital that is affordable for the small business, is something that the small business can pay back and will help it grow, not force it into bankruptcy. We support a federal truth-in-lending bill and would welcome this committee's inquiry into the feasibility of such a bill.

Thank you for inviting me to testify here today. I look forward to answering any questions you may have.

[7] SBA FY19 Congressional Budget Justification Report (2018).
[8] United States Department of Labor, Bureau of Statistics, Business Employment Dynamics, available at https://www.bls.gov/bdm/entrepreneurship.htm.
[9] Friends of the SBA Microloan Program, 2018 Report on the SBA Microloan Program, available at http://www.rapoza.org/wp-content/uploads/2018/10/SBA-Micro-Report-write-up-final.pdf.

Written testimony prepared by:

Mariama Jallow, Owner, Mariama's Beauty Supply, Portland Maine

For:

The Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access to a hearing titled, "Small but Mighty: A Review of the SBA Microloan Program."

Thursday, March 7, 2019 at 10 am in Room 2360 of the Rayburn House Office Building.

Hello,

I'm Mariama Jallow from The Gambia, in West Africa.

In 2012, I arrived in Maine from a small village where my family owned and operated a local grocery store. My mother is also the leader of a woman's association, where every Saturday, forty to fifty women meet at our house to make soap. With the money earned by selling the soap at the local market, they make loans to members of their group so that each woman can start or expand their own small businesses, or to help in emergency situations.

After working in Maine for about three years, I began to think about opening a small grocery store, like the one my family owns in our village, which I had helped manage with my mother. I soon discovered that despite my business skills, owning a store here is nothing like back home. I then saw that I would need help to start any business in Maine, as the licensing, credit, and banking systems are all different.

That was when I learned about Coastal Enterprises, Inc (CEI), a Community Development Financial Institution (CDFI), and began to work with John Scribner, director of the StartSmart program at CEI. StartSmart works with immigrants, at no cost to them, throughout Maine who are looking to start or expand their business. When it became apparent that the market for new immigrant-owned grocery stores in Portland was already saturated, I saw that there was potential for a hair and braiding business, because there was nothing like that yet in Portland.

CEI helped me in all aspects of locating and setting up my store, including permitting, recordkeeping, negotiating the lease, and many other details. In addition, CEI also helped in passing legislation to allow hair braiders to work in the state without a cosmetology license, which at that time was required. John and I both testified before the State of Maine legislature, in the effort to update the licensing requirements at the State level. The bill passed, and the new regulations made it possible for me to offer hair braiding at the store without having to obtain the full cosmetology license, which has been essential to the cash flow of my business.

CEI continues to support me to meet the necessary requirements and obligations related to operating a business, such as bookkeeping and the expansion plans I have. In fact, after Mariama's Beauty Supply had been in business for two years, CEI loaned me funds using the Small Business Administration (SBA) Microloan program. This allowed me to increase my retail stock and to renovate my store to include a full-service salon, which will employ a hair stylist and makeup artist, in addition to the existing hair braiders.

Whenever I have a question, I call John for advice.

If it weren't for CEI, where would I go for that business advice?

I hope and pray that CEI will be here for the next generation of people who are coming to Maine as well as those who are already here.

Just as the women's association in my home village is making a difference in their community, I see how CEI is having an impact on lives in Maine, including my own.

WIPP
Women Impacting Public Policy

Written Testimony of

Michelle Richards

Executive Director

Great Lakes Women's Business Council

On behalf of Women Impacting Public Policy (WIPP)

Before the House Committee on Small Business

Subcommittee on Economic Growth, Tax, and Capital Access

"Small but Mighty: A Review of the SBA Microloan Program"

March 7, 2019

Chair Kim and Ranking Member Hern, members of the Subcommittee, I'd like to thank you for the opportunity to testify before this Committee today. My name is Michelle Richards and I am testifying today on behalf of Women Impacting Public Policy (WIPP), of which I am a part of the nationwide network. WIPP is a national nonpartisan policy organization advocating on behalf women entrepreneurs. I serve as the Executive Director of the Great Lakes Women's Business Council (Great Lakes WBC). Great Lakes WBC is a non-profit organization that supports women and minority small business owners and entrepreneurs through access to financing, women's business certification, training, coaching, and counseling.

When I started Great Lakes WBC, formerly known as the Center for Empowerment & Economic Development (CEED), over 34 years ago in 1984, the only other lenders like us were a group in Minnesota and a group on the West Coast. At the time, we didn't know we were microlenders because no one had yet labeled what we did. When the SBA Microloan program was implemented, we were one of the first organizations to receive funding. Since then, we have made $7 million in microloans, creating 1,800 jobs. On average, our loans are $25,000 and 93% are through the SBA Microloan Program. Over 89% of our loans have been made to women. Today, we service nine counties in Michigan, including 100 or more women at any given time, and have helped other organizations become microlenders.

Capital is the lifeline of business. The ability to secure capital often determines an entrepreneur's opportunity to start or grow a business. There are nearly 10 million women-owned businesses in the United States, generating $1.6 trillion in receipts and employing nearly 9 million Americans. Yet, for women, accessing capital continues to be difficult. Women account for only 16% of conventional small business loans and receive only 4% of all commercial loan dollars.[1] In 2013, fewer than 1 in 3 loan applications for women-owned firms were approved.

[1] U.S. Senate Committee on Small Business and Entrepreneurship Report on Women-Owned Small Businesses, available at https://www.sbc.senate.gov/public/_cache/files/2/5/25bd7ee9-a37b-4d2b-a91a-8b1ad6f5bd58/536DC6E705BBAD3B555BFA4B60DEA025.sbc-tackling-the-gender-gap.december-2017-final.pdf (2017).

This lack of available funding explains, in part, why women ask for less funding – on average, $35,000 less than men.[2]

For entrepreneurs in rural areas, the challenge of accessing capital can be even greater. Based in Livonia, where the urban area of Michigan meets the rural, Great Lakes WBC is in a unique position to recognize that entrepreneurs in very rural small towns struggle to access capital and often do not fit the formula to qualify for a loan from the local banks. As of 2017, only 30% of community bank branches were located in rural areas.[3] According to a report published by the National Community Reinvestment Coalition, counties in the West and East Coasts tend to be considered "oases" in terms of access to small business loans, while counties in the Midwest and South tend to be considered "deserts" with respect to small business lending.[4]

Twenty-one years have passed since the implementation of the Microloan Program, which has been proven to be successful. Now is the time for the Congress to modernize the Microloan Program. WIPP supports the following three changes to address the most pertinent issues: (1) amending the 1/55th Rule to provide greater flexibility to SBA and microlenders, (2) eliminating the 50/50 Technical Assistance rule, and (3) providing access to SBA Microloan data.

1. Amending the 1/55th Requirement to Provide Greater Flexibility

The 1/55th rule is the number one pain point for microlenders. Under this rule, during the first six months of each Fiscal Year, at least $800,000 or 1/55th of available loan funds, whichever is less, is made available for loans to Intermediaries in each state. The 1/55th of available loan funds is divided equally among all states. In its Fiscal Year 2019 Congressional Budget Justification, SBA asked for authority to eliminate the 1/55th rule, stating that this prohibition restricts availability of capital for small businesses without taking into account the size of the state or the needs of the small business community.

[2] Fundera, State of Small Business Lending Report, available at https://www.fundera.com/blog/the-state-of-online-small-business-lending-q2-2016 (last updated March 2018).
[3] GAO Report, GAO-18-312 (2018).
[4] "Small Business Lending Deserts and Oases," National Community Reinvestment Coalition (2014).

When SBA is operating under a continuing resolution, loan amounts are limited. The 1/55th rule leads microlenders to wait to request loans from SBA until the Microloan program is fully funded. In turn, intermediaries receive all of their capital through this program in the latter six months of the Fiscal Year, as opposed to the first. For example, we once had a loan in which we requested half a million dollars, but only received $164,000, because that was all that was available. Our options were to take the smaller amount or forgo it altogether and lose our place in the queue. In another instance, we ran out of money at the end of the fiscal year, but had to wait five months until March when the program had available money.

This process is not an efficient and reasonable way to distribute funds. Continuing resolutions are detrimental to our ability to lend during extended periods of time. When borrowers have to wait 60 days for an answer, we lose our credibility. Because all states are treated equally, larger states end up with significantly less than what they need while small states end up with more than what they need.

We support the elimination of the 1/55th rule, as it critically hampers our ability to serve our communities. However, we would also support the flexibility of having a reserve fund for SBA to deploy capital throughout the year in the event of a lapse in appropriations that results in a continuing resolution.

2. Eliminating the 50/50 Technical Assistance (TA) Rule

The Microloan Program has strict eligibility standards and operating requirements for microlenders. For example, the Microloan Technical Assistance program for many years required that 25% of the technical assistance given to the entrepreneur by the lender should be provided pre-loan and 75% post-loan. In 2018, the Congress changed this ratio from 25/75 to 50/50 through the Consolidated Appropriations Act of 2018 – much needed flexibility that has been incredibly helpful to Great Lakes WBC. The law also increased the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program from $5 million to $6 million.[5]

While the 50/50 change is welcome and helpful, microlenders have long advocated for this percentage to be lifted altogether, as every business and their needs are unique. We ask Congress to give microlenders the flexibility to use TA as they see fit rather than a set percentage prescribed by the federal government.

3. Providing Access to Microloan Data

SBA should make available data on borrowers who use the Microloan Program, similar to the data it provides to the public for the 7(a) loan program. Having access to data on information such as geographical location, loan amount, interest rate, and term, would be helpful not only to supporters of the program, but to microlenders in determining need. The current requirement to prepare a Freedom of Information Act (FOIA) request in order to obtain such information is burdensome. Such requests do not have a quick turnaround – it can take 6 months or longer to obtain this data.

In conclusion, Great Lakes WBC is an example of how organizations, in partnership with the SBA, can serve the needs of entrepreneurs in their communities – turning them into job creators – through the Microloan Program. Centers like mine work tirelessly to provide entrepreneurs throughout the country with the resources they need, be it technical assistance or a loan. Our center focuses on assisting women, especially those who are economically or socially disadvantaged.

A critical part of their success is access to capital provided through the SBA Microloan program. Making the suggested changes we cited above would go a long way toward making the program even better.

Thank you for inviting me to testify here today. I look forward to answering any questions you may have.

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[5] P.L. 115-232

ECDI INVEST EDUCATE INNOVATE
Economic & Community Development Institute

March 6, 2019

The Honorable Nydia Velázquez
U.S. House of Representatives
2302 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Velázquez:

The Economic and Community Development Institute (ECDI) is a501(c)(3) economic development nonprofit serving the state of Ohio. As a certified CDC, designated CDFI, SBA intermediary microloan lender, and SBA Community Advantage Lender, ECDI fills a gap in the credit industry by offering loans and technical assistance to underserved or underbanked small business owners, with a focus on minorities, women, refugees, and low-to-moderate income entrepreneurs. ECDI is the third largest SBA intermediary microlender in the United States and is the only Ohio SBA microlender with a footprint in all of Ohio's 88 counties. Since 2004, ECDI has provided small business owners with over $50 million in startup or expansion capital, disbursed over 2,100 small business loans, served over 13,000 individuals, and created or retained over 8,000 jobs in the state of Ohio. We thank congress for their continued support of the SBA Microloan Program, which is under consideration for updates today.

ECDI became an SBA intermediary in 2006, and since then ECDI has borrowed more than $9.5 million from the SBA and has provided over $15.5 million loans to underserved entrepreneurs (158% of the SBA dollars loaned to ECDI). In this time, we have grown in size and capacity and currently serve nascent and expanding small business owners across the entire state of Ohio. In 2018, Congress raised the aggregate loan limit from $5 million to $6 million. However, as a larger and established intermediary microlender, ECDI provides hundreds of loans a year and consistently reaches this loan cap. We write today to urge Congress to raise the aggregate loan limit to $10 million.
Every year, ECDI reaches the SBA aggregate loan limit, driving us to borrow from conventional lenders in order to meet the demand. Traditional lending institutions charge three to four percent interest, forcing ECDI to increase the interest that our clients pay. The SBA Microloan program lends at a lower interest, which benefits our clients in turn. At this time, we are showing a pipeline of more than $7 million in expected demand, including a potential for more than $2 million in SBA funds. Conservative projections estimate that we will fund approximately $9.5 million in new loans in the next year, with up to $3.2 million coming from SBA funds. Moving the cap to $10 million would provide much needed relief and would help ECDI avoid borrowing conventionally to meet demand.

ECDI also receives funding to provide technical assistance to our clients through the SBA Microloan Technical Assistance program and through our three SBA Women's Business Centers. ECDI recognizes and thanks Congress for their continued support of the SBA TA program We wish to thank Congress for removing the 75-25 Technical Assistance provision last year and we urge Congress to remove the 1/55 rule. SBA studies have shown that clients who receive more than three hours of counseling have higher survival rates, high growth in revenues, and higher employee growth than small businesses who have had less or no

ECDI INVEST EDUCATE INNOVATE
Economic & Community Development Institute

counseling. The SBA-funded technical assistance that our clients receive has a positive impact on the success, sustainability, and growth of their businesses. Please see the attachments outlining the entrepreneurial journeys of ECDI clients Josephine Talieh and Omar D'Angelo, who have found success in no small part due to the technical assistance they received from ECDI and WBC staff. However, as a larger intermediary microlender that services the entire state of Ohio, ECDI does not receive enough funding from SBA TA grants. We recommend that Congress increase SBA Technical assistance grants from 25% to 35%. Increased funding will enable larger intermediaries to provide technical assistance to more entrepreneurs in need of personal coaching.

The updates to the SBA Microloan Program cited in this letter will allow the SBA to properly support proven intermediaries who have grown into larger microlenders under the guidance of the SBA. ECDI thanks the members of Congress for your continued and unwavering support of small business owners across America and the SBA Microloan Program. We look forward to working with 116th Congress to continue strengthening the SBA Microloan Program.

Sincerely,

Inna

Inna Kinney
Founder and CEO
Economic and Community Development Institute

cc: Members of the Committee on Small Business