PACE Pacific Asian Consortium in Employment

Written Testimony of Kerry Doi

Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access
"Catalyzing Economic Growth through SBA Community-Based Lending."
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My name is Kerry Doi, I am the president and founder of PACE – the Pacific Asian Consortium in Employment, based out of Los Angeles. PACE is one of the largest Asian-led community development corporations (CDCs) in the United States. Annually, PACE serves more than 68,300 low-income ethnic minority residents from across LA County through Employment, Business Development, Affordable Housing, Energy and Environmental Services, and Early Childhood Education. Our annual operating budget is in excess of $28 million and we have more than 300 staff.

In addition to recently being appointed by President Biden to his President's Advisory Commission on Asian Americans, Native Hawaiians, and Pacific Islanders, I was previously appointed by President Barack Obama to serve on the President's Advisory Council on Financial Capability for Young Americans, the Federal Reserve Board of Governors Consumer Advisory Council, and as a Member on the National Environmental Justice Advisory Council for the Environmental Protection Agency.

Thank you for this opportunity to testify today as an intermediary lender to the SBA Microloan Program, and on the success of microlenders like our organization in delivering financial services to underserved low-income urban, rural, minority, veteran, and woman-owned small businesses.

Pacific Asian Consortium in Employment (PACE)

PACE was incorporated in 1976 and began providing business development services in 1993 to pre-startups (entrepreneurs), microenterprises, and small businesses. PACE Business was originally funded by the U.S. Dept of Health and Human Services, Office of Community Services with a JOLI (Job Opportunities for Low-Income People) grant. In 1994, PACE Business began contracting with the City of LA Community Development Department to continue providing business development services and has continuously been a contractor for the City of LA since 1994. PACE Business is a current operator of the Central/West and Mid City LABSCs.

Since inception, PACE Business has trained/counseled 68,300+ pre-startups, startups and operating micro and small businesses who have established or expanded 17,350+ small businesses that have created or retained 22,000+ jobs. PACE Business has also helped clients access more than $27.1MM in equity through earned income tax credits (EITC) and matched savings programs (IDAs). Furthermore, PACE and our Community Development Financial Institution (CDFI), PACE Finance Corporation, have packaged, placed, and funded $494MM in small business loans.

PACE Business' multilingual and multicultural staff, along with our reputation as a trusted service provider, enables us to successfully serve clients whom others have difficulty reaching and connecting with - 89% of our clients are Low-to-Moderate Income, 76% are minority (26% Latinx, 20% African-American, 30% Asian Pacific Islander) and 56% are female. Business served by type include: 9% pre-startups, 73% startups, and 18% operating.

For over 28 years, PACE has provided comprehensive "wrap around" business services to more than 68,300 clients across Los Angeles County. Today, PACE Business employs 24.5 management, professional and support staff who deliver business development, technical assistance, training, procurement, loan underwriting and management services in 18 languages across 18 different programs. PACE Business currently operates the following programs:

Small Business Administration (SBA) Programs:

- Microlender — Technical Assistance (TA) and microloans up to $50K. (2006 – Present)
- Community Advantage Lender — Loans ranging from $50K - $250K to small businesses who cannot obtain traditional financing. (2009 – Present)
- Women's Business Center — Workshops/training, 1:1 counseling and capital to female entrepreneurs and small business owners. (2004 – Present)
- CARES Act — Training/counseling, TA, and loans/access to capital to help businesses recover from the COVID-19 pandemic. (2020 – 2021)

Additional Federal Programs Administered:

- Treasury: CDFI Fund Grants and Loans — PACE Finance Corporation provides technical assistance, 1:1 counseling and access to capital up to $1MM. (2009 – Present)
- Treasury: CDFI Rapid Response — A $1.8MM loan fund to assist small businesses impacted by the COVID-19 pandemic. (2021 – 2023)
- U.S. Economic Development Administration: EDA CARES Revolving Loan Fund— A $3.2MM loan fund to help communities prevent, prepare for, and respond to the COVID-19 pandemic. (2020 – 2022)
- HHS: Office of Refugee Resettlement, Individual Development Accounts — IDAs with

matched savings to help refugees/asylees build assets. (2003 – 2021)

- HHS: Office of Refugee Resettlement, Microenterprise Development (MED) — TA and microloans for refugees/asylees seeking to start a microenterprise. (2003 – Present)
- Commerce: Minority Business Development Agency — 1:1 counseling, procurement services and loans to established minority business owners seeking to expand. (2021 – 2026)

California Program Administered:

- Governor's Office of Business and Economic Development (Go-Biz)— Workshops and trainings, 1:1 counseling, procurement services and capital. (2018 – Present)

Though varied in scope and nature, the ultimate goal of these programs is to create and retain jobs; launch, stabilize, and expand businesses; and stimulate economic recovery and growth in underserved areas.

History and Background of the SBA Microloan Program

The SBA Microloan Program was authorized in 1991 (PL 102-140) to provide small loans and technical assistance (TA) to businesses that conventional lenders were and remain unable to finance for a variety of reasons including the lack of sufficient collateral or business experience. Working through a network of non-profit community based intermediary lenders, the SBA Microloan Program is able to finance and support new and emerging businesses in urban and rural communities and eventually move these businesses into the economic mainstream as bankable ventures.

Conventional banks cannot serve this profile of small businesses. Making a small business loan is time-intensive and requires resources to underwrite and service, especially for microloans. Moreover, a hallmark of the Microloan program is the ongoing technical assistance needed to help underserved entrepreneurs succeed at every step of their business's development.

The Microloan program serves small businesses that encounter difficulty in gaining access to from conventional lenders. By serving entrepreneurs that operate start-up and new businesses, lack sufficient collateral, or have limited or poor credit histories, the SBA Microloan program fills a gap in the private market.

An Urban Institute survey of SBA 7(a), 504/Certified Development Company (504/CDC), Small

Business Investment Company (SBIC), and Microloan borrowers conducted in 2007 found that Microloan borrowers reported having the most difficulty in finding acceptable financing elsewhere. Less than one-third (31%) of Microloan borrowers reported that they would have been able to find acceptable financing elsewhere, compared with 35% of SBIC borrowers, 40% of 7(a) borrowers, and 48% of 504/CDC borrowers.[1]

Intermediary lenders participating in the SBA Microloan Program receive two streams of funding from the SBA: a direct SBA loan to the intermediary lender that is used 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 charges intermediaries an interest rate that is based on the five-year Treasury rate, adjusted to the nearest one-eighth percent (called the Base Rate), less 1.25% if the intermediary maintains an historic portfolio of Microloans averaging more than $10,000, and less 2.0% if the intermediary maintains an historic portfolio of Microloans averaging $10,000 or less. The Base Rate, after adjustment, is called the Intermediary's Cost of Funds. The Intermediary's Cost of Funds is initially calculated one year from the date of the note and is reviewed annually and adjusted as necessary (called recasting). The interest rate cannot be less than zero.

Intermediaries are required to contribute not less than 15% of the loan amount in cash from nonfederal sources and, as security for repayment of the loan, must provide the SBA first lien

[1] Christopher Hayes, An Assessment of the Small Business Administration's Loan and Investment Programs: Survey of Assisted Businesses (Washington: The Urban Institute, January 2008), p. 5, at *(link on next page)* https://www.urban.org/research/publication/assessment-small-business-administration-loan-and-investment-performance/view/full_report

position on all notes receivable from any microloans issued under the program. Unlike the SBA's 7(a) and 504/CDC loan guarantee programs, the SBA does not charge intermediaries upfront or ongoing service fees under the Microloan program.

Intermediaries are required to deposit the proceeds from the SBA's loans, their 15% contribution, and payments from their Microloan borrowers into a Microloan Revolving Fund. Intermediaries may only withdraw from this account funds necessary to make microloans to borrowers, repay the SBA, and establish and maintain a Loan Loss Reserve Fund to pay any shortage in the Microloan Revolving Fund caused by delinquencies or losses on its microloans. They are required, until they have been in the program for at least five years, to maintain a balance in the Loan Loss Reserve Fund equal to 15% of the outstanding balance of the notes receivable from their Microloan borrowers.

After five years, if the intermediary's average annual loss rate during the preceding five years is less than 15% and no other factors exist that may impair the intermediary's ability to repay its obligations to the SBA, the SBA Administrator may reduce the required balance in the intermediary's Loan Loss Reserve Fund to the intermediary's average annual loss rate during the preceding five years, but not less than 10% of the portfolio. Intermediaries are required to maintain their Loan Loss Reserve Fund until they have repaid all obligations owed to the SBA.

Microloan Program Effects

Intermediaries serve the smallest of small businesses. While the program allows intermediaries to make loans up to $50,000, the average SBA Microloan was $14,435 in FY 2020. There are 144 active Microloan intermediaries, serving 49 states, the District of Columbia, and Puerto Rico. [2]

In FY2020, intermediaries made 5,888 loans, totaling more than $85 million, to small businesses. More than $40.3 million was lent to minority entrepreneurs. Existing businesses accounted for 70% of the loans made, and $60.9 million of loan funds went to these businesses. More than 4,700 businesses spent loan funds on working capital. Overall, the microloans supported 24,594 jobs, with 4,774 loans within urban areas and 1,114 loans within rural areas.[3]

Through FY 2020, intermediary lenders have used SBA Microloan funds to originate more than $1.039 billion in loans to small businesses that have created 123,095 jobs and retained 190,851

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[2] Nationwide Loan Report Data provided by SBA staff to the *Friends of the SBA Microloan Program* on March 5, 2020 and January 28,2022.
[3] Ibid.

jobs since the program's inception in 1992. Of this total more than $260 million to support rural businesses and more than $465.7 million to minority entrepreneurs. $61.4 million has been lent to veteran entrepreneurs, and more than $435.6 million has been lent to more than 41,200 woman-owned businesses. In FY 21, Microlenders made an additional 4510 loans totaling $74.7 million. Of this amount 63 percent went to existing businesses, 36.9 percent to starts-ups; 48 % to women owned businesses; 66.9 percent to for minority owned enterprises. This financing led to the creation of 7500 jobs and the retention of over 10,000 jobs. [4]

Despite intermediaries serving "at risk" small businesses, the SBA Microloan program has a cumulative default rate of less than 2 percent.

The SBA Microloan program is an important tool to ensure that the full spectrum of small businesses and entrepreneurs have access to the capital and technical assistance needed for business survival and growth. Historically, it has cost $1,700 per job supported by the program. Microloan proceeds may be used only for working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. Loans cannot be made to acquire land or property and must be repaid within seven years.

PACE as an SBA Microlender

PACE's SBA Microloan program started in 2010. Since the program launched, our loan team has deployed 323 loans for $3.3MM with an average loan size of $10,156.20. As of Mar 15, 2022, we have 32 SBA microloans on our portfolio totaling $548,472.86 (average loan size of $17,139.78). PACE offers an array of flexible culturally sensitive lending products targeted to minority and women owned small businesses, who are overlooked by traditional financial institutions.

Through the SBA Microloan program, our team has been able to provide pre/post loan technical assistance to these entrepreneurs and business owners. The pre-loan TA includes topics such as business plan, financial projection, budgeting, business formation, licenses and permits while the post loan TA will focus one on one counseling on business operations/ expansion to business owners after receiving the microloans. The pre/post TA is critical to ensure a long-term success/ minimize loss for entrepreneurs and microenterprises/ small businesses.

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[4] Ibid.

For FY2021, PACE received $336,530 to provide technical assistance to 400 prospective borrowers and 61 SBA microloan program borrowers for 1,500 hours each. Additionally, we currently provide Zoom-based digital webinars to assist small business owners that we started during the COVID-19 pandemic. Our webinar topic includes: Access to Capital, Effective Money Management and Debt During Covid-19, Manage Credit to Maximize Savings and Disaster Loan Programs: Issues and Solutions.

Microlending Impact Stories from PACE

<u>Commercial Trucking: Dong Wang of Ling 999 Inc. (Monterey Park, CA)</u>
As an asylee who migrated to the United States in 2018, Dong Wang had to settle into his new life and support his family by taking multiple odd jobs, but nothing that would lead to a career and self-sufficiency. He worked in a warehouse and did various ad hoc handywork projects.

During 2019 and early 2020, Mr. Wang saw the ever-growing demand for truck drivers partly spurred by the huge demand of online business during the early days of COVID-19 and workforce shortage in the trucking industry due to harsh working conditions and driver burn out. As that industry struggled to find new recruits to replace and fill the labor shortage, employers have relied on immigrant labor. Mr. Wang saw this as means through which he could provide a stable income and life for his family in this new country.

Although Mr. Wang had more than 14 years of trucking experience under his belt, he had to re-learn the rules and regulations of the trade in the United States. He had worked closely with PACE's business/loan counselor in establishing this new business. By February 2020, he had completed the industry research needed to launch his own trucking business, Dong & Ling 999 Inc., in Monterey Park, California (California Congressional District 27). Before fully operating, Dong needed to purchase a commercial truck.

Mr. Wang initially considered purchasing a used truck for his new business, and although COVID-19 propelled the need for more truck drivers, it also simultaneously increased the cost of used trucks by 30-40%. To further exacerbate the situation, the limited inventory of certain model trucks added to the soaring price of second-hand trucks. After further examination and consideration, Mr. Wang determined purchasing a new truck would be more cost effective as it would help to avoid enormous and costly maintenance expenses, which could derail truck drivers from making a living wage. The average retail price of a new commercial truck is approximately

$160,000. Although Mr. Wang planned to use his personal savings to cover $110,000 of the cost of the truck, he was short $50,000. Mr. Wang was not eligible to get a loan with favorable terms through traditional financial institutions because of his limited business credit history and the startup nature of the business.

Through PACE's assistance and loan program, Mr. Wang was approved for a $50,000 microloan in July 2021 and purchased the commercial truck in August 2021. With favorable terms, his business is projected to generate $175,000 in revenue in the next 12 months, providing financial stability for his family as they resettle their life in a new community.

Le Divina: Candle Line

Le Divina is a premium manifestation and intentional candle line. Their candles are made from phthalate free, sulfate free coconut wax candles with crystals. Georgina Tolentino started Le Divina in June 2018 as small pop-up shop. In July 2019, the e-commerce website was launched, and by September 2019, Le Divina's products were in stores. 2020 was the first full year of operation. Georgina started selling her products online in 2020 and hired a sales representative to oversee the wholesale orders in 2021. Since hiring the sales representative 20 additional wholesale clients were added to the business.

During the COVID-19 pandemic, La Divina's revenue was negatively impacted, and she could not manufacture new candles due to working capital shortfalls and inability to purchase raw materials. Although La Divina received $10,000 in grants in August 2021, it only assisted her with purchasing inventory and resume production once again.

Unable to get a loan with favorable terms through traditional lenders, Georgina reached out to PACE seeking a $5,000 mini microloan. PACE's loan counselor packaged and submitted the loan which was approved and funded on September 30, 2021. The loan proceeds were to be used to produce products with the private label (in gold travel tins and glass boxes) and to fill store orders by mid-October. Le Divina products are in many stores and Georgina will be fulfilling orders for an additional 15 stores for peak season in November and December 0f 2021.

The additional $5,000 loan from PACE further helped her to fill the November and December orders and retain at least one job. Le Davina's candle has gained popularity and has spread to the east coast, including New York City. She has also seen an increase e-commerce sale and began launching pre-sales. Ms. Tolentino expects approximately $10,000 sales every month.

Appropriations and Program Financing

The Microloan program received a Congressional appropriation of $12 million for loan credit subsidies to support up to $110 million in Microloans in FY2021 ($5 million in regular appropriations and $7 million in supplemental appropriations). In addition, the SBA was provided an appropriation of $85 million for the Microloan Technical Assistance program in

FY2021 ($35 million in regular appropriations and $50 million in supplemental appropriations).[5] These grants are awarded to selected Microloan intermediaries and qualified "non-lending technical assistance providers" to provide Microloan borrowers and prospective borrowers marketing, management, and technical training assistance.

The COVID response package included an additional $64 million in loans and $50 million in grants. For FY 22, Congress initially budgeted $41 million in technical Assistance grants, before ultimately budgeting $37 million in its final Appropriations budget.

FY 2022 Appropriations: *($ in million)*		**FY 22 Budget**	**House**	**Senate**	**FY 22 Final**
	Micro Loans	$110 / ($6)	$110 / ($6)	$110 / ($6)	$110 / ($6)
	TA Grants	$41	$41	$41	$37

Recent Legislative Adjustments to the Microloan Program

A pair of bills passed by House of Representatives on April 15, 2021, focused on updating several terms of the SBA Microloan program, and those legislative efforts are next headed to the Senate's Committee on Small Business and Entrepreneurship.

H.R. 1487, the *Microloan Transparency and Accountability Act of 2021* establishes a series of reporting requirements for SBA and requires an annual report on the effectiveness of the Microloan program based on the questions posed in the legislation. We appreciate the importance of providing policymakers and the public information on the use of federal funds and look forward to working with Congress to ensure that information on the Microloan program is both available to policymakers and the public.

H.R. 1502, the *Microloan Improvement Act of 2021* makes a number of improvements to the Microloan program, which we support, including:

<u>(1) Interest Rates for Intermediaries</u>

[5] P.L. 116-260, the Consolidated Appropriations Act of 2021, and P.L. 116-260, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Division N, Title III of the Consolidated Appropriations Act of 2021, §329).

- Changes the definition of small loans from $7,500 to $10,000. Intermediaries with loans averaging the small loan rate qualify for SBA Microloans with an interest rate 2 percentage points below the Treasury rate.

(2) Lines of Credit
- Authorizing the use of microloans for lines of credit.

(3) Extended Repayment Terms
- Modifies loan terms to a maximum of 7 years for loans of $10,000 or less, and to a maximum of 10 years for loans that are greater than $10,000.

(4) Credit Reporting
- *A* credit reporting process is established to ensure intermediaries are able to provide the major credit reporting agencies with information about borrowers relevant to credit reporting, such as the borrower's payment activity on the loan.

(5) 1/55 rule
- Eliminates the 1/55 rule, and simply leaves in place the existing ceiling of 300 intermediaries able to be funded. Under current law, SBA may only make available the lesser of $800,000 or 1/55 of the amount appropriated for microloans for the first two quarters of the fiscal year. This creates an administrative bottleneck for the agency, and paperwork problem for intermediaries. In order to continue to address the needs of underutilized states, the amendment reserves 15 percent of the appropriation for the first two quarters of the fiscal year for those states.

One thing HR 1502 doesn't include is the President's Executive Order mandating Language Access. I would strongly urge the Committee to consider adding that feature to the Bill. Otherwise, we fully support HR 1502.

Additional Comments on Microloan Program Needs

From our experience as an SBA Microloan Intermediary since 2010, we have identified that a grace period option for start-up microloan borrowers would greatly benefit entrepreneurs who do not have second source of income and have used their savings for capital injection. Currently, the SBA microloan program only allows for 6 months of deferred payment if the client is unable to pay but doesn't permit any grace period option.

In closing, I would like to express my appreciation and thank the Committee for the opportunity to testify today. I will be happy to answer any other questions that you may have.