

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2561 Rayburn House Office Building  
Washington, DC 20515-0515

**MEMORANDUM**

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**TO:** Members, Subcommittee on Economic Growth, Tax, and Capital Access  
**FROM:** Sharice Davids, Chairwoman  
**DATE:** March 29, 2022  
**RE:** Subcommittee Hybrid Hearing: “Catalyzing Economic Growth through SBA Community-Based Lending”

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The Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access will meet for a hybrid hearing titled, “Catalyzing Economic Growth through SBA Community-Based Lending.” The hearing is scheduled to begin at **10:00 A.M. on Tuesday, March 29, 2022 in person in Room 2360 of the Rayburn House Office Building, and virtually via the Zoom platform.**

The U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) helped small businesses stay afloat throughout the pandemic. In later phases of the program, Congress made changes to the program to allow community-based lenders, many of whom participated in SBA business loan programs prior to the pandemic, to originate more PPP loans. The research shows the changes improved the program’s reach into underserved markets. While the PPP portal closed on May 31, 2021, to new applications, community-based lenders who helped deliver assistance to underserved markets can continue to play a vital role. This hearing will allow Members to hear from these lenders and learn how SBA business loan programs can better meet the needs of the underserved markets. The witnesses will be:

**Panel**

- Mr. Manny Flores, President/Chief Executive Officer, SomerCor, Chicago, IL
- Mr. Kerry Doi, President/Chief Executive Officer, Pacific Asian Consortium in Employment (PACE), Los Angeles, CA
- Ms. Brooke Miranda, President/Chief Executive Officer, SEDCO, Clearwater, FL

**Overview of SBA Business Loans**

SBA offers programs to support small businesses, including loan programs to improve small business access to capital. SBA’s flagship loan program is the 7(a) Loan Guarantee Program (7(a) program), through which private lenders (mostly banks and credit unions) make commercial loans to small businesses that are guaranteed by SBA in the event the borrower defaults, minimizing the risk to the lender of making that loan. SBA guarantees from 50 to 90 percent of each 7(a) loan made, depending on the loan characteristics.

In addition to the 7(a) program, SBA offers other capital access programs targeting different firms and sectors, including businesses seeking expansion and underserved businesses who may struggle

to access capital from traditional lenders. These include the SBA 504/Certified Development Company Program (504/CDC program), the SBA Microloan Program, and the Community Advantage Pilot Loan Program (“CA,” a sub-program within 7(a)). These programs are delivered primarily by nonbank lending institutions such as SBA Certified Development Companies (CDCs), Microloan Intermediaries, and non-federally regulated Community Development Financial Institutions (CDFIs).

The eligible use of proceeds across the SBA business loan programs range from working capital in the 7(a), CA, and Microloan programs, to real estate and long-term fixed asset financing under the 504/CDC program. Accordingly, these programs can help small businesses facing supply chain disruptions and resulting cost increases. Specifically, these programs enhance access to capital allowing borrowers to meet operating and other expenses while preserving or even strengthening their cash reserves. Small firms typically have approximately one month of cash reserves,<sup>1</sup> and with growing uncertainty surrounding energy prices and other costs, these programs are well-positioned to help entrepreneurs remain competitive and in a healthy financial position.

### **SBA Community-Based Loan Programs**

#### **SBA 504/CDC Loan Program**

Authorized by the Small Business Investment Act of 1958, the SBA 504/CDC program backs long-term fixed-rate loans up to \$5.5 million to support investment in major fixed assets, such as land, buildings, heavy equipment, and machinery. The program is delivered by state and local CDCs, which are private, nonprofit corporations established to promote economic development within their communities, many of which are CDFIs. 504 loans have a three-party structure: 1) a third-party lender (typically a bank or credit union) providing 50 percent or more of the financing; 2) a CDC providing up to 40 percent via a 504/CDC debenture; and 3) a small business borrower contributing at least 10 percent. The program’s focused use of funds (land, buildings, and machinery) combined with fixed interest rate financing over 25 years makes it a popular option for small manufacturers. In FY21, almost 12 percent of all 504 loans (1,145 of 9,676) were to small manufacturers.<sup>2</sup>

One of the primary purposes of the 504 program is job creation and economic development. To ensure lenders are financing projects for borrowers who plan to create jobs, SBA includes a job creation/retention requirement. Under this requirement, borrowers (other than small manufacturers) must create/retain at least one job for every \$75,000 of SBA funds received, and small manufacturers must create/retain at least one job per \$120,000 of SBA funds received.<sup>3</sup> If the borrower does not meet this requirement, they can remain eligible for the program by meeting certain community development, public policy, or energy reduction goals.<sup>4</sup>

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<sup>1</sup> *An Empirical Review of the Paycheck Protection Program: Hearing before the H. Comm. on Small Business*, 117th Cong. (2022) (statement of Dr. Manju Puri, J.B. Fuqua Professor of Finance, Fuqua School of Business, Duke University).

<sup>2</sup> U.S. Small Bus. Admin., *Freedom of Information Act – Frequently Requested Records: 7(a) & 504 FOIA*, (last updated Jan. 26, 2022), <https://data.sba.gov/dataset/7-a-504-foia>.

<sup>3</sup> U.S. Small Bus. Admin., Office of Fin. Assistance, SBA SOP 50 10 6, p. 453.

<sup>4</sup> 13 C.F.R. §120.862; *see also* U.S. Small Bus. Admin., Office of Fin. Assistance, SBA SOP 50 10 6, p. 453-55.

In 2021, the House of Representatives passed two bipartisan bills introduced by Small Business Committee Members modernizing the 504 program, streamlining the loan closing process for small-dollar 504 loans, boosting program oversight, and improving program terms for small manufacturers.<sup>5</sup> Notably, the 504 Modernization and Small Manufacturer Enhancement Act of 2021, sponsored by Rep. Angie Craig (D-MN), increased the maximum loan size for small manufacturers from \$5.5 million to \$6.5 million, made additions to the public policy goals, and adjusted the program’s occupancy rules to make it easier for small businesses to finance the purchase of an existing building with a 504 loan.<sup>6</sup>

Furthermore, in FY21, the 504 program experienced record-high demand and reached the authorized lending limit of \$7.5 billion, causing the program to pause lending in early September. The increased demand for 504 loans experienced in FY21 is continuing into FY22. As of March 18, 2022, SBA approved 4,605 “regular” 504 loans (not “refinance” 504 loans) totaling over \$4.48 billion,<sup>7</sup> representing almost 60 percent of the program’s funding for FY22. This translates into approximately \$187 million in “regular” 504 volume per week, or over \$9.7 billion in volume for the fiscal year. At this pace, the program would be forced to shut down around July.

To address this potential funding shortfall for the current fiscal year, the Financial Services and General Government division of the Consolidated Appropriations Act, 2022, adjusted the funding levels for FY22 for the 504 regular and refinance programs from \$7.5 billion levels for both 504 accounts, to \$11 billion for 504 regular and \$4 billion for 504-refinance.<sup>8</sup>

Rep. Marie Newman (D-IL) introduced the 504 Program Level Flexibility Act of 2021,<sup>9</sup> which authorizes SBA to increase the regular 504 program lending limit by 15 percent once per fiscal year with at least a 30-day notice to Congress. Notably, section 20(g) of the Small Business Act provides the same program level increase authority for the 7(a) program. Rep. Newman also circulated a Dear Colleague letter on the pending introduction of the 504 Funding Reprogram Authority Act of 2022 (the “504 Reprogram Act”), which authorizes SBA to reprogram (i.e., transfer) funding from the 504-refinance account to the 504 regular account by 60 percent once per fiscal year with at least a 30-day notice to Congress. Either of these bills would prevent the threat of a lending pause if the program experiences unexpectedly high demand. Third-party 504 lenders have testified before this Committee that such a “shock-absorbing” provision in the 504 program would be beneficial to borrowers and lenders in preventing unnecessary disruption.<sup>10</sup>

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<sup>5</sup> 504 Modernization and Small Manufacturer Enhancement Act of 2021, H.R. 1490, 117th Cong. (2021); 504 Credit Risk Management Improvement Act of 2021, H.R. 1482, 117th Cong. (2021).

<sup>6</sup> The adjustment to 504 occupancy rules was added to the bill as an amendment by Chairwoman Nydia M. Velázquez (D-NY) during markup of the bill in the 116th Congress.

<sup>7</sup> U.S. Small Bus. Admin., *Weekly Approvals Report with data as of 03/18 for each FY*, (Mar. 18, 2022), [https://www.sba.gov/sites/default/files/2022-03/WebsiteReport\\_asof\\_20220318.pdf](https://www.sba.gov/sites/default/files/2022-03/WebsiteReport_asof_20220318.pdf).

<sup>8</sup> P.L. 117-103. In FY21, the 504-refinance program approved 693 loans totaling over \$709 million, about \$6.7 billion short of its authorization level.

<sup>9</sup> 504 Program Level Flexibility Act of 2021, H.R. 4844, 117th Cong. (2021).

<sup>10</sup> *An Empirical Review of the Paycheck Protection Program: Hearing before the H. Comm. on Small Business*, 117th Cong. (2022) (statement of Mr. Robert Barnes, President and Chief Executive Officer, PriorityOne Bank).

### SBA Microloan Program

Congress created the SBA Microloan Program in the Small Business Act (section 7(m)) in 1991, which makes funds available to nonprofit, community-based lenders (many of whom are CDFIs) who in turn make very small loans to eligible borrowers—mainly higher-risk, underserved entrepreneurs, whose businesses generally serve their local communities. These borrowers may be unable to get a traditional loan due to poor credit, no credit history, or a lack of business experience. This program reaches various demographic groups that would otherwise not be served by the private sector or even the 7(a) program. For example, SBA Microloans have been a source of capital for women business owners (who in FY2020 received about 47 percent of Microloans issued) and minority borrowers (who in FY2020 received over 51 percent of Microloans issued).<sup>11</sup> The program has successfully funded thousands of small businesses and created many more jobs in its almost 30-year existence. Though the maximum loan amount is \$50,000, the average Microloan in FY2020 was about \$14,000.<sup>12</sup>

In 2021, the House of Representatives passed two bipartisan bills introduced by Small Business Committee Members modernizing Microloan program rules and terms, making the program more affordable for intermediaries and borrowers, and improving program data collection and reporting.<sup>13</sup> Notably, the Microloan Improvement Act of 2021, sponsored by Rep. Andy Kim (D-NJ), eliminated the “1/55 Rule,” which intermediaries have for years reported was unnecessarily restricting program lending in high-volume areas.<sup>14</sup> This change will help high-volume Microlenders access greater SBA capital for re-lending to entrepreneurs.

### SBA Community Advantage Pilot Loan Program

In 2011, SBA established the Community Advantage Pilot Loan Program (CA) as a three-year pilot program within 7(a) designed to meet the credit, management, and technical assistance needs of small businesses in underserved markets.<sup>15</sup> The CA Pilot has been extended numerous times, most recently through September 30, 2022, when it is set to expire unless extended again by SBA.<sup>16</sup> CA provides mission-oriented lenders, primarily nonprofit financial intermediaries focused on economic development, access to 7(a) loan guarantees for loans of up to \$350,000.<sup>17</sup> These lenders report the credit support offered by the 7(a) guarantee amplifies the capital they could otherwise lend. This is important because the traditional 7(a) program is restricted to lenders supervised and

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<sup>11</sup> See, CRS Report R41057, <https://www.crs.gov/reports/pdf/R41057>.

<sup>12</sup> See, CRS Report R41057, <https://www.crs.gov/reports/pdf/R41057>.

<sup>13</sup> Microloan Improvement Act of 2021, H.R. 1502, 117th Cong. (2021); Microloan Transparency and Accountability Act of 2021, H.R. 1487, 117th Cong. (2021).

<sup>14</sup> See, e.g., *Small But Mighty: A Review of the SBA Microloan Program: Hearing before the H. Comm. on Small Business*, 116th Cong. (2019) (statement of Ceyl Prinster, President and CEO, Colorado Enterprise Fund).

<sup>15</sup> U.S. Small Bus. Admin., *Community Advantage Participant Guide*, Version 6.0 (2020), <https://www.sba.gov/sites/default/files/2020-06/CA%20Guide%20Version%206%20FINAL%20508%2006-01-20.pdf>.

<sup>16</sup> U.S. Small Bus. Admin., *SBA Information Notice – Extension of and Changes to the Community Advantage Pilot Loan Program*, (Sep. 26, 2018), <https://www.sba.gov/sites/default/files/2018-09/Notice%205000-180014%20Community%20Advantage%20Extension%20to%202022.pdf>.

<sup>17</sup> U.S. Small Bus. Admin., *Community Advantage Participant Guide*, Version 6.0 (2020), <https://www.sba.gov/sites/default/files/2020-06/CA%20Guide%20Version%206%20FINAL%20508%2006-01-20.pdf>.

examined by a federal financial institution regulator, a state banking regulator satisfactory to SBA, or SBA itself,<sup>18</sup> which keeps many CDFIs and other mission-based nonprofit lenders from becoming 7(a) lenders. Accordingly, the CA program offers access to 7(a) guaranteed lending to these institutions, which in turn increases access points to the 7(a) program for small firms who would struggle to access a 7(a) loan from a bank.

CA lenders may also optionally provide borrowers and potential borrowers with technical assistance but are not required to do so. Notably, in its Congressional Budget Justification for FY2019, SBA recognized that the CA program “reached significantly more women and minorities than the traditional 7(a) loan program.”<sup>19</sup> The organizations that may participate in the CA program are limited to SBA-authorized CDCs, SBA-authorized Microloan intermediaries, SBA-authorized Intermediary Lending Pilot Program intermediaries, and Non-federally regulated CDFIs.<sup>20</sup> Furthermore, organizations approved to participate as CA Lenders are required to make at least 60 percent of their CA loans in underserved markets, which includes Low- and Moderate-Income (LMI) communities, new businesses, veteran-owned businesses, and those located in rural areas.<sup>21</sup>

In 2020, the House of Representatives passed by a voice vote H.R. 7903,<sup>22</sup> a bill introduced by Rep. Judy Chu (D-CA) that would have codified the CA program under the Small Business Act and provided it a five-year authorization. The bill would have increased the portion of a lender’s portfolio that must be made in underserved markets from 60 to 75 percent and expanded the pool of businesses designated as being in an “underserved” market to explicitly include those owned by women and minorities, as well as those located in disaster areas.

### **Conclusion**

SBA offers a variety of capital access programs intended to help entrepreneurs start and expand businesses. Through community-based lending programs such as 504, Microloan, and CA, SBA is able to reach small business owners who are less likely to access capital from a bank. With the flexible use of funds permitted under each of these programs, borrowers are better positioned to meet payroll and other expenses while preserving cash reserves. This hearing is an opportunity for Members to hear how the community lenders who successfully delivered PPP to underserved business owners are also able to help small firms improve their resiliency and financial position.

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<sup>18</sup> 13 CFR § 120.410(d).

<sup>19</sup> U.S. Small Bus. Admin., *FY2020 Congressional Budget Justification and FY2018 Annual Performance Report* (2019).

<sup>20</sup> U.S. Small Bus. Admin., *Community Advantage Participant Guide*, Version 6.0 (2020), <https://www.sba.gov/sites/default/files/2020-06/CA%20Guide%20Version%206%20FINAL%20508%2006-01-20.pdf>.

<sup>21</sup> *Id.*

<sup>22</sup> H.R. 7903, 116th Cong. (2020).