Catalyzing Economic Growth through SBA Community-Based Lending

Testimony before the
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Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access

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Chairwoman Davids, Ranking Member Meuser, and members of the Subcommittee: thank you for inviting me to join the conversation on community-based lending and the work Certified Development Companies (CDCs) are doing to build communities across the United States. My name is Brooke Mirenda and I am here on behalf of Sunshine State Economic Development Corporation (SEDCO), located in Clearwater, Florida. I am also a member of the National Association of Development Companies (NADCO), a trade association dedicated to supporting the CDC industry and our collective work in the economic development arena. I am pleased to have the opportunity to discuss our CDCs work helping create jobs with the 504 loan program, as well as providing an update on the 504 program going forward.

First, I would like to share a bit more about SEDCO: we are considered a mid-size CDC and have seen significant growth over the last several years. While the 504 loan program is our primary focus, we also offer other loan programs to meet the needs of our small business borrowers, which includes the SBA Intermediary Lending Pilot (ILP) and 7(a) Community Advantage loan programs. SEDCO also utilizes its own resources to offer financing to small business owners through a Women/Minority/Veterans Loan Program. SEDCO believes that our coordinated lending alternatives are essential to help small businesses grow and create jobs in our communities.

In November 2017, the Board of Directors of SEDCO appointed me President and CEO. As SEDCO President, I continue to be intimately involved in helping small businesses reach their maximum potential and offering a solution that leverages them in a way conventional financing cannot. The SBA 504 loan program not only creates jobs in our economy, it also offers beneficial rates and terms for our small business owners, helping them preserve capital and grow their businesses, while still operating at a zero subsidy.

While the program has operated at no cost to taxpayers for years, small businesses must also meet certain goals to obtain a 504 loan. Because the core purpose of the program is economic development, all 504 borrowers must meet at least one of two specified economic development objectives. First, small businesses must create or retain a job for every $75,000 of 504 project costs and small manufacturers must create or retain one job per $120,000 of their 504 project costs.[1] If the borrower does not meet the job creation or retention requirement, eligibility is still possible by meeting one of five community development goals, or one of 13 public policy goals. The five community development goals are[2]:

- improving, diversifying, or stabilizing the economy of the locality;
- stimulating other business development;
- bringing new income into the community;
- assisting manufacturing firms; or
- assisting businesses in labor surplus areas.

The 13 public policy goals are[3]:

- revitalizing a business district of a community;
- expanding exports;
- expanding the development of women-owned and -controlled small businesses;
- expanding small businesses owned and controlled by veterans;
- expanding minority enterprise development;
- aiding rural development;

[1] Standard Operating Procedure 50 10 6: Part 2, Section C, Ch 1: 504 Eligibility through Submission of Application SOP 50 10 6 FINAL 8.7.20 LOCKED_0.docx (live.com)
[2] Dilger, Robert Jay. (Updated March 4, 2022) Small Business Administration 504/CDC Loan Guaranty Program. Congressional Research Service, 7. R41184.pdf (fas.org)
[3] Dilger, Robert Jay. (Updated March 4, 2022) Small Business Administration 504/CDC Loan Guaranty Program. Congressional Research Service, 7-8. R41184.pdf (fas.org)

- increasing productivity and competitiveness;
- modernizing or upgrading facilities to meet health, safety, and environmental requirements;
- assisting businesses in or moving to areas affected by federal budget reductions, including base closings;
- reducing unemployment rates in labor surplus areas;
- reducing existing energy consumption by at least 10 percent;
- implementing renewable energy production by more than 15 percent; or
- increasing use of sustainable building designs.

As you can see, small businesses who receive a 504 loan are not only putting down roots and creating jobs, they are also contributing to their communities in substantial ways. In the wake of the economic impact of the COVID-19 pandemic, the increased profile of the Small Business Administration (SBA), and the needs of small businesses for fixed-rate and long-term capital, small businesses are choosing the 504 program to plan for the future. In fiscal year 2020, when emergency relief programs were readily available through the SBA, the CDC industry still delivered $5.8 billion in 504 loans to businesses with a total capital investment of $14.5 billion.[4]

In fiscal year 2021, demand for the 504 program continued with delivery of more than $8.2 billion in Main Street financing to 9,700 businesses, the creation or retention of 85,000 jobs, and total capital investment of $20.5 billion.[5] In fact, we served so many small businesses that we reached our then-congressionally authorized cap of $7.5 billion on September 7, 2021 and SBA was unable to approve any 504 loans until the fiscal year authorization levels reset on October 1,

[4] Small Business Administration, Weekly Approvals Report. Weekly Approvals Report (sba.gov)
[5] Small Business Administration, 504 Freedom of Information Act (FOIA) Data. 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data

2021. This shutdown caused both short-term and long-term issues for small businesses trying to recover and grow. As fiscal year 2022 got underway, volume did not dissipate and we began working with NADCO to raise our concerns about another, much longer shutdown of the program. Thankfully, members of this Committee, as well as the Senate Committee on Small Business and Entrepreneurship, and appropriators in the House and Senate came together to ensure small businesses have access to the job creating financing they need by increasing the authorization level for the regular 504 program to $11 billion for the remainder of the fiscal year in the Consolidated Appropriations Act, 2022 (P.L. 117-103). I want to take a moment to share my sincere thanks for all the effort put into making this increase a reality. Our borrowers thank you! In fiscal year 2021, our CDC was up 20 percent in number of loans and had a 51 percent increase in dollars. So far in fiscal year 2022, we are up almost 10 percent in loan approvals and 20 percent in dollars over our growth in fiscal year 2021.

Though there are many reasons why small businesses continue to choose the 504 program and the program continues to grow, I believe a major reason is the 504 program is a prime example of how public private partnerships should work. The SBA administers the program, and we – private sector non-profits focused on economic development – partner with private sector lenders to deliver the program. The CDC and lending partner each complete full loan underwriting, which is then reviewed by the SBA. As a result, we are providing certainty to small businesses who are creating jobs in communities and we are doing so in a prudent manner: the 504 program has a charge-off rate of 0.6 percent over the past 10 years.[6] Because of the soundness of the program, the costs associated with it are paid for by fees, and in addition to all the benefits I have already outlined, it does not cost taxpayers any money.

[6] National Association of Development Companies (NADCO) via Small Business Administration, 504 Freedom of Information Act (FOIA) Data. 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data

The 504 program is performing extremely well and providing much needed capital to our nation's job creators; however, there are considerations Congress should keep in mind to ensure its future success. First and foremost, the program needs to stay open. I, along with NADCO, urge Congress to work together to come to a long-term solution to the 504 authorization level, including combining the regular 504 and debt refinance without expansion caps, as outlined by my fellow CDC. It would be devastating to small businesses, and to the reputation of the program and CDCs ability to operate, if the program were to shut down again for any period of time. Uncertainty is what small businesses are trying to mitigate: it does not help them if the program is turned on and off.

Secondly, since the onset of the pandemic, the SBA has been tasked with enormous responsibility to quickly implement and support the delivery of major economic relief programs passed by Congress. As a result of the increased profile of the SBA and the economic impacts of the pandemic on small businesses, its core lending programs like the 504 program are experiencing increased demand. However, SBA is largely operating with the same staffing levels as they were pre-pandemic and though they are working hard to keep up with the demand for the program, overtime and overworked staff are not a permanent solution. A solution is one passed by Congress in the Economic Aid Act (P.L. 116-260), which is a pilot within the 504 program that would allow vetted, proven CDCs with Accredited Lender Program (ALP) status to more efficiently process loans of up to $500,000. High risk industries, as defined by SBA, would not be processed through this pilot program and the SBA's Office of Credit Risk Management (OCRM) would continue to robustly oversee participating CDCs, thus mitigating risk while providing a huge benefit to SBA and borrowers – nearly 40 percent of 504 loans are under

$500,000 and could be processed by proven private sector partners. This would immediately alleviate the strain on SBA staff and get capital in the hands of small businesses faster.

Though this program was included in legislation passed in December 2020, the CDC industry is still awaiting the rule implementing the pilot program, called ALP Express. Importantly, the program is set to sunset at the end of fiscal year 2023 and because it has not yet been implemented, NADCO and I recommend Congress extend the sunset date to fiscal year 2027 to allow sufficient time to operate the program in order for SBA and Congress to be able to make an informed determination on its efficacy.

My final recommendation is for the implementation process of laws that impact the SBA's lending programs to include a dialogue about congressional intent. As an industry, we are conscientious about working closely with members of Congress and the SBA on our shared goal of meeting small business access to capital needs and we want to do more, but can be limited by regulation. For example, Congress authorized changes to the debt refinance without expansion program in the Economic Aid Act. Those changes, we believe, were intended to bring parity to the refinancing of government debt among SBA lending programs, as well as a number of other changes to increase usage of the program by small businesses.

However, the implementation of the debt refinance provisions included parameters that limit the ability of CDCs to reach as many small businesses as the changes should allow. The limitations are reflected in comments NADCO submitted to the SBA, and are also borne out by the numbers: the debt refinance without expansion program refinanced $709 million last fiscal year, while we reached our cap in the regular program. Congress also chose to reduce the authorization level for the debt refinance without expansion program from $7.5 billion to $4 billion for the remainder of fiscal year 2022. As an industry, we would like to serve more borrowers through this program and believe we can do that with adoption of our recommendations to the proposed rule.

I sincerely appreciate the opportunity to bring these issues to your attention and talk about a program that is doing phenomenally well with $4.48 billion in approved 504 loans as of March 18. I look forward to working with you to ensure the future success of this public private partnership and am happy to answer any questions.