



Written Testimony of

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On behalf of Women Impacting Public Policy (WIPP)

Before the House Committee on Small Business

Subcommittee on Economic Growth, Tax, and Capital Access

"Small but Mighty: A Review of the SBA Microloan Program"

March 7, 2019

Chair Kim and Ranking Member Hern, members of the Subcommittee, I'd like to thank you for the opportunity to testify before this Committee today. My name is Michelle Richards and I am testifying today on behalf of Women Impacting Public Policy (WIPP), of which I am a part of the nationwide network. WIPP is a national nonpartisan policy organization advocating on behalf women entrepreneurs. I serve as the Executive Director of the Great Lakes Women's Business Council (Great Lakes WBC). Great Lakes WBC is a non-profit organization that supports women and minority small business owners and entrepreneurs through access to financing, women's business certification, training, coaching, and counseling.

When I started Great Lakes WBC, formerly known as the Center for Empowerment & Economic Development (CEED), over 34 years ago in 1984, the only other lenders like us were a group in Minnesota and a group on the West Coast. At the time, we didn't know we were microlenders because no one had yet labeled what we did. When the SBA Microloan program was implemented, we were one of the first organizations to receive funding. Since then, we have made \$7 million in microloans, creating 1,800 jobs. On average, our loans are \$25,000 and 93% are through the SBA Microloan Program. Over 89% of our loans have been made to women. Today, we service nine counties in Michigan, including 100 or more women at any given time, and have helped other organizations become microlenders.

Capital is the lifeline of business. The ability to secure capital often determines an entrepreneur's opportunity to start or grow a business. There are nearly 10 million women-owned businesses in the United States, generating \$1.6 trillion in receipts and employing nearly 9 million Americans. Yet, for women, accessing capital continues to be difficult. Women account for only 16% of conventional small business loans and receive only 4% of all commercial loan dollars.¹ In 2013, fewer than 1 in 3 loan applications for women-owned firms were approved.

¹ U.S. Senate Committee on Small Business and Entrepreneurship Report on Women-Owned Small Businesses, available at https://www.sbc.senate.gov/public/_cache/files/2/5/25bd7ee9-a37b-4d2b-a91a-8b1ad6f5bd58/536DC6E705BBAD3B555BFA4B60DEA025.sbc-tackling-the-gender-gap.december-2017-final.pdf (2017).

This lack of available funding explains, in part, why women ask for less funding – on average, \$35,000 less than men.²

For entrepreneurs in rural areas, the challenge of accessing capital can be even greater. Based in Livonia, where the urban area of Michigan meets the rural, Great Lakes WBC is in a unique position to recognize that entrepreneurs in very rural small towns struggle to access capital and often do not fit the formula to qualify for a loan from the local banks. As of 2017, only 30% of community bank branches were located in rural areas.³ According to a report published by the National Community Reinvestment Coalition, counties in the West and East Coasts tend to be considered “oases” in terms of access to small business loans, while counties in the Midwest and South tend to be considered “deserts” with respect to small business lending.⁴

Twenty-one years have passed since the implementation of the Microloan Program, which has been proven to be successful. Now is the time for the Congress to modernize the Microloan Program. WIPP supports the following three changes to address the most pertinent issues: (1) amending the 1/55th Rule to provide greater flexibility to SBA and microlenders, (2) eliminating the 50/50 Technical Assistance rule, and (3) providing access to SBA Microloan data.

1. Amending the 1/55th Requirement to Provide Greater Flexibility

The 1/55th rule is the number one pain point for microlenders. Under this rule, during the first six months of each Fiscal Year, at least \$800,000 or 1/55th of available loan funds, whichever is less, is made available for loans to Intermediaries in each state. The 1/55th of available loan funds is divided equally among all states. In its Fiscal Year 2019 Congressional Budget Justification, SBA asked for authority to eliminate the 1/55th rule, stating that this prohibition restricts availability of capital for small businesses without taking into account the size of the state or the needs of the small business community.

² Fundera, State of Small Business Lending Report, available at <https://www.fundera.com/blog/the-state-of-online-small-business-lending-q2-2016> (last updated March 2018).

³ GAO Report, GAO-18-312 (2018).

⁴ “Small Business Lending Deserts and Oases,” National Community Reinvestment Coalition (2014).

When SBA is operating under a continuing resolution, loan amounts are limited. The 1/55th rule leads microlenders to wait to request loans from SBA until the Microloan program is fully funded. In turn, intermediaries receive all of their capital through this program in the latter six months of the Fiscal Year, as opposed to the first. For example, we once had a loan in which we requested half a million dollars, but only received \$164,000, because that was all that was available. Our options were to take the smaller amount or forgo it altogether and lose our place in the queue. In another instance, we ran out of money at the end of the fiscal year, but had to wait five months until March when the program had available money.

This process is not an efficient and reasonable way to distribute funds. Continuing resolutions are detrimental to our ability to lend during extended periods of time. When borrowers have to wait 60 days for an answer, we lose our credibility. Because all states are treated equally, larger states end up with significantly less than what they need while small states end up with more than what they need.

We support the elimination of the 1/55th rule, as it critically hampers our ability to serve our communities. However, we would also support the flexibility of having a reserve fund for SBA to deploy capital throughout the year in the event of a lapse in appropriations that results in a continuing resolution.

2. Eliminating the 50/50 Technical Assistance (TA) Rule

The Microloan Program has strict eligibility standards and operating requirements for microlenders. For example, the Microloan Technical Assistance program for many years required that 25% of the technical assistance given to the entrepreneur by the lender should be provided pre-loan and 75% post-loan. In 2018, the Congress changed this ratio from 25/75 to 50/50 through the Consolidated Appropriations Act of 2018 – much needed flexibility that has been incredibly helpful to Great Lakes WBC. The law also increased the Microloan program’s aggregate

loan limit for intermediaries after their first year of participation in the program from \$5 million to \$6 million.⁵

While the 50/50 change is welcome and helpful, microlenders have long advocated for this percentage to be lifted altogether, as every business and their needs are unique. We ask Congress to give microlenders the flexibility to use TA as they see fit rather than a set percentage prescribed by the federal government.

3. Providing Access to Microloan Data

SBA should make available data on borrowers who use the Microloan Program, similar to the data it provides to the public for the 7(a) loan program. Having access to data on information such as geographical location, loan amount, interest rate, and term, would be helpful not only to supporters of the program, but to microlenders in determining need. The current requirement to prepare a Freedom of Information Act (FOIA) request in order to obtain such information is burdensome. Such requests do not have a quick turnaround – it can take 6 months or longer to obtain this data.

In conclusion, Great Lakes WBC is an example of how organizations, in partnership with the SBA, can serve the needs of entrepreneurs in their communities – turning them into job creators – through the Microloan Program. Centers like mine work tirelessly to provide entrepreneurs throughout the country with the resources they need, be it technical assistance or a loan. Our center focuses on assisting women, especially those who are economically or socially disadvantaged.

A critical part of their success is access to capital provided through the SBA Microloan program. Making the suggested changes we cited above would go a long way toward making the program even better.

Thank you for inviting me to testify here today. I look forward to answering any questions you may have.

⁵ P.L. 115-232