February 12, 2025

Testimony of

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On behalf of

Montana Community Development Corporation, dba MoFi

before the

Committee on Small Business

United States House of

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Chairman Williams, Ranking Member Velázquez, my name is Heidi DeArment. I serve as the CEO and President of Montana Community Development Corporation, dba MoFi. MoFi is a nonprofit Community Development Financial Institution (CDFI) established in 1986. We provide small business loans and New Markets Tax Credit loans, both coupled with free business assistance. Over 39 years, our service area has expanded to include Montana, Idaho, Wyoming, Utah, Washington, and Oregon. While our financing tools have evolved to meet business and community needs, our mission remains unchanged: serving business owners and entrepreneurs who do not qualify for financing from traditional banks or credit unions.

The role of small businesses in our economy has grown, but access to capital has not kept pace. Over the past two decades, most banks and credit unions have shifted toward a profitability-focused model, prioritizing larger loans for wealthier clients. Many entrepreneurs assume that a strong deposit relationship, a well-researched business plan, good references, or even a modest loan request will help them secure financing. In reality, these factors are not enough.

MoFi partners with 126 banking systems across our six-state region and receives thousands of referrals each year. Banks and credit unions refer loan applicants to MoFi when they either don't qualify or don't meet the full loan request. Through these partnerships, along with insights from commercial lenders on our governing board, we have deep insight into the realities of bank lending. While individual criteria vary, in general, applicants need:

- A credit score over 700.
- Assets exceeding the loan amount requested.
- At least two years of strong cash flow—demonstrating they could have made future loan payments in the past.
- A financially strong guarantor with outside cash flow.
- A loan request above a bank's minimum threshold—typically $50K to $500K+

From a profitability and regulatory standpoint, this approach makes sense. Underwriting a $20K loan costs nearly as much as underwriting a $2 million loan. It's also easier and more cost-effective to assess wealth and assets than to analyze a business plan. If an applicant has significant assets, repayment is assured even if the business fails. Evaluating a new business idea requires far more time and effort. As a result, banks prioritize larger loans to established businesses and high-net-worth individuals. For the regulators, loans with strong collateral are considered higher asset quality.

Accessing capital from banks or credit unions is particularly challenging for individuals in small, rural areas. During my tenure at MoFi, I have witnessed the consolidation and closure of numerous banks, further limiting access to financial services. In many rural communities, local bank branches have disappeared entirely. Even where banks remain, they often lack commercial lenders, restricting available financial products to consumer loans such as auto and home loans while leaving small businesses and entrepreneurs without the capital they need to grow. Without a local commercial lender, borrowers cannot build the relationships necessary for business financing, as credit decisions are made remotely, often by institutions unfamiliar with the unique challenges and opportunities within these communities.

The shift in business models among banks and credit unions—along with ongoing consolidation and the retreat from rural markets—has left a growing number of entrepreneurs without access to traditional financing. In response, MoFi and other CDFIs have become critical entry points for future bank customers. Our loans are not high-risk; they are simply less profitable for traditional financial institutions. Unlike banks, which can rely on asset-backed lending and established income history, CDFIs conduct a more intensive underwriting process. We evaluate business plans, conduct in-depth borrower interviews, verify references, and analyze bank statements line by line. While our borrowers may lack significant assets or a long credit history, they have demonstrated strong debt repayment habits, a solid work ethic, and a well-researched plan. If their business does not succeed, they have the ability to secure employment and meet their financial obligations. CDFIs play a crucial role in bridging the gap between aspiring entrepreneurs and the traditional banking system, ensuring that promising small businesses have the opportunity to grow and contribute to the broader economy.

This is a less profitable venture—but it works. Once businesses build assets and establish a track record, they refinance with a bank. MoFi has done this successfully for decades, maintaining a loss rate of less than 1% over the past ten years. These loans are not riskier—they are simply harder to underwrite—so less desirable for a bank or credit union.

Too often, a bank denial is seen as a sign of higher risk. That needs to change. Many of these businesses are just as creditworthy as their bank-approved counterparts—they just require a different, more resource-intensive approach to lending. MoFi and our peers have proven that it works.

MoFi uses three important tools from the Small Business Administration that are critical to ensuring that capital remains accessible to business owners and entrepreneurs. They are SBA Microloan Program, Community Advantage Guarantee, and 504 Guarantee Program.

I. The SBA Microloan Program

The SBA Microloan Program plays a critical role in supporting small businesses by providing capital to intermediary lenders, such as MoFi, which then issue loans of up to $50,000 to entrepreneurs and business owners who do not yet qualify for traditional financing. Each microloan made through this program is paired with hands-on business assistance, ensuring borrowers have the tools and guidance necessary to achieve bankability. This includes credit-building strategies, asset accumulation, profitability growth, relationship development with financial institutions, and the establishment of a two-year track record of strong cash flow—all key factors in securing future bank financing. As a result, many microloan recipients ultimately graduate to traditional bank loans, strengthening the overall financial system.

At MoFi, we have deployed millions of dollars in SBA microloans, with an average loan size of approximately $30,000. These loans have been instrumental in helping entrepreneurs start and expand businesses, create jobs, and drive economic activity—particularly in rural and underserved communities where access to capital remains a significant challenge. Beyond financing, the SBA Microloan Program provides a structured pathway to financial inclusion, enabling small business owners to establish creditworthiness and long-term financial stability. This program is a proven, cost-effective strategy for fostering entrepreneurship, enhancing economic mobility, and ensuring that more businesses have the opportunity to thrive and contribute to local economies.

A compelling example of the impact of the SBA Microloan Program is Betty's Divine, a small clothing boutique in Missoula, Montana. While unique to Missoula, Betty's Divine represents countless small retail businesses across Main Street America, offering a carefully curated selection of men's and women's clothing from local producers to national brands.

The entrepreneur behind Betty's Divine approached MoFi in her 30s, balancing the demands of raising two small children while pursuing her dream of opening a clothing store after years of working in the industry. She had identified a promising retail location but needed support refining her business plan, lease terms, and financial projections. When she applied for financing at a traditional bank, she was denied due to a lack of industry experience, insufficient assets, limited outside income, and not meeting the requirement of two years in business.

Through the SBA Microloan Program, MoFi provided the capital she needed to secure her lease, purchase inventory, and launch the store. That was 20 years ago. Since then, Betty's Divine has grown into a thriving, bankable business, securing a line of credit from a traditional lender to support inventory expansion. Beyond her own success, the entrepreneur has mentored other small business owners, organized events to revitalize downtown Missoula, and even launched a river tubing shuttle service to boost summer tourism.

When the time came to purchase a permanent location for her business, she faced a new challenge—she did not have the 25% down payment required for a commercial real estate loan. Once again, she and her banker turned to MoFi, working together to structure a financing solution that allowed her to acquire the property. Today, she is fully bankable, operating successfully with traditional financing while continuing to strengthen Missoula's small business community.

This story is not unique—it is happening in communities across the country, year after year, strengthening local economies. Small businesses create jobs, drive innovation, and build economic resilience. They provide essential goods and services while fostering a sense of identity and vibrancy, making our towns and cities places where people want to live, work, and invest.

The success of these businesses is not accidental. It is the result of a proven approach that combines SBA Microloan capital with hands-on technical assistance. This model ensures that entrepreneurs are not just receiving funding, but also gaining the knowledge, skills, and financial stability they need to succeed. Without this support, many viable businesses would never get off the ground, limiting economic opportunities and stifling local growth.

These are not risky loans. The entrepreneurs we serve are hardworking, resourceful, and committed to repaying their debts. The reality is that these loans simply are not profitable enough for traditional banks and credit unions to make. That is why the SBA Microloan Program is so important—it fills a critical gap in the financial system, ensuring that small business owners have access to capital and guidance to build strong businesses, create jobs, and contribute to a thriving economy. Without it, we lose not just individual businesses, but the economic vitality and character of our communities.

II. The SBA Community Advantage Program

The 7(a) Community Advantage (CA) Program, launched in 2011, expands access to SBA-backed loans for small businesses that do not qualify for traditional bank financing. The program provides a guarantee of up to 85% on loans up to $350,000, allowing mission-driven lenders like MoFi to finance businesses that banks cannot serve.

MoFi was among the first Community Development Financial Institutions (CDFIs) certified as a CA lender, using the SBA guarantee to extend capital to small businesses that would otherwise be denied financing. The program also allows lenders to sell loans on the secondary market, providing liquidity and enabling them to reinvest in new loans. This is critical for nonprofit lenders, which must raise or borrow funds to support entrepreneurs and do not have access to federal programs like the Federal Reserve.

The SBA designed the CA program for CDFIs, SBA-certified Community Development Companies (CDCs), and SBA-approved Microloan Intermediaries—organizations with expertise in serving businesses that traditional 7(a) lenders do not finance. The program enables these lenders to reach deeper into communities, funding businesses in low-to-moderate-income areas, rural regions, HUB Zones, Empowerment Zones, and Opportunity Zones.

A key focus of the CA program is startup financing, an area where banks rarely lend. At MoFi, half of all loans support startups—businesses with strong potential but without the collateral, financial history, or down payment required by traditional lenders. The CA program was built for this purpose, ensuring that viable businesses get the capital they need to start and grow.

This is not high-risk lending. MoFi has a 10-year track record with just 0.0065% in losses to the SBA under this program. These businesses repay their loans, create jobs, and strengthen local economies—they simply do not fit the bank mold.

One good example of the importance of the CA program is MoFi's use of the guaranty for a rural Napa auto parts store in Montana. In 2023, this long-standing community staple needed a new buyer to stay in business. The prospective buyer had nearly 30 years of experience in the automotive industry, including overseeing a fleet of heavy equipment for a major construction company and working in multiple automotive shops. Additionally, the buyer's family had operated small businesses for years, providing direct exposure to business management. Despite extensive industry knowledge and a 40-year relationship with their bank, they were turned down for financing due to limited collateral and a lack of prior business ownership history. MoFi used the Community Advantage loan, MoFi provided the necessary capital to complete the acquisition, ensuring the store remained locally owned and preserving jobs. Now, with over a year of successful ownership, the business is thriving. The new owner is planning to purchase the building within 2–5 years and is already exploring opportunities to acquire additional NAPA Auto Parts locations in Montana. He should be fully bankable by 2026.

The SBA Community Advantage Program is critical in cases like this. Without it, essential local businesses and jobs would be at risk, limiting growth and economic stability in communities across the country. This is just one borrower. Across the country, CA borrowers are building businesses, creating jobs, and strengthening communities.

III. The Importance of the SBA Microloan and Community Advantage Programs for Small Businesses

The U.S. financial system operates on two tiers: one for those with established wealth and credit history, and another for those still building their financial track record. Community Development Financial Institutions (CDFIs) are essential to ensuring that entrepreneurs, small business owners, and underserved communities have access to the capital they need to grow and succeed. Without CDFIs, millions of hardworking Americans would be locked out of the financial system—not because they lack potential, but because traditional banks are not structured to serve them.

CDFIs use the SBA Microloan and Community Advantage programs to provide the first rung on the financial ladder, offering tailored lending products, technical assistance, and a pathway to bankability. They take the time to evaluate business plans, consider character, and invest in the potential of individuals who, with the right support, go on to create jobs, build businesses, and strengthen local economies. This is not charity—it's smart, long-term economic strategy. When CDFIs do their job well, businesses stabilize, credit scores improve, assets grow, and entrepreneurs graduate to conventional bank financing, contributing to a stronger and more resilient economy. Without CDFIs and the SBA programs they use, the country's small business ecosystem would erode, leaving fewer job creators, fewer wealth-building opportunities, and less economic dynamism in rural and underserved communities. If we want a thriving economy driven by innovation and opportunity, we need to invest in CDFIs, their tools including SBA, and their products—because strong businesses, good jobs, and vibrant communities start here.