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November 16, 2021

The Honorable Nydia Velázquez
Chair, House Small Business Committee
2302 Rayburn House Office Building
Washington, DC 20515

The Honorable Benjamin Cardin
Chair, Senate Small Business Committee
509 Hart Senate Office Building
Washington, DC 20510

RE: Section 100502: SBA Direct Small Business Loan Program

Dear Chairs Velázquez and Cardin:

On behalf of the African American Alliance of CDFI CEOs, NALCAB (the National Association for Latino Community Asset Builders), Community Reinvestment Fund, USA, and the CDFI Coalition, we write to express our concern regarding the current proposed structure of the Small Business Administration (SBA) direct lending program presented within Section 100502, *Funding for Credit Enhancement and Small Dollar Loan Funding*, of the reconciliation package ([HR5367](#)).

America's small businesses are the economic engine at the heart of our Nation and within minority communities. Small businesses not only create jobs and provide essential goods and services, but they are also one of the main instruments for building wealth and ownership. Congress must keep that in mind as it works to pass the *Build Back Better Act*, one of the most important and ambitious pieces of legislation in recent history.

While we applaud the commitment to strengthening access to capital in underserved communities, we are concerned about the [House Small Business Committee's proposed language](#) that would give the Small Business Administration (SBA) new authority to offer approximately \$4.5 billion in 7(a) loans directly to consumers. We understand that the proposed SBA direct loan program is intended to reach the toughest to serve businesses, however, we believe there are stronger ways to achieve this goal.

Overall, we believe the best way to assure success of this proposed program is to partner with Community Financial Institutions, including certified Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs), providing them with resources to serve as *intermediaries* and extend direct 7(a) loans to underserved populations. Given the currently proposed bill language, there lacks a well-defined intermediary platform to operate within this initiative.

As the COVID 19 pandemic highlighted, the SBA's existing agency infrastructure was unable to quickly or efficiently reach unbanked and underbanked entrepreneurs and small business owners during the first round of PPP. To its credit, the SBA quickly recognized that Community Financial Institutions (CFIs) have the connections and the capacity to deliver relief funds to these



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customers. By pivoting and expanding its distribution network to include CFIs - like CDFIs and MDIs - the SBA was able to ensure funds reached small businesses in underserved communities. Regularly working in partnership with these organizations, the SBA can more strongly achieve its objective of ensuring small businesses seeking access to capital get the personal attention and support needed to be successful. CFIs have a proven capacity to service historically disadvantaged communities by providing credit and technical assistance that is critical for local small businesses to sustain and grow their enterprises.

The approach we are proposing is not new to the SBA. Currently, the SBA Microloan provides business loan funds to more than 140 designated, community-based intermediary lenders with experience in lending and delivering technical assistance to very small businesses that have historically faced barriers to accessing credit. These Microloan intermediaries serve the smallest of small businesses. While the program allows intermediaries to make loans up to \$50,000, the average SBA Microloan was \$14,435 in FY 2020. Historically, the program has brought more than \$260 million to support rural businesses and more than \$465.7 million to minority entrepreneurs. In FY 2020, intermediaries made 5,888 loans, totaling more than \$85 million, to small businesses supporting 21,237 jobs.ⁱ

Similar intermediary-structured programs exist at the U.S. Department of Agriculture that have also been successful in getting business financing into rural areas where there are frequently few private lenders able to meet the needs of smaller businesses.

A lesson learned from this past year, specially from the Paycheck Protection Program (PPP), is that CDFIs are critical partners to successfully and responsibly deploying government resources to underserved communities and entrepreneurs. CDFIs have a long history of serving small and moderate-sized businesses throughout America as their track record shows - 85% of CDFI borrowers are low-income, 58% are people of color, and 48% are women-owned businesses.ⁱⁱ

Working in partnership with the SBA, CDFIs were critical partners in lending billions of dollars in 7(a) loans to help small businesses grow and thrive by understanding their needs and those of the communities they serve. Yet, if the proposed Section 100502 is enacted as written, the SBA would have the authority to originate and disburse small dollar loans without the explicit partnership of any community-based lenders such as CDFIs and MDIs, leveraging their vast community knowledge and experience.

Additionally, by indiscriminately offering direct financing services, this could unintentionally decrease the diversity of lending institutions available in any given market and ultimately undermine the statutory intent of the SBA program, which is to increase access to capital to underserved communities and entrepreneurs.

We want to reiterate that we strongly support the effort to increase small dollar funding to underserved entrepreneurs and urge Congress to pursue channels with a track record of success, including partnerships with CFIs. We look forward to working with members of your committees and representatives from the SBA to ensure all entrepreneurs have easy access to



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knowledgeable and experienced small business lending resources needed to succeed and lead this nation's economic recovery.

Sincerely,

Lenwood V. Long Sr.
President and CEO
African American Alliance of CDFI CEOs

Marla Bilonick
President and CEO
National Association for Latino Community Asset Builders

Frank Altman
CEO
Community Reinvestment Fund, USA

John Holdsclaw, IV
Board Chairman
CDFI Coalition

ⁱ SBA, Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report, pp. 35-36, 165, at https://www.sba.gov/sites/default/files/2020-02/FY%202021%20CJ-508_FINAL.pdf

ⁱⁱ Barrow, Olivia. "Community Development Financial Institutions Fund," *National Low Income Housing Coalition*, 2021, pp. 7., <https://nlihc.org/files/CDFIs>