

**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."