



NADCO

National Association of Development Companies

**Helping Small Businesses Succeed, Strengthening Communities,
& Promoting Economic Development**

Small Business Administration Priorities for Biden-Harris Administration

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National Association of Development Companies
1001 5th Street SE, Washington, DC 20003
www.NADCO.org
202-349-0070

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Update – January 25, 2021

As detailed below, on December 27, 2020 the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (“Economic Aid Act”) became law. The Act included many NADCO priorities to provide critical access to capital to America’s small businesses. It is imperative that SBA act to implement the provisions included in this most recent COVID recovery bill by issuing clear guidance in a timely manner so CDCs can get to work providing additional relief and assistance to businesses.

Of note, the Economic Aid Act included much needed reforms to the 504 Debt Refinance Programs that allow small businesses to lower borrowing costs, retain employees, and access existing equity to provide liquidity to fund operations as businesses continue to struggle with the effects of the ongoing COVID-19 pandemic and the resulting economic slowdown. NADCO strongly encourages SBA leadership to implement these much-needed reforms as quickly as possible to benefit the greatest number of small businesses.

Also, the Economic Aid Act allows the implementation of a 504 Express process to allow experienced and knowledgeable Certified Development Companies (CDCs) to rapidly provide smaller loans up to \$500,000 to small businesses on an expedited, delegated basis. The law establishes that 504 Express is delivered by CDCs approved under SBA’s Accredited Lenders Program (ALP) which gives CDCs increased authority to process, close, and service 504 loans. SBA leadership grants ALP status based on a thorough initial application followed by a recertification process every two years.

SBA resources are stretched with new relief programs such as the Paycheck Protection Program (PPP) and expanded Economic Injury Disaster Loans (EIDL). Processing delays at SBA’s National 504 Loan Processing Center in Sacramento, California continue to delay the flow of capital to applicants jeopardizing the 504 program’s ability to assist with ongoing relief and recovery efforts. Based on SBA’s loan approval data from Fiscal Year 2020, 34% of all 504 loans are \$500,000 or less **and** approved by CDCs operating in SBA’s ALP program. A total of 48% of all 504 loans approved in FY2020 were \$500,000 or less. Quickly implementing the 504 Express Program will allow SBA to delegate processing of small loans to competent, qualified ALP-CDCs allowing SBA’s stretched resources to focus on larger, more complex 504 loan applications and on other relief and recovery programs without adding undue risk to the SBA loan portfolio.

NADCO urges SBA leadership to prioritize implementation of the 504 debt refinance enhancements and the expansion of the ALP program to include SBA 504 Express to expand and speed delivery of much-needed capital to America’s small businesses. We look forward to working with SBA leadership on our other priorities as outlined below to increase investment to underserved communities and to incentivize investments in targeted industries to combat climate change and build a 21st century resilient economy. CDCs are SBA’s community financial institutions and are well positioned to assist in relief and recovery efforts as the nation collectively “builds back better”.

Introduction

The National Association of Development Companies (NADCO) is the national industry association representing over 200 mission driven certified development companies (CDCs) serving small business owners and communities throughout the United States and its territories. NADCO advocates on behalf of the CDC industry to legislative and regulatory bodies and provides training, marketing, and support to CDCs to make sure they have the tools needed to build and sustain small businesses and their employees.

BACKGROUND ON CERTIFIED DEVELOPMENT COMPANIES (CDCS)

Certified Development Companies (CDCs) are mission-based non-profit lenders operating in urban and rural communities throughout the United States and its territories. The CDC industry is diverse and includes entities that range in size and scope operating in specific geographic areas that can range from a single state to a multi-state region. As community financial institutions, CDCs offer a variety of loan products and services to small businesses, including –

- Small Business Administration loans
 - 504 loans, Microloans, 7(a)Community Advantage loans
- U.S. Department of Housing and Urban Development Programs
 - Community Development Block Grants
- U.S. Department of Agriculture loans
 - Rural Microentrepreneur Assistance Program, Intermediary Relending Program
- U.S. Department of Commerce loans
 - Economic Development Administration Programs (EDA) revolving loan program
- U.S. Department of Treasury programs
 - Community Development Financial Institution (CDFI) Fund programs
 - New Markets Tax Credit programs
- Local and state loan programs
- Disaster relief assistance
- Direct Loan Funds
- Management and technical services

During the COVID-19 crisis, CDCs have been on the frontline working to support and sustain their business borrowers as well as community-based businesses seeking assistance and counsel. Some CDCs participated in the Paycheck Protection Program (PPP) directly funding loans to small businesses who could not access PPP through a traditional bank. CDCs also assisted small business relief and recovery efforts providing technical assistance, funding under state and local relief programs, direct loans using CDC funds and resources, and serving as a clearinghouse of information critical to small businesses navigating turbulent times. CDCs continue to play a vital role in their local communities, meeting small business needs. Congress recognized CDCs and their mission by designating CDCs as “Community Financial Institutions” along with Community Development Financial Institutions (CDFIs), Minority Depository Institutions (MDIs), and Micro Lenders allowing CDC participation in targeted PPP set-asides.

For more information, please refer the following documents published by NADCO –

["CDC Industry Access Study", 2020 edition](#)

["50 States of 504: Statistics & Stories Across the UDA", 2020 edition](#)

LOCAL ECONOMIC IMPACT

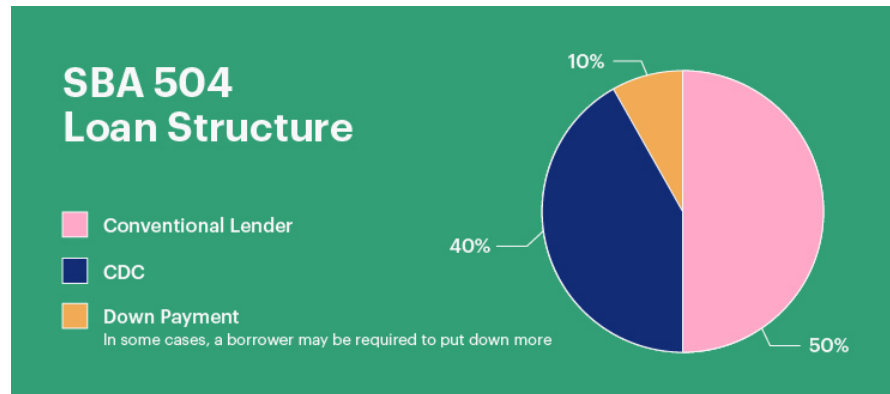
There are 205 CDCs in the United States providing approximately 374 points of access to assist small businesses in all fifty states; Washington, DC; Puerto Rico; and the U.S. Virgin Islands.

CDCs closed and funded a record \$1.28 billion in 504 loans in September 2020 to assist the nation's small businesses with recovery and growth.

PROGRAM ECONOMIC IMPACT	FY2019	FY2020
504 Loans Approved (#)	6,099	7,119
504 Loans Approved (\$)	\$5.0 billion	\$5.8 billion
Total Capital Investment Supported	\$12.5 billion	\$16 billion
Job Impact	53,347	57,431

BACKGROUND ON THE SBA 504 LOAN PROGRAM

The 504 Loan Program is an SBA business loan program authorized under the Small Business Investment Act of 1958 and delivered by CDCs. The core mission of the 504 Loan Program is to provide long-term financing to small businesses for the purchase or improvement of land, buildings, and



major equipment, to foster economic development; create or preserve jobs; and stimulate growth, expansion, and modernization of small businesses. 504 loans offer fixed rates for 10, 20, and 25 years and finance project costs of approximately \$100,000 to \$250,000. Under the 504 Loan Program, loans are made in conjunction with private sector lenders to small businesses by Certified Development Companies (CDCs), which are certified and regulated by the SBA to promote economic development within their community.

The 504 loan program is the only SBA business loan program with a statutory requirement to promote local economic development – jobs creation or retention or meeting a policy goal. Projects funded under SBA 504 must meet a minimum job creation/retention goal of one job for every \$75,000 in 504 funds (one job for every \$120,000 for small manufacturers). Policy goals include –

- Investing in minority-owned, woman-owned, and veteran-owned businesses
- Aiding rural development
- Revitalizing a business district
- Assisting small manufacturers
- Expansion of exports
- Promoting the use of renewable energy alternatives and designs
- Increasing productivity and competitiveness (retooling, modernization)
- Modernization or upgrading facilities to meet health, safety, and environmental requirements
- Assisting businesses in a Labor Surplus Area

NADCO Priorities

The CDC industry and the SBA 504 loan program have been underutilized in the COVID-19 relief efforts to date and stand ready to support the new Administration's recovery efforts. We have a unique opportunity to focus and strengthen SBA core programs to support small businesses and build a 21st century resilient economy. NADCO's priorities and recommendations listed below will help assist the incoming Administration's 100-day and longer-term planning efforts in the four priority pillars of the incoming Biden-Harris Administration – COVID-19 Relief, Economic Recovery, Racial Equity, and Climate Change.

CDCs have played a critical role in supporting small businesses with relief and recovery efforts to date. The 504 loan program is SBA's premier economic development financing program. We encourage the new Administration and the leadership of the SBA to renew their commitment to the SBA 504 Loan Program and the CDC delivery system by recognizing and promoting the work of CDCs as mission lenders engaged in supporting small businesses and fostering local economic development through job creation and retention. The 504 Loan Program is distinct from other SBA loan programs that are utilized for credit enhancement and other targeted relief efforts.

EMPOWER CDCS TO PARTICIPATE IN COVID-19 RELIEF, RECOVERY, AND BEYOND

- *Expand immediate small business relief efforts* **(INCLUDED IN ECONOMIC AID ACT, SBA implemented via Procedural Notice 5000-20079 effective 1/19/2021)**
 - Extend and expand the debt relief provided to SBA financed small businesses through CARES Act Section 1112
 - Call on Congress to pass legislation that immediately extends principal and interest payments to all SBA borrowers covered by section 1112 of CARES and extend those same protections to new borrowers as called for in HEROES II
 - Exempt CARES Act Section 1112 payments from federal tax liability in the same way that PPP loans are exempt from federal tax liability
- *Enhance and improve SBA 504 debt refinancing programs* – to unlock capital and fund business expenses
 - Many of the proposals detailed below have been in draft legislative packages, including HEROES Act, HEROES II Act, House Resolution (HR) 8211 – 504 Modernization and Small Manufacturer Act of 2020 (as amended), and Senate Small Business Committee draft 504 Reauthorization bill (summer 2019)
 - Legislative fixes – we urge the new Administration to support Congressional action on pending legislation addressing the following –
 - Elimination of prohibition on refinancing any existing government-guaranteed debt **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - Elimination of requirement that 504 Debt Refinance without Expansion be suspended if the 504 Loan Program goes on subsidy **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - Elimination of 50% cap – CDC's volume of new refinance approvals cannot exceed 50% of the dollars the CDC loans under the 504 Loan Program

- during the previous fiscal year **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - Reduction from 2 years to 6 months required time that Qualified Debt must be in place to be eligible for refinance **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - Elimination of requirement that loan must have been current for not less than 1 year prior to SBA application date **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - Reinstatement of Alternate Job Retention Goal – all existing jobs may be counted as jobs retained (full time and full-time equivalent jobs allowed) **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - Increase cap on amount of existing debt eligible for 504 refinance with expansion from 50% of expansion costs to 100% of expansion costs **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - SBA fixes to policies and procedures – we urge the new Administration to implement the following to simplify and increase access–
 - Eliminate SBA-imposed restrictions on 504 debt refinance program that are not in statute which reduce program access and effectiveness – return program to statutory intent of 90% loan with funds used to refinance existing debt and provide cash-out to support business operating needs
 - Eliminate cap of 20% maximum cash-out for eligible business expenses
 - Eliminate cap of 85% maximum loan to value for projects with cash-out for eligible business expenses
 - Expand definition of “eligible business expenses” to include any business debt other than “Qualified Debt”
 - Remove eligibility restriction for 504 debt refinance programs when existing loan has been placed on deferment by existing lender
 - Eliminate SBA restrictions on 504 subordinations to refinanced senior debts (also included in draft legislative proposals)
 - Allow existing Third Party Loans in a 504 project to be refinanced with cash out to fund business operating expenses
 - Refinancing with new money up to a 90% combined loan to value (inclusive of new third party loan amount and existing 504 loan amount)
- *Grant express lending authority to CDCs making loans of \$500,000 or less* – this is within the Agency’s existing authority; since Agency management has not yet created this program, Congress has included it in various draft legislation (including the HEROES II bill) **(INCLUDED IN ECONOMIC AID ACT, awaiting SBA implementation)**
 - 504 Loans up to \$500,000
 - Delegated approval (subject to SBA eligibility review), closing (subject to SBA legal review), and servicing to ALP-CDCs (experienced, competent CDCs approved by SBA) to reduce the burden and demand on already-stretched SBA resources
- *Implement loan scoring models in approving 504 loans up to \$350,000*
 - Reduce processing and underwriting times for small loans without increasing risk to the agency and taxpayer

- *Implement CDC and 504 Loan Program enhancements* – these items are within SBA management’s authority to immediately implement
 - Promote policies and solutions to address declining commercial real estate values nationwide
 - Reduce acceptable minimum commercial real estate appraisal from 95% to 90% of estimated value for all 504 projects and from 95% to 80% of estimated value for 504 projects meeting the policy goals of rural development and commercial revitalization
 - During the COVID-19 pandemic and economic crisis, appraisal values are declining across the nation; this will provide flexibility to accommodate shortfalls in appraised values in SBA financing projects within incurring unacceptable risk
 - Delegate deferment authority to CDCs to speed relief to small business borrowers
 - Allow CDCs delegated authority to process unilateral loan payment deferments specifically related to the COVID-19 crisis
 - Unilateral authority to process COVID-19-related deferments up to 6 months independent of CDC’s regular unilateral deferment authority granted by SBA
 - Relax restrictions on CDC contracting with other CDCs for loan servicing to improve service delivery to small businesses
 - Allow CDCs to contract with any competent, experienced CDC to assist with loan servicing – SBA currently restricts such contracting to CDCs operating in the same SBA region
 - Promote access to capital for more small business and projects by reducing owner-occupancy on existing buildings from 51% to 50% for all 504 projects
 - Call on Congress to pass HR 8199 which includes relevant provisions
- *Add resources for a stretched Agency* – call on Congress to authorize and appropriate additional funds for SBA staffing (**ADDITIONAL FUNDS FOR SBA STAFFING INCLUDED IN ECONOMIC AID ACT**)
 - From the start of the pandemic, the SBA has been front and center in leading federal small businesses relief and recovery efforts, implementing two major loan programs – the new Paycheck Protection Program (PPP) and a significantly expanded Economic Injury Disaster Loan (EIDL) program – while continuing to administer the core SBA programs, including 504, without a significant increase in their operating budget to support staff
 - SBA has been forced to divert staff and resources to new programs to the detriment of core programs like 504 – 504 has experienced record loan approval volume and continues to exceed agency capacity endangering small business’ timely access to vital sources of capital

INCREASE INVESTMENT TO UNDERSERVED COMMUNITIES

Initiatives to expand access to capital for underserved businesses to assist in reducing systemic racial and gender equity issues and wealth disparities through promoting business and business real estate ownership. Included in the initiatives below are recommendations to expand SBA’s Community Advantage loan program – a large percentage of authorized Community Advantage lenders are CDCs. This 7(a) loan pilot program focuses on loans up to \$250,000 with at least 60%

of each participating lender's portfolio targeted to underserved markets – currently defined to include low to moderate income census tracts and veteran-owned businesses. Many CDCs view Community Advantage as an ideal companion to the 504 Loan Program in providing small businesses a full ladder of credit availability.

- *Enhance the role of CDCs as “Community Financial Institutions”*
 - For future PPP set-asides
 - Include CDCs in any future programs developed that target underserved communities
- *Expand access to sources of liquidity* to build CDC capacity delivering access to capital
 - Encourage Treasury and Congress to support CDCs' permanent access to the Federal Reserve discount window to fund other loan programs, including Community Advantage
- *Intentionally target 504 loans* to incentivize access to capital to underserved businesses and targeted industries, including minority-owned, woman-owned, and veteran-owned businesses; small manufacturers; and projects utilizing renewable energy
 - Reduce 504 borrower equity contribution from minimum 10% to 5%
 - Reduce/waive 504 loan fees with appropriation offset
 - Reduce public policy qualification based on ownership from 51% to 50% to better capture impact
- *Promote lending to minority-owned and woman-owned businesses*
 - Codify the SBA Community Advantage (CA) Loan Program
 - Call on Congress to codify the Community Advantage Loan Program as a permanent program within 7(a)
 - Expand the definition of underserved markets under CA to woman-owned and minority-owned businesses (based on 50% or more ownership and control)
 - Allow existing CA lenders to expand their service area and allow new mission lenders to become certified CA lenders (lift SBA's self-imposed moratorium on new lenders)
 - Incentivize CA lending during the recovery by increasing the SBA guaranty to 90% (from current 85% guaranty for loans of \$150,000 or less and 75% guaranty for loans of \$150,001 or more)
 - Make grants available to CA lenders to support the technical assistance provided to CA eligible businesses in underserved markets
 - Instruct SBA management to ensure that each local district office partners with not less than one resources partner (Small Business Development Center, Women's Business Center, Veteran Business Development Center, etc.) to promote loans to minority-owned and woman-owned businesses
- *Establish an Inter-agency working group to advance racial equity and small business ownership*
 - SBA management to create inter-agency working group (including SBA, Treasury, and Commerce) to align agency/department resources and establish annual goals to enhance lending to communities of color (including Black, Latinx, Native American, and other minority-owned businesses)

INCENTIVIZE INVESTMENTS IN INDUSTRIES TO COMBAT CLIMATE CHANGE AND BUILD A 21ST CENTURY RESILIENT ECONOMY

504 Loan Program enhancements to incentivize access to capital to targeted industries, including small manufacturers and projects utilizing and promoting renewable energy

- *Expand access to capital for small manufacturers*
 - Reduce borrower equity contribution from minimum 10% to 5%
 - Reduce/waive 504 loan fees with appropriation offset
 - Reduce public policy qualification based on ownership from 51% to 50% to better capture impact
 - Increase maximum 504 loan for a small manufacturer from \$5.5 million to \$6.5 million – call on Congress to pass HR 8199 which includes this provision
 - Change job creation/retention requirement from 1 job per \$120,000 in 504 loan proceeds to 1 job per \$150,000 in 504 loan proceeds
 - Instruct SBA to ensure that each local district office partners with not less than one resources partner (Small Business Development Center, Women’s Business Center, Veteran Business Development Center, etc.) to promote loans to small manufacturers and encourage re-tooling and modernization
- *Expand access to capital for businesses using and promoting renewable energy* – expansion of existing 504 loan program eligible energy public policy goals
 - Reduce borrower equity contribution from minimum 10% to 5%
 - Reduce/waive 504 loan fees with appropriation offset
 - Reduce public policy qualification based on ownership from 51% to 50% to better capture impact
 - Remove cap of \$16.5 million for maximum amount of 504 loans funded under existing Eligible Renewable Energy public policy goals
 - Instruct SBA to ensure that each local district office partners with not less than one resources partner (Small Business Development Center, Women’s Business Center, Veteran Business Development Center, etc.) to promote loans to small businesses using green energy sources to reduce energy consumption or to produce renewable energy – promoting existing SBA eligible energy goals
- *Create new 504 Loan Program public policy goals* to increase access to capital to targeted businesses including very small businesses and businesses implementing workforce development, re-training initiatives, and mentorship programs– call on Congress to pass HR 8199 which includes this provision
 - Aiding in Workforce Development
 - Assisting a Business with 10 or fewer employees
 - Expansion of employee-owned businesses

STRENGTHEN CDC CAPACITY AND CREATE GREATER EFFICIENCY IN SMALL BUSINESS LENDING

- *Streamline SBA 504 loan closings*
 - Call on Congress to pass drafted legislation including numerous provisions to streamline 504 loan closing to get capital to small businesses faster
 - Draft Senate Reauthorization legislation from summer 2019

- House Resolution (HR) 8211 – 504 Modernization and Small Manufacturer Act of 2020 (as amended)
- *Renew focus on technology and modernization initiatives* already under way at SBA
 - Increased investment and renewed focus on CDC/504 modernization program to meet the needs of small business in the current environment
 - Objectives
 - Eliminate redundancies and increase efficiency/speed
 - Eliminate uncertainty in approval/closing process
 - Bring the fintech experience closer to the mission of SBA to drive capital to small business
 - Roadmap
 - SBA has created a technology roadmap under well-qualified leadership and industry collaboration
 - Efforts have been sidelined and/or delayed due to resource constraints and focus on PPP
 - Focused efforts should continue the modernization roadmap for 504, including the following:
 - New loan authorization process in which the loan authorization is generated in E-Tran and electronically signed by all parties; all changes maintained within the E-Tran document
 - Expedited processes for smaller dollar loans
 - Increased data validation
 - Elimination of forms in favor of submission of electronic data
 - Improved transparency into the loan status at various stages; change log; communication channels
 - Seamless transition from approval to closing process
 - Increased utilization of Lender Match, including investment in SEO
 - Increased use of data analytics within both the lending process and the Oversight of CDC's

We welcome the opportunity to discuss each of these requested initiatives and their implementation strategy in greater detail.

Conclusion

NADCO appreciates the opportunity to present the Biden-Harris agency review team with this initial document outlining our priorities for SBA, CDCs, and the 504 Loan Program. We look forward to a collaborative relationship as you conceive and implement the incoming

Administration's 100-day Plan and longer-term comprehensive efforts to enhance SBA programs and services to benefit America's small businesses. We hope that this document provides insights on the diversity and impact of the CDC industry in assisting small businesses and promoting economic development across the United States of America.

