November 16, 2021

The Honorable Nydia Velázquez The Honorable Benjamin Cardin

Chair, House Small Business Committee Chair, Senate Small Business Committee

2302 Rayburn House Office Building 509 Hart Senate Office Building

Washington, DC 20515 Washington, DC 20510

*RE: SBA- Direct Small Business Loan Program*

Dear Chairs Velázquez and Cardin:

On behalf of the African American Alliance of CDFI CEOs, NALCAB (National Association for Latino Community Asset Builders) and Community Reinvestment Fund, USA, we write to express our concern regarding the proposed Small Business Administration (SBA) direct lending program Section 100502, titled “Funding for Credit Enhancement and Small Dollar Loan Funding,” of the reconciliation package [(HR5367)](https://www.congress.gov/bill/117th-congress/house-bill/5376/actions?r=2&s=2). America’s small businesses are the economic engine at the heart of our nation and in minority communities. They 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](https://smallbusiness.house.gov/news/documentsingle.aspx?DocumentID=3930) 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, there are alternative ways to achieve this goal. We believe the best way to assure success of this proposed program is to partner with Community Financial Institutions, such as Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) by providing them with resources to serve as *intermediaries* and extend direct 7(a) loans to this underserved population. Numerous data sources demonstrate the effectiveness of these community-based lending organizations in reaching this target population and the approach we are proposing is not new to the SBA. For example, the SBA Microloan provides funds to designated intermediary lenders which are community-based organizations with experience in lending and delivering technical assistance to very small businesses that have historically faced barriers to accessing credit. Similar programs exist at the U.S. Department of Agriculture which have also been successful in getting credit into rural areas where there may be few lenders able to meet the needs of smaller businesses. At the very least, there needs to be a well-defined intermediary option that is properly resourced if SBA intends to implement Section 100502 of the *Build Back Better Act.*

A lesson learned from this past year, especially from the Paycheck Protection Program (PPP), is that CDFIs are critical to successfully deploying resources to underserved communities and entrepreneurs. CDFIs have a long history of serving these small businesses throughout America as their track record shows - 85% of CDFI borrowers are low-income, 58% are people of color, and 48% are women.[[1]](#endnote-1) Working in partnership with the SBA, CDFIs lent out 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. This could unintentionally decrease the diversity of lending institutions available in any given market and ultimately undermine the statutory intent of the program which is to increase access to capital to underserved communities and entrepreneurs.

As the COVID 19 pandemic highlighted, the SBA’s existing distribution system was unable to reach unbanked and underbanked entrepreneurs and small business owners in the first round of PPP. To its credit, the Agency recognized Community Financial Institutions (CFIs) have the connections and the capacity to deliver relief funds to these 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. Working together with CFIs, like CDFIs, MDIs, and other community-based lenders, the SBA could achieve its objective of ensuring small businesses seeking access to capital get the personal attention and support needed to be successful. CFIs, such as CDFIs, MDIs, and other community-based lenders, 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.

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, including CDFIs, MDIs, and other community-based lenders. We look forward to working with you and SBA to ensure all entrepreneurs, including those in underserved minority communities, have the tools they need 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

1. Barrow, Olivia. “Community Development Financial Institutions Fund,” *National Low Income Housing Coalition*, 2021, pp. 7., [https://nlihc.org/files/CDFIs](https://nlihc.org/sites/default/files/AG-2021/08-03_Community-Development-Financial-Institutions-Fund.pdf) [↑](#endnote-ref-1)