



Testimony of:
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“A Review of SBA’s 504/CDC Loan Program”
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Chairman Brat, Ranking Member Evans, and other distinguished members of the Committee, good morning. I am Wayne Williams and I am here on behalf of Business Finance Group Inc., a certified development company headquartered in Virginia. Thank you for the opportunity to discuss the work that my colleagues and I do every day in pursuit of our CDC’s mission of helping small businesses succeed, strengthening our communities, and promoting economic development through job creation. The 504 Loan Program has been vital to our local economic development mission.

Background on Business Finance Group Inc.

I’d like to begin by sharing a little background about our company and what we do in general. In 1982 the Fairfax County Economic Development Authority and the Fairfax County Chamber of Commerce partnered to create what was then known as Fairfax Local Development Company, a community-based non-profit charged with promoting economic development in the county. The goal was to become a SBA certified development company and participate in the SBA 503 loan program to assist the county’s eligible small businesses.

A lot has changed over the last 35 years!

Now known as Business Finance Group, our CDC that started in 1982 in just Fairfax County had become the SBA-designated “statewide” CDC for Virginia by 1994, and has since 2006 been a multi-state CDC assisting small businesses in Virginia, Maryland, Washington, DC and the panhandle counties of West Virginia. The company has consistently been the top-producing CDC for SBA’s Washington, Richmond, and Baltimore District Offices earning honors from SBA at the state and regional level. This is due to the hard work and dedication of our board, committee members, and our professional staff that has grown to 26 employees who serve our clients, lending partners and SBA, our federal oversight agency.

Business Finance Group maintains its headquarters in Fairfax, Virginia and has regional business development offices in Midlothian, Virginia; Gambrills, Maryland; Washington, DC and Hedgesville, West Virginia all strategically located to better serve our small business clients, lending partners and other resource partners.

While the 504 Loan Program continues to be our primary loan program, in recent years we have strategically invested in two complimentary loan programs, adding the SBA Intermediary Lending Pilot Program (ILP) in 2011 and the SBA Community Advantage (CA) Loan Program in 2013. We added these programs because our board felt that they both furthered our mission of promoting economic development throughout our area of operations. We believe that small loans for working capital and equipment are not readily available from traditional lending sources, but are essential for small businesses to grow and create jobs.

Business Finance Group's Economic Development Success Record

I'd like to share a little of our CDC's success record in meeting our mission of promoting economic development. We believe that the best measure of success combines loan activity generated on behalf of our small business borrowers with the economic impact of that activity on the community. Here are our results –

SBA 504 Loans	FYE 9/30/2016	Inception to FYE 9/30/2016
Borrowers Assisted	81	2,849
SBA 504 Financing	\$69 million	\$1.6 Billion
Jobs Created/Retained	5,359	41,978
Loans to minority-owned businesses	38%	22%
Loans to women-owned businesses	22%	19%
Loans to veteran-owned businesses	7%	4%

These results reflect the vision set by our Board of Directors, the leadership of our management team, the dedication and hard work of all our professional staff members, and the tenacious optimism and strength of our small business borrowers who open their doors in their communities every day.

I joined our CDC back in 1997 when we had 8 employees. My role as a loan officer was to meet with borrowers and referral sources to educate them about the 504 loan program and to generate loans. Borrowers in turn would share with me their plans and dreams for growing their businesses and making a difference in their communities. And for me has become one of the best things about CDCs and 504 lending – the feeling that our lending can and does make a tangible difference in our communities. It differentiates us from conventional financing. CDCs have a different mission from conventional lenders. But we are all part of the puzzle that makes our 504 loan program work.

Last month I celebrated my 20-year anniversary with Business Finance Group. It has been such a pleasure working with this company. Over the years I have personally assisted almost 700 small business owners with almost \$500 million in SBA 504 financing representing total projects of over \$1.3 billion – that's a lot of dreams and plans. I have seen up close how 504 lending can assist small business owners in rural communities like Southwest Virginia or the Eastern Shore of Virginia. I have also seen first-hand how 504 lending can be the catalyst for transforming neglected urban corridors like 14th Street NW and H Street NE in Washington, DC.

The 504 Loan Program works...it promotes small business, it promotes economic development. It creates jobs, and it can save jobs.

And it does all this while operating at zero subsidy. We are extremely proud of that fact, but we are fully aware of our resulting obligation to assure that the program stays on firm footing with sound underwriting and portfolio management.

Background Information on SBA 504 Loan Program

To provide just a little background on the 504 loan program, SBA developed the 504 loan program (also referred to as the CDC/504 Loan Program) to promote economic development in local communities by encouraging healthy businesses to expand and create jobs.

The program provides long-term, fixed-rate financing for the purchase of fixed assets, typically land, buildings, machinery and equipment. Refinancing existing debt is now allowed and can also include a limited amount of cash out for certain eligible business operating expenses. To be eligible a business must meet all regular SBA business eligibility requirements and size standards, and the project must meet an economic development goal specific to the 504 loan program – typically the project must create or retain one job for every \$65,000 in SBA financing; projects for manufacturers are adjusted to one job for every \$100,000 in SBA financing. If the project will not qualify based on jobs impact, there are 13 public policy and community development goals that can be used to qualify the project under certain conditions. These are outlined at 13CFR§120.862 and include items such as assisting businesses owned and controlled by women, veteran, or minorities or assisting businesses in rural areas or in enterprise zones.

The costs in a 504 project are typically split with a Third Party Lender (a participating bank, non-bank, or credit union) funding 50% and receiving a 1st lien on the project assets, the CDC/SBA 504 loan funding up to 40% of the costs and receiving a 2nd lien, while the borrower/applicant injects an equity contribution of as little as 10%. The 504 loan is funded from a 100% SBA-guaranteed debenture sold on Wall Street.

Success Stories

With that background on the 504 Loan Program, I would like to share with you a couple of successful entrepreneurs were able to pursue their dreams with the help of the 504 Loan Program through Business Finance Group –

VMEK Sorting Technologies – Midlothian, Virginia

Adriana and Kent Lovvorn had always wanted to own and operate their own business. So, in 2012, Adriana formed VMEK Sorting Technologies (<http://vmek.com/index.html>). Adriana serves as President and focuses on bookkeeping and financial planning, while Kent is the company's General Manager and handles product development, sales, and marketing. VMEK manufactures seed/grain counters for agribusiness applications as well as more advanced machinery.

The company's counter machines have the capability to not only sort products based on shape and color, but they can also provide analytical data on the sorted products. The company's Abacus High Counter is used in agriculture, processing, and manufacturing industries to count the quantity of small products such as seeds, beans, and corn. The Metrix Analytic Color Sorter can sort products into two categories based on color and/or shape. For example, it can be used to separate discolored or "bad" corn kernels for "good" kernels. In addition to separating the product, it also provided analytical data about number of pieces sorted. Multiple Metrix sorters can be attached to increase sorting capabilities into more than two categories. VMEK sells its products to sells to customers such as Monsanto and DuPont Pioneer

Since opening in 2012, VMEK had been operating out of a 1,550-sf leased space in Richmond, Virginia. But it had quickly outgrown this space based on its rapid growth and it was impacting its ability to add new business. Additionally, the manufacturing business was only 4 years old and its product lines were based on relatively new technology which added a higher level of risk for any conventional lender.

VMEK located an 11,520 sf building in nearby Midlothian, Virginia that Adriana and Kent felt would be perfect for the company's current and future needs. There was an existing tenant that would remain in 48% of the space, while VMEK could initially occupy 52%. And over time, as the tenant's lease expired and as VMEK's business kept growing, Adriana and Kent could expand VMEK into the rest of the building.

But in approaching their banker at Union Bank, the challenges were Adriana and Kent did not want to sink significant cash into the real estate project and deprive the business of the valuable working capital that was needed to continue to fuel its growth. Additionally, Union Bank perceived additional industry risk associated with a relatively young, growing company with product offerings in early stage development. But, operating results since 2012 were very strong and the outlook very promising.

So, VMEK and Union Bank turned to Business Finance Group and the SBA 504 Loan Program for assistance. The company was able to qualify for 90% financing and got a competitive, 20-year fixed rate. Adriana and Kent preserved their cash to support their future working capital needs, the business is projected to create 4 new jobs as it grows, and the project fulfills 3 SBA public policy/community development goals – assisting a women-owned business, a minority-owned business, and a manufacturer.

Success Story 2 - Port City Brewing Company – Alexandria, Virginia

Bill and Karen Butcher began planning for Port City in early 2009 just as the Great Recession was hitting – a start-up, capital-intensive business in the middle of the greatest recession since the Great Depression. As you can imagine, most traditional banks were not interested. But Bill's long-time dream was to own his own craft brewery. He felt the timing was right, no one had done it yet in the region, he had all the connections from his 20+ year career in the beverage/spirits distribution business in the region, he had equity investors lined up, but most importantly, craft beer was (and remains) his passion.

By the summer of 2010, Bill had been rejected by a dozen bankers before he walked into the office Kerry Donley of Virginia Commerce Bank who also happened to be a board member of Business Finance Group. Using SBA 504 financing, Port City Brewing Company ultimately purchased \$1,000,000 in brewhouse equipment, leased its warehouse in Alexandria, Virginia and opened for business in January 2011. Port City became the first production brewery to open in the modern era of DC-area breweries and has been a leader in the expanding craft brewery market throughout the mid-Atlantic. The company has received critical national and international recognition winning numerous awards including the prestigious Small Brewing Company and Small Brewing Company Brewer of the Year awards at the 2015 Great American Beer Festival. Its individual beers have consistently won medals since 2012, including its highly acclaimed Optimal Wit, Monumental IPA, Ways and Means IPA, and Porter beers.

The original SBA 504 loan resulted in the creation of 23 jobs and met the SBA's public policy goal of assisting a manufacturer.

By the end of 2016, Port City had grown to 37 employees, and increased production to 17,000 barrels of beer annually, with distribution from New York to North Carolina to over 1,600 retail accounts – bars, hotels, restaurants, and grocery chains including Wegmans, Harris Teeter, Food Lion, and Safeway. The beer is on tap in locations from Manhattan to Charlotte. The company's Alexandria tasting room attracts 78,000 annual visitors and has become a local tourist destination.

The company has outgrown its existing space and its outdated bottling line could no longer keep up with demand limiting any expansion opportunities. Port City has now embarked on a 3-year, \$2.6 million expansion that will create 26 new jobs, increase workflow efficiency, and triple annual brewing capacity from 17,000 to 50,000 barrels. This includes the addition of a 6,000-square-foot leased, cold storage warehouse; the purchase of a new \$1.5 million bottling line that will replace the company's existing line and be energy efficient, improve workflow with a smaller physical footprint, and triple bottling capacity; and interior renovations to the existing brewhouse (including adding second tasting room).

Business Finance Group will be financing the new bottling line as a 2nd 504 Loan and the renovations to the existing brewhouse will be part of a 3rd 504 Loan.

It is important to note that additional funding for Port City's expansion project is coming from partner equity and from \$500,000 in state and local grant programs from the City of Alexandria and the Commonwealth of Virginia through a Governor's Agriculture and Forestry Industries Development (AFID) grant. The grants are specifically used for economic development projects that promote state farm and forestry products. Certain Port City beers use state-sourced red winter wheat and oysters. As a side note, part of the local grant money is funding a bikeshare station at the brewery to promote bicycle usage as a responsible alternative to driving when visiting the brewery.

The Port City Brewing Company 504 projects are excellent example of how multiple 504 loans can be provided to the same borrower as the business grows and how local and state funds/grants can be mixed into a project.

These are just a small sample of the work that Business Finance Group has been able to do with the 504 loan program. It is a truly valuable tool for economic development and job creation not only in our Mid-Atlantic region encompassing Virginia, Maryland, Washington, DC and West Virginia, but throughout the country.

Future Issues

As we look to the future, I am cognizant that there is always room for improvement with any program, particularly a government loan program, so I look forward to working with SBA and Congress on any suggestions that improve the usefulness of the program to the small business applicants and lenders or that helps advance the program's mission.

Thank you for inviting me to testify today. I am happy to answer any questions.