Friends of the SBA
MICROLOAN PROGRAM

REPORT ON THE SBA MICROLOAN PROGRAM

SBA Microloan Program participants' responses included in this report document their activities during the last calendar year, 2015, and the first two months of 2016.

2016 Survey Findings

Friends of the SBA Microloan Program

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This report was prepared by Rapoza Associates on behalf of its SBA Microloan Program clients.

The Friends of the SBA Microloan Program is an informal working group of nonprofit SBA Microloan Intermediaries, represented by Rapoza Associates, a public interest lobbying and government relations firm located in Washington, D.C. The Friends Network supports economic opportunity for underserved entrepreneurs in rural, suburban, and urban communities across the nation by increasing access to the resources and services necessary to create wealth and build assets through business ownership.

For more information on the survey or the organizations, please contact Ayrianne Parks, the principal author of this report, at ayrianne@rapoza.org.

Members of the Friends of the SBA Microloan Program

Access to Capital for Entrepreneurs (GA)

ACCION The US Network, Inc.

Bridgeway Capital (PA)

California Coastal Rural Development Corporation (CA)

CDC Small Business Finance (CA)

Center for Rural Affairs (NE)

Chicanos Por La Causa (AZ)

Coastal Enterprises, Inc. (ME)

Colorado Enterprise Fund (CO)

Common Capital (MA)

Community Ventures Corporation (KY)

Connecticut Community Investment Corporation (CT)

Economic and Community Development Institute (OH)

Entrepreneur Fund (MN)

Impact Seven (WI)

Justine Petersen Housing & Reinvestment Corporation (MO)

Kentucky Highlands Real Estate Corporation (KY)

LiftFund (TX)

MACED (KY)

Montana Community Development Corporation (MT)

Northern Community Investment Corporation (NH & VT)

Northern Initiatives (MI)

PACE (CA)

Pathway Lending (TN)

Rural Community Development Resources (WA)

Valley Economic Development Center (CA)

Wisconsin Business Development (WI)

Wisconsin Women's Business Initiative Corporation (WI)

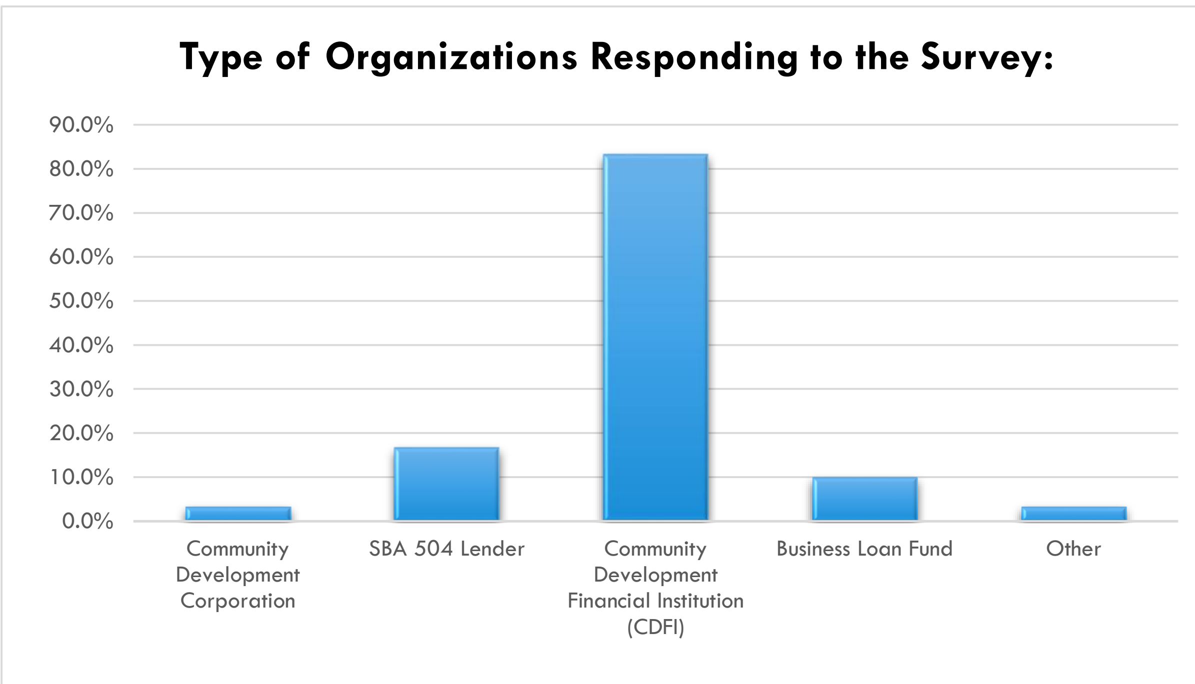
Introduction

Rapoza Associates represents the Friends of the SBA Microloan Program, a working group of leading nonprofit Small Business Administration (SBA) Microloan program intermediaries. Every two years, the firm conducts an industry survey of microloan intermediaries in order to analyze and document the effectiveness of the SBA Microloan program in supporting small businesses and entrepreneurs.

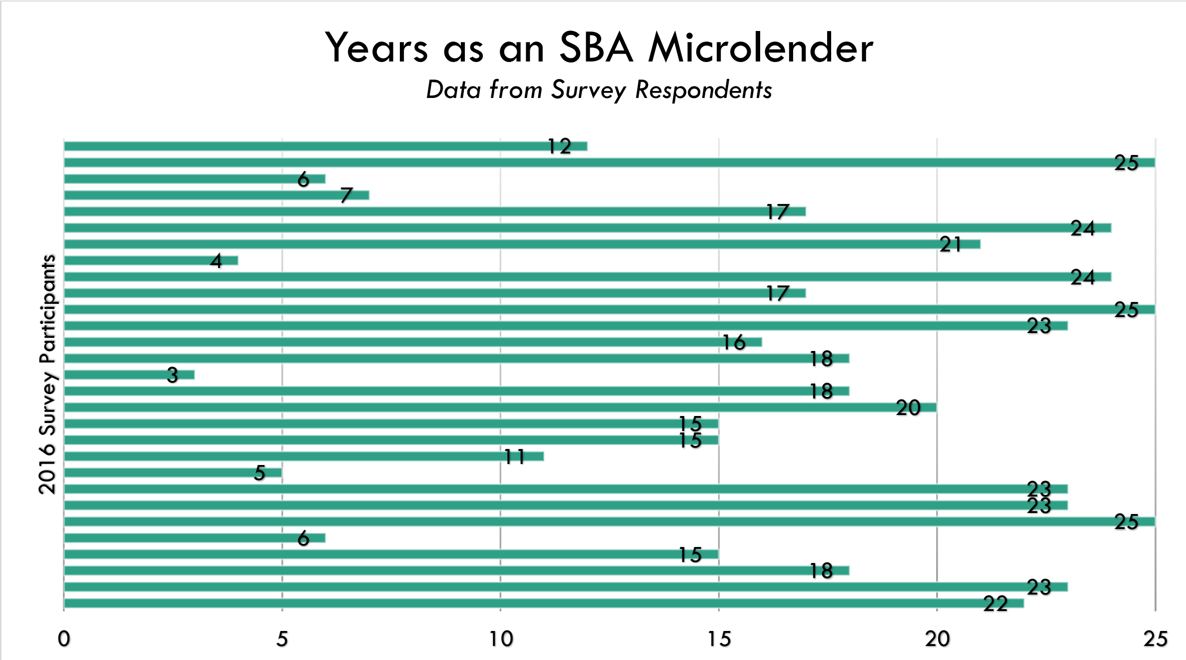
Intermediary microlenders were widely solicited and asked to participate in the 2016 survey. Rapoza Associates received responses from 30 SBA microlenders. Their responses reported the status of their SBA portfolio as of February 29, 2016, and revealed how efficiently SBA lending capital and technical assistance (TA) funds are being used to grow and support small businesses and entrepreneurs across the country.

Survey Participants

The survey participants represent a cross section of the microlenders participating nationwide, with 26 of the 30 indicating that their organization offers small business loan products in addition to SBA Microloans. Respondents identified their organizations as Community Development Corporations, SBA 504 Lenders, Community Development Financial Institutions (CDFIs), and Business loan Funds. [See chart below: "Type of Organizations Responding to the Survey"].



The survey included organizations that have been engaged in the SBA Microloan program for a varying amount of time, ranging from three to 25 years. This means that the data includes the perspectives of those organizations that are relatively new to the SBA program, as well as those who have been a part of the program since its inception. In fact, three of the participants in the survey stated that their organization has been an SBA microlender since its beginning in 1991, with the average having served in this capacity for 16 years. [See chart on page 4: "Years as an SBA Microlender"].



The survey also reflects a broad demographic of microlenders providing services in areas all around the country. The microlenders' service areas included very rural counties in Nebraska, northern Michigan, Maine, western Pennsylvania, and southeastern Kentucky to more populous areas like Baltimore, New York City, Queens, Staten Island and Los Angeles County.

History and Current State of the SBA Microloan Program

The SBA Microloan program is one of the most effective tools for helping small businesses access the financing and technical assistance needed to grow and create jobs. Authorized in 1991 (PL 102-140) as a pilot program and then made permanent in 1997 (P.L. 105-135), the SBA Microloan program provides direct loans to qualified nonprofit intermediary lenders that then provide small-dollar loans and technical assistance to small businesses that cannot secure credit from conventional lenders or other SBA guaranteed loans. SBA microlenders focus in particular on providing loans and assistance to women, low-income, veteran, and minority entrepreneurs.

Intermediary lenders participating in the SBA Microloan Program receive two streams of funding from the SBA: a direct SBA loan to the intermediary lender to capitalize a revolving business loan fund, and grant funds to help support costs associated with providing technical assistance to business borrowers. Direct SBA loans to the intermediary lender carry a 10-year term with a fixed interest rate based on the 5-year Treasury note and the lender must contribute a non-federal match equal to 15 percent of the SBA dollars borrowed in addition to maintaining a loan loss reserve equal to 15 percent of the lenders outstanding small business loans. Intermediary lenders are eligible to receive SBA technical assistance (TA) grants on an annual basis and the amount of the TA grant is based on the number of loans made in the previous year, the lender's outstanding debt to SBA and the availability of appropriated funds. To receive a TA grant a lender must also contribute a match of non-federal funds equal to 25 percent of the TA grant.

The SBA defines a "small business" as one with less than 500 employees, however, at least 80 percent of all businesses nationwide employ 10 or less employees. These businesses are a significant and source of employment and new jobs. Since its beginning, SBA microlenders loaned more than $722 million to small businesses that have created or retained some 212,000 jobs.[1]

Over the last few years, the SBA has continued to strengthen and increase its support for the microloan program—a key piece of its strategy to create jobs and encourage entrepreneurship. This support has included increased funding requests for TA and Direct Loans.

SBA Microloan Program
(Dollars in Millions)

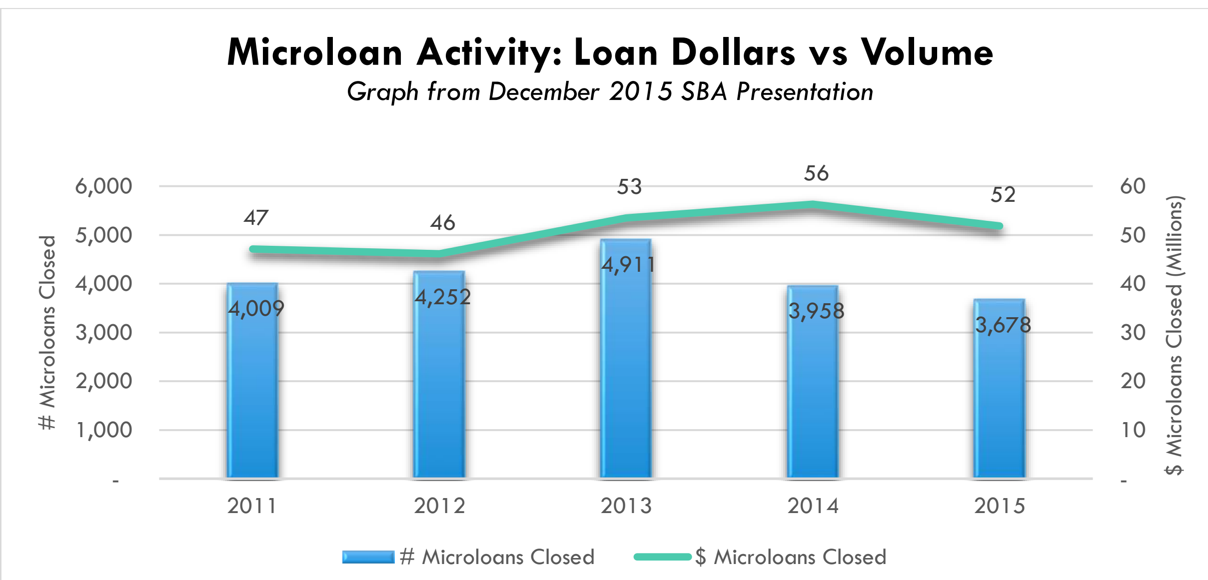
Program	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request
Technical Assistance	$ 22.247	$ 25	$ 31
Direct Loan	$34	$35	$44

The SBA notes that its current request for FY 2017 of $4.3 million in credit subsidy, which would support $44 million in loans and $31 million for TA, would allow microlenders to provide $63 million in loans to small businesses.

FY 2015 SBA Microloan Information from SBA

In FY 2015, the SBA reported that Microloan program intermediary lenders made nearly 3,700 loans totaling more than $52 million to small businesses, supporting 16,600 jobs.[2]

- 140 microlenders made microloans in FY 2015
- Microlenders closed loans at a rate of $1.51 for every $1.00 of SBA funds approved in FY15
- 7 new microlenders approved in FY 2015



[1] As reported in a presentation prepared by the SBA for a December 2015 meeting with Community Development Corporations.
[2] SBA, "FY 2017 Congressional Budget Justification and FY 2015 Annual Performance Report," p. 98 https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf

Technical Assistance Services

Intermediary Lenders provide a host of technical assistance (TA) services to borrowers, both pre-loan and post-loan. They rely on the SBA TA grants to fund the ongoing technical assistance and support their business borrowers need to succeed. Microlenders must also provide matching funds for 25 percent of the Federal Grant award amount. "The cash contribution for the Grant match must be non-borrowed, non-Federal funds allocated specifically to the operation of the technical assistance project."[3]

Assistance includes both pre-loan services to ensure the borrower is prepared for a loan as well as post-loan to ensure the business' success after the loan closing.

In the survey, intermediary lenders were asked a series of questions, regarding the annual TA grant funding they received through the SBA. The 30 respondents indicated their average TA grant for 2013 was $218,838; $201,485 for 2014; and $197,530 for 2015.

During calendar year 2015, these 30 lenders made 984 new loans totaling $11,855,099. In addition to this work, the SBA microlenders continued managing and servicing their existing loan portfolios, including $29,035,888 in outstanding loans to some 2,758 businesses.

With these funds microlenders provide a range of services.

Pre-Loan Technical Assistance:

Prior to receiving a loan, borrowers receive counseling, including evaluating or creating a business plan and understanding financial and operational constraints. Borrowers also receive assistance with research on the industry in which they plan to operate, business structure, and budget and revenue projections. The SBA microlenders noted that they provide information on tax services and accounting and human resources management as well. These services are provided through one-on-one consultations, connecting the borrower with a mentor in the same industry, and group training and classes, depending on the needs of the borrower.

Post-Loan Technical Assistance:

Post-loan TA is essential to both the success of the business, as well as servicing the loan. Microlenders focus on providing educational resources and training that will help the business thrive, with the ultimate goal of making clients bankable in the future. These services include advanced training on accounting systems and management, long-term planning, and one-on-one marketing support, financial reviews, and advice on business expansion. Additionally, a survey participant noted that if there is a borrower having financial and/or repayment difficulty, they work with the borrower to develop a payment plan and discuss ways to help the business regain financial sustainability. Many SBA microlenders also noted that they provide web and graphic design help, and social media training to help the borrower better market their business.

Microloan Loss Rate

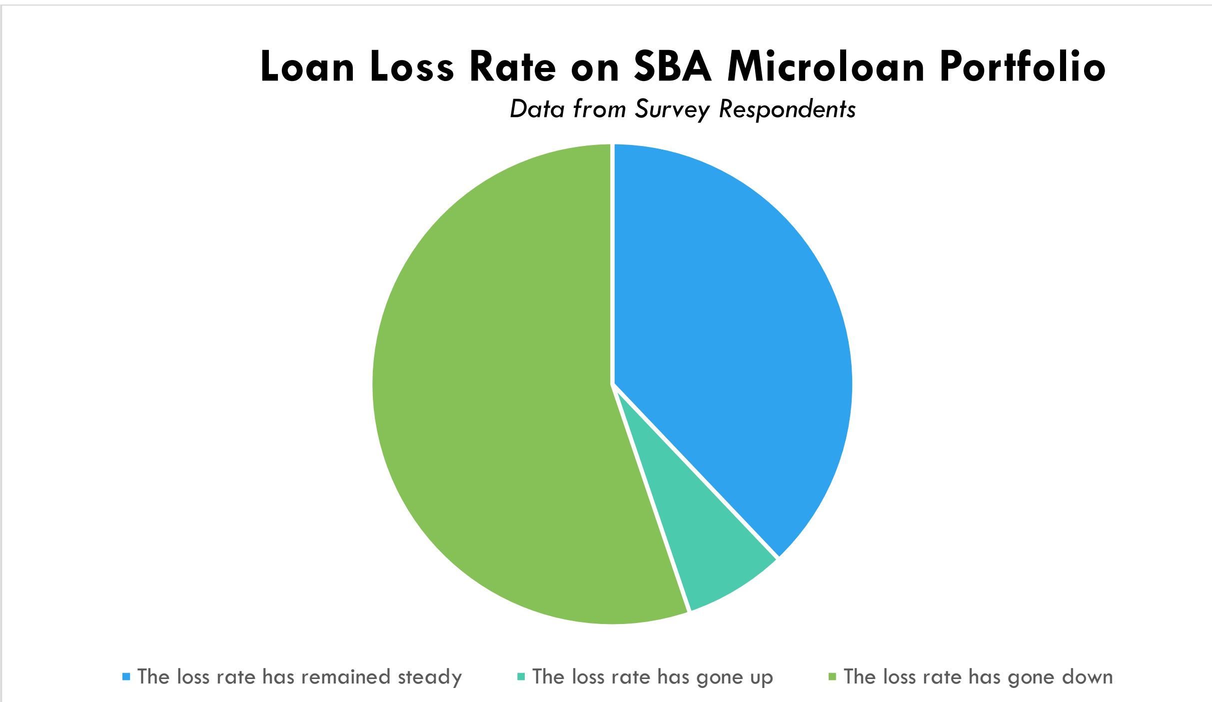
All intermediaries are required to have a loan match of at least a 15 percent in nonfederal resources. They also must maintain a Microloan Revolving Fund (MRF), which is comprised of payments and incomes from the microloans, as well as the 15 percent match to secure repayment to SBA. The Loan Loss Reserve Fund (LLRF) adds yet another level of insurance for microlenders' repayment to the SBA. The LLRF is "a deposit account established at an Insured Depository Institution used to pay any shortage in the MRF caused by delinquencies or losses on Microloans, which an Intermediary must maintain at a required level

[3] SBA, "Microloan Program, SOP 52 00 A," p. 11 https://www.sba.gov/sites/default/files/sops/SOP-52-00-A-Microloan.pdf

until it has repaid its loan to SBA."[4] This account is must equal at least 15 percent of the balance that borrowers owe the microlender.

On average, the intermediaries participating in the survey reported an average cumulative loss rate of 7.9 percent on their SBA portfolio. However, because of the LLRF, the SBA reports that the cumulative loss rate for all intermediaries was just 2.36 percent in FY 2015.[5]

When respondents were asked to report on the status of the loss rate, 93 percent indicated that it has either remained steady (37.9 percent) or decreased (55.2 percent) over the past two years. Microlenders attribute the decreased loss rate to improvements in their credit standards and underwriting practices. Additionally, they reported that as they become more familiar with marketplace trends, they are able to decrease their loss rate and improve their loan portfolio. [See chart below: "Loan Loss Rate on SBA Microloan Portfolio"].



Less than 7 percent of responders reported that the SBA Microloan portfolio loss rate has increased over the past two years. One of the responders who reported a slight increase in their loss rate noticed that clients with merchant cash advances have greater difficulties with repayment. To address this issue, the lender proactively works with its clients by offering refinancing and restructuring for debt reconciliation.

Job Creation

Though the SBA does not require intermediary microlenders to record the number of jobs created or maintained, most still track the impact of their lending, especially as it relates to employment retained or created as a result of their services. Of the survey respondents, 26 indicated that they track this data. In the last calendar year, 2015, the organizations reported the creation or retention almost 7,700 jobs.

[4] Ibid.
[5] SBA, Agency Financial Report, Fiscal Year 2015, p. 73 https://www.sba.gov/sites/default/files/aboutsbaarticle/Agency_Financial_Report_FY_2015.pdf

Over the course of their experience as SBA microlenders, those respondents tracking jobs indicated that 53,069 positions were created or retained as a result of their microlending. Based on the lending activity of the survey respondents to borrowers, which totaled $210,074,440, the cost per job is $3,958; based on the $113,315,127 borrowed by intermediaries from SBA, the cost is $2,135 per job.

Meeting Demand for Microloans and Improving the Program

As of February 29, 2016, nearly half of the 30 survey respondents said that demand has risen over the previous two years. Some of the microlenders attributed this growth to an improving economy, encouraging entrepreneurs to start new ventures or expand their existing company. Another 40 percent of survey participants indicated that demand for microloans has remained steady.

The 30 survey participants noted that one barrier continuing to impede their services to borrowers is the so-called 75/25 Rule for the SBA Microloan Program. Presently, intermediaries are limited to using 25 percent of technical assistance for marketing and underwriting prospective microloan borrowers. Of the responders, 76 percent described issues caused by the rule, including difficulty working with start-ups and low-income borrowers in particular, as these clients often require a larger investment in time and services for underwriting, providing the education and other services needed to prepare them to qualify.

SBA Microloan Program Success Stories

Early Success Academy

Denver, Colorado | SBA Microlender: Colorado Enterprise Fund

As an elementary school principal working in the sprawling Montbello neighborhood of Northeast Denver, Diana Gadison saw a lot of things happening with her students on a daily basis. What she often noticed were children waiting alone outside for long periods of time before and after school. She soon realized the problem – no available childcare – and decided to do something about it.

After consulting with her mother who managed an in-home childcare business and discovering there were only two local daycare options, Diana looked around for a place where her vision of a childcare center could take root. “My mother and I found a home on the corner, a former crack house,” Diana recalled. “We approached the owner about our idea and she agreed to let us take over the note on the property.”

Having found her place, Diana needed to upgrade the 1200 sf property to meet state licensing requirements for childcare facilities. Initially, she spent all her retirement money dong just that but it wasn’t enough. She needed a loan. “I applied to 5 to 6 banks who turned me down, so the property sat unfinished for six months,” remarked Diana. “I searched online for other loans and found Colorado Enterprise Fund (CEF). I discovered a friend of mine got a loan from CEF and she recommended I apply.”

In 1995, Diana got a loan for $10,000, one of five she would receive from CEF, along with hands-on technical assistance addressing all aspects of running a business. “My CEF counselor advised me on what makes a start-up business successful,” Diana said. “And the accountant I met then is still my accountant today!” From her CEF experience, Diana learned that “business is more than a great idea. Surround yourself with professionals to succeed, like people who will give you encouragement and confidence.”

Using her first CEF loan to complete renovations to her property and get city permits, Diana opened Early Success Academy in 1996 to take care of 10 children. She quickly outgrew her first facility and moved into a 5000 sf building with the help of another CEF loan, a grant from the City and County of Denver, and her own business income. Diana and her staff of 16 now care for 110 children, having expanded their weekday hours to meet the needs of parents who work various jobs and shifts. Her next goal is to move into a free-standing facility so she can expand her childcare schedule and services to continue to meet the needs of more Montbello families.

Diana’s contributions to her community and childcare have gotten local and national recognition. Her Early Success Academy is recognized as the only and longest-running childcare facility in Montbello contracted with the Denver Public Schools District. Her center is also certified with the same district to provide HeadStart and speciall needs services, and is affliated with the Denver Preschool Program. In 2011, Diana was a featured speaker at a University of Denver forum highlighting women in business. In the audience were US Representatives Diane DeGette and Nancy Pelosi who invited Diana to Washington, D.C. to address a Democratic congressional committee on how for-profit businesses can successfully partner with government agencies.

It was an unforgettable experience, Diana remembers. “CEF has taken me from where I was to where I could get better, coaching me along the way. They never stopped supporting me.”

Karl’s Cuisine

Sault Ste. Marie, Michigan | SBA Microlender: Northern Initiatives

Karl began his foray into the restaurant world at age 15, when he began an apprecticeship with a five-star chef. He has worked in a country club and eventually established a catering and home delivery service in the small, rural town of Pickford in Michigan, and has added restauranteur to his list of accomplishments.

In early 2000, Karl, along with his wife, Paula, came up with the idea to start a catering and delivery business. The company would provide working parents and families with children involved in afterschool activities with dinner options. Northern Initiatives, an SBA microlender headquartered in Marquette, assisted the couple with their dream to start their catering business by providing them with a $2,500 microloan in June of 2003.

Later in 2003, Nothern Initiatives provided Karl and his wife with a second loan of $6,500 to expand and open a restaurant. In 2004, the couple opened their restaurant, Karl’s Cuisine in Sault Ste. Marie. Karl and Paula, who still lives in Pickford—a 34-mile drive from their restaurant—also maintain a hobby farm, where they grow produce for their restaurant business. Karl’s Cuisine not only serves food using his own produce, but strives to use other locally sourced ingredients too, helping support their community and area farmers.

Because Karl’s Cuisine is located in a rural area with seasonal ebbs and flows, there is often difficulty in obtaining working capital from traditional financial sources for improvements. Northern Initiative has continued to work with the owners of Karl’s Cuisine, providing them with further capital for improvements, including microloans of $5,000 in 2004 and 2005, and a loan of $30,000 in 2015, totaling $49,000 since Karl’s Cuisine first began in 2003. These microloans were essential to the business, allowing them to increase sales and profits, as well as expand the menu and hours of operation. In addition to the microloans, Northern Initiative provided assistance with QuickBooks training, financial coaching, and marketing assistance. The couple’s daughter, who manages the business’ online presence was also provided with technical assitance on website development.

In 2015, Northern Initiatives provided the family with a sixth loan of $10,000 to support Karl and Paula’s daughter’s venture, Wildwood Vineyard. The family’s business now includes a restaurant, winery and, in the summer of 2016, they are adding a brewery to that list. Karl’s Cuisine, through the capital and technical assistance afforded by the SBA microloan program, is thriving and the business has been able to retain six full-time positions, as well as create an additional five full-time jobs.

Despite barriers small rural businesses in seasonal areas often face, Karl and Paula have been able to grow their business, create new jobs, and thrive financially.

MMELO

Columbus, Ohio | SBA Microlender: Economic & Community Development Institute

Michelle Allen was a business owner in Spain before she moved to Columbus, Ohio. Prior to her move, she began researching opportunities to start a business in her new home area, finding the website of Economic & Community Development Institute, an SBA microlender headquartered in Columbus, and its Food Fort program. Upon moving, Michelle connected with ECDI and The Food Fort, which is an incubator for food industry start-ups and businesses and features a full commercial kitchen, as well as offering licensing and certification classes for the food industry.

With the goal of getting the capital needed to start a pop-up shop to sell her organic, artisanal confections, Michelle began her relationship with ECDI. She then received an initial $25,000 from ECDI to open a holiday retail pop-up shop at Easton Towne Center. Her pop-up shop, MMELO, was located between the Louis Vuitton and Michael Kors stores, and was a success.

After a very successful Pop Up in Easton Mall, MMELO's owner decided to take on the Short North Arts District. The district is known as the art and soul of Columbus, and is a groundbreaking area in the urban revitalization of Central Ohio. MMELO will continue to use the pop-up location in *Wine on High,* which is located in the Short North for the next few months, in addition to internet sales, until her location and build out is complete in the Short North.

Michelle Allen owner and operator of MMELO is looking to secure an additional $15,000.00 to help with a successful build out and inventory for the new location. Her business has created 3 full-time jobs and is also slowly readying for its move to a permanent brick and mortar.

Michelle Allen, Owner & Founder notes that MMELO would not have accelerated as quickly as it has without ECDI and The Food Fort.

"I wouldn't be in the position I am right now to take a permanent space had I not formed this relationship. It wouldn't have happened. The advice and access to a great commercial kitchen at a time of critical need, it was a no-brainer to come to The Food Fort. I would have figured out how to get MMELO started but the fact that I am where I am at now, only five months into my business, is directly related to my relationship with ECDI and The Food Fort."

Servexo

Gardena, California | SBA Microlender: CDC Small Business Finance

John Palmer describes himself as a “natural protector.” The eldest of 4 siblings, he was challenged everywhere he lived. So when this disabled veteran left the Army, starting a security business seemed the natural thing to do.

Three years after launching Servexo, John needed capital to take a bold leap into a new municipal contract. However, because of extended credit, he had difficulty in securing traditional financing. After meeting with his local Small Business Development Center, he was referred to CDC Small Business Finance, an SBA microlender with locations in California and Arizona.

CDC Small Business Finance provided John with a $40,000 microloan in January of 2016 to provide the cash flow necessary to staff the new contract and cover the purchase of new employee uniforms. He also received post-loan technical assistance related to financial literacy, including help with profit and loss. In addition, the CDC Small Business Finance staff recommended that he began billing weekly on some of his contracts, rather than biweekly, which greatly improved his cash-flow.

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