INVESTING IN COMMUNITY: THE SBA'S COMMUNITY ADVANTAGE LOAN PROGRAM

HEARING

BEFORE THE

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INVESTING IN COMMUNITY: THE SBA'S COMMUNITY ADVANTAGE LOAN PROGRAM

TUESDAY, MAY 21, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT, AND REGULATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:06 a.m., in Room 2360, Rayburn House Office Building, Hon. Judy Chu [chairwoman of the Subcommittee] presiding.

Present: Representatives Chu, Craig, and Spano.

Chairwoman CHU. Good morning. The Subcommittee will now come to order.

I thank everyone for joining us this morning, and I want to especially thank the witnesses who have traveled from across the country to be with us today.

On this Committee, we are focused on making sure that small businesses, whether in my district in California, in Ranking Member Spano's district in Florida, and in every district across American can access the capital they need to start, grow, and create new jobs. And we know that when capital is affordable and accessible on reasonable terms, small businesses can do what they do best—strengthen our communities and fuel our economy.

This is something I have witnessed firsthand in my home state of California where 3.9 million small businesses make up 99.8 percent of our state's business, and employ almost half of our workers, making them an essential part of our economy.

Though accessing capital affordably and on reasonable terms is a challenge virtually all entrepreneurs face, this is even more difficult for women, minority, and veteran entrepreneurs, as well as small businesses looking to revitalize the rural parts of our country.

Recognizing the additional barriers to capital faced by entrepreneurs in these communities, SBA initiated the Community Advantage Loan Program as a pilot in 2011 to meet the credit and technical assistance needs of small firms in underserved markets.

The Community Advantage Program provides mission-based lenders, mostly nonprofit financial intermediaries focused on economic development, access to loan guarantees under the general 7(a) program for loans of $250,000 or less. By utilizing Community Advantage, these lenders fill a gap in the market and help small businesses who face challenges accessing traditional capital to eventually become bankable businesses.

A key aspect of the program is that lenders who participate in the program must make 60 percent of their Community Advantage loans in underserved markets. To access the program, a business must prove creditworthiness and a sound business idea, but unlike traditional lending, qualification for the program is not limited by the size of the borrower's balance sheet or amount of collateral involved. This makes a real difference for businesses that might not otherwise qualify for traditional lending. And so far, the program has been successfully meeting its goal of maximizing the footprint of SBA-backed lending to underserved markets.

SBA stated in its Congressional Budget justification for fiscal year 2019, that this program reaches, and I quote, "significantly more women and minorities than the traditional 7(a) loan program."

Since it started in 2011, the program has been extended numerous times but it is currently set to expire in September 2022.

That is why I am proud to be working with the Ranking Member of the Senate Small Business Committee, Senator Ben Cardin, on bicameral legislation to finally make Community Advantage a permanently authorized SBA loan program under the Small Business Act.

Which brings me to the reason we are here today, to hear from Community Advantage lenders and a borrower about the impact that this important program has on underserved communities, and about the value this program is adding to our local economies every day.

We can all agree that minimizing barriers to affordable access to capital for underserved entrepreneurs is an incredibly important function of this Committee. I look forward to working with my colleagues on both sides of the aisle to address the challenges facing our small business owners when it comes to securing capital.

Again, I thank the witnesses for being here, and I now yield to the Ranking Member, Mr. Spano, for his opening statement.

Mr. SPANO. Thank you, Madam Chairwoman.

The economy continues to reach new heights, and from historic unemployment rates to encouraging GDP readings, the Nation is moving in the right direction. But despite these positive economic signs, the Nation's smallest firms continue to face obstacles when it comes to financing their businesses. With conventional lending options exhausted, they often turn to the Small Business Administration and their many capital access programs to finance their operations and their dreams.

SBA's largest government guarantee program is the 7(a) loan program. In 2011, in using its own express authority, SBA created a 7(a) subprogram targeted at underserved communities called the Community Advantage Loan Program. Given that this program is not congressionally authorized, it is currently operating as a pilot program within SBA and thus, lacks the many requirements needed for a government guarantee loan program.

Since its creation, this pilot's expiration date has been extended a number of times by SBA and was recently extended until September of 2022. In this last extension, SBA also made significant structural changes to the program to further examine it, which included prohibiting new Community Advantage lenders from participating to adjusting the loan loss reserve ratio. Ultimately, the decision to authorize this program lies solely with Congress. Small businesses, entrepreneurs, and startups from Ohio to my state of Florida benefit from many of SBA's capital access programs, including the Community Advantage pilot loan program. A comprehensive discussion on next steps for this program is required and that is what we are doing here today.

I want to thank our witnesses. You have traveled from across the country to talk with us. Thank you very much for being here. I look forward to hearing about your experience with the program, what has worked and what has not worked. I am also interested in hearing how you believe the structural changes that the SBA put in place this past fall will impact the program. As we have these conversations, it is important to keep in mind that with any government program, comprehensive oversight is critical in safeguarding American taxpayer dollars.

Thank you, Madam Chairwoman, for having this timely hearing. I yield back.

Chairwoman CHU. Thank you, Mr. Spano. The gentleman yields back.

And if there are any Committee members that have an opening statement, we would ask that they be submitted for the record.

I would like to just take a minute to explain the timing rules. Each witness gets 5 minutes to testify and members get 5 minutes for questioning. There is a lighting system to assist you. The green light comes on when you begin, and the yellow light means there is 1 minute remaining. The red light comes on when you are out of time, and we ask that you stay within that timeframe to the best of your ability.

I would like to introduce our witnesses now.

I am so proud to welcome our first witness, owner of Tribali Foods and my very own constituent, Ms. Angela Mavridis. As a kind in her grandmother's kitchen, Angela discovered the nurturing power of real foods. Today, her organic 100 percent grass fed beef and organic 100 percent free range chicken patties are a flavorful celebration of simple ingredients. As a holistic nutritionist, Angela's ingredients for good nutrition are simple—eat real, whole, unprocessed food consisting of high quality proteins, colorful produce, a bit of fruit, nuts, or seeds, and a healthy dose of good fats. She also believes it is important to consider what foods make her happy, and after 35 years of abstaining from meat burger patties make Angela very happy. Gathered from nature and seasoned with loving care, Tribali Foods make healthier eating easier for everyone. Tribali foods creates easy meal options with a commitment to taste, nutrition, and transparent sourcing. Welcome, Ms. Mavridis.

Our second witness is Mr. Robert Villarreal. Robert has over 24 years of experience in community economic development and nonprofit management, and is the executive vice president of economic development for CDC Small Business Finance based on Southern California. Here, he has held numerous roles over the last 14 years. Currently, his responsibilities include grant and capital development, strategic partnerships, and government relations. In addition, he is the administrator of three separate corporations, including the administrator of the State Loan Guarantee Program and president of the Bankers Small Business CDC of California, which is a CDFI. Prior to his current role, Villarreal led the CDC's Community Lending Program. Under his leadership, the CDC was the number one SBA Community Advantage lender in the Nation. Villarreal is currently a board member of Opportunity Finance Network, the Community California Reinvestment Coalition, the San Diego County Chicano Federation, and a member of Union Bank CSR Advisory Board. Villarreal is a graduate of UC San Diego with a graduate degree in political science and anthropology, and he has a M.A. in international political studies from the Monterey Institute of International Studies. Welcome, Mr. Villarreal.

And our third witness is Ms. Janie Barrera. Jamie Barrera is founding president and CEO of LiftFund. The organization provides loans and management training to enterprises from startups to long established businesses. LiftFund operates in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, South Carolina, Tennessee, and Texas. Since its inception in 1994, LiftFund has disbursed more than 21,000 loans, totaling more than $3 million, with an impressive 94 percent repayment rate. Ms. Barrera has received nationwide recognition for her accomplishments, including the Small Business Administration Financial Services Advocate of the Year, the Minority Enterprise Development Consortium's Corporate Advocate of the Year, and the San Antonio Business Hall of Fame. President Barrack Obama appointed her to the President Advisory Council on Financial Capability, and has served on the Board of Directors for the Federal Reserve Bank of Dallas's San Antonio branch. She received a bachelor's degree from Texas A&M University Corpus Christi, and a master's degree in business administration from the University of the Incarnate Word. Welcome, Ms. Barrera.

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

Mr. SPANO. Thank you, Madam Chair.

Our next witness is John Kropf. Mr. Kropf is president of Growth Capital Corporation, a certified development company that has been operating for over 35 years in Cleveland, Ohio, and has provided more than $500 million in loans to businesses. Prior to his service at Growth Capital, Mr. Kropf spent time as a certified development company lender and microlender in Pennsylvania, along with time spent at Wells Fargo. In addition to his banking career, Mr. Kropf is a United States Army veteran. I would like to thank you for your service, Mr. Kropf. And we welcome your participation at today's hearing.

Madam Chair?

Chairwoman CHU. Ms. Mavridis, you are recognized now for 5 minutes.

STATEMENTS OF ANGELA MAVRIDIS, OWNER, TRIBALI FOODS; ROBERT VILLARREAL, EXECUTIVE VICE PRESIDENT, CDC, SMALL BUSINESS FINANCE; JANIE BARRERA, PRESIDENT AND CEO, LIFTFUND; JOHN KROPF, PRESIDENT, GROWTH CAPITAL CORP.

STATEMENT OF ANGELA MAVRIDIS

Ms. MAVRIDIS. Thank you.

My name is Angela Mavridis, and I am the founder of a national CPG, a consumer packaged goods company called Tribali Foods. We are a real foods company, serving high quality, flavorful, and effortless meal solutions. Tribali Foods is also a certified women-owned business.

I grew up in the restaurant business as my father owned and operated hamburger fast-food drive-thrus in the Pasadena area of Los Angeles. My father came to this country from Greece at the age of 17 to pursue his American dream. He opened his first location in 1952 and realized that dream through the success of his restaurants and real estate investments. He passed away 4 months ago, and I intend to honor his legacy and fulfill my American dream of strong family values, entrepreneurship, and giving back to my community.

At the young age of 13 and seeking a healthier way of eating, I became a vegetarian. I was influenced by mainstream media and the marketing messages of the early 1980s and 1990s where meat, and specifically saturated fat, were vilified for their perceived health consequences. Fat was feared and meat was going to clog your arteries and give you plaque buildup. I adhered to a vegetarian diet for 35 years. Fast-forward to 4 years ago when I studied nutrition and became a holistic nutritionist. I came to learn that well-sourced, high-quality animal meats provide the nutrient density and health benefits that I lacked in my vegetarian diet. I tried my first organic, 100 percent grass fed, finished steak and never looked back.

With my new knowledge and perspective, I began to explore opportunities in the sector I knew best, the food business. I drew upon my Greek heritage and culinary background and developed a line of seasoned burger patties and sliders. They are made from organic, ethically sourced, humanely raised animals, and are blended with only the freshest herbs, spices, vegetables, and purees to bring out my globally-inspired flavors. My products are also gluten, soy, and dairy free, Paleo certified, and Whole30 approved. They include organic, grass fed, and finished beef and free-range turkey and chicken patties.

Since founding the company in 2016, I have managed to catapult the brand toward mainstream success with an appearance on the Today show, several industry awards standards like the NEXTY, and retail agreements with Target and Walmart nationally, as Whole Foods, Natural Grocers, Central Market, and other independent grocers in the California area.

With my expansion and growth came the need to obtain capital to fuel the success. I needed the capital to help finance my next stage. I had momentum. I had brand recognition. I had proven my concept. I had national placement. I just needed a way to finance that next step.

Through my networking with other CPG companies, particularly Terra's Whey, I became aware of the SBA financing opportunities and their support of women-owned businesses. I was introduced to her SBA small business loan provider, CDC Small Business Finance in 2018 for help. Obtaining the SBA financing through CDC Small Business Finance was a straightforward process with affordable terms and conditions. I remember the day I received the call that I had qualified for the full amount. It was probably one of the most monumental days of my life, as I had multiple purchase orders in front of me and I was not sure how I was going to fulfill them. The SBA loan came at the most opportune moment to help continue our momentum as a brand. Since then, I have used the Community Advantage Loan to fund production, establish sales and distribution, and implement a strong marketing strategy. We also qualified for the SBA Microloan program, which enhanced our product by financing all our raw material purchases.

At the early stage Tribali was in, funding options were difficult to come by. The timing and importance of our SBA funding cannot be overstated. It jumpstarted our growth, fueled our expansion—our products are now distributed in 35 states—and enabled us to become a viable business. Our growth will allow us to hire two new positions within our organization by yearend with more, and hopefully many more to follow. Our projections indicate that we will need additional funding and financing as we expand our product line and distribute to more retailers and geographical areas. We are prepared to take on that financing.

I am a strong advocate for the SBA loan program. There are thousands of fledgling business owners who this program was designed for and who would otherwise have limited options to start and grow their businesses, hire staff, and enhance their communities. My own journey would be markedly different without this program. Without these loans, our success thus far could not have been possible. For that I am very grateful. I hope you will continue this program for entrepreneurs with the passion and vision to fulfill their American dream. Thank you.

Chairwoman CHU. Thank you, Ms. Mavridis.

And now, Mr. Villarreal, you are now recognized for 5 minutes.

STATEMENT OF ROBERT VILLARREAL

Mr. VILLARREAL. Good morning, Chairwoman Chu, Ranking Member Spano, and members of the Subcommittee. Thank you for convening this hearing to discuss SBA's Community Advantage Program (CA), a small, yet impactful pilot program launched in 2011. The program has effectively increased SBA lending to emerging markets in underserved communities, and we believe should be granted permanency and full program authority within the SBA's flagship 7(a) program.

I am here today representing CDC Small Business Finance, or CDC, which for 40 years has been an advocate for small businesses. We are located in San Diego, California, and operate in California, Arizona, and Nevada. We deploy the array of SBA products, including the 504, Community Advantage, and SBA

Microloan. In fact, we are the largest 504 and Community Advantage lenders in the country.

Through these multiple programs, we have provided over $13 billion in capital to small businesses and created over 200,000 jobs.

Today, my colleagues will be discussing some of the more technical aspects of Community Advantage. My comments today are focused on the purpose and impact of the program.

When the CA program was launched in 2011, it was a bold step for the SBA, as for the first time they extended the administration's 7(a) program to community-based mission lenders with a goal of assisting small businesses that were not yet bankable, yet needed access to affordable and responsible capital.

This was also an acknowledgement that the traditional 7(a) lending industry was falling short in providing small dollar loans to businesses in underserved communities.

After the Great Recession, SBA lending to emerging markets had dropped significantly and the primary program the SBA had to reach these markets, Community Express, had double-digit losses and 85 percent of the production was concentrated with just three lenders.

The SBA understood that mission lenders were the best suited to meet the capital needs of business populations which were not being met by traditional lenders. Mission lenders have a deep knowledge of their communities, and as an explicit purpose and mission, assist small businesses that are located in underserved areas or are owned by women and minority entrepreneurs. Mission Lenders measures success by how their small business clients perform and not by return to shareholders.

So what has been the impact? In regard to our organization, CDC, we have funded 656 Community Advantage loans for over $91 million. This has resulted in 4,700 jobs supported and a less than 4 percent charge-off rate.

As Chairwoman Chu mentioned, 60 percent of our lending must go to a target market. We are over 70 percent.

In regard to the industry, over 5,300 loans have been made to small businesses, totaling over $712 million. And as mentioned, CA lenders are required to provide 60 percent of loans to target markets, the industry is at 70 percent of target market.

One of the successes of the CA program has been its lending to Black and Latino small businesses, which coincidentally are not designated target markets in the program, although we believe they should be. In fiscal year 2018, 12 percent of Community Advantage loans were to Black-owned businesses, and 17 percent to Latino businesses. Compare this to 7(a) SBA Express for loans under $250,000, where loans to black businesses was just 4 percent, and lending to Latino businesses was 9 percent.

Greater distinctions are seen in loans for startups, which are critical to keep the economy going. For CDC, over half of our portfolio is comprised of startup businesses as defined by the SBA, which is less than 2 years in business.

Further, in fiscal year 2018, 44 percent of our approved loans were to pure startups, meaning the businesses had not opened their doors at the time of application. This leaves Community Advantage lenders to fill the void in the very important continuum of capital.

There are currently 99 active CA lenders across the country, and CA loans have been made in 47 different states. While there is an understanding that Community Advantage loans are riskier, the cumulative charge-off rate on CA loans through fiscal year 2018 has been less than 3 percent. I credit this to the experience of the mission lenders like the ones seated here today.

In closing, I would like to quote from my colleague from Montana, Dave Glaser, who is also a Community Advantage lender. He notes that as mission lenders, we are double bottom-line organizations, yet the SBA and others continue to focus on just one of the two lines, the 3 to 4 percent loss rate. Rather, we encourage them, and more importantly, this Committee, to focus on the second line, the 97 percent success rate and the incredible impact we have had for the 5,300 small businesses in the United States, just like the one seated here to my left.

Thank you, and I look forward to your questions.

Chairwoman CHU. Thank you, Mr. Villarreal.

Ms. Barrera, you are recognized for 5 minutes.

STATEMENT OF JANIE BARRERA

Ms. BARRERA. Thank you very much.

Good morning, and thank you for the opportunity to speak before you on behalf of LiftFund and the CDFI community in support of the 7(a) Community Advantage program.

This year marked our 25th anniversary in fulfilling our vision of opening doors, leveling the financial playing field, and building a community of shared success through entrepreneurship. Since 1994, we have provided 20,000 resilient, yet underbanked entrepreneurs with over $300 million in capital, allowing them to build assets and create and retain jobs in their communities. Our loans range from $500 to half a million dollars. The average loan size is under $25,000. The average FICO score of one of our borrowers is 590, and we have a 96 percent repayment rate. So we have learned how to mitigate risk. Since we are not a bank and do not have depositors, we have partnered with over 78 banks and credit unions, government loan programs, foundations, and impact investors to access the funds that we need to lend in the community.

So unlike our for-profit businesses, in terms of our model, business model, we, as a not-for-profit, our business model is to lose our best customers. The for-profit world wants to keep them. We want them to graduate and go into the traditional banks.

So we started in Texas 25 years ago, and now we are in 13 states across the southeast. We provide capital in some of the most economically segregated communities in our country, including the Mississippi Delta and the colonias along the Texas border. We serve urban cores, like New Orleans, Dallas, and Houston, along with areas that have been devastated by natural disasters, like in Florida.

Since the early 2000s, LiftFund has worked closely with the U.S. Small Business Administration. First, we started out with the SBA Microloan program. Then, we expanded to the SBA 504 program in 2008. We operate two small Business Women's Centers, and in

2011 became part of the pilot program for the 7(a) Community Advantage.

Our approach is simple, yet impactful. Coupling mission-driven capital with business and financial education, or technical assistance, to help business owners.

Because of the Community Advantage program, we have served an additional 260 entrepreneurs over $33 million through this program. In October 2011, we made one SBA Community Advantage loan at $210,000. Last year, we made 53 loans totaling $8 million. Because these loans are guaranteed, we are able to sell them to the secondary market, allowing LiftFund to have the liquidity to make loans to minority, rural, and veteran business owners.

LiftFund was one of the first recipients of the 7(a) program in 2011. Since then, we have done 260 loans resulting in over $33 million. We disbursed these to deserving entrepreneurs, like Shelenia and Rico Nelson, a veteran-minority couple in Round Rock, Texas, who wanted to open their own donut shop to provide a meaningful career path for their disabled son. As a startup, the Nelsons were not able to receive funding from their bank and were referred to LiftFund for support. We provided the Nelsons a $70,000 SBA community loan to do the buildout and open Crack the Dawn Donuts, now in its third year of operation.

So these borrowers have created over 1,200 jobs and retained an additional 1,444 new jobs in the communities. The loans that we in the 7(a) community loan program are going to diverse communities. Fifty-eight percent of our clients are minorities. Thirty-five percent are women. Eighteen percent are veterans or their spouses. And 31 percent identify themselves as low to moderate income individuals. But over 60 percent loans are in the low to moderate income level neighborhoods.

Our support goes beyond the urban core. Last year, 10 percent of our lending volume of the 7(a) program was to businesses in rural areas. Take Anamia Martinez Ortiz, for example, a small business owner in McAllen, Texas. She came to LiftFund in 2014 with less than a year under her belt as a business owner. She had approached several banks and was turned down. Banks are regulated, and she did not qualify. LiftFund is able to accept requests from startups and those with lower credit scores. Our underwriting looks at capacity and how they will repay the loan. So she started out with us and now she has 10 locations throughout the Rio Grande Valley.

While our clients may have challenges, our repayment rate has continuously remained at or above 96 percent in our portfolio. I am proud of the entrepreneurial culture we have developed at LiftFund. We are responsible stewards of our lending funds, constantly improving our processes and evaluating to meet our client's need. We created our own risk model and underwriting criteria, and to this day continue to make adjustments on our data. We complement our internal controls with the SBA CA tools as well like the scorecard.

At LiftFund, we take great pride in portfolio quality. Despite our clients' challenges, their repayment rate is high. In 2017, we increased our internal minimum SBA score for a 7(a) loan from 120 to 140. We did this a full year before the SBA made the same decision.

We urge Congress to make the 7(a) Community Advantage program permanent and increase the loan amount from $250,000 to $350,000. It is essential to reach those often left behind—minorities, women, and rural communities—and provide a pathway to prosperity for deserving and committed entrepreneurs.

I want to personally thank you for the opportunity to speak and I appreciate being here. Thank you.

Chairwoman CHU. Thank you, Ms. Barrera.

Mr. Kropf, you are now recognized for 5 minutes.

STATEMENT OF JOHN KROPF

Mr. KROPF. Thank you, Chairwoman. Good day, Chairwoman Chu and Ranking Member Spano. I am John Kropf, president of Growth Capital Corp in Cleveland, Ohio, a mission-based, not-for-profit lender. And I am here today to share my experience with how growth capital is investing in community with our participation in the SBA Community Advantage program.

Back in 2010, I was actually quite astounded to learn that SBA was rolling out what I considered to be an innovative and cost-effective solution to the problems of small businesses, especially those in underserved markets, having access to affordable financing to find, fund, and grow their companies. In expanding the 7(a) loan program to not-for-profit mission lenders like Growth Capital, Community Advantage linked a vital Federal Government loan guarantee mechanism to a healthy market-based, mission-based product delivery platform focused on serving those small businesses oftentimes neglected by traditional bank lenders or outright by nontraditional predatory lenders.

How astonishing it was to see such innovation coming from a Federal bureaucracy like SBA. There was no new department created and no new big government program initiated. No new spending required to launch SBA Community Advantage. Instead, we witnessed the confluence of community-focused, impact-driven organizations like CDC Small Business Finance, LiftFund, and Growth Capital with the community-focused, impact-driven mandate of SBA.

We did not initially apply for participation in the program because of regulatory restrictions, but in 2012, when SBA allowed for the use of loan service providers, along with the sale of SBA loan guarantees on the secondary market we jumped right in and were approved to participate. And jump right in we did. Having immediate impact on our communities with our CA lending and joining other prestigious industry leaders that have programmed today more than $680 million to over 5,100 small businesses, 70 percent in underserved markets. Our average size CA loan is only $133,000 and demonstrates our commitment to small dollar lending to small sized companies.

But these numbers mean a lot more. These numbers are actually much more. These numbers have names and faces. They belong to people like my esteemed colleague, Bob Villarreal's borrower here today from Ms. Chu's district. They belong to borrowers like mine. Amy Wong of Dot Org Solutions in Akron, Ohio, who testified here before this Committee last year on the importance of the SBA Community Advantage program. These names and faces include other such borrowers like Destiny Burns, a retired Naval Officer who owns Cleveland Urban Winery, or Kathryn Green of Sassafras Land Design, or Jake Fitzpatrick, owner of Clifton Cleaners, and Mark Steinberg of Queen City Gutters in Cincinnati, Ohio.

Every one of these borrowers, and indeed, almost all of our CA borrowers are what I describe as the "just miss" bank loan. Companies that are creditworthy but just miss the bank lending requirements, and many times these small loan requests miss the bank profitability requirements and are thus neglected by traditional bank lenders. And many of our banking partners make direct referrals to Growth Capital for CA loans. If these companies are not referred to a CA lender, many times they find alternative high-rate lenders and become outright exploited by nontraditional predatory lenders. We, ourselves, at Growth Capital just received a solicitation last week for an online loan. The rate was 48.7 percent when I checked online.

So what is needed? There are several important items that I feel are needed and critical to expand our CA lending.

One, increase the guarantee percentage. Currently, it is at 75 percent on loans up to $250,000, and 85 percent on loans below $150,000. A guarantee of 85 percent for all CA loans would dramatically help the liquidity of CA lenders throughout the country. CA loans currently require a guarantee of 85 percent under $150,000, and actually, 90 percent on international term loans. Growth Capital recently closed an international trade loan, and we actually represent 40 percent of all CA international trade loans disbursed under the program, and that carries a 90 percent guarantee. We would like to do more of those. That small company in Cleveland is actually an exporter selling equipment to Saudi Arabia, Egypt, Hungary, and Romania. And our loan $250,000 required just $25,000 in capital.

In closing, while I understand the current political conditions we are under, we, CA lenders, must currently operate, I understand the true bipartisan approach to supporting small businesses that this Committee takes. True bipartisan support is for the CA borrowers previously mentioned, Amy Wong of Dot Org Solutions; Destiny Burns, the retired Naval Officer; Kathryn Green of Sassafras Land Design; Jake Fitzpatrick and Clifton Cleaners; and Mark Steinberg of Queen City Gutters in Cincinnati, Ohio. They actually need more than bipartisan support. They, and CA lenders need tripartisan support. We need to try. We need to try harder as CA lenders. We need to try more as an industry. We need to advance our Community Advantage lending and really try to do more investing in community. We will try to recognize the importance of financing underserved small business concerns that are inherent, the risk involved in financing underserved businesses, and the capacity of experienced mission-oriented lenders to manage risk and build sustainable, bankable businesses through our SBA Community Advantage program that I am confident this Committee will support.

In conclusion, I wish to personally thank Chairwoman Chu and Ranking Member Spano and all the honorable members of this important Committee, and know that we all share the same passion and commitment to investing in community. Thank you all, and I am happy to participate in field your questions. Thank you.

Chairwoman CHU. Thank you to all our witnesses. I am truly impressed by your testimony and your commitment to Community Advantage.

And now, I will begin by recognizing myself for questions for 5 minutes.

So Ms. Mavridis, thank you for being here today, and congratulations on your hard-earned business success. Can you share with us the state of your business before you received the Community Advantage loan and how being able to take out a Community Advantage loan made a difference for you in your business planning?

Ms. MAVRIDIS. Certainly. Prior, the business was self-funded by personal funds, and I presented to the first market, which was Whole Foods, the idea. So they believed in me and gave me up to a year to go and build the brand, build the company, find my sources, and start production. And my personal funds took me that far, and once I had the order in Whole Foods, I got on their shelves and was able to sell into other multiple markets. And at that time I was borrowing from Father, from Dad, and repaying, and reborrowing again and repaying, and after that door closed my next step was to take a line of credit from the bank. But due to my assets that was not enough. So I became aware of the SBA loan and the CDC lender and that amount enabled us to fulfill the orders that I had gotten to make us a national brand. I was sitting with Target orders and Walmart and did not know how to finance them. So, once that money came in we were able to fund the production, make the distribution happen, and secure those sales. So it has helped my brand definitely get to the next phase. And without it we would not have had money to fulfill those orders.

Chairwoman CHU. So you ran out of your personal funds and Father funds? Was there any other plan B had there not been the Community Advantage loan?

Ms. MAVRIDIS. Right. And raising capital at that time to do a family and friends round or to start giving some equity up from your company, bigger CPG investors were not looking at us because we did not have at least a $2 million run rate yet. So it was right at that special spot where I had proof of concept, proof of product, but not proof of sales to get investors. And also, at that point you do not want to start giving up equity of your business, so this was the best choice.

Chairwoman CHU. Well, then I would like to ask the panelists, all the panelists, you have valued experience with the Community Advantage program with different perspectives as lenders and borrowers. Can you tell us briefly if you would support the Community Advantage program being made permanent, how would permanency help small business in underserved areas?

Mr. KROPF. Chairwoman, like any business, us CA lenders are in business. We are operating our own shops. We are private, independent operations. And like any market, like any industry, having the ability to have some level of permanency in the market to understand that the decisions we make today we can carry through tomorrow. And without the permanency of the Community Advantage program, there is a lot of uncertainty in the industry and in the marketplace. So we could certainly benefit from that certainty.

Ms. BARRERA. And I would like to add the fact that we, as you heard before in the testimonies, we are the stepping stone into the banks. And so by having a permanent program like this, we can do the things that the banks cannot do in getting them prepared by reporting back to the credit bureaus their payment history with us because that is how we improve our credit scores is by borrowing money, paying it back on time, and providing that technical assistance.

So like I said in the beginning, we are trying to get rid of our best customers and graduate and so we can be that stepping stone for banks.

Mr. VILLARREAL. I would echo the statements by Janie and John. Two important things that permanency does. One is almost all of us get our capital from banks and, you know, banks should be and will be reluctant to extend longer term credit to us if the program is going to expire in 24 or 30 months. So it adds some stability to the program. And also, permanency will increase a number of Community Advantage lenders. As all of us can testify here, jumping into 7(a) lending as a CA lender is expensive, and it is a commitment of time and resources. And you are not going to do that unless you have some permanency to the program, so that is why it is critical.

Chairwoman CHU. Well, I have run out of time so I would like to now call upon the Ranking Member, Mr. Spano, for 5 minutes.

Mr. SPANO. Thank you, Madam Chairwoman.

Ms. Mavridis, thank you again for being here. I am just curious how you heard about the SBA and the loan options that were available to you through the SBA.

Ms. MAVRIDIS. I actually listened to a podcast from a mentor of mine of how to grow your CPG business, and the name of the company was Terra's Whey. And Terra herself was on the podcast talking about the loan. But honestly, had I not heard that, I do not know how I would have become aware of this.

Mr. SPANO. Thank you.

Ms. Barrera, you had mentioned that LiftFund has created your own risk model in terms of assessment of risk. I guess my question, how does your risk model differ from the traditional risk model? What is the difference and what has allowed you to be as successful as you have been in this space?

Ms. BARRERA. Well, the traditional lenders, as in the banks, have certain criteria that they have to follow because of regulators. You know, either the OCC, the FDIC, the Federal Reserve, and those are very stringent. They are in the box. You have to fit that box. And if you do not, you do not get the loan.

At LiftFund, since we are a not-for-profit, we can look outside the box. We still look at FICO scores but that is not going to be the reason that we make a loan. We look at capacity of the repayment and so on.

And so what has happened since we have been around for 25 years, we have been collecting data of the unbanked and underbanked for 25 years. And I had a real smart intern about 2010 that came in and I said, create a profile of a good paying customer and a not-so-good paying customer using SASS. And that is what happened. Eventfully, now it is aggregated over all these years that, you know, with AI and so on, we have been able to have our own internal technical algorithm for a scorecard. So, you know, a Florida application comes in, it comes in to San Antonio, we do the underwriting there through the algorithm. It pops up red, yellow, green. Green, continue the process; red and yellow, loan officer contact them. Why is it red and yellow? So that is why we are able to do all these little bitty loans across our footprint and still not make any money because we are not for profit and we have a lot of, you know, folks that we have to handhold through the process as well in terms of getting their financials ready and so on. But we have been using technology to be able to provide this pretty good accurate underwriting scorecard.

Mr. SPANO. Is it fair to say that based on what you just said then that the capacity to repay is really the primary function that you are looking for——

Ms. BARRERA. Yes, sir.

Mr. SPANO.—as opposed to payment history?

Ms. BARRERA. That is right.

Mr. SPANO. Even though that is a very complicated algorithm that I cannot understand and maybe most of us here cannot, but that is basically the——

Ms. BARRERA. Basically, that is what it is. You know, how long they have been living in their place, how long the business and so on. But, you know, it takes a lot of other things, too, because some of them are startups and have been in operations, you know, less than a year. So it takes in all these other factors.

Mr. SPANO. Thank you so much.

Mr. Kropf, you describe, if you would for the Committee, your institution's working relationship with SBA? What I mean by that is how often do you interact with them? Describe, if you would, their oversight process of your organization.

Mr. KROPF. Sure. Thank you, Congressman.

Yeah. SBA is our primary regulator, so that is one part of the relationship. SBA has a very stringent regulatory regime for certified development companies, as well as CA lenders. So from that standpoint, that is really the beginning of the relationship from a regulatory oversight perspective.

But we are also partners, especially with the Community Advantage program. We are partners in investing in community. So one of those loans that I had mentioned, Clifton Cleaners, he went to SBA because he could not get a loan from the bank. He went to our local district office. They referred him to us. They understand the type of borrower that Community Advantage can really assist, and they provided that referral to us. We closed the loan just 2 weeks ago. So that is another important relationship, not just the regulatory oversight but the partnerships to invest in community I think is also very important.

Mr. SPANO. And real quickly, in your written testimony you describe a relationship with Fifth Third Bank.

Mr. KROPF. Yes.

Mr. SPANO. Can you describe that relationship very quickly, and then the benefit to the community?

Mr. KROPF. Yes. Fifth Third Bank provides capital for us to lend for our Community Advantage program. It is very innovative in its approach where we have a warehouse line of credit that we draw on throughout the year to fund our Community Advantage loans. We sell on the secondary market, vitally important for liquidity. We repay a portion of that line of credit. The unguaranteed portion stays on that line throughout the year. We service interest. At the end of the year they term it out for us long-term to match the loans that we have on the books, the Community Advantage loans.

Mr. SPANO. Thank you, Madam Chair.

Chairwoman CHU. Thank you. The gentleman's time has expired. But the good news is I believe we will have time for a second round of questions.

So now, the gentleman from Tennessee is recognized, Mr. Burchett from Tennessee.

Mr. BURCHETT. Thank you, ma'am. Thank you, Madam Chairwoman and Ranking Member. I appreciate all you all coming out for your testimony.

One question I had, Ms.—tell me how to say your name, ma'am. Ms. Mavridis?

Ms. MAVRIDIS. Yes.

Mr. BURCHETT. All right. I get that. All right.

I grew up in Knoxville and we have a huge Greek community there, and I am very fond of them. Actually, my daddy was dean of student conduct, and a lot of the Greek merchants, they started nice restaurants. And I do not know about anywhere else. I think everybody else goes hungry if they do not have a lot of Greek folks in the community because that is all the restaurants they run and they are awesome. And as a matter of fact, my first traditional Greek meal I ever had was at the Pizza Palace in Knoxville. I always kid about that. It is actually not, you know, it was just pizza, but it was wonderful. And it still is. It is where we go on date night or when it is my night to cook.

But anyway, I am always remembered by the Greek folks because in 1976, my momma had cancer and daddy took momma to Memphis and there was my brother and sister and I kind of had to fend for ourselves and the Greek community was so wonderful. They brought all this wonderful food. And honestly, I never knew if it was for breakfast, lunch, or dinner, or it was desert, because they would put the name on it, and of course, you know, it was just delicious. I know I ate baklava for supper every night if I could. So that was wonderful and it was a great community.

But you had mentioned that, you said, and I am sorry about you losing your daddy as well. I lost both my parents and that is a hole that just seems to never get filled. So I have sympathy with you.

But you mentioned that your father, you borrowed from him and then if the SBA had not come along, but you stopped there. What other options would you have had if the SBA had not come along?

Ms. MAVRIDIS. I think you can do a round for family and friends and put a business deck together where you raise capital from those around you that believe in your concept. And I was not at the point yet to get investors in to take equity because I did not have proof of sales.

Mr. BURCHETT. Right. You would have to give them a piece of the action; right?

Ms. MAVRIDIS. Right. Right. And no one wants to do that.

Mr. BURCHETT. No.

Ms. MAVRIDIS. At such an early stage in the business.

Mr. BURCHETT. An attorney told me, he said, you pay them, do whatever, you know, points on the loan, whatever, but never give away your ownership because 50 percent plus one and you do not own it anymore. So I understand it.

Mr. Kropf, in your testimony you mentioned a Community Advantage International Trade loan. Can you explain or describe that type of loan? Does it have different terms?

Mr. KROPF. Yes. Thank you, Congressman.

The International Trade Loan has been a subset of 7(a) for many years. It currently carries an incentive to support exporters. It provides a 90 percent loan guarantee to the lender. It has been open for banks, been open to bank participation for years through the Export Assistance Centers throughout the country. We have one in Cleveland.

But about 4 years ago, we did the first ever Community Advantage Loan under the International Trade Loan program. We were the first ones to do it and we had to work pretty hard to figure that out. But after we did, SBA surprisingly incorporated the International Trade Program terms to Community Advantage lenders. And we were able to process that recent loan under our own delegated lending authority. So we were able to support that small exporter who exports asphalt equipment to the Middle East and Eastern Europe when he could not obtain a bank loan. If not for this $250,000 community advantage loan, this company would not have been able to make exports and import wealth into our country, and I think that is vitally important, congressman.

Mr. BURCHETT. All right. I yield back to the Chairlady. Thank you so much.

Chairwoman CHU. Thank you. The gentleman's time has expired and the gentleman yields back.

Now I recognize myself for 5 minutes for a second round of questioning.

Mr. Villarreal, a critical component of the Community Advantage pilot program was to expand the 7(a) program to mission-based lenders which are CDFIs, SBA 504, CDCs, and microlenders. Can you talk more about how mission-based lenders are best situated to meet the needs of small businesses that are in underserved areas or are owned by women and minority business owners?

Mr. VILLARREAL. Certainly. Thank you for the question.

As I mentioned in my oral testimony, we are all mission-based, nonprofit lenders with an explicit purpose to work and serve these communities that we are talking about. So a lot of us are CDFIs. And as a CDFI, you know, over 60 percent of your lending must be to these underserved target markets.

I think the other bonus that we bring that a traditional 7(a) lender, a bank, cannot do is the business advising and technical assistance. It is a critical, critical piece that I think separates us from a traditional 7(a) lender. It is something that they cannot do and something that they are not modeled to do. And I will give you an example. We financed a woman minority pottery studio. Helped her create her website. She was still doing her books on Excel. We provided her QuickBooks so she could do her books more professionally, and then we helped her figure out how to best do her pricing. That is something a traditional bank could not do and would not do. So I think that is one of the primary things that separates us and why it is so important that the CA be made permanent. It is not something that a bank can do. It differentiates us in terms of our delivery system. We are a different delivery system, and I think that is the secret sauce within the Community Advantage program.

Chairwoman CHU. Thank you for that.

And I would like to ask any or all of the lenders here, I would like to hear more about the work that our Community Advantage lenders do to reach businesses in underserved markets. I understand that at least 60 percent of your lender loans must be in an underserved market as defined by SBA. But based on your testimony, all of you target underserved markets very intentionally and do so even before becoming a Community Advantage lender. Can each lender tell us what percentage of your Community Advantage loans are in undeserved markets?

Mr. KROPF. Sure, Congresswoman. We are over 70 percent of our CA lending is to underserved markets. And one of the ways that we reach those markets is we partner with Community Development Corporations throughout the markets we serve. These are community-based organizations that support local businesses in their neighborhoods. We provide the resources for the Community Development Corporation to have that outreach in their neighborhoods. They provide referrals to us as a Community Advantage lender. They provide real value in that process, and for that they earn a small packaging fee that helps support their operations in the local community. So that has been a real good tie for us in being able to reach undeserved markets in Cleveland.

Ms. BARRERA. Thank you, congressman.

So over 60 percent of our population is in the low to moderate income level neighborhoods, and we, actually, in San Antonio, our offices are located in the poorest zip code in San Antonio. So our staff also are out in the communities in those poorest districts. Because who qualifies for loans from LiftFund but people that are underserved? If you have a good credit score, we are not going to accept you as a customer. If you are going to come in, you know, already qualifying for a bank, we are going to send you off. Our mission is to help the underserved become part of our financial mainstream.

Mr. VILLARREAL. The only thing I would add is a couple of things. We work very well with some of the SBA programs. We think the SBA did a great job when they created Lender Match. It used to be called Link and then it came out as Lender Match. That has been wonderful and we get a lot of leads through that. We work with the Women Business Centers and the Small Business Development Companies, the SBDCs. So they are great referral sources.

And I think the other thing that differentiates us is, for example, we set up our business advising where if a client walked in and they were of the underserved or emerging market and they were not quite loan ready, we off ramp them. It is a term we use. We off ramp them to business advising and got them ready and then put them back into the loan process. And last year, in fiscal year 2018, we did nearly $5 million of loans that way to folks that we would have in the past maybe passed up on or referred out to an SBDC. We work with them internally and they ended up getting a loan.

Chairwoman CHU. Excellent.

And I have heard from lenders who would like to see women-owned and minority-owned businesses, specifically Black, Hispanic, Asian-Pacific, American or Native American owned businesses added to the list of undeserved markets for purposes of Community Advantage loans. What are the thoughts of any of you on this?

Mr. VILLARREAL. We think that is critical. As I mentioned, some of the numbers, in terms of lending to Black businesses, Community Advantage is triple what the SBA Express is for loans under $250,000, and it is almost double for Latino. I think for women, Community Advantage is probably 35 to 40 percent. I am not sure exactly what it is for 7(a). SBA Expresses are $250,000, but it is probably more than double that. So I think that is critical. It is something that is measured by the SBA under the traditional 7(a) market. We do not understand why it is not a target market under CA.

Chairwoman CHU. Okay. Well, thank you all so very much. This brings us to a close. We want to thank all of you, the witnesses, for taking time out of your schedule to be with us today.

SBA's loan program, including the 7(a) program is designed to reach borrowers who cannot affordably and reasonably access credit from a conventional lender. The Community Advantage takes that important step further by reaching borrowers that even the general 7(a) program does not reach.

As I said in my opening statement, this program reaches significantly more women and minorities than the 7(a) program, and as we heard today, it is also making a serious impact in our Nation's rural communities. Ensuring that this program will be available to future generations of entrepreneurs from underserved communities is a top priority of mine on this Committee. I look forward to working to ensure that this program becomes a permanent part of SBA's menu of loan products.

Well, I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials 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 11:00 a.m., the subcommittee was adjourned.]

APPENDIX

Written testimony prepared by:

Angela Bicos Mavridis. CEO, Founder of TRIBALÍ Foods, Pasadena, California

For:

The Committee on Small Business Subcommittee on Investigations, Oversight, and Regulation
Access to a hearing titled, "Investing in Community: The SBA's Community Advantage Loan Program."

Tuesday, May 21, 2019 at 10:00am in Room 2360 of the Rayburn House Office Building:

Hello,

My name is Angela Mavridis and I am the founder of a national CPG (Consumer Packaged Goods) company called TRIBALÍ Foods. We are a real foods company, serving up high quality, flavorful and effortless meal solutions. TRIBALÍ Foods is also a certified Women Owned Business.

I grew up in the restaurant business as my father owned and operated hamburger fast-food drive-thrus in the Pasadena area of Los Angeles. My father came to this country from Greece at the age of 17 to pursue The American Dream. He opened his first location in 1952 and realized that dream through the success of his restaurants and real estate investments. He passed away 4 months ago, and I intend to honor his legacy and fulfill MY American Dream of strong family values, entrepreneurship, and giving back to my community.

At the young age of 13 and seeking a healthier way of eating, I became a Vegetarian. I was influenced by main stream media and the marketing messages of the early 80's and 90's where meat, and specifically saturated fat, were vilified for their perceived health consequences. Fat was feared and meat was going to clog your arteries and cause plaque buildup. I adhered to a vegetarian diet for 35 years. Fast forward to four years ago when I studied nutrition and became a Holistic Nutritionist. I came to learn that well sourced, high quality animal meats provide the nutrient density and health benefits that I lacked in my vegetarian diet. I tried my first Organic, 100% grass fed steak and never looked back.

With my new knowledge and perspective, I began to explore opportunities in the sector I knew best, the food business. I drew upon my Greek heritage and culinary background and developed a line of seasoned patties and sliders. They are made from organic, ethically sourced, humanly raised animals and blended with only the freshest herbs, spices, vegetables and purees to bring out my globally inspired flavors. We never use any binders, fillers, additives or preservatives and the meats are free of hormones and antibiotics. My products are also gluten, soy and dairy free, Paleo certified and Whole30 approved. They include organic grass fed and finished beef and free-range turkey and chicken.

Since founding the company in 2016, I have managed to catapult the brand toward mainstream success with an appearance on the TODAY show, several industry awards like the NEXTY, and retail agreements with Target and Walmart nationally, as well as, Whole Foods, Natural Grocers, and Central Market among others.

With my expansion and growth, came the need to obtain affordable business capital to fuel the success. I needed capital to help finance the next stage of growth. I had momentum, I had brand recognition, I had national placement, I just needed a way to finance it.

Through my networking with other CPG companies, particularly Terra's Whey, I became aware of SBA financing opportunities and their support of women owned businesses. I was introduced to the SBA small business loan provider, CDC Small Business Finance, in 2018 for help. Obtaining SBA financing through CDC Small Business Finance was a straightforward process with affordable terms and conditions. I remember the day I received the phone call that I had qualified for the full amount. It was probably one of the most monumental days of my life, as I had multiple purchase orders in front of me and wasn't sure how I was going to fulfill them. The SBA loan came at the most opportune moment to help continue our momentum. Since then, I have used the Community Advantage Loan to fund production, establish sales and distribution, and implement our marketing strategy. We also qualified for the SBA Microloan program which enhanced our production by financing raw material purchases.

At the early stage TRIBALÌ was in, funding options were difficult to come by. The timing and importance of our SBA funding cannot be overstated. It jump-started our growth, fueled our expansion (our products are now distributed to 35 states) and enabled us to become a viable business. Our growth will allow us to hire two new positions within our organization by year end with more (hopefully many more) to follow. Our projections indicate that we will need additional financing as we expand our product line and distribute to more retailers and geographical areas. We are prepared to take on that financing.

I am a strong advocate for the SBA loan program. There are thousands of fledgling business owners who this program was designed for and who would otherwise have limited options to start and grow their businesses, hire staff and enhance their communities. My own journey would be markedly different without the program. Without these loans, our success thus far could not have been possible. For that I am very grateful. I hope you will continue this program for entrepreneurs with the passion and vision to fulfill their American dream.

Thank you,
Angela Mavridis, Founder and CEO of TRIBALÌ Foods

Small Business Finance

Robert Villarreal
Executive Vice President
CDC Small Business Finance

Testimony for the Record submitted to
The House Small Business Sub-Committee:
Investigations, Oversight and Regulations

For the hearing:
Investing in Community: The SBA's Community Advantage Loan Program
Tuesday May 21, 2019

Chairwoman Chu, Ranking Member Spano and members of the committee, thank you for convening this important hearing to discuss the US Small Business Administration's Community Advantage program. The SBA Community Advantage (CA) program, a pilot launched in 2011 under the SBA's 7(a) loan guarantee program is a critical and impactful program that has effectively and efficiently increased SBA lending in emerging markets and underserved communitied and should be granted full program authority within SBA's flagship 7(a) program.

I represent both the largest CA lender in the nation, CDC Small Business Finance (CDCSBF), and the Mission Lenders Working Group (ML Working Group)[1]. The ML Working Group was formed in 2015 by a group of active CA lenders to share best practices and to inform the SBA, and each other, of what is working in the program and what could be improved. As a group, we have been responsible for the creation and retention of over 20,000 jobs through CA lending and nearly half (49%) of the CA loans funded. The group is comprised of knowledgeable small business lenders, representing all the three types of lenders allowed in the program (noted below). All of the organizations are seasoned small business lenders focused in impact, who understand what it takes to reach, finance, and grow sustainable small businesses in emerging markets. All of us are committed to moving our borrowers into a banking relationship so we can free up our capital to reach more good businesses who aren't yet bankable.

CDCSBF is celebrating 40 years of supporting small businesses. As an economic development organization, CDCSBF provides a number of programs and products that support underserved small businesses and the entrepreneurial ecosystem. We are

[1] See attached description of the Mission Lenders Working Group

advocates for ALL small businesses but have a particular passion for and belief that small business ownership is a tool for closing the racial wealth gap. Headquartered in San Diego, California, we provide services throughout the State and in Arizona and Nevada. These programs include an array of SBA programs such as: the SBA 504 commercial real estate product for small business owner-occupants (CDCSBF is the largest 504 lender in the country); 7(a) Community Advantage, and the SBA Microloan Program. In fact, in 2018, CDCSBF was recognized as the Jody C. Raskind SBA Microlender of the year. CDCSBF also controls or manages six other corporations, including a Community Development Financial Institution (CDFI).

Through these multiple programs CDCSBF has provided over $13 billion in capital to 11,000 small businesses and has created over 200,000 jobs. That's 13 jobs per day, everyday, for 40 years! The organization also provides business advising or "Technical Assistance" and in the last two years has delivered nearly 14,000 of Business Advising to small businesses.

What is the Community Advantage Program

The SBA Community Advantage Pilot Program was launched in February 15, 2011.

For the first time the SBA's flagship 7(a) program was extended to experienced mission lenders, with the goal of assisting small businesses that were not yet "bankable" but needed access to affordable and responsible capital. This was an acknowledgement that the lending industry needed to do a better job in providing small dollar loans to businesses in underserved communities, or those businesses classified as "emerging markets."

The programs goals, per the initial Community Advantage Participant Guide were:

- To increase access to credit for small businesses in underserved markets;
- To expand points of access to SBA 7(a) loans by engaging non-traditional mission lenders with experience working in underserved markets;
- To provide management and technical assistance to small businesses as needed; and
- To manage portfolio risk by utilizing the underwriting knowledge of mission lenders with successful track records lending in underserved markets.

As noted above, the critical component of the program was to expand the 7(a) program to mission lenders. The SBA defined mission lenders as falling into one of three groups: SBA certified development companies (CDCs); SBA microlenders; and Community Development Financial Institutions (CDFIs). The Administration understood that these lenders were the best situated to meet the capital needs of the underserved business populations not being met by traditional SBA lenders. Mission lenders have a deep knowledge of their communities, are accountable to their communities via resident representation on their board of directors, and, as an explicit purpose and mission, assist small businesses that are located in underserved areas or are owned by woman and minority entrepreneurs.

While guided by the Standard Operating Procedures (SOP) of the traditional 7(a) program, lenders under the Community Advantage program have different, or additional, requirements or parameters which traditional 7(a) lenders are not subject to. These include:

- $250,000 Maximum loan limit
- 60% of loans must be to a designated Target Market[2]
- Cash Loan Loss Reserve requirements of 5% for the guaranteed portion sold and 5% for the un-guaranteed portion. This was recently increased from 3% to 5% for the guaranteed portion
- A 12-month period of perfect payments by a borrower before same institution debt refinance allowed
- Technical Assistance recommended
- Can serve applicants with an SBSS score as low as 120
- Allowed a spread of 6% above Prime (this changed from 4% one year into the program)

Regarding the 6% spread, mission lenders were provided this consideration because of the increased cost of delivering this program to the riskiest borrowers and the close relationship required between the mission lender and the small business client. In addition, almost all CA lenders provide business advising at no charge to the small business client. In fact, in the report, "Evaluating Technical Assistance and Economic Opportunity Outcomes of the Community Advantage Pilot Program" prepared for the SBA in May 2018, the relationship with the client and the business advising component of the program are noted as key factors in the successful performance of the CA program.

Impact of Community Advantage

CDC Small Business Finance was one of the first six mission lenders approved by the program and has consistantly been one of the leading CA lenders in the nation both in terms of loan volume and performace. Through April 2019 CDCSBF had funded 671 CA loans for over $93.3 million. More than 70% of our CA loans financed are to businesses in an SBA designated "underserved or target market" – including 51% of our loans to start-up businesses (less than two years old), over 27% of our CA loans financed businesses located in low-moderate income communities and/or have a workforce that is at least 50% low-moderate income - and to date the businesses we financed with CA loans have supported over 4,700 jobs. As a CA lender, we intentionally assume risk that traditional banks would/could not, but our intensive underwriting process, attention to the needs of each business and each client keeps our loans performing and our portfolio sound – thus less than 4% charge-off rate.

While not currently considered target markets under the SBA CA program, 12% of CDCSBF's CA loans are to Latino-owned businesses, 8% to Black-owned businesses and

[2] Target Market - Low-to-Moderate Income (LMI) communities; Businesses where more than 50% of the full-time workforce is low-income or reside in LMI census tracts; Empowerment Zones and Enterprise Communities; HUB Zones; Promise Zones; New "start-up businesses (Firms less than two years in business); Businesses eligible for SBA Veteran's Advantage; and Business located in Opportunity Zones (added 10/1/2018).

29% to women-owned businesses. CDCSBF targets its outreach to these markets because historically, it is these groups that have not been served well by traditional financial institutions and have not had access to affordable and responsible capital. The Community Advantage program has allowed mission lenders to serve woman and minority populations with a main street product, that provides the small business fair and responsible capital and starts them off in the continuum of responsible capital.

As an industry, since the CA program was launched in 2011, over 5,300 loans have been funded, totaling over $712 million (through March 31, 2019). The average CA loan size is just over $133,000 as compared to the average 7(a) loan, which is $417, 300. While CA lenders may lend at 6% above prime, the majority of loans have been 4% to 4.5% above Prime. CA lenders are required to target at least 60% of their lending to the SBA's Target Markets while in fact more than 70% of all CA loans have been to the underserved Target Markets.

One of greater impacts of the Community Advantage program has been its success in lending to the Black and Latino small business community. For example, in fiscal year 2018, 12% of all CA loans were to Black-owned businesses and 17% to Latino businesses. Compare this to the 7(a) SBA Express Loans under $250,000, where loans to Black businesses in fiscal year 2018 represents 4% of the lending under $250,000 and 9% to Latino businesses.

A greater distinction is in loans to start-ups. For CDCSBF, over half of the portfolio is start-ups, as defined by the SBA (less than two years in business). Further, in FY18, 44% of CDCSBF's approved loans were to "pure" start-ups, meaning these were projection-based loans. Almost no traditional 7(a) lender will finance a pure start-up and start-ups cannot be served by on-line lenders, as they rely on cash-flow for their analysis. This leaves the CA lenders to fill the void in the market. More importantly, the pure start-ups are those businesses most often in need of business advising, and it is only the CA lenders that provide "TA" within the 7(a) programs.

Below is the data for FY18 Approvals for CA and SBA Express for loans under $250,000. Unfortunately, the national data on CA lending to woman-owned businesses is not available. However, CDC Small Business Finance's loan to women is approximately 30% and we believe that is most likely below the national data, which is probably closer to 35% or even 40%, which is more than double the Express loans to women under $250,000.

Community Advantage Approvals FY18

	2018			
Ethnic Description	**#**		**$**	
AMERICAN INDIAN	12		$ 1,597,400	
ASIAN OR PACIFIC	102		$ 15,823,400	
BLACK	139	12%	$ 18,175,500	12%
HISPANIC	190	17%	$ 26,524,100	17%
UNDETERMINED	70		$ 10,599,100	
WHITE	605		$ 84,809,700	
Grand Total	**1,118**		**$157,529,200**	

7(a) Express $250k or Less – FY18

	#		$	
	26,665		$1,607,294,700	
Female Owned more than 50%	5,048	19%	$274,292,600	17%
American Indian	181		$12,269,600	
Asian/Pacific Islander	2,545		$167,029,900	
Black	1,293	5%	$61,656,400	4%
Hispanic	2,777	10%	$145,632,000	9%
Undetermined	3,134		$195,221,200	
White	16,735		$1,025,485,600	
Rural	4,468		$257,674,400	
Urban	22,197		$1,349,620,300	

There are currently 99 active CA lenders across the country and a CA loans has been made in 47 different states. While there is an understanding that CA loans are riskier, the cumulative charge-off rate on CA loans through FY 2018 has been 2% and the cumulative default rate has been under 4%. This rate is significantly lower than what the SBA anticipated when the CA pilot was first conceived, which I credit to the experience of CA lenders like CDCSBF.

As a percentage of total 7(a) lending from the launch of CA through FY 2018, the CA loans represents .36% of all 7(a) lending; approximately one-third of one percent. Yet this small program has made an incredible impact in the lives of many small business owners.

Continuum of Capital within the Entrepreneurial Ecosystem
Mission lenders play an important role in the continuum of capital. They provide affordable and responsible capital to small businesses and prepare them for the next stage of financing, which most often is conventional financing from a bank or a larger SBA loan from a bank or traditional financial institution. In other words, mission lenders are the bridge to bank financing. For example, the average length in portfolio for Community Advantage loans for CDCSBF is thirty-months and 16% of the portfolio has prepaid (representing 110 loans). Nearly 50% of those pre-pays were refinanced by banks.

Many other CA lenders have target goals of moving their Community Advantage client through and out of their portfolio. MoFi, which operates in Montana and Idaho, has a goal of referring their CA clients to a bank in 28 months. Evergreen CDC in Washington State has a similar goal of 24 months. Traditional banks are an important partner to mission and Community Advantage lenders. First, banks are the source of lending capital for mission lenders. Mission lenders are not deposit taking institutions, so banks are a vital source of lendable capital. Most bank partners are champions of the CA program, as they recognize that the money they lend to a mission CA lender will have a 75% or 85% guarantee. Second, for most mission lenders, 30% to 50% of their referrals come from banks. For CDCSBF, this has historically been 50%, with one in four (25%) of bank referrals resulting in a funded loan. This compares to a 10% funding rate from all other referral sources.

Mission lenders therefore are important starting points in the continuum of capital. We expand the credit market by allowing more small businesses access to capital and as mission lenders committed to their success, improve their chances of survival. In most cases small businesses would not get started, "if not but for" mission lenders and the CA program.

As noted above, mission lenders look to banks to refinance their clients out of their portfolio. Bank refinancing is the next step in the continuum of capital after a loan from a mission lender. However, equally important for mission lenders is that the CA program has allowed the industry to sell the guaranteed portion of the loan. This is critical, as it allows the lender to re-cycle the capital and continue making loans in their community. For this reason alone, the CA program has been a game-changing product. CA lenders do not have to continuously borrow new capital from banks if they are able sell 85% of the loan. This allows capital to be leveraged as high as five or six to one. For example, a $5 million loan from a bank to a CA mission lender can result in over $27 million in lending (with all loans under $150,000 and all guaranteed portions sold).

Finally, maybe the most crucial roles mission lenders and the CA program play in the continuum of capital is; being the first option of alternative and responsible capital as opposed to high cost capital (on-line or fintech lenders being the most recent) and second, assisting small businesses trapped in high cost loans escape their situation through refinancing them with responsible and affordable capital as well as business advising/education.

Nearly one-third of CDCSBF's CA loans include refinance of some type of high interest rate loan, whether it be from an on-line lender or a merchant cash advance. The interest rates on these loans range from 17% to as high as 94%, with APRs in the triple digits, when fees are included. Attached is an article entitled "Failing to Grasp Loan Terms Can Be Costly to Companies" from the San Diego Business Journal[3]. The article details the story of a CDCSBF client, Kindred Bravely, and their regret of taking an on-line loan. CDCSBF was able to assist them, and this small business was recently refinanced by a community bank, First Foundation Bank.

A second example of refinancing high cost loans is from our colleague Debra Salas in Florida with Neighborhood Lending Partners. They worked with Latin Beauty Academy in West Palm Beach, which had two high cost loans for $176,000, on which they were paying nearly $17,000 per month. Neighborhood Lending Partners was able to refinance the loans and provide additional working capital to the small business. They dropped their monthly payments to just over $2,000 per month. Unfortunately, the loan took six months to close. If Neighborhood Lending Partners had been able to provide Latin Beauty a bridge loan or an expedited SBA loan in the first month, they could have saved the small businesses nearly $13,000-$15,000 per month for 5 months!

Recommended Changes to the Program

As the Committee looks to modernize SBA and keep it relevant, the Community Advantage program and its current delivery system needs to be made a permanent part of the 7(a) statute.

The mission lenders that are part of the Community Advantage program applaud the SBA for launching this pilot program. As noted above, mission lenders were selected for their experience and expertise in delivering capital to underserved communities. We deploy more than just capital; we provide up-front business advising and continued support through-out the life of the loan. For example, at CDCSBF, if the client is part of the underserved Target Market and not qualified for a loan, we take the extra step of referring the entrepreneur to our internal business advising staff, who work with them and prepare them for a loan. In fiscal year 2018, we funded forty businesses for just under $5 million which we had "off-ramped" from our sales pipeline (they were not "loan-ready") to our business advising platform. This is what differentiates Community Advantage mission lenders from traditional SBA lenders.

In recognizing this distinction and partnering with mission lenders the SBA is staying relevant to the fastest growing segment of the small business population; those located in low-moderate communities, start-ups, and entrepreneurs of color.

Since the program launched, it has undergone numerous changes and has had at least four Participant Guides published. Industry and the SBA have had a good working relationship and many of the changes have been the result of the two groups working together. This includes allowing the use of Lender Service Providers for CA lenders (initially disallowed),

[3] See Attached Article

increasing the spread over Prime from 4% to 6% and developing the concept of the Community Advantage Associate.

Most recently, on October 1, 2018 SBA Notice 2018-0008 went into effect. This notice extended the pilot to September 30, 2022 and added Opportunity Zones as an eligible Target Market, both very positive changes. However, other changes in this Notice, and other earlier changes, we believe, need to be re-examined and further discussed with industry (SBA Notice 2018-0008 was not discussed with industry prior to its release). The below are a list of recommended changes to the program that would result in increased lending to the small business community, specifically in the designated Target Markets. We also believe that these changes do not result in an elevated risk to the SBA or the 7(a) program.

Reducing Restrictions to Same Institution Debt Refinancing

To better serve the small business client, particularly those trapped in high-cost loans, it is recommended that the SBA revert back to the 6-month, same institution debt requirement in place prior to the issuance of SBA Notice 2018-0008. Further, we encourage dialogue as to how we can work together to improve the process of getting small businesses out of high cost loans.

The new rule states that for CA lenders to refinance a same institution, non-SBA guaranteed loan, the SBA will require "a transcript showing the due dates and when payments were received for the most recent 12 month period, rather than six months. If there are any late payments in the most recent 12 month period, the debt may not be refinanced with a CA loan." The new rule makes it more difficult for a CA lender to be nimble in responding to the needs of a small business, and it is unclear what the SBA is seeking to address in making this rule change.

It is worth noting that over 80% of the CA lenders surveyed by the Mission Lenders Working Group reported that a significant number of prospective borrowers are seeking to refinance a high-priced loan from an online lender. Several CA lenders reported that 25-30% of these businesses are near a financial breaking point due to unaffordable daily automatic payments, requiring a quick refinance of the unaffordable debt in order to stabilize the business and prevent it from going under. Some CA lenders offered short-term bridge loan as immediate relief while they processed a CA loan for the borrower. This process was feasible under the previous rule which allowed same-institution debt refinancing after six months. With the new rule requiring 12 months of on-time payment history before same-institution debt may be refinanced into a CA loan, it is more difficult, and less feasible, for CA lenders to provide bridge products and provide relief to a small business.

We suggest that the Administration work with CA mission lenders to streamline the ability to refinance same-institution debt, particularly when it comes to high cost loans. This can include reverting back to the six-month rule; developing a pilot program when it comes to refinancing loans that are over a certain APR; or allowing CA lenders to utilize the SBA Express program.

For example, CDCSBF worked and funded a pre-school in San Diego that had three on-line, high cost loans, one with a daily withdrawal of $710. The total monthly payments for the three loans were over $19,800 per month (on outstanding debt of approximately $150,000). Working with CDCSBF, the wife and husband team that co-owned the pre-school were able to drop their monthly payments to $3,000, saving the small business over $16,000 per month. However, the SBA loan took over three months to close and fund. If there had been a streamline process where CDCSBF could have provided a bridge loan in the first month that could be taken out by the SBA CA loan at closing, the couple would have saved two months' worth of payments, or $32,000!

Review Loan Loss Reserve Required for Loans Sold on the Secondary Market
There have been at least three changes to the Loan Loss Reserve (LLR) requirement since the inception of the program. Initially, the LLR required mimicked the one for the SBA microloan which is 15%. This 15% was applicable to the un-guaranteed portion. That changed to 5% on the un-guaranteed and 3% on the guaranteed portion, if the loan was sold. Most recently this latter LLR was increased to 5%, resulting in a 5% LLR for the un-guaranteed portion and 5% on the guaranteed portion if the loan is sold. <u>This is a required cash LLR.</u>

This additional LLR requirement will have an impact on the unrestricted cash of **all** CA lenders selling loans on the secondary market without regard for their performance as a lender or the health of their portfolio.

As CA lenders actively grow their portfolios, the funds that would have otherwise been available to finance more CA loans to businesses in underserved businesses will now be diverted to cover a lender's LLR requirement. Selling CA loans into the secondary market has been an important way for mission lenders to raise loan capital, finance more businesses, and maximize the impact of CA as a financing tool.

For example, CDCSBF funded $14,563,377 in CA loans since the new 5% rule took effect. If we assume a blended average of an 80% guarantee, it equates to $11.6 million being under a guarantee, which CDCSBF will sell in the secondary market. The new additional 2% (moving from 3% to 5%) LLR requirements results in over $233,000 in cash from CDCSBF that has to be deposited into the LLR.

The combination of the increased LLR requirement and potential secondary market softening could impact the decision of CA lenders to continue being active SBA lenders. If lenders decide it would be financially prudent to hold their CA loans rather than selling them into the secondary market, they give up the benefit of increasing liquidity to make more loans and serve more businesses in underserved markets. This isn't a viable option and not the intended consequence desired by the SBA or the mission lending industry.

We recommend that SBA look at reducing the 5% LLR requirement on CA lenders that meet certain performance thresholds. This standard is used in the SBA Microloan program, where high performing intermediaries can have their LLR reduced from 15% to 10%. A similar policy should be applied to CA lenders.

Continued Training for Community Advantage Lenders

We recommend that SBA provide upfront and ongoing training and technical assistance to CA lenders. We appreciate that SBA recently offered two mandatory online trainings for CA lenders and hope there are additional trainings being planned. While online trainings and webinars can be effective, there is no substitute for in person trainings especially for a new initiative like CA. We would welcome the opportunity to work with SBA to identify areas where additional training and/or technical assistance would be beneficial.

We also support and encourage additional resources for the SBA. We recognize that it is a challenge for the Administration to provide adequate oversight with existing resources. Under the CA program, 100 new lenders were added to their portfolio, yet no additional resources were provided. The Administration would benefit from additional staff to assist in oversight. In addition, mission lenders, particularly those that are more experienced and have performed well in the program, are willing to be trainers and mentors to active and new CA lenders.

Develop an Alternative Risk Assessment Protocol for CA Lenders.

Mission lenders in the program are open to working with the SBA's Office of Credit Risk Management (OCRM) to develop a risk assessment protocol for CA Lenders. CA lenders are asked to finance the businesses left behind by traditional 7(a) lenders, resulting in an inherently riskier portfolio of SBA loans. This is especially true when financing start-up businesses, which may be as high as 50% in most CA lenders portfolio. While the new CA rules work to mitigate CA portfolio risk there is no guidance to lenders regarding what SBA considers an appropriate level of risk. Industry and the MLWG would like to work with the Office of Capital Access and OCRM to develop a risk assessment protocol that recognizes the capacity of mission driven lenders to manage risk, to explore what 'acceptable' risk looks like, and come up with PARRiS scoring and peer comparisons that work for CA lenders.

Raise the Maximum Loan Size to $350,000

Many mission lenders in the program have requests higher than $250,000 and have to provide two or more loans to meet the need of their small business client (this was the case with the pre-school discussed above). Raising the maximum to $350,000 will allow additional affordable capital to reach the small businesses in underserved areas. The $350,000 cap also puts the CA program in line with other 7(a) lenders under the Small Loan Advantage Program, of which the CA program is a subset.

To mitigate risk to the program, the administration can place performance requirements on those CA lenders that are eligible for the $350,000 maximum. It could also require that loans above $250,000 be processed as non-delegated and be reviewed by the loan processing center.

Adding Demographic Populations to Target Market

The CA Pilot program was launched with the intention of providing affordable and responsible capital to underserved small businesses. The program has been very successful in delivering to the Target Market established by the SBA. However, we strongly believe that the Target Market definition needs to be expanded to include three critical groups; women and Black and Latino owned businesses.

Studies have demonstrated that these three groups have consistently faced barriers in accessing capital. The SBA monitors/measures performance in lending to these groups and has historically encouraged lending to this demographic via past and current programs. In addition, many of the CDFIs that participate in the CA program focus on one, two, or all three of these groups and are held accountable by the CDFI Fund to a 60% lending threshold to that market. We believe and encourage congruency between federal programs that are working with similar organizations for the delivery of programs.

Permanency for CA Program

The CA program is eight years old and has met the expectations of the administration. It has delivered over $700 million in affordable and responsible capital to small businesses in the emerging markets that are historically shut out of the traditional lending markets, all with a loss rate of between 2 and 3 percent (2%-3%). It has developed a core of high performing mission lenders that are now experienced in SBA lending and are reaching markets not met by banks. The program has also allowed these lenders access to the secondary market, so that they can re-capitalize quickly by selling the guaranteed portion of the loan, thus leveraging their capital five-fold.

The SBA Express program, whose lending cap is being requested to increase from $350,000 to $1 million, was a pilot program for nine years before becoming permanent (1995-2004). Making the CA program permanent, provides the SBA with a focused small dollar program that reaches deep into low-moderate income communities, minority and woman owned businesses, as well as start-up businesses. This can, and should be, the relevant small dollar 7(a) program for the SBA, particularly as other programs aim for larger markets.

Permanency is also important so that the program can grow. Without the security and knowledge that the program is going to become permanent, many mission lenders are reluctant to invest in the program. Making the decision to be an SBA lender is one that cannot be taken lightly and requires both intense human and capital resources.

To address the Administration concerns about the program growing too quickly, industry is willing and open to work with the SBA in scaling the program appropriately. First, SBA needs to be provided additional resources to adequately manage the program appropriately. Second, new lenders can be phased in, with a limit on the number of new lenders allowed access to the program every year. This allows the SBA to properly train and prepare the new lenders. New lenders can also be paired with an experienced CA lender. Finally, there can be a maximum limit on CA lenders in the program. This is similar to the parameters set within the SBA microloan program.

While there are some that believe there needs to be continued study, the impact of the program has been significant in a very short time frame and the results have been impressive. The program is serving the Target Market (or emerging markets); the CA program places the borrower in position to obtain financing from another source, such as a traditional bank; and business growth through the CA program has far-reaching impacts on borrowers and their communities.

In closing, I would like to quote from the study requested by the SBA which is referenced above and was published in May of 2018. One of the conclusions of the study states:

The combination of what the CA program provides – financing with reasonable terms at a critical stage in a business's trajectory, through a trusted and accessible partner, with targeted technical assistance – makes the CA program an effective and important resource for small businesses.[4]

Thank you for the opportunity to submit testimony and I am available to answer any questions or provide additional information.

[4] "Evaluating Technical Assistance and Economic Opportunity Outcomes of the Community Advantage Pilot Program," Final Report, May 2018; Prepared by Industrial Economic Incorporated; Prepared for the US Small Business Administration, Office of Performance Management and Office of Capital Access.

Attachments

I. Overview of Mission Lenders Working Group

II. Article – San Diego Business Journal, "Failing to Grasp Loan Terms Can Be Costly to Companies"

Mission Lenders Working Group

About the Mission Lenders Working Group

CDC Small Business Finance is one of the founding members of the Mission Lenders Working Group – a network of active CA lenders that includes SBA Certified Development Companies (CDCs), Microloan Intermediaries and Treasury certified Community Development Financial Institutions (CDFIs). We organized the working group in 2015 because as stewards of the CA pilot we recognized the importance of demonstrating the capacity of mission lenders to finance businesses in underserved markets when granted SBA loan guarantee authority.

A a recent survey of CA lenders was conducted by the Working Group. A total of 24 active CA lenders responded to the survey (a cross section that included 14 CDFIs, 6 CDCs, and 4 organizations identified as both.) While these lenders account for 24 percent of the active CA lenders they are responsible for 49 percent of the CA loans deployed (or 47% of the loan dollars. The CA lenders in our sample were certified to lend in a total of 39 states with half of the lenders working in multiple states and the other half serving multi-county or statewide service areas.

CA lenders in the MLWG sample have supported 20,000 jobs accounting for over half of the jobs supported by CA lenders to date.

In terms of institutional experience, on average the CA lenders surveyed had been financing small businesses for 14 years and had 5 years of CA lending experience. Four of the lenders surveyed closed their first CA loan in 2011 and 2 closed their first CA loan in 2017.

The majority of the CA lenders surveyed exceed the minimum 60% threshold for making loans in underserved communities.

All CA lenders in the MLWG sample lend in low to moderate income communities and almost all identified new businesses as an underserved market they intentionally target as CA lenders. A significant number of lenders also identified veteran owned businesses as an intentional target market.

More than 90% of the lenders surveyed provide business support services to their CA borrowers – with 58% reporting that support services are provided to all CA borrowers and 33% offering services to borrowers on an 'as needed' basis.

All CA lenders in the MLWG sample are committed to moving their CA borrowers into a bank loan as soon possible, both as a benefit to the business borrower and to free up capital that can be used to finance another business.

Mission Lenders Working Group

We analyzed SBA 7(a) lending reports to compare the experience of CA lenders in our sample to the experience of all active 7(a) CA lenders. In addition, we compared several 7(a) CA data points with available 7(a) loan data based on lending in FY 2012 through 3rd Quarter FY 2018, we found:

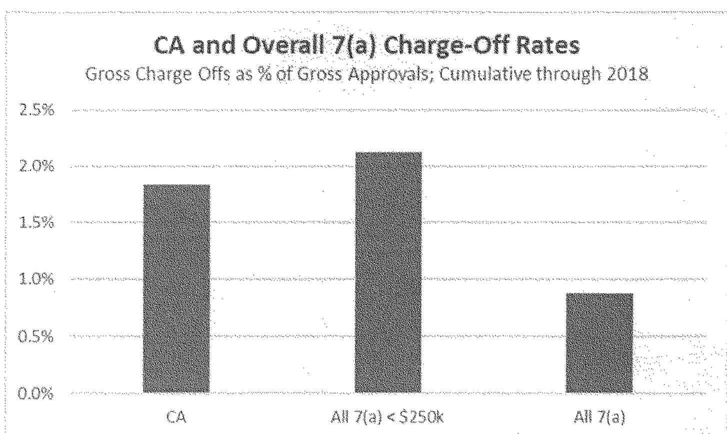
- Looking at all active CA lenders, the average loan size was $130,000 while the average loan made by a lender in the MLWG sample was $125,000. Average 7(a) loan is $377,000.
- The overall charge-off rate for 7(a)CA loans was 1.5% and the charge-off rate for CA loans in the MLWG sample was 1.8%. The overall charge off rate for 7(a) loans was 0.83%.
- 7(a) CA lending constitutes a very small percentage of total 7(a) lending. According to SBA, 7(a) CA lending accounts for **0.36%** of all 7(a) lending.

Mission Lenders Working Group

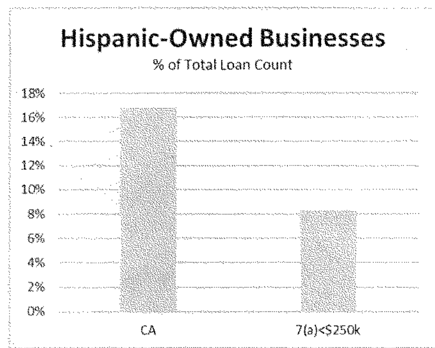
SBA Community Advantage Loan Guarantee Pilot

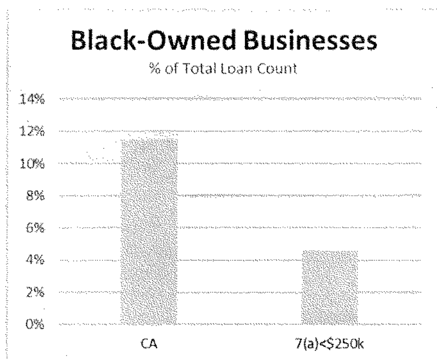
Number of Active 7(a)CA Lenders	**99**
Total Number of 7(a)CA Loans Dispersed to Date*	**5,279**
Total $ Amount of 7(a)CA Loans to Date*	**$ 696,436,700**
Average $ Amount of a 7(a)CA Loan	**$132,500**
Cumulative Charge-off Rate for 7(a) CA Loans	**1.8%**
7(a)CA Lending as a Percentage of Total 7(a) Portfolio	**0.36 %**
Federal Subsidy Required to Support CA Lending	**$0**

**Cumulative lending activity since the CA pilot was launched in April 2011*

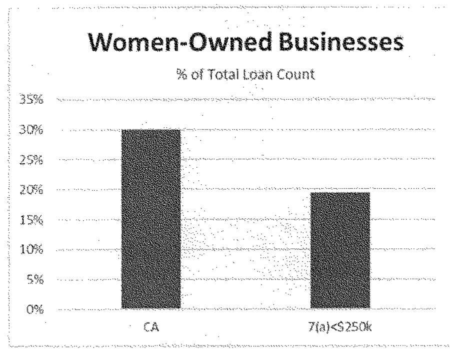


Mission Lenders Working Group





Mission Lenders Working Group



SAN DIEGO BUSINESS JOURNAL

Failing to Grasp Loan Terms Can Be Costly to Companies

FINANCE: Online Lenders Offer Fast Cash at a Price

By **SARAH DE CRESCENZO**
Published June 22, 2017

Garret Akerson, who with his wife, Deeanne, founded the Oceanside-based e-commerce company Kindred Bravely, says it's easy for small business owners to get in financial trouble by borrowing money from online lenders promising fast cash at high interest rates.

For the husband-and-wife team behind Kindred Bravely, an Oceanside-based e-commerce retailer of maternity clothing, it was their business success — not their struggles — that prompted them to turn to a well-known online lender.
Garret Akerson, who founded four startups before Kindred, his wife Deeanne's brainchild, said the simplicity of the process was appealing.

"You can get funds within a week, whereas (the U.S. Small Business Administration) is going to take three months," he said.

But as the Akersons discovered, that fast cash comes at a price: high interest rates that can quickly become crippling, threatening the financial stability the business sought in the first place.

Apparently, the couple is not alone.

Fast Cash
An increasing number of businesses are getting tripped up, many of them because they don't understand the terms of the loan, especially the annual percentage rate (APR), said Chuck Sinks with CDC Small Business Finance, one of the country's largest Small Business Administration lenders.

Chuck Sinks
CDC Small Business Finance

"There aren't a lot of finance majors out there that stop and put a calculator to this, and even those who are skilled at it, it's very difficult to suss your way through all the variables to get a general idea what the APR is of that money," he said.

One business owner told him she found it nearly impossible to resist offers of quick cash to tide over her struggling business.

"The money is there the next day, so they'll pay anything to get it, or they don't know what it costs, which I think is more often the case," he said.

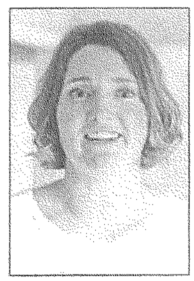
Industry Efforts at Transparency

Online lenders, those tech-enabled companies that provide cash to borrowers sight unseen in a fraction of the time it would take to get a conventional loan, grew rapidly in the wake of the recession. Small businesses in need of working capital, their lifeblood, found themselves scrambling when banks retreated.

A number of alternative lenders, including Kabbage Inc., have responded to customer concerns about the loans' lack of transparency. The lender is a founding member of a trade association called the Innovative Lending Platform Association that has developed a set of common pricing metrics and calculations for companies to use in their loans documents. A similar group, the Marketplace Lending Association, requires members to disclose transparent prices, including the APR for loans.

The Cost of Success

The Akersons knew the price they were paying for their online loan, but they needed the cash to scale their business. Shortly after the e-retailer started out in June 2015, it turned to CDC Small Business Finance, borrowing $100,000 to launch two more products, one of which remains the company's best-selling product.



Deeanne Akerson
Kindred Bravely

"From there it was kind of meteoric," Garret Akerson said. "To finance a rapidly growing company causes almost as many cash problems as a company that's in the decline. It just eats up so much cash, especially if you're having to pay for inventory."

To accommodate that growth, they decided to take another $100,000 loan, this time from online lender Kabbage. The lender has provided more than $3 billion in funding to more than 100,000 businesses, according to its website.

"Their (Kabbage's) process is very simple, which I think is what makes it very attractive," Akerson said. "Based on your earnings they submit an offer almost right away."

Payment — either one-sixth or one-twelfth of the loan total, plus a fee — is made monthly, which the lender bills as a method of providing businesses with capital without hidden costs. But as a business makes payments, reducing the principal, the equivalent annual percentage rate rises.

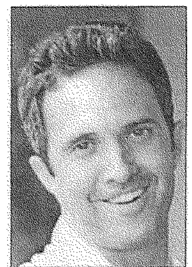
"We had already poured in all our personal savings and didn't have any more to contribute at the time unless we wanted to get external funds, and we didn't want to get an external investor, at least not yet," Akerson said. "In our case we ended up paying an APR over 20 percent. We should never have done it."

Within three months, the Akersons ended up working with CDC to get another $100,000 loan to pay off the one they had taken from the online lender, which they owed nearly $10,000 each month.

This year the company, which employs 16 employees — all stay-at-home mothers — expects to take in about $5 million in revenue.

'Last Resort Type Thing'

For another San Diego business, it was a matter of borrow or bust.



Darren Solomon
Kid Ventures

Kid Ventures, founded by Darren and Debbie Solomon about a decade ago, operates three indoor play venues for children in San Diego County.

But when the company's original location in Pacific Beach had to close a few years ago due to unexpected zoning issues, Darren Solomon said conventional lenders weren't interest in lending to Kid Ventures until its revenue returned to previous levels.

"Cash flow became a real challenge," he said.

They turned to Kabbage and got a line of credit for $75,000 for six months.

"It was a last resort type thing," he said.

He found the qualification process innovative - when underwriting the loan, the lender took into account some untraditional business metrics, such as social media following — but like the Akersons, the monthly payments became onerous.

Eventually, they decided to get a loan from a private lender using their home as collateral to pay off the funds from Kabbage.

"You have high payments in a much shorter time frame than traditional banks or lenders so you get the money, but it's hard to fulfill the payback requirements," he said. "Ultimately, it created a lot more strain than it did benefit."

Terms Clearly Spelled Out

Both the Akersons and the Solomons said the lending platform spells out its terms clearly, but that even experienced business owners, when in a bind, can be susceptible to offers of money they might not be able to pay back.

Sinks said he recommends business owners expend more effort — whether that means meeting with someone in person or filling out additional paperwork — in exchange for lower-cost capital through the SBA or community development financial institutions.

"On the one hand, (online lenders) are filling a need, but on the other hand, you have to almost be an MBA to really figure (the APR) out," he said.

# # #

LiftFund

DREAM IT. FUND IT.

May 21, 2019

Chairwoman Nydia Valazquez
Ranking Member Steve Chabot
Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0315

Dear Chairwoman Velazquez, Ranking Member Chabot and Honorable Members,

Good morning and thank you for the opportunity to speak before you on behalf of LiftFund and the CDFI community in support of the 7a Community Advantage program. My name is Janie Barrera; I am the founding President and CEO of LiftFund, a CDFI nonprofit mission lender founded in San Antonio, Texas in 1994.

I am presently serve as a member of the National Advisory Committee for the FDIC, the National Advisory Committee of Bank of America and of BBVA. And I am on the National Association of Latino Community Asset Builders Board of Directors. I recently finished my term as a member of the Federal Reserve Board, San Antonio Branch.

This year marks our 25th anniversary in fulfilling our vision of opening doors, leveling the financial playing field and building a community of shared success through entrepreneurship. Since 1994, we have provided 20,000 resilient yet underbanked entrepreneurs with over $300 million in capital, allowing them to build assets and create and retain jobs in their communities. Our loans range from $500 to $500,000. The average loan size is under $25,000. The average FICO score of our borrower is 590 and we have a 96% repayment rate. We have learned how to mitigate risk. Since we are not a bank and do not have depositors, we have partnered with over 78 banks and credit unions, government loan programs, foundations and impact investors to access the funds we need to lend in the community.

We started in Texas 25 years ago and now our organization serves 13 diverse states in the Southeast part of our country from New Mexico to Florida and the states along the Mississippi River. We provide capital in some of the most economically segregated communities in our country, including the Mississippi Delta and the colonias along the Texas border. We serve urban cores like New Orleans Dallas and Houston along with areas that have been devastated by natural disasters.

Since the early 2000s, LiftFund has worked closely with the U.S. Small Business Administration. First, we started with the SBA microloan program in 2007, we then expanded with the SBA 504 program in 2008. We operate two SBA Women Business Centers and in 2011 became part of the SBA Pilot program for the 7a community advantage program. The SBA has allowed us to diversify our products in meeting an array of entrepreneurs – both startups and established.

Our approach is simple yet impactful– coupling mission-driven capital with business and financial education, or technical assistance, to help business owners succeed.

F 210 533 2940 Customer Care 888 215 2373 2007 W Martin Street San Antonio, TX 78207 liftfund.com

Of the $300 million dollars disbursed, 10% of our lending is through the community advantage pilot program. There is no way we could have served an additional 260 entrepreneurs $33.5 million without the community advantage program. In October 2011 we made one SBA 7a community advantage loan totaling $210,000; last year we made 65 loans totaling $8 million. Because these loans are SBA guaranteed, we are able to sell them to the secondary market; allowing LiftFund to have the liquidity to make more loans to minority, rural, and veteran business owners.

LiftFund was one of the first recipients of the 7a program in 2011. Since then, we have provided over 260 loans resulting in over $33.5 million in the hands of diverse and deserving entrepreneurs like Shelenia and Rico Nelson, a veteran minority couple in Round Rock who wanted to open their own donut shop to provide a meaningful career path for their disabled son. As a startup, the Nelsons were not able to receive funding from their bank and were referred to LiftFund for support. We provided the Nelsons a $70,000 SBA 7a loan to do the buildout and open Krack of Dawn Donuts, now on its 3rd year in business.

Through the 7a community advantage lending program, our clients like Shelenia and Rico, find opportunity to start or grow their businesses and contribute to their community by creating jobs. Our SBA 7a borrowers have collectively created 1,250 jobs and retained another 1,444 jobs in their communities.

The SBA 7a community advantage loans allows LiftFund to reach business owners who are diverse and determined: 58% of our CA clients are minorities, 35% are women, 18% are veterans or veteran spouses, and 31% identify themselves as low- to- moderate income individuals. Our support goes beyond the urban core, last year 10% of our lending volume for the CA program was to businesses in rural communities.

The community advantage program is an important asset to CDFIs like ours. It allows us to provide more capital to our clients who are seeking it with a guarantee. Without the guarantee, we wouldn't be able to lend more to deserving small business.

Take Anamia Martinez Ortiz for example, a small business owner in McAllen, Texas. Anamia came to LiftFund in 2014 with less than a year under her belt as a business owner. She had approached several banks and was turned down. Banks are regulated and she did not fit their criteria. LiftFund is able to be accept requests from start-ups and those with lower credit scores. Our underwriting looks at capacity and will they have the cash flow to repay the loan. Anamia received a $25,000 microloan from us to hire an employee, and buy more fixtures and inventory for her cellphone and accessories business: Jackson Wireless. A few years later, LiftFund was there to help Anamia sustain her business growth through an SBA 7a for $85,000 to hire additional employees, purchase inventory and expand the business. Today, Anamia has grown Jackson wireless to over 10 locations throughout the Rio Grande Valley.

Anamia exemplifies our mission – to help deserving and committed individuals reach economic prosperity through entrepreneurship.

While our clients may have challenges, our repayment rate has continuously remained at or above 96% for our full portfolio.

I am proud of the entrepreneurial culture we have developed at LiftFund. We are responsible stewards of our lending funds, constantly improving our processes and evolving to meet our clients' needs. We created our own risk assessment model and underwriting criteria, and to this date continue to make adjustments based on our data. We complement our internal controls with SBA CA tools as well, like the Small Business Service Score provided by SBA and the packaging platform provided.

At LiftFund we take great pride in portfolio quality. Despite our clients' challenges, their repayment rate for the 7A community advantage at LiftFund is 97%. In 2017, we increased our internal minimum SBA score for 7a loans from 120 to 140. We did this a full year before the SBA mad the same decision.

We propose that legislation focused on portfolio quality take into consideration the expertise of CDFIs, like LiftFund. We know how to mitigate risk and maintain quality portfolio performance; should CA providers have portfolio quality challenges there should be policy that is fair and incorporates corrective action if portfolio quality is not consistently met.

This will allow us, as experts, to continue serving underserved populations though the program.

We urge Congress to make the SBA 7a program permanent and increase the loan amount from $250,000 to $350,000. It is essential to reach those often left behind: minorities, women, and rural communities – and provide a pathway to prosperity for deserving and committed entrepreneurs like Anamia, Shelenia and Rico.

I want to personally thank Chairwomen Velazquez, Ranking Member Chabot and all Honorable Members of this important committee for your dedication to ensure a stronger economy.

Thank you for your time and consideration.

Sincerely,

Janie Barrera
President and CEO
LiftFund

ATTACHMENTS

1. LiftFund's 7a Community Advantage Impact Sheet
2. LiftFund's Fact Sheet as of 2019 Quarter 1
3. 25th Anniversary Milestone Release
4. Small Business Success Story: Jackson Wireless

LiftFund
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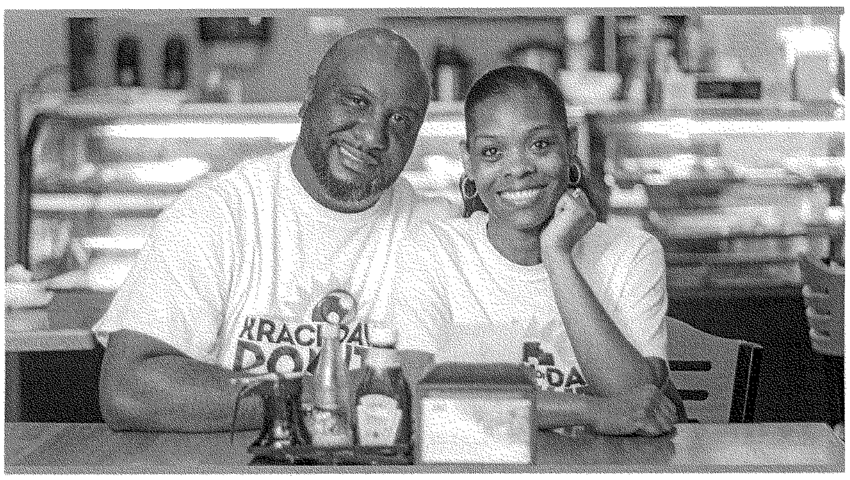
Leveling the Financial Playing Field through Entrepreneurship

SBA 7a Community Advantage Loan Program

LiftFund transforms lives by opening doors, leveling the financial playing field through entrepreneurship and building a community of shared success. We provide capital, tools and resources to entrepreneurs who do not have access to loans from commercial sources.

Since 2011, LiftFund is proud to partner with the U.S. Small Business Administration to support small business owners with the 7a Community Advantage Loan program. Through this program, underserved small business owners are able to access loans up to $250,000 to start or grow their businesses.



Shelenia and her husband, Rico, used to dream of making a better future for their family — especially their son, Cory, whose disability prevented him from working a meaningful job. The couple, who are proud U.S. Air Force veterans, decided to open a doughnut shop, a business that would allow their son to work beyond what they ever dreamed and creating economic opportunity for the family.

As a startup, the Nelsons were unable to secure funding to open their business and were referred to LiftFund. With support from LiftFund and backing of the SBA, the Nelsons received a Community Advantage loan, which they used for kitchen equipment and building out the cafe.

Today, the Nelson family has expanded their shop to offer over 40 doughnut varieties and Southern dishes, and expect to continue empowering individuals in their community. "If it wasn't for LiftFund, we wouldn't be where we are now," Shelenia said. "We are here to change lives and grow."

Historical SBA 7a CA Lending & Impact (2011-2018)

Total Loan Amount	**$33.5 million**
Number of Loans	**262**
Average Loan Size	**$127,700**
Number of Jobs Created	**1,253**

97% repayment rate over the last 5 years

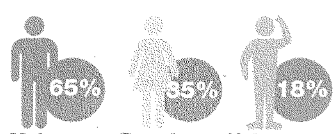
2018 SBA 7a Lending & Impact

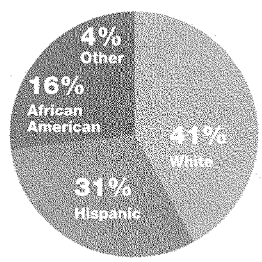
Total Loan Amount	**$8 million**
Number of Loans	**65**
Average Loan Size	**$123,700**
Number of Jobs Created	**262**

10% rural businesses

48% LMI business owners

Client Profile





Contact Us

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/LiftFundUS
@LiftFundUS

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LiftFund
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Launching Entrepreneurs for Over 20 Years

Mission Statement

The mission of LiftFund is to provide credit and services to small businesses and entrepreneurs who do not have access to loans from commercial sources and to provide leadership and innovation to the microlending industry.

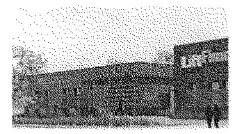
Financial Profile

Total Number of Loans: 21,038
Total Dollars Disbursed: $307,423**
Active Portfolio: $47,336,489
Total Loans Under Management: $64,024,051 *
Average Loan Balance: $18,651
Loan Range: $500 - $1 million (Up to $5.5 million in TX and NM through the SBA 504 program)
*Includes LiftFund and Servicing Portfolio as of December 31, 2018

Organizational Profile

Number of Offices: 10
Number of Employees: 100
Number of Active Clients: 2626*

President & CEO: Janie Barrera
*Includes LiftFund & Servicing Portfolio



History

LiftFund is a nonprofit, multi-state small business lender based in San Antonio that helps new and existing entrepreneurs successfully grow their businesses. We began lending in San Antonio in 1994 and later developed and implemented an innovative "blueprint" for establishing microlending and small business programs in new areas. We now lend in thirteen states: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, South Carolina, Tennessee and Texas. In 2007, we began providing underwriting and loan services to other lending institutions nationwide through our Microloan Management Services®.

Client Profile

- LiftFund lends to a variety of small businesses across diverse industries in our service area. Most clients use loans for working capital or equipment purchases. Many of our clients have received more than one loan from us.
- More than 55% percent of clients identify themselves as Hispanic, 23% as African-American and 17% as White. Women comprise 38% of borrowers. In 2018, 65% of our borrowers were classified with low-to-moderate income levels. LiftFund continuously remains at a 95% repayment success rate.
- In the first quarter of 2019, LiftFund provided 1,210 technical assistance hours to borrowers and non-borrowers who utilized our services. In 2018, LiftFund borrowers and non-borrowers received over 5,351 technical assistance hours.

Economic Impact

- In the first quarter of 2019, our borrowers created 506 jobs and retained 487. In 2018, our small business owners created 2,414 jobs and retained 3,287 jobs.
- A study analyzing LiftFund loans in Texas from 2010-2016 reports that the $127.7 million disbursed in small business loans during that time resulted in $1.8 billion in total output.
- The study also reports that over the seven years, these small businesses created 13,614 new jobs which generated $656.1 million in income.
- Every dollar loaned to small businesses produced $13.91 in economic activity.
- In 2018, LiftFund received its ninth consecutive designation as a four-star nonprofit organization by Charity Navigator – America's premier charity evaluator that rates organizations on such criteria as accountability, transparency and financial reporting.

**The financial information is unaudited

Updated 4/1/2019

Contact Information:
Tel 210.226.3664
Fax 210.533.2940
Customer Service 888.215.2373

2007 W. Martin Street
San Antonio, TX
78207

LiftFund **Online:**
Website: www.LiftFund.com
Facebook: www.facebook.com/LiftFundUS
Twitter: @LiftFundUS

Historical Loan Production and Socio Economic Data
Cumulative Statewide Program Impact to Date

LiftFund Site	Total Loans	Total Amount Disbursed
Alabama *(established 2012)*	260	$3,407,119
Alexandria *(established 2009)*	83	$1,403,648
Arkansas *(established 2011)*	113	$1,767,667
Austin *(established 1999)*	1,103	$16,662,103
Baton Rouge *(established 2010)*	227	$2,886,885
Corpus Christi *(established 2004)*	950	$15,402,867
Dallas *(established 1999)*	2,730	$38,849,284
El Paso *(established 1996)*	2,780	$38,143,125
Florida	31	$1,277,418
Fort Worth/Arlington	358	$5,959,596
Georgia	80	$1,536,858
Houston *(established 1998)*	2,919	$52,705,018
Kentucky	12	$179,310
Laredo *(established 2005)*	776	$12,145,612
Mississippi	58	$730,540
Missouri *(established 2011)*	29	$566,722
New Mexico *(established 2015)*	11	$175,095
New Orleans *(established 2009)*	612	$8,285,520
Oklahoma	7	$359,777
San Antonio *(established 1994)*	4,539	$64,079,031
McAllen *(established 1998)*	2,065	$25,722,494
Brownsville/Harlingen, *(established 1998)*	1,029	$11,170,854
Shreveport *(established 2010)*	99	$1,616,041
Tennessee *(established 2012)*	167	$2,390,235
Total as of March 31, 2018	**21,038**	**$307,422,820 ****

Cumulative Client Ethnicity & Gender

LiftFund Site	African American	Hispanic	White	Other	Male	Female
Alabama	63%	5%	29%	3%	53%	47%
Alexandria	57%	4%	39%	0%	46%	54%
Arkansas	70%	4%	23%	4%	65%	35%
Arlington	27%	35%	38%	0%	65%	35%
Austin	17%	37%	41%	5%	63%	37%
Baton Rouge	74%	2%	21%	3%	52%	48%
Brownsville/Harlingen	0.2%	95%	3%	1.8%	65%	35%
Corpus Christi	4%	65%	26%	5%	54%	46%
Dallas	25%	50%	19%	7%	59%	41%
El Paso	3%	91%	5%	1%	68%	32%
Florida	19%	32%	42%	6%	71%	29%
Fort Worth	37%	36%	23%	3%	64%	36%
Georgia	81%	5%	11%	3%	51%	49%
Houston	44%	28%	20%	8%	59%	41%
Kentucky	8%	8%	83%	0%	67%	33%
Laredo	0%	96%	2%	2%	69%	31%
McAllen	1%	94%	3%	2%	73%	27%
Mississippi	73%	7%	20%	0%	54%	46%
Missouri	37%	4%	52%	7%	59%	41%
New Mexico	0%	91%	9%	0%	73%	27%
New Orleans	53%	22%	21%	4%	58%	42%
Oklahoma	43%	0%	57%	0%	86%	14%
San Antonio	13%	63%	20%	3%	63%	37%
Shreveport	77%	3%	16%	4%	60%	40%
Tennessee	62%	7%	29%	2%	55%	45%
Total Across LiftFund	**23%**	**56%**	**17%**	**4%**	**62%**	**38%**

**The financial information is unaudited

Updated 4/1/2019

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LiftFund 25 Years of Propelling Dreams

PRESS RELEASE
FOR IMMEDIATE RELEASE
February 20, 2019

Contact:
Alexa Saavedra
(210) 324-4968
alexa@aguillon-associates.com

LiftFund Hits Major Milestone in Community Lending & Celebrates its 25th Anniversary

LiftFund breaks $300 million in small business loans as it celebrates its 25th anniversary

San Antonio — As LiftFund gears up to celebrate its 25th Anniversary, it also reached a major milestone in micro and small business lending by providing over $300 million to over 20,000 small businesses.

The organization will have a tribute luncheon on Tuesday, March 5th, at 11:00 am at the Tobin Center for the Performing Arts.

In 1994, LiftFund was founded as Accion Texas with a focus in microlending; as the economy and small business evolved, the organization rebranded itself as LiftFund in 2015 to be inclusive and sensitive to its expanded client base.

The luncheon will honor how LiftFund, a community development financial institution (CDFI), works with banks to close the financial and economic gap of budding and diverse entrepreneurs. The event will also recognize Janie Barrera, the founding President and CEO for her contributions over the last 25 years.

Since inception, the organization under her leadership has provided over $300 million in business loans to over 20,000 small businesses across its thirteen state footprint. LiftFund's portfolio is diverse, 56% are Hispanic entrepreneurs, 23% are black business owners, 38% women-owned businesses and 9% are veterans.

A study conducted by the SABER Institute, led by Steve Nivin, PHD, found for every dollar LiftFund lends, small business owners generate $14 in positive economic growth.

"In 1994, LiftFund started with a small team of three and a big mission, to level the financial playing field in entrepreneurship. Twenty five years later, we are proud to have built a community that champions entrepreneurship and propels small business dreams that contribute to the economic prosperity of our communities," says Janie Barrera, President & CEO LiftFund.

LiftFund is more than a business lender; the organization was founded to invest in people that are often left outside of the financial mainstream by providing guidance and consultation with capital. With ongoing support, entrepreneurs are provided with mentorship, financial guidance and business education to guide them in their business lifecycle. Most of LiftFund's clients (67%) have been in business less than 5 years and 32% are startups with less than 1 year in business.

"Liftfund gave me the opportunity to make my dream a reality. They helped me with the funds to close on my first brick and mortar and also equipped me to be a better leader and hire my first employee through their amazing Women's Business Accelerator program, thank you Liftfund," says Marcela Freeman, Creator & Founder of Burn It In 30.

For more information on LiftFund and client testimonials visit https://sanantonio.liftfund.com/.

About LiftFund

Established in 1994 in San Antonio, LiftFund is a financial and business-support service organization that helps entrepreneurs strengthen their businesses, stabilize and increase their incomes, create employment and contribute to the economic revitalization of their communities. LiftFund has the nation's largest microlender portfolio and is committed to providing capital to entrepreneurs who do not have access to loans from commercial sources. Since its inception, LiftFund has made nearly 21,000 loans totaling more than $300 million. LiftFund operates in 13 states – Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, South Carolina, Tennessee and Texas. Stay connected by following us on Facebook and Instagram.

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Small Business Success Story: Jackson Wireless

Owner Name: Anamia Martinez Ortiz
Community: McAllen, Texas
Loans: $25,000 microloan for working capital | $50,000 microloan for inventory
$85,000 SBA 7a loan to stain growth, hire more employees and expand

Anamia used to dream about being her own boss, setting her own hours, and doing things as she chose. She achieved her dream and opened her own business two years ago after managing several cell phone retail locations. "As a first time business owner, no one would give us a chance until we found LiftFund," said Anamia. "LiftFund has been there for us when we most had a need for capital, and through the City of McAllen Buy Down program we received capital at a zero interest." She received one loan to start the business and a second to obtain inventory. As her business continued to grow, LiftFund was there to help Anamia sustain her business growth through an SBA 7a Community Advantage loan to hire additional employees, purchase inventory and expand the business. Today, Anamia has grown Jackson wireless to over 10 locations throughout the Rio Grande Valley.

GROWTH CAPITAL

May 21, 2019

Chairwoman Nydia Velazquez
Ranking Member Steve Chabot
Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0315

Dear Chairwoman Velazquez, Ranking Member Chabot and Honorable Members,

Good day and thank you for your time in hearing my congressional testimony. I am John Kropf, President of Growth Capital Corp, a private not-for-profit Mission Lender in Cleveland Ohio. We have been an SBA Certified Development Company making SBA 504 loans since 1982. Over these 37 years we have financed nearly a thousand small businesses throughout Ohio, supporting the creation of some 8,000 jobs by leveraging more than a billion dollars in project financing. I am here today to share my experience with how Growth Capital is "Investing in Community" with our participation in the SBA Community Advantage (CA) Loan Program.

Back in 2010 I was actually quite astounded to learn that SBA was rolling out what I considered to be an innovative and cost effective solution to the problem small businesses, especially those in "Underserved Markets", have in accessing affordable financing to found, fund and grow their companies. In expanding the SBA 7a loan program to not-for-profit Mission Lenders like Growth Capital, Community Advantage linked a vital federal government loan guarantee mechanism to a healthy market based, missed based product delivery platform focused on serving those small business often times neglected by traditional bank lenders or outright exploited by non-traditional predatory lenders.

SBA Community Advantage lending was authorized for SBA Certified Development Companies, SBA Microloan Lenders, Community Development Financial Institutions and SBA Intermediary Lenders and the Pilot Program Guide originally called for the following:

- To increase access to credit for small businesses in underserved markets;
- To expand points of access to SBA 7(a) loans by engaging non-traditional mission lenders with experience working in underserved markets;
- To provide management and technical assistance to small businesses
- To manage portfolio risk by utilizing the underwriting knowledge of mission lenders with successful track records lending in underserved markets.

How astonishing it was to see such innovation come from a federal bureaucracy like SBA. There was no new department created, no new big government program initiated and no new spending required to launch Community Advantage. Instead we witnessed the confluence of community focused, impact driven organizations like CDC Small Business Finance, LiftFund and Growth Capital with the community focused, impact driven mandate of SBA. We did not initially apply for participation in the Community Advantage program due to restrictive regulatory requirements but when SBA listened to industry professionals and made improvements to the program and now Community Advantage lenders are currently operating in light of the original pilot mandate and since amended policies under the following parameters:

- $250,000 Maximum loan maximum
- Loan Guarantees of 85% for loans up to $150,000
- Loan Guarantees of 75% for loans over $150,000
- 60% of loans must be to a Underserved Markets
- SBA guarantee can be sold to secondary market investors
- Cash Loan Loss Reserve requirements of 5% for the guaranteed portion sold and 5% for the un-guaranteed portion.
- Same institution debt refinance allowed after 12 month payment history
- Technical Assistance recommended but not required
- SBA SBSS score of at least 140
- Maximum interest rate spread Prime plus 6%
- Allows for use of Loan Service Providers (LPS)

In 2012 when SBA allowed for the use of Loan Service Providers (LSP) along with the sale of CA loan guarantees on the secondary market, we jumped right in and were approved to participate in the CA program and jump right in we did, having immediate impact on our communities with our CA lending joining other prestigious industry leaders that have, program to date, lent more than $681 million dollars to some 5,100 small businesses with 70% of those loans to Underserved Market borrowers.
Those are just some of the numbers; the average size CA loan is just $133M and demonstrates our commitment to small dollar lending to small sized companies. Other impressive numbers include a full 34% of CA lending going to Minority Owned Businesses with a charge off rate of just 1.5% and demonstrating our industry commitment as prudent lenders committed to managing and mitigating credit risk to the agency. Furthermore, the CA portfolio outstanding comprises only 0.08% of the total dollars outstanding in SBA 7a guarantees which further illustrates the overall minimal credit risk we actually represent to the agency and to the American Taxpayer. And probably the biggest number of all is the tax payer subsidy rate for the Community Advantage program; which is zero (0). Yes, zero, the SBA Community Advantage program costs us American Taxpayers absolutely nothing and actually yields new tax

payers on small business payrolls, more local income tax revenue, more income for small business owners and more wealth generated in underserved communities across America.

These numbers are actually much more than that; these numbers have names and faces. They belong to the people like my esteemed colleague, Bob Villareal's, borrower here today from Congresswoman Chu's district. They belong to borrowers like mine, (See Attached Mission Spotlights) one of which, Amy Wong of Dot Org Solutions in Akron Ohio, who testified last year before this committee on the importance of the SBA Community Advantage program. These names and faces include other such borrowers like Destiny Burns, a retired Naval Officer who owns Cleveland Urban Winery, or Kathryn Green of Sassafrass Land Design or Jake Fitzpatrick, owner of Clifton Cleaners and Mark Steinberg of Queen City Gutters in Cincinnati Ohio right in your home district Congressman Chabot.

Every one of these borrowers and indeed ALL of our CA borrowers are what I describe as the "Just Miss" bank loan. Companies that are credit worthy but just miss the bank lending requirements and many times their small loan requests miss the bank profitability requirements and are thus neglected by traditional bank lenders and many of our banking partners make direct referral to Growth Capital for CA loans. If these companies are not referred to a CA lender many times they find alternative high rate lenders and become outright exploited by non-traditional predatory lenders. We ourselves at Growth Capital just recently received a solicitation from one such lender, (See Attachment) I have it right here, got it just last week. What I did not see on this offer but later found on their website (See Appendix) is that the average interest rate 48.7%, wow, that's high and one of the reasons we refinance quite a bit of these predatory lenders with our CA loans carrying rates at about 9.5%. Weather it's catching the "Just Miss" bank loan before they reach the predatory lenders or after in any case we are committed to making these borrower bankable again, many time through connecting them with appropriate technical assistance, and getting them back to traditional financing with a bank. The aforementioned Queen City Gutters, in Cincinnati Ohio, was one such CA borrower. We made a $250M loan in September of 2015 and after two full years of on time payments the company refinanced a $150M balance with their bank. This is EXACTLY how we envisioned the effectiveness of the program and the banking partnerships that help make it happen.

All of these names and faces and the businesses they own are investing in community just as we CA lenders and investing in community and for that to continue, and to even expand we need action. We need the action of this committee to advance legislation that not just continues the SBA Community Advantage program but also strengthens it.

What is needed? There are several important items that I feel are critical to continue and expand CA lending.

1. Increase the Guarantee Percentage – I previously mentioned that the SBA approval of CA lenders to sell the guarantees on the secondary market was the final hurdle for Growth Capital to enter the program. Many if not most higher

volume CA lenders do not have big balance sheets and excess cash to invest into CA lending, hence the need for the liquidity provided by secondary market sales. Growth Capital has successfully sold all of our loans on the secondary market in order to leverage the limited capital we do have to fund our CA lending.

In addition to our own limited liquidity we have partnered with Cincinnati's Fifth Third Bank, headquartered in Congressmen Chabot's Ohio District to provide an innovative financing structure (See Attachment) for Growth Capital. Fifth Third Bank provides us a $2.5MM warehouse line of credit which we utilize to fund our new CA loan closings. Upon closing and funding the CA loan we sell into the secondary market, and repay the guaranteed portion on the line of credit, leaving only the unguaranteed portion on the line of credit balance. We do this with all CA loans throughout the year and the remaining unguaranteed balance converts to long-term debt that we amortize and repay with the cash flow provided by the principal, interest and servicing income provided by our CA portfolio. It's is truly an innovative structure that works tremendously well for a high volume limited balance sheet CA lender like Growth Capital.

Currently CA loans under $150M receive an 85% SBA guarantee while loans over $150M only receive a 75%. If ALL Community Advantage loans carried an 85% guarantee it would vastly improve our ability to most effective fund our CA lending. Our capital requirements would be dramatically improved with this small increase in the percentage of guarantee, reduce the amount of long-term debt that we would be required service, lower our interest expense and strengthen our overall operations. Growth Capital recently closed on a Community Advantage International Trade Loan, our second such loan actually representing a full 40% of all CA International Trade loans disbursed under the program and these International Trade Loans carry a full 90% guarantee. This Cleveland company is a small exporter, selling equipment to Saudi Arabia, Egypt, Hungary and Romania and our $250M loan required just $25M in capital while under the regular CA guarantee of 75% the capital requirement would have been $62,500 and a huge difference for Growth Capital. This higher guarantee amount referenced demonstrates the positive impact of extending the 85% guaranteed currently on loans up to $150M to ALL Community Advantage loans made under the program.

2. Expand Underserved Market Definitions – Currently the CA program requires each participating CA lender maintain at least 60% of the lending to Underserved Markets. These underserved markets definition originally included just the following:

   • Low-to-Moderate Income (LMI) communities.
   • Businesses where more than 50% of their full time workforce is low-income or resides in LMI census tracts.
   • Empowerment Zones and Enterprise Communities.
   • HUBZones.

• New businesses (firms in business for no more than two years).

• Businesses eligible for Patriot Express including Veteran-owned businesses.

SBA subsequently expanded the Underserved Market definition to also include:

• Businesses located in Promise Zones
• Businesses located in Opportunity Zones
• Businesses Rural Areas

I would recommend further expansion of the SBA Underserved Market definition to also include other socially economic disadvantaged business owners such as Women, African-American, Latino and Asian owned business. Expanding the Underserved Market definition will not only allow for further targeting to such historically disadvantage borrowers while helping to improve the Underserved Market penetration beyond the current 70% and increasing the overall Mission Impact of the CA program as a whole.

3. Implement Reasonable Risk Assessment and Regulatory Oversight – The current SBA Risk Assessment through the SBA PARRiS system unduly assigns higher risk ratings to all CA lenders simply by virtue of participation in the program. This seems wholly unreasonable to expect CA lenders to serve Underserved Market borrowers who inherently bring a higher level of credit risk and expect them to perform at the same overall level as any other 7a bank lender not focused on Underserved Markets.

   CA loans by definition bear a higher risk than a conventional 7a loan. Therefore the servicing of these loans requires a higher level of diligence. Once a CA loan is underwritten, approved, and funded it goes into active servicing. Basic servicing includes regular monitoring of the items required in the loan agreement. Among these items are keeping current with their loan payments, maintaining proper insurance, keeping current with Worker's Compensation if there are employees involved, staying current with property taxes, and filing annual income tax returns. Borrowers are required to submit documents periodically to verify that they are complying with the loan agreement. When tax returns and/or annual financial statements are received, the Loan Servicing Officer analyzes the data to determine the financial health of the borrower's business. Following this ratio analysis, the Loan Servicing Officer assigns a risk rating to the current status of the borrower.

   When a loan goes beyond 45 days past due, a site visit is made to view the business and talk with the borrower. Workout options are provided and discussed with the borrower. The goal here is to get the borrower back on track with their payments. All efforts are focused on avoiding liquidation of the loan. Communication with the borrower is frequent and positive often times requiring intensive technical assistance.

When a borrower becomes greater than 60 days past due, the CDC must do a deep dive into the borrower's financial situation to determine if litigation action would be productive. If the borrower has a continuing source of revenue, perhaps from other employment, and/or meaningful assets then litigation is started in an effort to seek a judgment against the borrower. If however the borrower has fully depleted their revenue sources and assets, the loan is liquidated to the SBA to pursue through Treasury offset. We aggressively manage portfolio risk, consider industry concentrations and macroeconomic conditions all with a keen eye on our Mission Impact as well to mitigate as much credit risk to the SBA as possible but again CA lenders are not banks.

While I previously worked as a lender for both Wells Fargo and one of the largest CDFIs in the country I understand and appreciate the vital important of credit risk management and have seen both sides any new legislation must include a mandate to SBA that directs the agency to adopt and implement reasonable risk assessment adjustments to their PARRiS system to recognize the inherent risk CA lenders must take under the mandate of the program and adjust the risk ratings accordingly.

4. Increase the loan maximum to $350,000 – The current CA loan cap is $250M which it has been since inception with the average size CA loan currently around $133M. Realizing the need to focus on small loan borrowers but realizing that many such business would otherwise be eligible for a bank 7a loan under SBA Express with its maximum loan amount at $350M there would appear to be some misalignment of the program numbers. Also, while Growth Capital operates in Midwestern Ohio there are many CA lenders in higher cost markets around the country that serve borrowers who would necessarily require more dollars in say San Francisco or Washington DC than perhaps Cleveland.

5. Make the Program Permanent – The pilot has been operating since 2011 and will soon have a 10 year track record of performance with a maturing industry delivery platform of CA lenders along with acceptance from SBA Secondary Market participants. Permanency is needed now.

While I understand the current political conditions under which we CA lenders must currently operate I also understand the true bi-partisan approach to supporting small business that this committee takes. True bi-partisan support is for the CA borrowers previously mentioned; Amy Wong of Dot Org Solutions in Akron Ohio, Destiny Burns, the retired Naval Officer who owns Cleveland Urban Winery, Kathryn Green of Sassafrass Land Design, Jake Fitzpatrick, owner of Clifton Cleaners and Mark Steinberg of Queen City Gutters in Cincinnati Ohio right in your home district Congressman Chabot. They actually need more than bi-partisan support. They and we CA lenders need tri-partisan support!

We need to try harder as CA lenders, we need to try more as an industry and we need to advance our Community Advantage lending and really try and do more "Investing in Community". We need to try to recognize the importance of financing underserved small business concerns, the inherent risk involved in financing underserved businesses, and the capacity of experienced mission-oriented lenders to manage risk and build sustainable, bankable businesses through our SBA Community Advantage program that I am confident this committee will support.

In conclusion I wish to personally thank Chairwoman Velazquez, Ranking Member Chabot and all Honorable Members of this important committee and know that we all share the same passion and commitment to "Investing in Community". Thank you all and I am happy to participate in fielding your questions.

Sincerely,

John Kropf
Executive Director

ATTACHMENTS

1. Growth Capital Mission Spotlights
2. Crains Cleveland Business Article
3. Online Business Loan Solicitation

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Mission Spotlight

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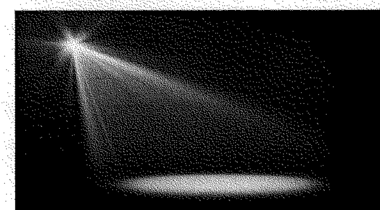
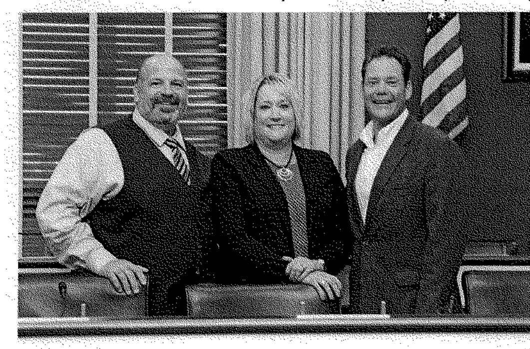


Dot Org Solutions

Dot Org Solutions LLC is a creative and fundraising consulting firm based in Akron with a focus on working with nonprofit clients with annual revenue between $500,000 and $20 million. While they have clients that are above and below this threshold, they have intentionally chosen to work with nonprofits of this size because of their ability to quickly adapt to change. The company finds that by working with smaller nonprofits with a smaller staff, they are able to help them implement changes that have immediate impact on their organization and help them move toward long-term sustainability. Owner Amy Wong operates the business in and LMI neighborhood of Downtown Akron, OH and has lead significant growth since participating in the Goldman Sachs 10,000 Small Business Initiative. Developing and implementing her Growth Plan in the program required additional funding to hire more employees. Growth Capital provided a $90,000.00 SBA Community Advantage loan for permanent working supporting the continued growth of Dor Org Solutions. Amy has been a true advocate for small businesses everywhere, recently meeting with national policy makers on Capital Hill in Washington DC.. Amy is creating value for her company, her customers, employees, community and other small business owners. Growth Capital is proud to assist with our SBA financing and support



Goldman Sachs 10,000 small businesses

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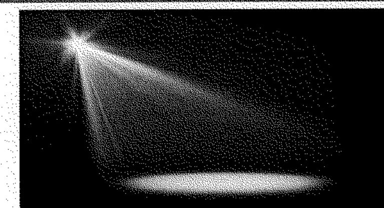
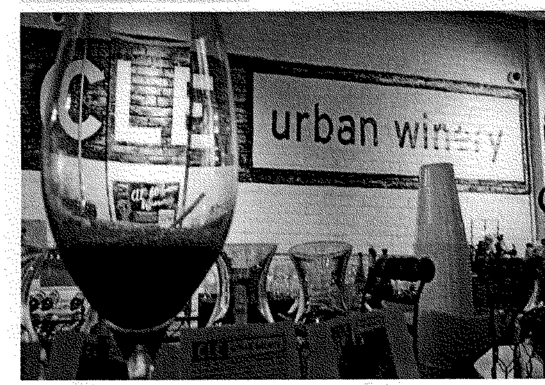


Primo Vino, LLC /CLE Urban Winery

Destiny Burns retired after 20 years as a Naval officer then spent more than 13 years as a business development executive in the defense industry in the Washington DC area. She was also a former volunteer firefighter/EMT and now an entrepreneur. She chose to become a wine manufacturer in an urban environment based on her years of travel and personal experiences. In 2015 she incorporated Primo Vino dba CLE Urban Winery. One year later in July 2016 she opened her doors in Cleveland Heights. A SBA loan from Key Bank assisted in the build out but the company was unable to secure additional bank financing due to collateral constraints and reached out to the local SBA District Office for assistance and a referral was made to Growth Capital. Providing an $83M permanent working capital SBA Community Advantage loan allowed the business to fund further expansion in 2018 and it was a Mission Hit for Growth Capital assisting a woman-owned, veteran-owned business located in an LMI census tract in a local Cleveland neighborhood. The intent of the SBA Community Advantage Program is certainly met with this exciting Underserved Market transaction.



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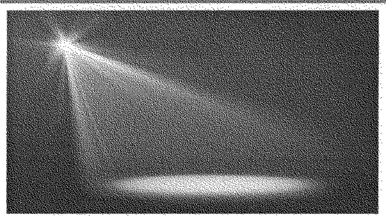
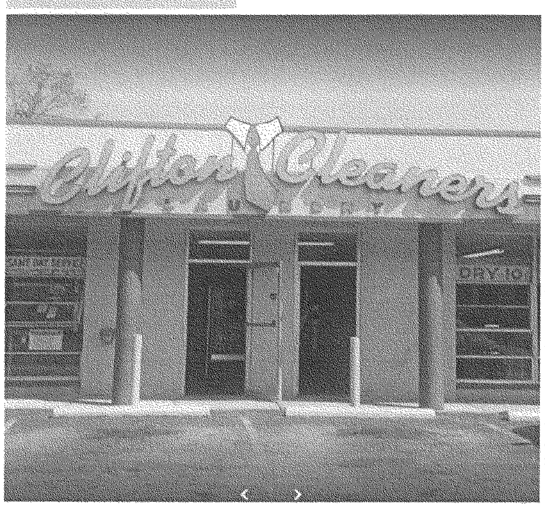


Cleveland Cleaners, Inc.

Cleveland Cleaners Inc. operates under the DBA Clifton Cleaners, which has been a staple in the local Clifton Blvd neighborhood of the City of Cleveland since 1956. Upon purchasing the business in 2016 Mr. Fitzpatrick initiated a Commercial Linen Rental as well which has picked up nearly 30 new customers since inception. Key commercial clients include Panini's Bar and Grill, Guys Pizza, Westwood Country Club, Canterbury Country Club, AJ Roccos, and Cleveland Bagel as well. The company was unable to secure additional bank financing due current ownership less than two full years and reached out to the local SBA District Office for assistance and a referral was made to Growth Capital. Providing an $60M equipment loan with SBA Community Advantage allowed the Borrower to get a state of Ohio Air Quality Development Agency grant for $18M. The equipment is eligible for the state grant due to the environmentally friendly new equipment being financed and the funds will pay down the loan principal. This is Mission Hit for Growth Capital assisting a business in LMI census tract in a local Cleveland neighborhood with an Environmentally friendly Mission Impact as well.



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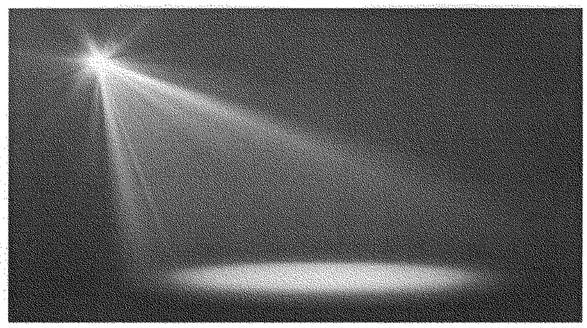

KBM Business Machines, Inc.

KBM Business Machines, Inc. was founded in 1974 and provides Point of Sale (POS) products that includes sale, service, network installation and security appliance to markets that include hospitality, grocery, convenience store and gasoline businesses. They had recently expanded into school lunch POS systems and were seeking $50M in additional working capital to support this expansion and utilized the SBA LINC product to initiate financing. Growth Capital opted in on the LINC notification and began the application process. Initial review indicated insufficient cash flow to cover the new debt. However, upon diligent underwriting and discussions with the borrower we discovered the company had several small loans outstanding with online business lender On-Deck that had a very negative impact on overall cash flow. Growth Capital discovered an opportunity to assist and support this small business. A $117M loan structure was offered that would refinance the On-Deck high cost loans as well as a small outstanding commercial mortgage and original business acquisition loan that greatly reduced overall debt service as well as provide the additional working capital for expansion. The company was put in a good position for growth. This transaction allowed the SBA Community Advantage loan to finance a business operating in a Rural community in Ohio that is also located in an LMI census tract . This SBA Underserved Markets deal was a Mission hit for Growth Capital and a great deal for the small business !!!

SBA LINC

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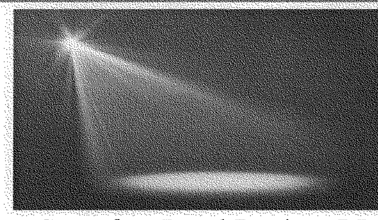
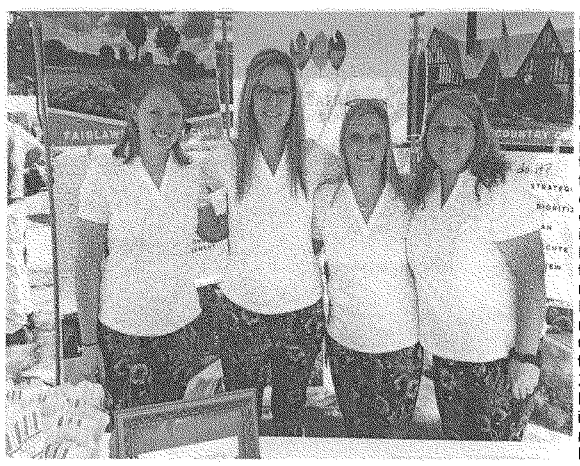


Sassafras Land Design, LLC

Karlyn Green graduated from Ohio State with a BS degree in Landscape Horticulture. She went on to work for Fairlawn Country Club (which is now a client) before starting Sassafras Land Design LLC with a partner in 2013. She bought out her partner in 2015 and now owns the company. Few country clubs have on staff horticulturalists which is Green's specialty. The firm specializes in managing the horticulture for several country clubs along with landscape design, installation & maintenance for commercial buildings. Residential is a small part of revenue and work includes mulch, grading, soil, seasonal and permanent plantings, irrigation and design are all offered by the company. The company was unable to secure additional bank financing and worked with Mike Foss of Foss Business Solutions and a referral was made to Growth Capital. Providing an $63M permanent working capital SBA Community Advantage loan to fund further expansion in 2019 and it was a Mission Hit for Growth Capital assisting a woman-owned business for an SBA Underserved Market transaction.



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Fifth Third injects $4.7 million into Cleveland's Growth Capital Corp. to make SBA Community Advantage loans

By Jeremy Nobile

FIFTH THIRD BANK

Fifth Third Bank announced a partnership with Cleveland's Growth Capital Corp. in which the Cincinnati-based bank will lend the nonprofit association $4.7 million to support loans to small businesses through the Small Business Administration Community Advantage Loans.

The purpose of that SBA program is to increase access to credit for small businesses. Among various uses, the loans can be used to buy owner-occupied commercial buildings, expand and improve facilities, purchase new equipment, refinance debt and finance acquisitions, according to the bank.

Fifth Third also will provide some technical assistance to businesses through the Growth Capital partnership.

"The SBA Community Advantage program has become critical to getting small businesses the capital they need when they are unable to secure traditional bank financing," said Growth Capital president John Kropf in a statement. "We are a not-for-profit mission lender at Growth Capital, a social enterprise that supports small businesses right here in our communities. Fifth

Third Bank stepped up to support our work, providing financing that will allow us to fund companies with our SBA Community Advantage lending for the foreseeable future. We are making a significant impact with more than 80% of our lending supporting underserved market borrowers."

Fifth Third effectively takes over the role for Goldman Sachs, which has been in a partnership with Growth Capital since at least mid-2013.

There is also a financial donation being made to Growth Capital, the amount of which Fifth Third would not disclose.

"We understand the importance of small business to our economy and our communities. Our collaboration with Growth Capital Corp. will give more small businesses the capital they need to continue to grow. We are excited to see our investment impact lives and build stronger communities," said Fifth Third's Northeastern Ohio president, Joe DiRocco, in a statement.

DiRocco previously worked this market for Citizens Bank. He was named to his position with Fifth Third — filling a role previously held by Jerry Kelsheimer, who was promoted to regional chairman at the time but has since left — last May.

The loans range from $25,000 to $250,000. They can only be made to for-profit businesses, with eligible entities being in the manufacturing, distribution, wholesale, commerce and service company sectors. There is no timeline for when that money from the bank has to be deployed.

"The Cleveland District Office of the U.S. Small Business Administration is pleased to see that Growth Capital has obtained additional financial support from Fifth Third Bank so it can continue to provide funding through our Community Advantage program to new and existing businesses," said Gil Goldberg, SBA district director for Cleveland, in a statement. "It is very important that businesses have an alternative to go to when our traditional programs are not the right fit. This way, hopefully, more businesses will be able to create jobs and wealth in our community. This is what SBA and Growth Capital are all about."

Those loans made through the Community Advantage program don't affect the rankings for largest SBA lenders in the market as that's determined by loans made through the SBA's 7(a) loan program.

Nonetheless, Fifth Third ranked fifth in the Cleveland market in FY 2017 by total dollars lent out through that program (more than $7 million over 34 loans).

Growth Capital placed sixth in the 7(a) program ranking by total dollars lending out $2.3 million in the prior year in this market. Like Fifth Third, it also made 34 loans.

In an separate development, the injection of capital for Growth Capital follows new micro-capital venture fund Valley Growth Ventures launching last week with $6 million. That fund is targeting startups in the Mahoning Valley in the business-to-business software, IT, energy, additive manufacturing and advanced materials industries.

Partnership with Growth Capital Corporation

Purpose: Establish a relationship with Growth Capital Corporation thru a $10,000,000 Warehouse LOC. The line would be used to fund transactions thru the SBA Community Advantage Program. Fifth Third's Line would replace existing Goldman Sachs credit facility.

Reasons:

- **CRA –** Fifth Third's CRA rating would be enhanced in the following categories.
    1. Investment
    2. Credit
    3. Small Business Lending
    4. Lending to underserved markets
- **SBA Growth –** Once the Community Advantage Loans have seasoned or the businesses have stabilized, Fifth Third would be in a position to refinance these notes with a SBA solution.
- **Expand the Bank's SBA lending platform to new prospects –** Most of these transactions are with businesses that are currently not banking with 5/3rd.
- **Enhance Fifth Third's reputation within the community as a Small Business Bank.**

What is Growth Capital Corp? Growth Capital Corp. was founded in 1982, as a private not-for-profit Certified Development Company, extending financial assistance to local businesses with a focus on job creation and underserved markets in Northeast Ohio. Growth Capital provides creative financing solutions to growing businesses through the SBA 504 and Ohio Regional 166 loan programs as well as the SBA Community Advantage program in conjunction with local bank lenders, assisting over 800 borrowers and leveraging nearly $1 Billion in small business expansion projects supporting the creation of thousands of new job opportunities to members of our communities, many in underserved markets. Growth Capital is the Number One SBA 504 and SBA Community Advantage Lender in the entire state of Ohio and seeks to be the premier provider of economic development financing in the markets we serve.

What is the Community Advantage Program? The purpose of the Community Advantage Loan Program is to increase the access to credit for small business.

Program Highlights

- Maximum Loan Size: $250K
- Maximum interest rate: Prime + 6%
- Management and Technical Assistance available when requested

Eligible Businesses

- For Profit Businesses
- Manufacturing, Distribution, Wholesale , Commerce, and Service companies

Use of funds

- Purchase, new, existing commercial buildings (owner-occupied)
- Expand or modernize facilities, purchase machinery, equipment, fixtures, and leasehold improvements
- Finance increased receivables and augment working capital, or inventory
- Debt refinance

Cash Flow

- Debt service coverage ratio on a consistent basis
- For business expansions, historical debt service coverage must provide 1 to 1 coverage with reasonable projections in line with industry RMA standards
- Underwriting will identify and include all reasonable add backs provided they can be documented

Collateral Coverage

- Collateral Advance rates as required/quoted by the SBA
- When loan proceeds are used to purchase assets a first lien position in those assets must be obtained.
- When loan proceeds will be used to refinance existing debt the loan must be secured with the same collateral
- ABA collateral on working capital loans.

Repayment

- The line would be paid down thru sale of the guaranteed portion (up to 85% with 80% average) on the secondary market. As well as P&I payments on the unguaranteed portion. Anything left over would be paid at time of payoff. Historically, Growth Capital has kept the balance paid down to a minimum.

Outcome

1. **Improved CRA Rating**
2. **Increased SBA Loan Growth**
3. **Increased Business Banking Relationships**
4. **Enhanced Reputation as a Small Business Bank**
5. **Increased lending to Underserved Markets (Minority, Women and Veterans)**

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Reference #: 23Z-LA6-XL2

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COMPANY: Growth Capital Corp

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Dear John,

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Matt Bernhard
Vice President, Small Business Funding

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Be sure to mention the reference code **23Z-LA6-XL2** when you call.

This is not a guaranteed offer of credit. All loans and loan amounts are subject to lender approval. Depending on the state where your business is located and other attributes of the loan, your business loan may be issued by Celtic Bank, a Utah-Chartered Industrial Bank, Member FDIC. Your loan agreement will identify the loan issuer prior to your signing. Depending on the location of your business your loan will be originated under either Virginia or Utah law.