115TH CONGRESS, 2d Session | SENATE | REPORT 115–452

MICROLOAN MODERNIZATION ACT OF 2018

DECEMBER 20, 2018.—Ordered to be printed

Mr. RISCH, from the Committee on Small Business and Entrepreneurship, submitted the following

R E P O R T

[To accompany S. 526]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business and Entrepreneurship, to which was referred the bill (S. 526) to amend the Small Business Act to provide for expanded participation in the microloan program, and for other purposes, having considered the same, reports favorably thereon with an amendment in the nature of a substitute and recommends that the bill, as amended, do pass.

I. INTRODUCTION

The Microloan Modernization Act of 2018 (S. 526), was introduced by Senator Deb Fischer for herself, Senator Christopher A. Coons, Senator Tim Scott, and Senator Kirsten E. Gillibrand on March 2, 2017. The bill's cosponsors include Senator Jeanne Shaheen, Senator Gary C. Peters, Senator Joe Donnelly, and Senator Tammy Duckworth.

This bill, as introduced, increased the lending limit for microloan intermediaries from $5 million to $6 million, and repealed two rules regarding the use of technical assistance (TA) funding by microloan intermediaries. The "25/75 Rule," which limits intermediary lenders to using not more than 25 percent of their marketing, management, and technical assistance funds on prospective borrowers, and the "third-party rule," which limits intermediaries to using not more than 25 percent of their TA funds to contract with third parties to provide TA they cannot provide directly. The bill also directs the Small Business Administration (SBA) and Government Accountability Office (GAO) to issue reports to Congress on microenterprise participation in the program and microloan intermediary practices, respectively.

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For the markup of the bill, the Chairman filed a substitute amendment that modified full repeal of the 25/75 rule and the third-party provider rule to 50/50, thereby permitting intermediaries to use 50 percent of their TA funding for prospective borrowers and contract out up to 50 percent of their TA services with third parties. This amendment mirrors an amendment made to the House version of this bill, H.R. 2056, during markup of that legislation on July 12, 2017.

The bill, as amended, was approved unanimously by a roll call vote as part of a manager's package.

II. HISTORY (PURPOSE & NEED FOR LEGISLATION)

The SBA Microloan Program provides credit for entrepreneurs who need small dollar loans and are unable to obtain such financing through conventional lending. The program operates through SBA-designated microloan intermediaries in which the SBA provides direct loans and grants to non-profit intermediaries, which in turn make loans of up to $50,000 to entrepreneurs and small business owners. Borrowers then repay the intermediaries who in turn repay the SBA. Intermediaries also provide technical assistance to borrowers, which may include management and marketing training.

In fiscal year 2017, SBA loaned intermediaries $44 million, which the Microloan intermediaries re-loaned to help 5,000 borrowers access nearly $69 million in credit and support 18,500 jobs. More than 19,600 small businesses received counseling and training assistance. In FY 2018 women owned firms received nearly 48 percent of the number of microloans issued, African Americans received nearly 34 percent of microloans issued, and Hispanics received 17 percent of microloans issued. The average loan size was $14,071 with an average interest rate of 7.6 percent.

The SBA began providing microloans through a pilot program in 1991 under the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act of 1992 (P.L. 102–140). The program was made permanent by Congress in the Small Business Reauthorization Act of 1997. In the 103rd Congress, the Small Business Administration Reauthorization and Amendments Act of 1994 first introduced a limit on the amount of funds that could be used for technical assistance. In the 111th Congress, the Small Business Jobs Act of 2010 (P.L. 111–240) increased the microloan program lending limit for intermediaries from $3.5 million to $5 million, which was the most recent increase of the lending limit, and increased the maximum loan size to borrowers from $35,000 to $50,000. In the 114th Congress, the Microloan Program Modernization Act of 2016 (S. 2850) was reported favorably by the Committee by a vote of 18–1, but did not receive consideration by the full Senate. Also in the 114th Congress, similar language regarding the "25/75 rule" was included in the Microloan Act of 2015 (S. 1445). The bill never received consideration by the Committee or the full Senate. In the 115th Congress, the Microloan Modernization Act of 2017 (H.R. 2056), which is the companion bill to S. 526, passed the House Small Business Committee on July 12, 2017 and the House of Representatives on July 24, 2017.

III. HEARINGS & ROUNDTABLES

In the 111th Congress the Committee held a hearing on April 15, 2010 entitled, "Assessing Access: Obstacles and Opportunities for Minority Small Business Owners in Today's Capital Markets." During this hearing, Mr. Grady Hedgespeth, Director of the Office of Financial Assistance, Small Business Administration, noted that technical assistance was an important component of the microloan program that particularly helped small businesses located in underserved markets.

IV. DESCRIPTION OF BILL

The microloan program at SBA provides access to capital to the smallest businesses and startups with a loan ceiling of $50,000 and an average loan size of $14,000.

The Microloan Modernization Act of 2018, as introduced, amended the Small Business Act to increase the microloan intermediary lending limit from $5 million to $6 million and repealed the "25/75" rule that allowed only 25 percent of funds given to microloan intermediaries to be used for technical assistance to small businesses before they have received loans. The legislation also repealed the "third-party rule," which limited intermediaries to using not more than 25 percent of their TA funds to contract with third parties to provide TA they cannot provide directly. The Chairman's substitute amendment modified full repeal of the 25/75 rule and the third-party provider rule to 50/50, thereby permitting intermediaries to use 50 percent of their TA funding for prospective borrowers and contract out up to 50 percent of their TA services with third parties.

This bill also directs the SBA to submit a report to the House and Senate authorizing committees, within one year, on the operations of intermediaries that participate in the program and those that are eligible for the program and do not participate, recommendations on ways to increase participation, and recommendations on how to decrease the costs of the program for eligible intermediaries. Finally, the legislation directs the GAO to submit a report to House and Senate authorizing committees, within one year, on the processes SBA uses to measure the compliance and performance of intermediary lenders.

V. COMMITTEE VOTE

In compliance with rule XXVI(7)(b) of the Standing Rules of the Senate, the following vote was recorded on March 14, 2018.

A motion to adopt the Microloan Modernization Act of 2018, a bill to amend the Small Business Act to provide for expanded participation in the microloan program, and for other purposes, was approved unanimously by a roll call vote as part of a manager's package. Senators Risch, Rubio, Paul, Scott, Ernst, Inhofe, Young, Enzi, Rounds, Kennedy, Cardin, Shaheen, Cantwell, Heitkamp, Markey, Booker, Coons, Hirono, and Duckworth voted for the bill.

VI. COST ESTIMATE

In compliance with rule XXVI(11)(a)(1) of the Standing Rules of the Senate, the Committee estimates the cost of the legislation will be equal to the amounts discussed in the following letter from the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 12, 2018.

Hon. JAMES E. RISCH,
Chairman, Committee on Small Business and Entrepreneurship, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 526, the Microloan Modernization Act of 2018.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Stephen Rabent.

Sincerely,

KEITH HALL,
Director.

Enclosure.

S. 526—Microloan Modernization Act of 2018

S. 526 would make several changes to the Small Business Administration's (SBA) microloan program. CBO estimates that implementing S. 526 would have no significant effect on the federal budget.

Under current law, the SBA operates a program that makes loans and grants to eligible nonprofit entities (known as intermediaries). Intermediaries use those funds to make microloans (small loans that are less than $50,000) to newly-established or growing small businesses. Participating intermediaries use grant funds from the SBA to provide technical assistance to small businesses that receive a microloan or that are prospective borrowers. S. 526 would raise the amount the SBA may commit to an intermediary and raise the cap on the amount of grant funds that intermediaries can spend on pre-loan training and technical assistance for prospective borrowers. The bill also would direct the SBA to conduct a study of intermediaries to determine why some that are eligible to participate in the program fail to do so, and to recommend ways to increase participation and decrease costs.

Using information from the SBA, CBO estimates that the costs to conduct the study and to update the SBA's microloan program rules would not be significant.

S. 526 also would direct the Government Accountability Office (GAO) to evaluate the SBA's oversight of intermediaries and the microloan program. Based on the costs of similar reports conducted by GAO, CBO estimates that the costs to report on these activities would not be significant.

Enacting the bill would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO estimates that enacting S. 526 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

S. 526 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

On June 27, 2017, CBO transmitted a cost estimate for H.R. 2056, the Microloan Modernization Act of 2017, as ordered reported by the House Committee on Small Business on June 15, 2017. The two pieces of legislation are similar and CBO's estimates of their budgetary effects are the same.

VII. EVALUATION OF REGULATORY IMPACT

In compliance with rule XXVI(11)(b) of the Standing Rules of the Senate, it is the opinion of the Committee that no significant additional regulatory impact will be incurred in carrying out the provisions of this legislation.

VIII. SECTION-BY-SECTION ANALYSIS

Section 1. Short title

This section provides the short title of the Act, the "Microloan Modernization Act of 2018."

Sec. 2. Definitions

This section defines the meaning of "intermediary" and "microloan program."

Sec. 3. Microloan intermediary lending limit increased

This section increases the lending limit for microloan intermediaries from $5 million to $6 million.

Sec. 4. Elimination of 25/75 rule and the third-party rule

This section eliminates a provision that restricts microloan intermediaries to spending only 25 percent of funds on technical assistance for small businesses that have not received a loan and only 25 percent of funds to contract with third parties to provide technical assistance they cannot provide directly. This section increases the percentage allowable for prospective borrower technical assistance and contracting technical assistance to third parties to 50 percent.

Sec. 5. SBA study of microenterprise participation

This section directs the SBA Administrator to conduct a study, within one year of enactment, on the operations of intermediaries participating in the microloan program and of eligible intermediaries not participating in the microloan program. The report will include the reason why intermediaries chose not to participate in the program, recommendations on how to encourage increased participation, and recommendations on decreasing the costs associated with participating in the program. This report will be submitted to the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business.

Sec. 6. GAO study on microloan intermediary practices

This section directs the GAO to conduct a study, within one year of enactment, on the SBA's oversight of the microloan program and the specific processes used to ensure compliance by microloan intermediaries and the overall performance of the program. This report will be submitted to the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business.

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