The Next Steps for the Paycheck Protection Program

Testimony before the
U.S. House of Representatives
Committee on Small Business

March 10, 2021

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Ontario, CA

Chairwoman Velázquez, Ranking Member Luetkemeyer and my Congresswoman Judy Chu, distinguished members of the Committee, good morning and thank you for having me today. My name is Hilda Kennedy, and I am the President and Founder of AmPac Tri-State CDC in Ontario, California. I am also a board member of the National Association of Development Companies (NADCO), the trade association reprsenting more than 200 private, nonprofit SBA Certified Development Companies (CDC), and I am also pleased to testify today on behalf of NADCO and my CDC colleagues. I am thrilled to have the opportunity to discuss the role CDCs have played, and will continue to play, in supporting businesses impacted by the COVID-19 pandemic, my CDCs participation in the Paycheck Protection Program, our commitment to providing access to capital to underserved borrowers, and policies that could help us reach more small businesses.

My journey to becoming a CDC came after working in local government as a Chief of Staff to the Mayor and in Economic Development for the City of Inglewood, California, where 90 percent of the community is African American and Latino. While I was Economic Development Director, business owners would come to our office seeking resources because they could not access capital from their local bank. Because this story became so common, our team worked to obtain HUD Section 108 funds and, coupled with funds pledged from three banks, established a $45 million loan pool to lend to businesses in our own community. After leaving Inglewood to focus on mothering my three children, I began to see and research the needs of businesses in my new community. As part of my research, I established a Pastors Advisory Committee at my church to gain further insight into the needs of these businesses. The pastors I spoke to described the need for small businesses to have someone to walk hand-in-hand with them in order to get access to capital, including help completing applications and understanding the financial documents required. In 2005, with the coaching of a mentor in economic development, I established our non-profit and began the process of becoming an SBA CDC. It took two years, and in 2007, we became the first faith-based CDC in the country, with the intention to market to and engage the faith-based community in identifying businesses who needed SBA resources. We sought to engage the faith-based community for three reasons: 1) whenever we attended an awards program for small businesses, someone was thanking their God for strength and courage in business; 2) because we wanted to serve underserved communities and we understood that whenever major social and economic change happened, especially in Black and Brown communities, it started in the church; and 3) faith is part of my core values, I am married to a pastor and we are active in the faith-based community.

When I started AmPac, like my small business clients, I did all the jobs – processor, underwriter, closer, servicer, and everything in between, until one of my board members agreed to pay the salary of a staff member. When the 2008 financial crisis was realized, my board member could no longer pay that staff member and I chose not to get paid, so that I could pay her. I struggled with the same issues that small businesses face and asked myself if I should close my doors and find a job since my husband also worked for a non-profit, a local church. However, the mission of serving small businesses, making communities better, and families stronger, drove me to struggle through – and struggle we did for three long years before things started to turn around.

Fourteen years later, we are still serving small businesses with the same core mission, but now with 15 employees and expanded programs. We are an SBA CDC administering the 504 loan program, an SBA micro lender, a community development financial institution (CDFI) and we manage and administer a loan program for Riverside County. We are the among the newest

CDCs in our market, with most being more than 20 years older than AmPac, and we serve small businesses throughout the state of California. As an SBA micro lender and CDFI focused on small business lending, we are the only CDC headquartered in our region, which includes San Bernardino and Riverside counties, two of the largest counties in California. Being headquartered in this region allows us to intimately understand the access to capital needs of the business owners in the region, and provide the services they need.

Access to capital has traditionally been a critical issue for entrepreneurs and small businesses as they seek to start and grow businesses. Those challenges were deeply exacerbated by the onset of the COVID-19 pandemic and the CDC industry stepped up to do everything we could to help our current borrowers, new borrowers, and small businesses in our communities. That is because CDCs are committed to economic development and providing access to capital to underserved small businesses, including women, minorities, and rural areas. CDCs in the United States provide approximately 374 points of access to assist small businesses in all fifty states; Washington, DC; Puerto Rico; and the U.S. Virgin Islands.

CDCs come in all shapes and sizes and offer a variety of programs to aid in the economic development and building of strong and healthy communities. Through our mission, we are the entities that deliver the 504 loan program, which is the SBA's premier economic development program. This program requires borrowers to create jobs or meet a congressionally identified public policy goal in order for a borrower to receive a 504 loan. A number of CDCs also deliver the SBA's microloan and 7(a) Community Advantage programs. Community Advantage enables CDCs and other mission-based lenders to deliver guaranteed loans of up to $250,000 to small businesses that are underserved by traditional financial institutions. Since the pilot program was created ten years ago, CA lenders have delivered over $860 million to entrepreneurs who could not otherwise access the capital needed to launch and grow businesses. Community Advantage will play a critical role in our nation's economic recovery from COVID-19, and can achieve its full potential in reaching underserved small businesses if fully authorized, enhanced, and expanded. There is tremendous opportunity for CA lenders to aid in the recovery of our most vulnerable businesses.

CDCs across the country are like ours – they deliver an array of programs from the Department of Housing and Urban Development, Department of Agriculture, Department of Commerce, Department of Treasury, and Economic Development Administration, not to mention state, local and direct lending programs. CDCs wear a lot of hats as we work with different agencies and state and local programs to meet our mission of innovatively delivering the best product to meet the needs of borrowers in our communities. As mission driven, community-based lenders, CDCs are uniquely positioned to support and sustain businesses in this crisis. When the pandemic hit, AmPac made two firm commitments 1) keep our employees safe and 2) personally answer every call from the small businesses who would call our offices. We did not want small businesses to get a voicemail, we wanted them to hear a live person. We studied and stayed abreast of the ever-changing regulations that were uncharted waters for all of us. We learned so much more about our small business customers and small businesses in our communities who saw us as a safe, go-to place for answers and help. With rotating calls on our cell phones, we entertained hundreds of calls a day to try and help the small businesses in our community.

I want thank Congress for acting so quickly – we did have several clients who were able to get help from both PPP and Economic Injury Disaster Loans (EIDL). And of course, the six-months of debt relief made available through Section 1112 of the CARES Act (P.L. 116-136) provided an immediate and much needed reprieve to our microloan and 504 borrowers, and frankly to us as an SBA lender. However, the first round of CARES funding did not benefit the small businesses most at risk, including those in underserved markets, those without an established relationship with a conventional bank, and those who needed more assistance navigating the process. In the first round of CARES Act funding, both EIDL and PPP left many of the businesses we serve were very discouraged and even distraught. Changes needed to be made to extend help to more borrowers.

Congress recognized CDCs and their mission by designating CDCs as "Community Financial Institutions" along with Community Development Financial Institutions (CDFIs), Minority Depository Institutions (MDI)s, and micro lenders in the Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139), which allowed CDC to access the the PPP set-asides targeting underserved businesses and communities. With these changes made to intentionally reach entrepreneurs and businesses in underserved markets with a set-aside of PPP funds for Community Financial Institutions (CFIs), we were thrilled and set out to serve clients who needed more help. But those efforts were hampered because the guidelines had not been established to onboard CFIs who were not traditional SBA 7(a) lenders.

I want to publicly thank the office of my Congresswoman, Judy Chu and the office of then-Senator Kamala Harris who helped us get attention on the issue of establishing guidelines to get CFIs set up to provide PPP loans. As we worked through the overloaded system with our small staff, we were able to fund 171 PPP loans totaling $3 million with an average loan size of $17,000, administer a relief loan program for our local county, a grant program offered by a local bank, support a grant program offered by a utility company and assist hundreds of businesses seeking to obtain an EIDL. These programs heightened our understanding of the need for technology training and business financial literacy training – there are deficits among business owners of color and those in underserved and underbanked communities and we have to close that gap. CFIs need additional resources to provide a higher level of technical assistance to these business owners to help them gain economic parity. I would note that for long term recovery, providing technical assistance grant assistance for CA lenders to intentionally provide support to these businesses could make a significant difference in how these small businesses grow and expand when the next worldwide or local emergency comes our way.

When the current round of the PPP was launched, we were intentional about creating partnerships so that we could reach more underserved and women business owners. We conducted training webinars with Black and Latino led non-profits catering to small businesses, as well as the faith-based community and non-profits targeting women. Our goal was to train the trainers so that we could serve sole proprietors and those small businesses with 20 or fewer employees. We knew how critical this support was when a woman owned business found our information on the local SBA district office website and rather than call that office, she saw we were a CFI and drove to our office with her paperwork in hand. She had been trying to get her second draw PPP from the fintech company she used to obtain her first loan and could not speak to a live person. She realized they had understated her first draw PPP loan and she wanted some help. We could not help her because her request exceeded our lending limit but we connected her with a local community bank, helped her to accurately calculate her qualifying PPP loan amount, and she was able to get her second draw PPP from the local community bank. She thanked us profusely for the help and said if she needs any SBA assistance in the future, she will come to AmPac. These are just a few examples of the way we have worked with distressed business owners in our community and the way we have worked to deliver all available emergency programming to these businesses. With the intent to reach as many small businesses as possible while emergency relief is still available, I want to focus the remainder of my time highlighting some recommendations for a path forward with 21 days left before the March 31st deadline:

- In the initial roll out of first and second draw PPP in January 2021, lenders found ourselves facing challenging issues with the PPP portal. There were countless error messages and holds that really brought frustration to our team and our small businesses to whom we could not give answers. At the time, there was no solution for a fix and the communication from SBA was non-existent. With the changes made to PPP on February 24th, the SBA and its team addressed many of the error and hold messages. It was as if a magic wand was waved over the portal, and all of a sudden several of our submitted PPP loans were being approved. While this effort really helped, there are still issues with error messages and holds and it is difficult to get a retuned call or email. In order for us to have a strong finish to help small businesses receive the PPP they need before March 31st, we need to have SBA staff members or a system that is more responsive to addressing the error and hold codes so they can get solved and these businesses can get the help they need.
- I want to thank Congress for moving quickly on the effort led by Self Help Community Credit Union and a number of partners including NADCO, OFN and Mission Lenders to change the maximum loan calculation for Schedule C filers, allowing them to use gross income rather than net profit on their PPP applications. This change has been a god-send for the small businesses in our community. I want to share a story about the custodial maintenance company that cleans our building and is helmed by a Black business owner

named Calvin, who had not been able to get any assistance from the emergency relief programs. He talked to us during the first round of support and about his efforts to get an EIDL loan; he even appealed because he was declined. We tried to make some calls on his behalf and after several attempts, they told him he did not qualify for EIDL and he was not even able to get an EIDL Advance. Based on the line 31 calculation for Schedule C filers originally required for PPP, he would not be able to obtain a loan because he reported negative net income. When our state launched the California COVID-19 Relief Grant, we prepared him to apply. I told him the process opened at 6:00 a.m. At 5:45 a.m. he was calling my cell phone to make sure he was on the right website and that he had everything he needed. At the end of both rounds, he was waitlisted. Typically a very optimistic person, he came into my office when I was working late and said, "Hilda, I don't know what to do. I am going to have to lay my guys off and do the work myself." When we got the news about the Schedule C change, we told him to get his paperwork. Our team stayed on the phone with him and screen-by-screen he uploaded everything and was approved for a $13,000 loan. Just the feeling of not being rejected, just knowing someone finally said yes, seemed to breathe life into him. I share that long story with you because I want you to know, your actions made a difference. And they can go further.

Chairwoman Velázquez, Ranking Member Luetkemeyer, my Congressional Representative Judy Chu and distinguished Committee members, we have many Calvin's in our community and I know several of my CFI colleagues do as well. We need time to help these small businesses. The largest of businesses got their opportunity in the first rollout of PPP, squeezing out small businesses like Calvin. I am asking that Congress give these businesses time to understand how the Schedule C changes affect them and get their applications submitted. Congress did what was right for our economy by allowing Schedule C filers, like farmers, to have access to a greater amount of PPP funds to keep their doors open. So many of the Schedule C filers missed this opportunity for a higher PPP loan in the first round and in this round of funding because this benefit was only recently extended to them. Our Schedule C filers have a name, they have a demographic, and they have an employee count:

  - They are Calvin's custodial maintenance; they are Katherine's Hair Design; they are Lisa's Charmed Beauty; and Graham's BBQ and the list goes on;
  - They are 95 percent Black owned businesses and 91 percent Latino owned businesses in my community;
  - They are often single operators, mom and pop shops in your downtown, and they have 20 or fewer employees.

- With these businesses in mind, we must extend the deadline for Schedule C filers to be given exclusive access to the PPP application process. It took a full week for lenders to receive the appropriate guidance, and most importantly, the updated forms to submit applications. The Schedule C exclusivity ended on March 9, 2021, yet the appropriate forms to use were just released on March 3, 2021. So many of these small businesses have thrown their hands up and concluded that there is no help for them. Now there is the possibility that other businesses like Calvin's can get the lifeline they need.
- Additionally, if Congress chooses to make any further changes to PPP through the legislative process, I hope you will also consider extending the Federal Reserve Paycheck Protection Program Liquidity Facility (PPPLF), which has been a lifeline providing liquidity for participating CDCs to continue to deliver the PPP to the borrowers we serve.

- With recovery in mind, I will repeat a comment I made earlier regarding Community Advantage. Community Advantage is a perfect SBA tool for getting capital to underserved communities. With these businesses stabilized with a PPP loan, they will need funds to grow and to scale. We need to add more diverse lenders to the Community Advantage pool of lenders and we need to increase the number of Community Advantage lenders immediately. I know there is a list of qualified lenders ready to serve and they need SBA to take action to approve them. The 90 percent guarantee for CA loans provided in the Economic Aid Act (P.L. 116- 260) is also an essential tool to ensure that this program can reach the communities hardest hit by the pandemic.
- We will continue to work tirelessly to deliver the relief that PPP loans provide to small businesses. Speaking as a lender, and on behalf NADCO and my CDC colleagues, I also encourage Congress and the new leadership at SBA to consider how the core SBA loan programs can better serve our small businesses through what promises to be an extended recovery period. We are dedicated to making sure small businesses and entrepreneurs have access to a range of financing products and support, including SBA 504 loans, Community Advantage, and Microloans.
- Finally, I want to thank this Committee for its leadership in approving immediate and impactful aid to small businesses via SBA debt relief payments afforded them in Section 1112 of the CARES Act with extended debt relief for the hardest hit businesses provided in the Economic Aid Act. I am not overstating the impact of these payment when I describe them as providing a lifeline to our borrowers. Unfortunately, there is a funding shortfall for debt relief payments directed to these borrowers, and targeted to the most impacted small businesses. I know members of Congress are aware of this issue and

committed to doing all they can to assist these businesses, so I am hopeful that this shortfall can be addressed, and these borrowers receive the support they need to stay afloat and continue to provide jobs and services in our communities.

As I hope you already know from the CDCs that are in your communities, AmPac and the CDC community will be here to serve small businesses, help them recover, and support their growth. I sincerely appreciate the opportunity to testify this morning and share AmPac's experience with the PPP program and our mission to reach underserved borrowers. I look forward to answering any questions you have.