

February 26, 2016

Grady B. Hedgespeth
Director, Office of Economic Opportunity
U.S. Small Business Administration
409 Third Street SW
Washington, DC 20416

Dear Grady:

Opportunity Finance Network appreciates the opportunity to comment on the changes to the Small Business Administration Community Advantage pilot program, published in the Federal Register on December 28, 2015 as Docket Number SBA-2015-0013.

OFN and its Member CDFIs commend the Small Business Administration (SBA) for its efforts to bring capital and credit to small businesses often overlooked by mainstream financial institutions through the Community Advantage pilot program. Since the program launched in 2011, mission-driven lenders have used it to expand access to credit for small businesses in underserved areas, and CDFIs have been an integral part of the Community Advantage pilot program's overall success.

The program has strengthened the CDFI industry's ability to deliver affordable, responsible financial products to a growing number of small business owners who need it most, particularly small businesses owned by women and people of color. As we indicated in a letter submitted to Administrator Maria Contreras-Sweet last December, as of November 2015, CDFIs comprised 70 of the 103 Community Advantage lenders. Since inception, more than \$220 million in Community Advantage loans have been approved -- more than \$100 million approved in the last year alone. Most of these loans were made by CDFIs.

The program's strong track record demonstrates the demand for the capital it provides to under-resourced small businesses. Based on this success, more CDFIs and other mission-driven lenders are actively considering making the investment to become Community Advantage lenders. OFN applauds the SBA recognizing this need, and extending the program through 2020. However, making this successful program permanent will further increase the flow of credit to small businesses that create jobs and stimulate economic development in low- and moderate-income communities.

Continued uncertainty about the program's long-term viability could curtail prospective and existing Community Advantage lenders from making critical investments that will help this program be a sustainable and predictable long-term source of new capital to entrepreneurs who have been historically left out of the economic mainstream, even by traditional SBA lenders. Curtailing activity on behalf of lenders, particularly mission-driven lenders, would negatively impact the SBA's priority goal 1.1 "expanding access to capital by adding 325



new and returning lenders to SBA's flagship 7(a) program."¹ Furthermore, we believe the Community Advantage pilot program is a critical tool in meeting SBA's performance goal 2.1 to "ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain."² OFN strongly urges the SBA to make the Community Advantage pilot program a permanent program, allowing it to continue to channel capital and credit to small businesses often overlooked by mainstream institutions.

In addition to supporting permanency for the program, OFN would like to specifically comment on three changes to the Community Advantage Participant Guide 4.0: Delegated Authority, Revised Oversight Strategy and Expanded Underserved Market Definition.

■ Delegated Authority Procedures

The updated version of the participant guide clarifies that a Community Advantage Lender approved for delegated authority disburse at least five Community Advantage loans before they can process loan applications under their delegated authority. OFN supports this reduction from the previous threshold of disbursing 10 loans before qualifying for delegated authority will reduce a barrier to entry for some lenders, particularly newer program participants, and encourage them to use their delegated authority. It will also improve customer service for the small business borrowers, reduce lender costs, and provide lenders more ownership over credit decisions, allowing greater flexibility to meet the credit needs of businesses in the markets and communities they serve.

■ Revised Oversight Strategy

The updated Participant Guide 4.0 describes how SBA will use its risk-based review and examination protocol, specifically using the PARRiS methodology currently used to evaluate conventional, regulated 7(a) lenders to evaluate Community Advantage lenders. The PARRiS methodology includes reviewing a lender's Portfolio performance, Asset management, Regulatory compliance, Risk management, and Special items.³ As the tool was developed to assess conventional 7(a) lenders, there is concern that factors related to lending in underserved markets may not be adequately considered. OFN urges the SBA to carefully evaluate if the PARRiS analytical review protocol can accurately measure the impact of mission-driven Community Advantage lenders in the markets they serve.

¹ U.S. Small Business Administration, *Strategic Plan, Fiscal Years 2014-2018*, 5.

² *Ibid.*, 11-12.

³ U.S. Small Business Administration, SBA Policy Notice 5000-1332: Revised Risk-Based Review Protocol for SBA Operations of Federally Regulated 7(a) Lenders, 2014.



Expanded Underserved Market Definition

The updated Community Advantage Participant Guide defines underserved markets as:

- Low-to-moderate income communities;
- Empowerment Zones and Enterprise Communities;
- HUBZones;
- New businesses;
- Businesses eligible for Patriot Express, including veteran-owned businesses;
- Firms where more than 50% of their full time workforce is low-income or resides in LMI census tracts; and
- Promise Zones.⁴

OFN encourages the SBA to further expand the definition of underserved market to include women and entrepreneurs of color, populations that continue to have difficulty accessing capital and technical assistance. According to research by the Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia, 22% of U.S. small businesses sought credit in 2014. Forty-four percent of those businesses that applied for credit were denied the loans they sought.⁵ Minority entrepreneurs face an even harsher environment. According to the SBA, minority-owned small businesses are more than twice more likely to be turned down by lenders than non-minority owned firms.⁶

In addition, the SBA's performance goal 2.1 of Inclusive Entrepreneurship seeks to ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain. In the goal, the SBA identifies "women, minorities, veterans and others" as underserved communities.⁷ We urge the SBA to include these groups in the definition of underserved communities in the Community Advantage program.

OFN commends the SBA for its continued efforts to increase access to capital in underserved communities through mission driven lenders and the Community Advantage pilot program. We look forward to continuing to use this important resource to help mitigate the capital access gap for small businesses. We also recognize the important role this program plays in helping SBA meet strategic priorities and performance goals. We urge you to make the Community Advantage pilot program permanent, build upon its early success, and continue expanding access to responsible, affordable credit in communities.

⁴ Version 4.0 expands the definition of underserved markets to include designated Promise Zones.

⁵ Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia, Joint Small Business Credit Survey Report, 2014, 11, 14.

⁶ U.S. Small Business Administration, "Access to Capital among Young Firms, Minority-owned Firms, Women-owned Firms, and High-tech Firms", 2013, 11.

⁷ Id at 1, 11-12.



Thank you again for the opportunity to comment on the Community Advantage pilot program. Please do not hesitate to contact me if you have questions or would like to discuss any aspect of CDFIs' participation in the Community Advantage Network.

Sincerely,

Mark Pinsky

President and CEO