



November 16, 2021

The Honorable Isabella Casillas Guzman
Administrator
Small Business Administration
409 3rd Street, SW
Washington, D.C. 20416

Re: House Build Back Better Act, Section 100502: *Funding for Credit Enhancement and Small Dollar Loan Funding*

Dear Administrator Guzman:

On behalf of the members of the Community Development Bankers Association (CDBA) and the National Bankers Association (NBA), we respectfully submit the following recommendations regarding provisions included in the Build Back Better Act.

We strongly support SBA's efforts to close gaps in access to capital for very small businesses, particularly those located in, and serving low- and moderate-income and minority communities. As the national trade association for banks and thrifts that are US Treasury-designated Community Development Financial Institutions (CDFIs), and the leading trade association for the country's Minority Depository Institutions (MDIs), our members are especially well positioned to help.

Unfortunately, broad language adopted in Section 100502 ("Funding for Credit Enhancement and Small Dollar Loan Funding") of the House version of the Build Back Better Act has led industry colleagues to fear that the proposal "could have the unintended effect of making it more difficult for some lenders to continue participation in the 7(a) program."¹ These fears have led to opposition, which we believe can be assuaged with communication.

Based on conversations with you and your colleagues, we believe industry objections can be addressed and the provisions can even gain support. Simply, comments made by you and SBA colleagues to the leadership and members of our organizations have clarified how SBA intends

¹ Reosti, John, *American Banker*, "Proposed SBA expansion into direct lending irks banks, credit unions," September 15, 2021,

to deploy these funds. To the extent that we understand them correctly, CDBA and NBA support these plans. *We urge SBA to issue an explicit statement about how SBA intends to expend appropriations allocated in parts (a)(1) and (a)(2), of \$1.48 billion and \$484 million respectively.* This will allow the broader banking industry and general public to assess the plans that you have made clear to us.

Build Back Better Act Small Business Provisions

Verbally, SBA has outlined specific plans that we believe can improve upon, rather than threaten, the 7(a) program. These plans could support the important goals of reaching very small businesses, without risking private lender participation in the 7(a) program. If SBA clearly states its intentions in writing, we believe this could assuage industry fears and even generate crucial support.

These plans, as we understand them, are:

- SBA will invest to upgrade and expand existing technology in the online “lender match” portal
- The portal will primarily direct pre-qualified 7(a) borrowers to appropriate sources of private funding, including existing SBA 7(a) lenders and CDFI and MDI banks
- The portal will also allow lenders to refer loan applicants to the broader 7(a) lender community, while preserving an existing relationship; these may be applicants for whom the lender has not identified a lending solution, but has other ways to serve the customer
- *If, and only after,* an applicant’s need goes unmet by private lenders, will SBA serve as a “backstop” lender and consider the applicant as a candidate for “direct” lending from its own funds

Guiding Principles

In our view, the plans outlined above accomplish the following important goals. These goals should serve as keystones for the implementation of SBA’s plans under Build Back Better:

- Increase small business access to capital within the existing ecosystem of 7(a) lenders, including CDFI and MDI banks
- Enhance the capacity of community lenders as SBA’s partners to reach and serve small borrowers who are increasingly being drawn online for capital, or being denied capital, due to the inexorable consolidating effects of digitization
- Allow SBA to deploy enhanced tools in pursuit of its mission, without compromising existing, successful channels, or subverting valuable partners

In addition to these goals, and in order to ensure SBA continues to narrow the funding gap for loans smaller than \$150,000 in a responsible and sustainable way, *we strongly urge SBA to acknowledge the historic role of CDFI and MDI banks as essential community pillars and prioritize their role in this program.* We believe there is no better way for SBA to deploy the

allocations of Section 100502 than to prioritize capacity building and partnerships for CDFI and MDI banks. Our member banks serving low-income, minority, rural and native communities, have been subject to the same trends of disinvestment as their customers and neighbors. CDFIs and MDIs are uniquely positioned to understand the needs of these communities. SBA can help reverse these trends by ensuring that CDFI and MDI banks are at the center of any new solutions emerging from these newly allocated financial resources. To the extent private lenders are the primary focus of Build Back Better lending, CDFI and MDI banks should have timely, prior access to lend to borrowers sourced by SBA's technology. If mission lenders are unable to make these loans, (for example, due to geographic restrictions or capital constraints) SBA could then direct the loan to conventional lenders, or make the loan itself with funds appropriated under part (1)(a).

Together, the vast majority of our member banks focus on achieving the very aims these Build Back Better provisions seek to address – providing affordably priced, appropriately structured, smaller dollar business loans to underserved borrowers and their communities.

We appreciate your attention to these critically important issues. CDBA and NBA members are explicitly committed to ensuring vital financial tools extend to low-income and minority communities. We stand ready to provide further insight or guidance as details emerge. We welcome the opportunity to continue this dialogue.

If you have any questions, please contact Jeannine Jacokes, CDBA Chief Executive Officer, at (202) 689-8935 ext. 222 or jacokesj@pcqloanfund.org, or Nicole Elam, NBA President & CEO, at (202) 590-6880 or nelam@nationalbankers.org.

Sincerely,



Jeannine Jacokes
Chief Executive Officer
Community Development Bankers Association



Nicole Elam
President & CEO
National Bankers Association