HOUSE SMALL BUSINESS SUBCOMMITTEE ON FINANCE AND TAX

Hearing on

Improving the SBA's Access to Capital Programs for Our Nation's Small Businesses

March 5, 2008

Written Statement of
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Dear Chairwoman Bean, Ranking Member Heller, and other members of the Subcommittee:

My name is Daniel Betancourt and I am President and CEO of the Community First Fund in Pennsylvania. Community First Fund's mission is to create lasting economic growth in the communities that we serve. I am also the Board Chairman of the Association for Enterprise Opportunity (AEO), the national leadership organization for microenterprise development organizations across the country.

I appreciate the opportunity to discuss the importance of the SBA Microloan Program and how it differs from the SBA 7(a) loan guaranty program. As an SBA Microloan Intermediary since 1992, I know this program is of great assistance to the entrepreneurs within the 13 counties in central Pennsylvania that my organization serves. Entrepreneurs served by the Microloan Program are not served by the private sector, nor do they qualify to receive SBA guaranteed loans like 7(a) or CommunityExpress. As a former banker, I know that traditional banks will simply not lend to these borrowers, with or without a SBA guarantee.

Community First Fund also uses the 7(a) program. It is a good program, but it serves a different type of borrower. I simply can not use the 7(a) program to help the people that I assist through the Microloan Program.

The Microloan Program is unique in that it provides both loan capital and funds for technical assistance and business training. The loan capital is offered at a lower than market rate, which allows my organization to make loans that are less costly and easier for our local entrepreneurs to pay back. This enables the businesses to grow more quickly and hire additional employees sooner.

Many of the entrepreneurs that we assist have had trouble accessing capital through commercial banks and also need substantial training and technical assistance to succeed in launching and growing their businesses. The Microloan Program has enabled us to help these entrepreneurs, who have been very successful when given the assistance that they need. Without the assistance

that we are able to provide for them, most of these small businesses would not be able to get off the ground or to succeed for very long.

From the perspective of a practitioner, the Microloan Program is a program that really works. In order to carry out our mission to assist entrepreneurs, we need to be able to access low-cost capital for our loan pool and to access funds to cover the costs of the training and technical assistance that we provide to the entrepreneurs. The Microloan Program provides funding for both components of our work.

The Microloan Program has been a very good use of federal dollars. It has a low default rate, since the combination of training and technical assistance with lending has insured that the entrepreneurs are well prepared prior to receiving their loan funds. We also work closely with the entrepreneur after the loan is made, so that any problems that arise can be dealt with before they become serious. This program would not work nearly as effectively if the technical assistance was not provided or if it was provided by someone else. The intimate knowledge of the business that we gain by providing both the loan capital and technical assistance is one of the key strengths of the program and should not be underestimated.

I want to comment on the President's proposal to eliminate all funding for Microloan lending capital and technical assistance, and to raise the interest rate on the funds borrowed by Microloan Intermediaries. While the President has not recommended terminating the Microloan Program, for the second year in a row he proposes the elimination of all funding. This would make the program unworkable for Microloan Intermediaries and the entrepreneurs they serve.

The proposal to eliminate funding for loan capital would require the interest rate on Microloans be increased, which would make this program much less appealing to microenterprise development organizations such as mine. The value of the program is that it allows Microloan Intermediaries to keep interest rates down and provide their borrowers with affordable financing. By raising the interest rate for the Intermediaries, they will be forced to pass on this increased cost by raising interest rates paid by microentrepreneurs, which will create an economic hardship for them and make it more difficult for them to grow their businesses. This would lead to fewer jobs created and fewer tax dollars paid. This strategy is counter to the original reason that Congress created the Microloan Program.

The President also wants to eliminate the technical assistance portion of the program. As a practitioner, I know that this proposal will make this program unworkable. The reason that the Microloan Program has been very successful over the years has been this pairing of technical assistance funds with loan capital. This combination has led to a loan default rate of less than 1%, the lowest of any SBA lending program. Taking away the technical assistance dollars and asking other SBA technical resource partners to take on the technical assistance function will disrupt this winning formula and is likely to increase the default rate. This is a cost-effective program that has been very successful at creating and retaining jobs in communities throughout the country, while maintaining a very low default rate.

In contrast, the entrepreneurs that my organization helps through the 7(a) program have larger businesses that require larger loan amounts, have more collateral, higher credit scores, and have more business experience.

My hope is that some of the entrepreneurs that we are currently helping through the Microloan Program will one day grow to the point where they will be in a position to use the 7(a) program. Right now they are not.

The Microloan and 7(a) loans are two worthy programs, which are complementary and absolutely not duplicative. We need to have both of them available to fully serve the diverse needs of the entrepreneurs in our communities.

Over the last fifteen years Community First Fund has made a measurable impact in the region. Its service area has expanded from Lancaster County to a thirteen-county region in south central Pennsylvania which has a population in excess of 3.5 million people. Since its founding, Community First Fund has made over $11.5 million in loans. During its first ten years, Community First Fund made approximately $1 million in total loans; however, during the last fiscal year alone, Community First Fund made 126 loans totaling over $3.2 million dollars and brought Community First Funds total current loan portfolio to over $5.2 million. Also in the last fiscal year, Community First Fund provided services, including training and counseling, to more than 4,000 individuals.

This growth has led to the creation or retention of over 800 jobs in the past three years, and the development of 73 new affordable housing units. As a result of its new efforts in the area of commercial real estate loans, Community First Fund financed the development of over 34,000 square feet of commercial space, primarily in lower income urban neighborhoods. In the next four years, Community First Fund's strategic efforts will continue this growth and will create or sustain over 1,800 jobs, over 80 new affordable housing units and over 375,000 square feet of commercial real estate. Community First Fund anticipates the growth of its loan portfolio to $25 million by 2010.

Thank you for this opportunity to testify and I look forward to answering your questions.