

109TH CONGRESS
1ST SESSION

S. 416

To establish a pilot program to provide low interest loans to nonprofit, community-based lending intermediaries, to provide midsize loans to small business concerns, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 17, 2005

Mr. LEVIN introduced the following bill; which was read twice and referred to the Committee on Small Business and Entrepreneurship

A BILL

To establish a pilot program to provide low interest loans to nonprofit, community-based lending intermediaries, to provide midsize loans to small business concerns, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Small Business Inter-
5 mediary Lending Pilot Program Act of 2005”.

6 **SEC. 2. FINDINGS.**

7 Congress finds the following:

1 (1) Small and emerging businesses, particularly
2 startups and businesses that lack sufficient or con-
3 ventional collateral, continue to face barriers access-
4 ing midsize loans in amounts between \$35,000 and
5 \$200,000, with affordable terms and conditions.

6 (2) Consolidation in the banking industry has
7 resulted in a decrease in the number of small, locally
8 controlled banks with not more than \$100,000,000
9 in assets and has changed the method by which
10 banks make small business credit decisions with—

11 (A) credit scoring techniques replacing re-
12 lationship-based lending, which often works to
13 the disadvantage of small or startup businesses
14 that do not conform with a bank's standardized
15 credit formulas; and

16 (B) less flexible terms and conditions,
17 which are often necessary for small and emerg-
18 ing businesses.

19 (3) In the environment described in paragraphs
20 (1) and (2), nonprofit intermediary lenders, includ-
21 ing community development corporations, provide fi-
22 nancial resources that supplement the small business
23 lending and investments of a bank by—

24 (A) providing riskier, up front, or subordi-
25 nated capital;

1 (B) offering flexible terms and under-
2 writing procedures; and

3 (C) providing technical assistance to busi-
4 nesses in order to reduce the transaction costs
5 and risk exposure of banks.

6 (4) Several Federal programs, including the
7 Microloan Program under section 7(m) of the Small
8 Business Act (15 U.S.C. 636(m)) and the Inter-
9 mediary Relending Program of the Department of
10 Agriculture, have demonstrated the effectiveness of
11 working through nonprofit intermediaries to address
12 the needs of small business concerns that are unable
13 to access capital through conventional sources.

14 (5) More than 1,000 nonprofit intermediary
15 lenders in the United States are—

16 (A) successfully providing financial and
17 technical assistance to small and emerging busi-
18 nesses;

19 (B) working with banks and other lenders
20 to leverage additional capital for their business
21 borrowers; and

22 (C) creating employment opportunities for
23 low income individuals through their lending
24 and business development activities.

1 **SEC. 3. SMALL BUSINESS INTERMEDIARY LENDING PILOT**
 2 **PROGRAM.**

3 (a) IN GENERAL.—Section 7 of the Small Business
 4 Act (15 U.S.C. 636) is amended by inserting after sub-
 5 section (k) the following:

6 “(l) SMALL BUSINESS INTERMEDIARY LENDING
 7 PROGRAM.—

8 “(1) DEFINITIONS.—For purposes of this sub-
 9 section—

10 “(A) the term ‘intermediary’ means a pri-
 11 vate, nonprofit entity that seeks to borrow, or
 12 has borrowed, funds from the Administration to
 13 provide midsize loans to small business con-
 14 cerns under this subsection, including—

15 “(i) a private, nonprofit community
 16 development corporation;

17 “(ii) a consortium of private, non-
 18 profit organizations or nonprofit commu-
 19 nity development corporations;

20 “(iii) a quasi-governmental economic
 21 development entity (such as a planning
 22 and development district), other than a
 23 State, county, or municipal government;
 24 and

1 “(iv) an agency of or nonprofit entity
2 established by a Native American Tribal
3 Government; and

4 “(B) the term ‘midsize loan’ means a fixed
5 rate loan of not less than \$35,000 and not
6 more than \$200,000, made by an intermediary
7 to a startup, newly established, or growing
8 small business concern.

9 “(2) ESTABLISHMENT.—There is established a
10 3-year small business intermediary lending pilot pro-
11 gram (referred to in this section as the ‘Program’),
12 under which the Administration may provide direct
13 loans to eligible intermediaries, for the purpose of
14 making fixed interest rate midsize loans to startup,
15 newly established, and growing small business con-
16 cerns.

17 “(3) PURPOSES.—The purposes of the small
18 business intermediary lender pilot program are—

19 “(A) to assist small business concerns in
20 those areas suffering from a lack of credit due
21 to poor economic conditions;

22 “(B) to create employment opportunities
23 for low income individuals;

24 “(C) to establish a midsize loan program
25 to be administered by the Administration to

1 provide loans to eligible intermediaries to enable
 2 such intermediaries to provide small scale loans,
 3 particularly loans in amounts averaging not
 4 more than \$150,000, to startup, newly estab-
 5 lished, or growing small business concerns for
 6 working capital or the acquisition of materials,
 7 supplies, or equipment;

8 “(D) to test the effectiveness of nonprofit
 9 intermediaries—

10 “(i) as a delivery system for a midsize
 11 loan program; and

12 “(ii) in addressing the credit needs of
 13 small businesses and leveraging other
 14 sources of credit; and

15 “(E) to determine the advisability and fea-
 16 sibility of implementing a midsize loan program
 17 nationwide.

18 “(4) ELIGIBILITY FOR PARTICIPATION.—An
 19 intermediary shall be eligible to receive loans under
 20 the Program if the intermediary has at least 1 year
 21 of experience making loans to startup, newly estab-
 22 lished, or growing small business concerns.

23 “(5) LOANS TO INTERMEDIARIES.—

24 “(A) APPLICATION.—Each intermediary
 25 desiring a loan under this subsection shall sub-

mit an application to the Administration that describes—

“(i) the type of small business concerns to be assisted;

“(ii) the size and range of loans to be made;

“(iii) the geographic area to be served and its economic, poverty, and unemployment characteristics;

“(iv) the status of small business concerns in the area to be served and an analysis of the availability of credit; and

“(v) the qualifications of the applicant to carry out this subsection.

“(B) LOAN LIMITS.—Notwithstanding subsection (a)(3), no loan may be made to an intermediary under this subsection if the total amount outstanding and committed to the intermediary from the business loan and investment fund established by this Act would, as a result of such loan, exceed \$1,000,000 during the participation of the intermediary in the Program.

1 “(C) LOAN DURATION.—Loans made by
2 the Administration under this subsection shall
3 be for a maximum term of 20 years.

4 “(D) APPLICABLE INTEREST RATES.—
5 Loans made by the Administration to an inter-
6 mediary under the Program shall bear an an-
7 nual interest rate equal to 1.00 percent.

8 “(E) FEES; COLLATERAL.—The Adminis-
9 tration may not charge any fees or require col-
10 lateral with respect to any loan made to an
11 intermediary under this subsection.

12 “(F) LEVERAGE.—Any loan to a small
13 business concern under this subsection shall not
14 exceed 75 percent of the total cost of the
15 project funded by such loan, with the remaining
16 funds being leveraged from other sources, in-
17 cluding—

18 “(i) banks or credit unions;

19 “(ii) community development financial
20 institutions; and

21 “(iii) other sources with funds avail-
22 able to the intermediary lender.

23 “(G) DELAYED PAYMENTS.—The Adminis-
24 tration shall not require the repayment of prin-
25 cipal or interest on a loan made to an inter-

1 mediary under the Program during the first 2
2 years of the loan.

3 “(6) PROGRAM FUNDING FOR MIDSIZE
4 LOANS.—

5 “(A) NUMBER OF PARTICIPANTS.—Under
6 the Program, the Administration may provide
7 loans, on a competitive basis, to not more than
8 20 intermediaries.

9 “(B) EQUITABLE DISTRIBUTION OF INTER-
10 MEDIARIES.—The Administration shall select
11 and provide funding under the Program to such
12 intermediaries as will ensure geographic diver-
13 sity and representation of urban and rural com-
14 munities.

15 “(7) REPORT TO CONGRESS.—

16 “(A) INITIAL REPORT.—Not later than 30
17 months after the date of enactment of the
18 Small Business Intermediary Lending Pilot
19 Program Act of 2005, the Administration shall
20 submit a report containing an evaluation of the
21 effectiveness of the Program to—

22 “(i) the Committee on Small Business
23 and Entrepreneurship of the Senate; and

24 “(ii) the Committee on Small Busi-
25 ness of the House of Representatives.

1 “(B) ANNUAL REPORT.—Not later than 12
2 months after the date of enactment of the
3 Small Business Intermediary Lending Pilot
4 Program Act of 2005, and annually thereafter,
5 the Administration shall submit a report con-
6 taining an evaluation of the effectiveness of the
7 Program to the Committees described in sub-
8 paragraph (A).

9 “(C) CONTENTS.—The reports submitted
10 under subparagraphs (A) and (B) shall in-
11 clude—

12 “(i) the numbers and locations of the
13 intermediaries receiving funds to provide
14 midsize loans;

15 “(ii) the amounts of each loan to an
16 intermediary;

17 “(iii) the numbers and amounts of
18 midsize loans made by intermediaries to
19 small business concerns;

20 “(iv) the repayment history of each
21 intermediary;

22 “(v) a description of the loan portfolio
23 of each intermediary, including the extent
24 to which it provides midsize loans to small

1 business concerns in rural and economi-
 2 cally depressed areas;

3 “(vi) an estimate of the number of low
 4 income individuals who have been em-
 5 ployed as a direct result of the Program;
 6 and

7 “(vii) any recommendations for legis-
 8 lative changes that would improve the op-
 9 eration of the Program.”.

10 (b) RULEMAKING AUTHORITY.—Not later than 180
 11 days after the date of enactment of this Act, the Adminis-
 12 trator shall issue regulations to carry out the amendment
 13 made by section 7(l) of the Small Business Act, as added
 14 by subsection (a).

15 (c) AUTHORIZATION OF APPROPRIATIONS.—

16 (1) IN GENERAL.—There are authorized to be
 17 appropriated to the Small Business Administration
 18 such sums as may be necessary for each of the fiscal
 19 years 2006 through 2008 to provide \$20,000,000 in
 20 loans under section 7(l) of the Small Business Act,
 21 as added by subsection (a).

22 (2) AVAILABILITY.—Any amounts appropriated
 23 pursuant to paragraph (1) shall remain available
 24 until expended.

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