



Small Business Administration Microloan Program

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Summary

The Small Business Administration's (SBA's) Microloan program provides direct loans to qualified non-profit intermediary Microloan lenders who, in turn, provide "microloans" of up to \$50,000 to small business owners, entrepreneurs, and non-profit child care centers. It also provides marketing, management, and technical assistance to Microloan borrowers and potential borrowers. The program was authorized in 1991 as a five-year demonstration project and became operational in 1992. It was made permanent, subject to reauthorization, in 1997.

The SBA's Microloan program is designed to assist women, low-income, veteran, and minority entrepreneurs and small business owners and other individuals possessing the capability to operate successful business concerns by providing them small-scale loans for working capital or the acquisition of materials, supplies, or equipment.

In FY2012, Microloan intermediaries provided 3,973 Microloans amounting to \$44.7 million. The average Microloan was \$11,254 and had a 8.18% interest rate.

Critics of the SBA's Microloan program argue that it is expensive relative to alternative programs, duplicative of the SBA's 7(a) loan guaranty program, and subject to administrative shortfalls. The program's advocates argue that it provides assistance that reaches many who otherwise would not be served by the private sector and is an important source of capital and training assistance for low-income women and minority business owners.

Congressional interest in the Microloan program has increased in recent years, primarily because microloans are viewed as a means to assist very small businesses, especially women- and minority-owned startups, to get loans that enable them to create and retain jobs. Job creation, always a congressional interest, has taken on increased importance given the nation's current economic difficulties.

This report opens with a discussion of the rationale provided for having a Microloan program, describes the program's eligibility standards and operating requirements for lenders and borrowers, and examines the arguments presented by the program's critics and by its advocates. It concludes with an examination of changes to the program authorized by P.L. 111-240, the Small Business Jobs Act of 2010.

The Small Business Jobs Act increased the Microloan program's loan limit for borrowers from \$35,000 to \$50,000, and for intermediaries after their first year of participation in the program from \$3.5 million to \$5 million. It also authorized the SBA to waive, in whole or in part through FY2012, the non-federal share requirement for loans to the Microloan program's intermediaries and for grants made to Microloan intermediaries for small business marketing, management, and technical assistance for up to a fiscal year.

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Small Business Microloans and Training Assistance

The Small Business Administration (SBA) administers programs that support small businesses, including loan guarantees to lenders to encourage them to provide loans to small businesses “that might not otherwise obtain financing on reasonable terms and conditions” and grants to non-profit organizations to provide marketing, management, and technical training assistance to small business owners.¹ Historically, one of the justifications presented for funding the SBA’s loan guarantee programs has been that small businesses can be at a disadvantage, compared with other businesses, when trying to obtain access to sufficient capital and credit.² It has been argued that this disadvantage is particularly acute for startups and microbusinesses (firms with fewer than five employees):

Traditional lending institutions, such as banks and investors, are unlikely to offer loans and investment capital to microfirms due to a variety of reasons. One barrier to microlending is a concern that startups and smaller enterprises are risky investments since growing businesses typically exhibit erratic bursts of growth and downturn. The perceived risk of these types of companies reduces the chances of a microbusiness to obtain financing. Another issue is that microbusinesses by and large require smaller amounts of capital, and thus banks or investment companies often believe that it is not efficient use of their time or resources, nor will they receive a substantive return on investment from such a small loan amount.³

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.⁴

The SBA has provided loan guarantees to encourage lenders to issue small businesses loans since the agency’s inception in 1953.⁵ Interest in creating a separate loan program to address the specific needs of startups and microbusinesses increased during the 1980s, primarily due to the growth and experience of microlending institutions abroad and evidence concerning private lending practices that led Congress to the conclusion that a new loan program was necessary “to reach very small businesses that were not being served by traditional lenders of SBA’s credit programs.”⁶

¹ U.S. Small Business Administration, “Fiscal Year 2010 Congressional Budget Justification,” pp. 29-30.

² Veronique de Rugy, *Why the Small Business Administration’s Loan Programs Should Be Abolished*, American Enterprise Institute for Public Policy Research, AEI Working Paper #126, April 13, 2006, at http://www.aei.org/files/2006/04/13/20060414_wp126.pdf. Also, see U.S. Government Accountability Office, *Small Business Administration: 7(a) Loan Program Needs Additional Performance Measures*, GAO-08-226T, November 1, 2007, pp. 3, 9-11, at <http://www.gao.gov/new.items/d08226t.pdf>.

³ U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA’s Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 6.

⁴ 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 http://www.urban.org/UploadedPDF/411599_assisted_business_survey.pdf.

⁵ The SBA also provided direct loans to small businesses until 1994. For further analysis, see CRS Report R40985, *Small Business: Access to Capital and Job Creation*, by Robert Jay Dilger.

⁶ Robert Cull, Asli Demirguc-Kunt, and Jonathan Morduch, “Microfinance Meets the Market,” *Journal of Economic* (continued...)

To address the perceived disadvantages faced by very small businesses in gaining access to capital, Congress authorized the SBA's Microloan lending program in 1991 (P.L. 102-140, the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1992). The program became operational in 1992. Its stated purpose is

to assist women, low-income, veteran ... and minority entrepreneurs and business owners and other individuals possessing the capability to operate successful business concerns; to assist small business concerns in those areas suffering from a lack of credit due to economic downturns; ... to make loans to eligible intermediaries to enable such intermediaries to provide small-scale loans, particularly loans in amounts averaging not more than \$10,000, to start-up, newly established, or growing small business concerns for working capital or the acquisition of materials, supplies, or equipment; [and] to make grants to eligible intermediaries that, together with non-Federal matching funds, will enable such intermediaries to provide intensive marketing, management, and technical assistance to microloan borrowers.⁷

The SBA's Microloan lending program was authorized initially as a five-year demonstration project. It was made permanent, subject to reauthorization, in 1997 (P.L. 105-135, the Small Business Reauthorization Act of 1997).

Congressional interest in the Microloan program has increased in recent years, primarily because microloans are viewed as a means to assist very small businesses, especially women- and minority-owned startups, obtain loans that enable them to create jobs. Job creation and preservation, always a congressional interest, has taken on increased importance given the nation's current economic difficulties.⁸

This report describes the Microloan program's eligibility standards and operating requirements for lenders and borrowers, and examines the arguments presented by the program's critics and by its advocates. It concludes with an examination of changes to the program authorized by P.L. 111-240, the Small Business Jobs Act of 2010.

P.L. 111-240 authorized the Secretary of the Treasury to establish a \$30 billion Small Business Lending Fund (SBLF) to encourage community banks to provide small business loans (\$4.0 billion was issued), a \$1.5 billion State Small Business Credit Initiative to provide funding to participating states with small business capital access programs, and about \$12 billion in tax relief for small businesses.⁹ It also authorized changes to the SBA's loan guaranty programs, including

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Perspectives, vol. 23, no. 1 (Winter 2009), pp. 169-172; and U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *Microloan Program Improvement Act of 2001*, report to accompany S. 174, 107th Cong., 1st sess., May 26, 2001, S.Rept. 107-18 (Washington: GPO, 2001). About 3.55 million firms in the United States in 2009 had fewer than five employees. See U.S. Census Bureau, *Statistics of U.S. Businesses: U.S. & States, Totals*, at <http://www.census.gov/econ/susb/index.html>.

⁷ 15 U.S.C. §636 7(m)(1)(A).

⁸ U.S. Small Business Administration, Office of Advocacy, *Small Business Economic Indicators for 2003*, August 2004, p. 3; and Brian Headd, "Small Businesses Most Likely to Lead Economic Recovery," *The Small Business Advocate*, vol. 28, no. 6 (July 2009), pp. 1, 2.

⁹ For further information and analysis concerning the Small Business Lending Fund see CRS Report R42045, *The Small Business Lending Fund*, by Robert Jay Dilger. For further information and analysis concerning the State Small Business Credit Initiative see CRS Report R42581, *State Small Business Credit Initiative: Implementation and Funding Issues*, by Robert Jay Dilger.

increasing the Microloan program's loan limit for borrowers from \$35,000 to \$50,000, and for intermediaries after their first year of participation in the program from \$3.5 million to \$5 million. It also authorized the SBA to waive, in whole or in part through FY2012, the non-federal share requirement for loans to the Microloan program's intermediaries and for grants made to Microloan intermediaries for small business marketing, management, and technical assistance for up to a fiscal year.

The SBA Microloan Program: Funding, Eligibility Standards, Program Requirements, and Statistics

Unlike the SBA's 7(a) and 504/CDC loan guarantee programs, the SBA Microloan program does not guarantee loans.¹⁰ Instead, it provides direct loans to qualified non-profit intermediary Microloan lenders who, in turn, provide "microloans" of up to \$50,000 to small business owners, entrepreneurs, and non-profit child care centers.¹¹ There are 180 intermediaries participating in the program, located in 48 states, the District of Columbia, and Puerto Rico.¹²

Funding

The program received an appropriation of \$3.678 million in FY2012, which was expected to support about \$25.0 million in lending to intermediaries.¹³ The Obama Administration recommended that the program receive an appropriation of \$2.844 million for FY2013, which was expected to support about \$18.0 million in lending to intermediaries.¹⁴ P.L. 112-175, the

¹⁰ For information and analysis concerning the SBA's 7(a) and 504/CDC programs, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger and CRS Report R41184, *Small Business Administration 504/CDC Loan Guaranty Program*, by Robert Jay Dilger.

¹¹ P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for borrowers from \$35,000 to \$50,000.

¹² There are no Microloan intermediaries located in Alaska and Utah. U.S. Small Business Administration, "Microloan Program: Partner Identification & Management System Participating Intermediary Microlenders Report," at <http://www.sba.gov/sites/default/files/Microloan%20Intermediary%20Listing%2020121031.pdf>. An intermediary may not operate in more than one state unless the SBA determines that it would be in the best interests of the small business community for it to operate across state lines. For example, the microloan intermediary located in Washington, Pennsylvania is allowed to service ten West Virginia counties due to its proximity to these counties and the distance to the only other intermediary serving West Virginia, which is located in Charleston, West Virginia. Also, a microloan intermediary located in Laguna Niguel, California, which focuses on the capital needs of disabled veteran-owned businesses, serves many jurisdictions throughout the nation that lack a participating intermediary.

¹³ The Obama Administration and the House Committee on Appropriations recommended that the Microloan program receive an appropriation of \$3.765 million for FY2012, which was expected to support about \$25.0 million in lending to intermediaries. The Senate Committee on Appropriations recommended that the Microloan program receive an appropriation of \$3.678 million for FY2012, which was expected to support about \$25.0 million in lending to intermediaries. See U.S. Office of Management and Budget, *FY2012, Budget of the United States Government, Appendix*, pp. 1161-1172; U.S. Congress, House Committee on Appropriations, *Financial Services and General Government Appropriations Bill, 2012*, report to accompany H.R. 2434, 112th Cong., 1st sess., July 7, 2012, H.Rept. 112-136 (Washington: GPO, 2012), p. 67; and U.S. Congress, Senate Committee on Appropriations, *Financial Services and General Government Appropriations Bill, 2012*, report to accompany S. 1573, 112th Cong., 1st sess., September 15, 2011, S.Rept. 112-79 (Washington: GPO, 2011), p. 115.

¹⁴ U.S. Office of Management and Budget, *FY2013, Budget of the United States Government, Appendix*, p. 1267. The House Committee on Appropriations recommended that the Microloan program receive an appropriation of \$2.844 million for FY2013, which is expected to support about \$18.0 million in lending to intermediaries. The Senate Committee on Appropriations recommended that the Microloan program receive an appropriation of \$4.0 million for (continued...)

Continuing Appropriations Resolution, 2013, which provides appropriations for FY2013 through March 27, 2013, provided the program a projected \$3,700,509 for FY2013 (the FY2012 appropriation amount plus 0.612%).

Microloan intermediaries and qualified “non-lending technical assistance providers” selected by the SBA also received \$20.0 million in FY2012 to provide Microloan borrowers and prospective borrowers marketing, management, and technical training assistance.¹⁵ The Obama Administration recommended that the Microloan technical assistance program receive \$19.76 million in FY2013.¹⁶ P.L. 112-175, the Continuing Appropriations Resolution, 2013, which provides appropriations through March 27, 2013, provided the program a projected \$20.124 million for FY2013 (the FY2012 appropriation amount plus 0.612%).

The Microloan technical assistance program provided counseling services to 15,892 small businesses in FY2012.¹⁷

Intermediary Microloan Lender Eligibility Standards

To become a qualified intermediary Microloan lender, an applicant must be organized as a nonprofit organization, quasi-governmental economic development corporation, or an agency established by a Native American Tribal Government. It must also have made and serviced short-term, fixed rate loans of not more than \$50,000 to newly established or growing small businesses for at least one year and have at least one year of experience providing technical assistance to its borrowers.¹⁸ If accepted into the program by the SBA, it can borrow no more than \$750,000 from the SBA during its first year of participation, and no more than an aggregate of \$5 million in later years.¹⁹

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FY2013, which is expected to support about \$25.0 million in lending to intermediaries. See U.S. Congress, House Committee on Appropriations, *Financial Services and General Government Appropriations Bill, 2013*, report to accompany H.R. 6020, 112th Cong., 2nd sess., June 26, 2012, H.Rept. 112-550 (Washington: GPO, 2012), p. 78; and U.S. Congress, Senate Committee on Appropriations, *Financial Services and General Government Appropriations Bill, 2013*, report to accompany S. 3301, 112th Cong., 2nd sess., June 14, 2012, S.Rept. 112-177 (Washington: GPO, 2012), p. 115.

¹⁵ U.S. Small Business Administration, “Fiscal Year 2013 Congressional Budget Justification and Fiscal Year 2011 Annual Performance Report,” p. 15; and P.L. 112-74, the Consolidated Appropriations Act, 2012.

¹⁶ U.S. Office of Management and Budget, *FY2013, Budget of the United States Government, Appendix*, p. 1265. The House Committee on Appropriations recommended that the Microloan technical assistance program receive an appropriation of \$20.0 million for FY2013. The Senate Committee on Appropriations recommended that the Microloan technical assistance program receive an appropriation of \$24.0 million. See U.S. Congress, House Committee on Appropriations, *Financial Services and General Government Appropriations Bill, 2013*, report to accompany H.R. 6020, 112th Cong., 2nd sess., June 26, 2012, H.Rept. 112-550 (Washington: GPO, 2012), p. 76; and U.S. Congress, Senate Committee on Appropriations, *Financial Services and General Government Appropriations Bill, 2013*, report to accompany S. 3301, 112th Cong., 2nd sess., June 14, 2012, S.Rept. 112-177 (Washington: GPO, 2012), p. 111.

¹⁷ U.S. Small Business Administration, Office of Congressional and Legislative Affairs, correspondence with the author, October 16, 2012. The Microloan technical assistance program provided counseling services to 15,900 small businesses in FY2011, 14,916 small businesses in FY2010, and 2,757 in FY2009. See U.S. Small Business Administration, “Fiscal Year 2013 Congressional Budget Justification and Fiscal Year 2011 Annual Performance Report,” p. 34.

¹⁸ 13 C.F.R §120.701; and 13 C.F.R §120.702. P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for borrowers from \$35,000 to \$50,000.

¹⁹ 13 C.F.R §120.706. P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for intermediaries (continued...)

Intermediary Microloan Lender Program Requirements

After receiving an SBA microloan, intermediaries are not required to make any interest payments on the loan during the first year, but interest accrues from the date that the SBA disburses the loan proceeds to the intermediary. After that, the SBA determines the schedule for periodic payments. Loans must be repaid within 10 years.²⁰

The interest rate charged to the intermediary is based on the five-year Treasury rate, adjusted to the nearest one-eighth percent, less 1.25%. The SBA's interest rate is updated on a monthly basis. In addition, intermediaries that maintain an average loan size of \$10,000 or less are charged an interest rate based on the five-year Treasury rate, adjusted to the nearest one-eighth percent, less 2.0%. Portfolios are evaluated annually to determine the applicable rate.²¹

Intermediaries are required to contribute not less than 15% of the loan amount in cash from non-federal sources and, as security for repayment of the loan, must provide the SBA first lien position on all notes receivable from any microloans issued under the program.²² Unlike the SBA's 7(a) and 504/CDC loan guarantee programs, the SBA does not charge intermediaries upfront or on-going service fees under the Microloan program.²³

As mentioned previously, P.L. 111-240, the Small Business Jobs Act of 2010, temporarily allowed the SBA to waive, in whole or in part through FY2012, the intermediary's 15% non-federal share requirement under specified circumstances (e.g., the economic conditions affecting the intermediary and the intermediary's performance) for up to a fiscal year.²⁴

Intermediaries are required to deposit the proceeds from the SBA's loans, their 15% contribution, and payments from their microloan borrowers into an interest-bearing Microloan Revolving Fund. Intermediaries may only withdraw from this account funds necessary to make microloans to borrowers, repay the SBA, and establish and maintain an interest-bearing Loan Loss Reserve Fund to pay any shortage in the Microloan Revolving Fund caused by delinquencies or losses on its microloans.²⁵ 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.²⁶ 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

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after their first year of participation in the program from \$3.5 million to \$5 million.

²⁰ 13 C.F.R. §120.706.

²¹ 15 U.S.C. §636 7(m)(3)(F)(iii). In August 2012, the SBA's interest rate to intermediaries was 0.0% if the average loan size in the intermediary's portfolio was under \$10,000. The rate was also 0.0% if the average loan size was greater than \$10,000. U.S. Small Business Administration, Office of Congressional and Legislative Affairs, correspondence with the author, August 2, 2012.

²² 13 C.F.R. §120.706. Note: The 15% contribution must be from non-federal sources and may not be borrowed. For purposes of this program, Community Development Block Grants are considered non-federal sources.

²³ Ibid.

²⁴ P.L. 111-240, the Small Business Jobs Act of 2010, §1401. Matching Requirements Under Small Business Programs.

²⁵ 13 C.F.R. §120.709.

²⁶ 13 C.F.R. §120.710. 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.

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.²⁷ Intermediaries are required to maintain their Loan Loss Reserve Fund until they have repaid all obligations owed to the SBA.

The borrower default rate for the Microloan program is about 12%.²⁸ Because the Loan Loss Reserve Fund is used to contribute toward the cost of borrower defaults, and is often sufficient to cover the entire cost of such defaults, the SBA's loss rate for intermediary repayment is typically less than 3%.²⁹

An intermediary may be suspended or removed from the Microloan program if it fails to comply with a specified list of program performance standards. For example, intermediaries are required to close and fund a minimum of four microloans per year, cover the service territory assigned by the SBA, honor the SBA determined boundaries of neighboring intermediaries and non-lender technical assistance providers, fulfill reporting requirements, maintain a loan currency rate of 85% or more (where loans are no more than 30 days late in scheduled payments), maintain a default rate of 15% or less, and "satisfactorily provide" in-house technical assistance to microloan clients and prospective microloan clients.³⁰

Intermediary Marketing, Management, and Technical Training Assistance

As mentioned previously, the SBA provided intermediaries and qualified "non-lending technical assistance providers" \$20.0 million in FY2012 to provide Microloan borrowers and Microloan prospective borrowers marketing, management, and technical training assistance. P.L. 112-175, the Continuing Appropriations Resolution, 2013, which provides appropriations through March 27, 2013, provides the SBA a projected \$20.124 million in FY2013 for this purpose.

Intermediaries are eligible to receive a Microloan technical assistance grant "of not more than 25% of the total outstanding balance of loans made to it under this subsection."³¹ Grant funds

²⁷ Ibid.

²⁸ U.S. Congress, House Committee on Small Business, *Full Committee Hearings on the Small Business Administration's Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), p. 15. Note: A study released on December 28, 2009 by the U.S. Small Business Administration, Office of the Inspector General, concluded that Microloan intermediaries may be under-reporting the default rate. See U.S. Small Business Administration, Office of the Inspector General, "SBA's Administration of the Microloan Program under the Recovery Act," December 28, 2009, at <http://www.sba.gov/office-of-inspector-general/868/12427>.

²⁹ U.S. Small Business Administration, "2008 Loss Report," p. 10, at http://archive.sba.gov/idc/groups/public/documents/sba_program_office/cfo_2008_loss_report.pdf; and U.S. Small Business Administration, Office of Congressional and Legislative Affairs, correspondence with the author, August 2, 2012. In FY2011, the Microloan program's intermediary default rate was 2.15%. See U.S. Small Business Administration, "Agency Financial Report, Fiscal Year 2011," p. 8, at http://www.sba.gov/sites/default/files/Agency%20Financial%20Report%20FY%202011_0.pdf. A total of 27 loans to intermediaries have been charged off over the life of the Microloan program, through August 2, 2012. The amount charged off on these 27 loans is \$3,985,056.54. This represents 1.11% of total funds disbursed to intermediaries and 3.20% of the current outstanding principal balance of loans to intermediary lenders.

³⁰ 13 C.F.R. §120.716.

³¹ 15 U.S.C. §636(m)(4)(A). Note: The SBA's Program for Investment in Microentrepreneurs Act (PRIME) program (continued...)

may be used only to provide marketing, management, and technical assistance to microloan borrowers, except that up to 25% of the funds may be used to provide such assistance to prospective Microloan borrowers. Grant funds may also be used to attend training required by the SBA.³² In most instances, intermediaries must contribute, solely from non-federal sources, an amount equal to 25% of the grant amount.³³ In addition to cash or other direct funding, the contribution may include indirect costs or in-kind contributions paid for under non-federal programs.³⁴ Intermediaries may expend no more than 25% of the grant funds on third-party contracts for the provision of technical assistance.³⁵

Also, as mentioned earlier, P.L. 111-240, the Small Business Jobs Act of 2010, temporarily allowed the SBA to waive, in whole or in part through FY2012, the 25% non-federal share requirement for grants made to Microloan intermediaries for small business marketing, management, and technical assistance under specified circumstances (e.g., the economic conditions affecting the intermediary and the intermediary's performance) for up to a fiscal year.³⁶

The SBA does not require Microloan borrowers to participate in the marketing, management, and technical assistance program. However, intermediaries typically require microloan borrowers to participate in the training program as a condition of the receipt of a microloan. Combining loan and intensive training assistance is one of the Microloan program's distinguishing features.

Intermediaries that make at least 25% of their loans to small businesses located in or owned by residents of an Economically Distressed Area (defined as having 40% or more of its residents with an annual income that is at or below the poverty level), or have a portfolio of loans made under the program "that averages not more than \$10,000 during the period of the intermediary's participation in the program" are eligible to receive an additional training grant equal to 5% of "the total outstanding balance of loans made to the intermediary."³⁷ Intermediaries are not required to make a matching contribution as a condition of receiving these additional grant funds.

Non-lending Technical Assistance Providers

Each year, the SBA is authorized to select qualified non-profit, non-lending technical assistance providers to receive grant funds to provide marketing, management, and technical assistance to Microloan borrowers. Any non-profit entity that is not an intermediary may apply for these funds.³⁸

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also provides non-profit organizations grant funding to assist low-income entrepreneurs with training assistance. See, U.S. Small Business Administration, "PRIME Program," at <http://www.sba.gov/content/prime-program-0>.

³² 13 C.F.R. §120.712.

³³ *Ibid.* Intermediaries who make at least 50% of their loans to small businesses located in or owned by residents of Economically Distressed Areas are not subject to the 25% contribution requirement. An economically distressed area is a county or equivalent division of local government in which, according to the most recent available data from the U.S. Census Bureau, 40% or more of the residents have an annual income that is at or below the poverty level. See 13 C.F.R. §120.701.

³⁴ 13 C.F.R. §120.712. Intermediaries may not borrow their contribution.

³⁵ *Ibid.*

³⁶ P.L. 111-240, the Small Business Jobs Act of 2010, §1401. Matching Requirements Under Small Business Programs.

³⁷ 13 C.F.R. §120.712; and 15 U.S.C. §636(m)(4)(C)(i).

³⁸ 13 C.F.R. §120.714.

The SBA may award up to 55 grants each year to qualified non-lending technical assistance providers to deliver marketing, management, and technical assistance to Microloan borrowers. The grants may be for terms of up to five years and may not exceed \$200,000.³⁹ The nonprofit entity must contribute, solely from non-federal sources, an amount equal to 20% of the grant. In addition to cash or other direct funding, the contribution may include indirect costs or in-kind contributions paid for under non-federal programs.⁴⁰

The SBA stopped awarding these grants at the beginning of FY2005. The SBA determined at that time that the non-lending technical assistance providers duplicated much of what was already being provided by Microloan intermediaries and other SBA entrepreneurial development programs.⁴¹

Microloan Borrower Eligibility Standards

With one exception, Microloan borrowers must be an eligible, for-profit small business as defined by the Small Business Act. P.L. 105-135, the Small Business Reauthorization Act of 1997, expanded the Microloan program's eligibility to include borrowers establishing a nonprofit childcare business.

Microloan Borrower Program Requirements

Intermediaries are directed by legislative language to provide borrowers "small-scale loans, particularly loans in amounts averaging not more than \$10,000."⁴² They are also directed, "to the extent practicable ... to maintain a microloan portfolio with an average loan size of not more than \$15,000."⁴³ Microloans for more than \$20,000 are allowed "only if such small business concern demonstrates that it is unable to obtain credit elsewhere at comparable interest rates and that it has good prospects for success."⁴⁴ The maximum loan amount is \$50,000 and no borrower may owe an intermediary more than \$50,000 at any one time.⁴⁵

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 six years.⁴⁶ Within these parameters, loan terms vary depending on the loan's size, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower. On loans of more than \$7,500, the maximum interest rate that can be charged to the borrower is the interest rate charged by the SBA on the loan to the intermediary, plus 7.75 percentage points. On loans of \$7,500 or less, the maximum interest rate that can be charged to the borrower is the interest charged by the SBA on the loan to the intermediary, plus 8.5

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ U.S. Small Business Administration, Office of Congressional and Legislative Affairs, correspondence with the author, August 2, 2012.

⁴² 15 U.S.C. §636(m)(1)(A)(iii)(I).

⁴³ 15 U.S.C. §636(m)(6)(B).

⁴⁴ 15 U.S.C. §636(m)(3)(E).

⁴⁵ 13 C.F.R. §120.707. P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for borrowers from \$35,000 to \$50,000.

⁴⁶ Ibid.

percentage points.⁴⁷ Rates are negotiated between the borrower and the intermediary, and typically range from 8% to 10%.⁴⁸ Each intermediary establishes its own lending and credit requirements. However, borrowers are generally required to provide some type of collateral, and a personal guarantee to repay the loan. The SBA does not review the loan for creditworthiness.⁴⁹

Microloan Program Statistics

In FY2012, the SBA provided 42 loans amounting to \$23.9 million to intermediaries, and intermediaries provided 3,973 microloans amounting to \$44.7 million to small businesses. The average loan to an intermediary was \$568,238, and the average microloan to a small business was \$11,255.⁵⁰

The Microloan program is open to all small business entrepreneurs, but targets new and early-stage businesses in “underserved markets, including borrowers with little to no credit history, low-income borrowers, and women and minority entrepreneurs in both rural and urban areas who generally do not qualify for conventional loans, or other, larger SBA guaranteed loans.”⁵¹ An analysis conducted by the Urban Institute found that about 9.9% of conventional small business loans are issued to minority-owned small businesses and about 16% of conventional small business loans are issued to women-owned businesses.⁵² In FY2012, more than half (57.4%) of the Microloan program’s loans went to women-owned or -controlled firms and, of those reporting their race, 43.0% went to minority-owned or -controlled firms.⁵³

More than three-quarters of all microloan borrowers (79.8%) in FY2012 were located in an urban area. Also, startup companies received about half (51.9%) of all microloans in FY2012.⁵⁴

As mentioned previously, the borrower default rate for the Microloan program is about 12%.⁵⁵ Because the Loan Loss Reserve Fund is used to contribute toward the cost of borrower defaults,

⁴⁷ 15 U.S.C. §636 7(m)(6)(C)(i); and 15 U.S.C. §636 7(m)(6)(C)(ii).

⁴⁸ In FY2012, Microloan borrowers were charged, on average, an interest rate of 8.18, compared to 8.45% in FY2011. U.S. Small Business Administration, “Nationwide Loan Report, October 1, 2011 through September 30, 2012,” October 15, 2012; and U.S. Small Business Administration, “Nationwide Loan Report, October 1, 2010 through September 30, 2011,” November 2, 2011.

⁴⁹ U.S. Small Business Administration, “Microloan Program,” at <http://www.sba.gov/content/microloan-program>.

⁵⁰ U.S. Small Business Administration, Office of Congressional and Legislative Affairs, correspondence with the author, October 16, 2012.

⁵¹ U.S. Small Business Administration, “Microloans Help Small Businesses Start, Grow and Succeed,” at http://archive.sba.gov/idc/groups/public/documents/sba_homepage/recovery_act_microloans.pdf.

⁵² Kenneth Temkin, Brett Theodos, with Kerstin Gentsch, *Competitive and Special Competitive Opportunity Gap Analysis of the 7(A) and 504 Programs* (Washington: The Urban Institute, 2008), p. 13, at http://www.urban.org/UploadedPDF/411596_504_gap_analysis.pdf.

⁵³ U.S. Small Business Administration, “Nationwide Loan Report, October 1, 2011 through September 30, 2012,” October 15, 2012.

⁵⁴ Ibid.

⁵⁵ U.S. Congress, House Committee on Small Business, *Full Committee Hearings on the Small Business Administration’s Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), p. 15. Note: A study released on December 28, 2009 by the U.S. Small Business Administration, Office of the Inspector General, concluded that Microloan intermediaries may be under-reporting the default rate. See U.S. Small Business Administration, Office of the Inspector General, “SBA’s Administration of the Microloan Program under the Recovery Act,” December 28, 2009, at <http://www.sba.gov/office-of-inspector-general/868/12427>.

and is often sufficient to cover the entire cost of such defaults, the SBA's loss rate for intermediary repayment is typically less than 3%.⁵⁶

Microloans are often used for more than one purpose. In FY2012, they were most commonly used to finance working capital (65.5%), purchase new equipment (26.0%), and purchase inventory (24.3%).⁵⁷

Congressional Issues

Critics of the SBA's Microloan program argue that it is duplicative of other available programs, expensive relative to alternative programs, and subject to administrative shortfalls. The program's advocates argue that it provides assistance that "reaches many who otherwise would not be served by the private sector or even the SBA's 7(a) loan program" and "has provided an important source of capital for low-income women business owners and minority borrowers."⁵⁸

Program Duplication

Critics of the SBA's Microloan program argue that its direct lending program is duplicative of the SBA's 7(a) loan guarantee program and its marketing, management, and technical training assistance grant program is duplicative of the SBA's training assistance provided through Small Business Development Centers, SCORE (Service Corps of Retired Executives), and Women Business Centers. For example, President George W. Bush proposed to eliminate all funding for the Microloan program in his FY2005, FY2006, and FY2007 budget requests to Congress, arguing that "the 7(a) program is capable of serving the same clientele through the Community Express programs for much lower cost to the Government."⁵⁹ President Bush also proposed to terminate the Microloan program's marketing, management, and technical assistance grant program in his FY2008 and FY2009 budget requests to Congress.⁶⁰

⁵⁶ U.S. Small Business Administration, "2008 Loss Report," p. 10, at http://archive.sba.gov/idc/groups/public/documents/sba_program_office/cfo_2008_loss_report.pdf; and U.S. Small Business Administration, Office of Congressional and Legislative Affairs, correspondence with the author, August 2, 2012. In FY2011, the Microloan program's intermediary default rate was 2.15%. See U.S. Small Business Administration, "Agency Financial Report, Fiscal Year 2011," p. 8, at http://www.sba.gov/sites/default/files/Agency%20Financial%20Report%20FY%202011_0.pdf. A total of 27 loans to intermediaries have been charged off over the life of the Microloan program, through August 2, 2012. The amount charged off on these 27 loans is \$3,985,056.54. This represents 1.11% of total funds disbursed to intermediaries and 3.20% of the current outstanding principal balance of loans to intermediary lenders.

⁵⁷ U.S. Small Business Administration, "Nationwide Loan Report, October 1, 2011 through September 30, 2012," October 15, 2012.

⁵⁸ U.S. Congress, House Committee on Small Business, *Full Committee Hearing on the Small Business Administration's Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), pp. 1, 2.

⁵⁹ U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2005*, p. 334, at <http://www.gpoaccess.gov/usbudget/fy05/pdf/budget/sba.pdf>; U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2006*, p. 313, at <http://www.gpoaccess.gov/usbudget/fy06/pdf/budget/sba.pdf>; and U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2007*, p. 283, at <http://www.gpoaccess.gov/usbudget/fy07/pdf/budget/sba.pdf>.

⁶⁰ U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008*, pp. 139, 140, at <http://www.gpoaccess.gov/usbudget/fy08/pdf/budget/sba.pdf>; and U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2009*, p. 130, at <http://www.gpoaccess.gov/usbudget/fy09/pdf/budget/> (continued...)

Critics of the SBA's Microloan program argued in 2007 that about 44% of the SBA's 7(a) program's loan guarantees at that time were for loans under \$35,000 (the Microloan program's former loan limit for borrowers), representing more than 17 times the number of loans issued through the SBA's Microloan program.⁶¹ In their view, the 7(a) program had demonstrated that it can service the needs of small businesses targeted by the SBA's Microloan program.⁶² They also argued that the SBA's Microloan program's marketing, management, and technical assistance grants program was not necessary because the SBA "already supports a nationwide network of resource partners who provide counseling and training to entrepreneurs, including Small Business Development Centers, Women's Business Centers, and SCORE."⁶³ They argued that about 94% of Microloan intermediaries are located within 20 miles of a Small Business Development Center, a Women's Business Center, or a SCORE partner.⁶⁴

The program's advocates argue that the SBA's Microloan program is complementary, not duplicative of the SBA's 7(a) loan guarantee program. They assert that microloan borrowers are particularly disadvantaged when seeking access to capital, often having no credit history or lower credit scores than most applicants for the SBA's 7(a) loan guarantee program.⁶⁵ In their view, it is important that the SBA has a program whose sole focus is to assist microloan borrowers in starting a microbusiness and have in place intermediaries that "have essential expertise on the needs of this key demographic."⁶⁶

They also argue that the SBA's Microloan marketing, management, and technical assistance grants program is "a crucial element which enables intermediaries to assist microbusiness owners step by step through their development and growth" and "not only increases the likelihood of full repayment of the loan, but augments business survival and success."⁶⁷ As mentioned previously, intermediaries typically require Microloan borrowers to participate in the training program as a condition of the receipt of the microloan.

Program Cost

Critics of the SBA's Microloan program argue that it is expensive relative to other SBA programs, costing about \$9,685 per small business assisted in FY2011, compared to \$1,882 per small business assisted in the SBA's 7(a) loan guarantee program.⁶⁸ President George W. Bush cited the program's higher expense when he recommended in his FY2005, FY2006, and FY2007 budget

(...continued)

sba.pdf. The Bush Administration also proposed to increase the interest rate charged to intermediaries.

⁶¹ U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA's Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 37.

⁶² Ibid.

⁶³ Ibid., pp. 37, 38.

⁶⁴ U.S. Congress, House Committee on Small Business, *Full Committee Hearing on the Small Business Administration's Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), p. 7.

⁶⁵ U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA's Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 27.

⁶⁶ Ibid., p. 7.

⁶⁷ Ibid.

⁶⁸ U.S. Small Business Administration, "Fiscal Year 2013 Congressional Budget Justification and Fiscal Year 2011 Annual Performance Report," pp. 31, 34.

requests to Congress that the program be terminated and when he recommended in his FY2008 and FY2009 budget requests to Congress that the interest rate charged to Microloan intermediaries be increased to make the program “self-financing.”⁶⁹

The SBA’s Microloan program’s advocates argue that the program’s higher cost per small business assisted is unavoidable given the relatively unique nature of the program and the special needs of its borrowers. They assert that intermediaries often have to spend a significant amount of time with Microloan borrowers because those borrowers tend to have less experience with the credit application process and a more difficult time documenting their qualifications for assistance than borrowers in the SBA’s loan guaranty programs. Also, in their view, raising the interest rate charged to intermediaries to make the program self-financing would reduce the program’s cost, but could also defeat the program’s purpose. They assert that because microloans are small, it is difficult for intermediaries to generate enough interest income to cover their costs. As a result, if the interest rate charged to intermediaries is increased, they contend that intermediaries would have to pass the increase on to Microloan borrowers. In their view, increasing the program’s cost to microloan borrowers “will create an economic hardship for them and make it more difficult for them to grow their businesses” and “lead to fewer jobs created and fewer tax dollars paid.”⁷⁰

Program Administration

On December 28, 2009, the SBA’s Office of Inspector General released an analysis of the SBA’s administration of the Microloan program. It reported a number of deficiencies that it argued needed to be addressed. The analysis was undertaken in response to language in P.L. 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA), directing Offices of Inspector General to perform audits of their respective agencies to determine whether adequate safeguards exist concerning the use of ARRA funds.⁷¹

Program Oversight

The SBA’s Office of Inspector General found that the SBA’s oversight of the Microloan program “was not sufficient to ensure effective operation of the Microloan program”:

SBA’s oversight is focused on the intermediaries’ ability to repay their SBA loans and is limited to a cursory review of quarterly financial reports supported by only one monthly bank statement.... The bank statements are used to simply verify the outstanding balances

⁶⁹ U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008*, pp. 139, 140, at <http://www.gpoaccess.gov/usbudget/fy08/pdf/budget/sba.pdf>; U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2009*, p. 130, at <http://www.gpoaccess.gov/usbudget/fy09/pdf/budget/sba.pdf>; U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA’s Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 38; and U.S. Congress, House Committee on Small Business, Subcommittee on Finance and Tax, *Subcommittee Hearing on Improving the SBA’s Access to Capital Programs for our Nation’s Small Businesses*, 110th Cong., 2nd sess., March 5, 2008, H.Hrg. 110-76 (Washington: GPO, 2008), p. 33.

⁷⁰ U.S. Congress, House Committee on Small Business, Subcommittee on Finance and Tax, *Subcommittee Hearing on Improving the SBA’s Access to Capital Programs for our Nation’s Small Businesses*, 110th Cong., 2nd sess., March 5, 2008, H.Hrg. 110-76 (Washington: GPO, 2008), p. 46.

⁷¹ U.S. Small Business Administration, Office of the Inspector General, “SBA’s Administration of the Microloan Program under the Recovery Act,” p. 1, at <http://www.sba.gov/office-of-inspector-general/868/12427>.

reported on the intermediaries' quarterly reports. This review process does not allow SBA to analyze the sources and uses of funds ... which is necessary to detect inappropriate fund transfers between the intermediaries' [Microloan Revolving Funds and Loan Loss Reserve Funds] accounts.⁷²

The Office of Inspector General's report noted that the SBA only conducts onsite reviews when an intermediary defaults on its SBA loan. It also argued that the program was inadequately staffed, operating at that time "with 6 analysts who oversee more than 160 intermediaries, 460 intermediary loans, and approximately 2,500 microloans per year."⁷³

The SBA agreed with the Office of Inspector General that a more detailed review of the financial information provided by intermediaries was appropriate. It now collects three months of bank statements each quarter from intermediaries. It also hired three additional staff members to monitor the program's ARRA funding, and indicated that it will continue to reassess the program's overall staffing needs.⁷⁴

Reliability of the Microloan Program's Performance Data

The SBA's Office of Inspector General found that the SBA's reported Microloan borrower default rate of 12% "appeared low given the high-risk nature of the program."⁷⁵ It found that one intermediary made 1,182 microloans valued at over \$11 million since 1993 and only reported slightly more than a 1% historical default rate, and 39 other intermediaries that reported that none of their loans had defaulted. It also identified duplicate loan reporting; multiple loans to microloan borrowers in the same amount, indicating the use of revolving lines of credit, which is disallowed by program regulations; and 92 microloan borrowers with outstanding microloan balances exceeding the \$35,000 limit. It noted that ARRA "makes clear the importance of data verification" yet "all of the data used by SBA to report on the Microloan program performance is based on unverified information that is self-reported by intermediaries."⁷⁶ It concluded that "as a result, SBA cannot ensure that the reported microloan default rates are accurate and comply with the statutory requirement."⁷⁷

In response, the SBA agreed with the Office of Inspector General with the need for accurate program data and indicated that microloan data will be evaluated as part of a "data quality initiative to identify areas for improvement."⁷⁸ The SBA also indicated that it will revise its SOPs (standard operating procedures) to "include guidance on data review and procedures for following up with intermediaries to resolve data discrepancies."⁷⁹

⁷² Ibid., p. 4.

⁷³ Ibid.

⁷⁴ Ibid., p. 8.

⁷⁵ Ibid., p. 4.

⁷⁶ Ibid., p. 5.

⁷⁷ Ibid.

⁷⁸ Ibid., p. 8.

⁷⁹ Ibid., p. 9.

Outcome-Oriented Performance Measures

The SBA's Office of Inspector General found that the SBA's program performance is based on the number of microloans funded and small businesses assisted. It argued that these "performance metrics ... do not ensure the ultimate program beneficiaries, the microloan borrowers, are truly assisted by the program" and "without appropriate metrics, SBA cannot ensure the Microloan program is meeting policy goals."⁸⁰ It noted that the SBA does not track the number of microloan borrowers who remain in business after receiving a microloan to measure the extent to which the loans contributed to the success of borrowers and does not determine the effect that technical training assistance may have on the success of microloan borrowers and their ability to repay loans.⁸¹ It recommended that the SBA "develop additional performance metrics to measure the program's achievement in assisting microloan borrowers in establishing and maintaining successful small businesses."⁸²

In response, the SBA indicated that it has "contracted with the Aspen Institute to advise on appropriate program and performance metrics for both microloans and technical assistance grants."⁸³ It also indicated that the program metrics developed will be used to assist the agency in measuring the Microloan program's effectiveness.

Legislation

Congress did not consider any bills during the 112th Congress that would have affected the Microloan program. However, it did consider several bills during the 111th Congress that would have affected the SBA's Microloan program before passing the Small Business Jobs Act of 2010, which President Obama signed into law (P.L. 111-240) on September 27, 2010.

H.R. 3854, the Small Business Financing and Investment Act of 2009, was passed by the House by a vote of 389-32, on October 29, 2009.⁸⁴ The Senate did not act on the bill. It would have authorized several new SBA programs and changed several existing SBA programs, including the Microloan program. For example, it would have

- increased the Microloan program's loan funding to "such sums as may be necessary" to support \$110 million in direct microloans in FY2010 and \$110 million in FY2011.⁸⁵
- increased the program's marketing, management, and technical assistance grant funding to \$80 million in FY2010 and \$80 million in FY2011.
- authorized \$20 million (\$10 million in FY2010 and \$10 million in FY2012) for a new Microloan interest assistance grant program.⁸⁶

⁸⁰ Ibid., p. 6.

⁸¹ Ibid.

⁸² Ibid., p. 7.

⁸³ Ibid., p. 9.

⁸⁴ H.R. 3854 combined language from eight bills and would have authorized changes to several SBA programs and create several new programs. For further analysis, see CRS Report R41385, *Small Business Legislation During the 111th Congress*, by Robert Jay Dilger and Gary Guenther.

⁸⁵ H.R. 3854, the Small Business Financing and Investment Act of 2009, §310. Authorization of Appropriations.

- broadened the eligibility requirements for Microloan intermediaries to qualify for lower interest rates.⁸⁷
- increased the program’s maximum loan amount to intermediaries during their first year of participation in the program from \$750,000 to \$1 million, and in later years from an aggregate of \$3.5 million to \$7 million. The SBA’s Administrator would have been provided discretion to increase the limit to \$10 million if such treatment was determined by the SBA Administrator to be appropriate.⁸⁸
- broadened the eligibility requirements for Microloan intermediaries “to help expand access to the Microloan program.”⁸⁹
- required the SBA to establish a process under which Microloan intermediaries “provide to the major credit reporting agencies the information about the borrower, both positive and negative, that is relevant to credit reporting, such as the payment activity of the borrower on the loan.”⁹⁰
- provided lenders with the authority to offer more flexible loan terms to Microloan borrowers, particularly with longer-term loans or revolving lines of credit, by removing existing requirements that all microloans be “short-term.”⁹¹

(...continued)

⁸⁶ Ibid.

⁸⁷ H.R. 3854, the Small Business Financing and Investment Act of 2009, §307. Interest Rates and Loan Size. The interest rate charged to intermediaries is based on the five-year Treasury rate, adjusted to the nearest one-eighth percent, less 1.25%. However, intermediaries that maintain an average loan size of \$7,500 or less are charged an interest rate based on the five-year Treasury rate, adjusted to the nearest one-eighth percent, less 2.0%. H.R. 3854 would have enabled more intermediaries to qualify for the lower rate by increasing the required average loan size from \$7,500 to \$10,000.

⁸⁸ U.S. Congress, House Committee on Small Business, Small Business Financing and Investment Act of 2009, report to accompany H.R. 3854, 111th Cong., 1st sess., October 26, 2009, H.Rept. 111-315 (Washington: GPO, 2009), p. 34; and H.R. 3854, the Small Business Financing and Investment Act of 2009, §304. Increased Limit on Intermediary Borrowing.

⁸⁹ U.S. Congress, House Committee on Small Business, Small Business Financing and Investment Act of 2009, report to accompany H.R. 3854, 111th Cong., 1st sess., October 26, 2009, H.Rept. 111-315 (Washington: GPO, 2009), p. 34. At that time, intermediaries must have made and serviced short-term, fixed rate loans of not more than \$35,000 (now \$50,000) to newly established or growing small businesses for at least one year and have at least one year of experience providing technical assistance to its borrowers. Under H.R. 3854, intermediaries would have been required to have at least one year of experience making microloans to startup, newly established, or growing small business concerns, or have a full-time employee who has not less than three years’ experience in managing a portfolio of loans to startup, newly established, or growing small business concerns. They would have been required to also have at least one year of experience providing, as an integral part of its microloan program, intensive marketing, management, and technical assistance to its borrowers, or one full-time employee who has not less than one year experience providing, as an integral part of its microloan program, intensive marketing, management, and technical assistance to its borrowers. This change would have allowed an aspiring intermediary with no direct experience in microlending and technical assistance to hire trained employees with considerable, equivalent experience and still qualify to participate in the program.

⁹⁰ H.R. 3854, the Small Business Financing and Investment Act of 2009, §301. Microloan Credit Building Initiative. This change was designed to enhance Microloan borrowers’ credit scores and their future access to capital. Intermediaries generally opposed the provision, viewing it as an administrative burden. U.S. Congress, House Committee on Small Business, *Small Business Financing and Investment Act of 2009*, report to accompany H.R. 3854, 111th Cong., 1st sess., October 26, 2009, H.Rept. 111-315 (Washington: GPO, 2009), p. 34.

⁹¹ H.R. 3854, the Small Business Financing and Investment Act of 2009, §302. Flexible Credit Terms; and U.S. Congress, House Committee on Small Business, *Small Business Financing and Investment Act of 2009*, report to accompany H.R. 3854, 111th Cong., 1st sess., October 26, 2009, H.Rept. 111-315 (Washington: GPO, 2009), p. 34.

- increased the percentage of technical assistance grant funds that an intermediary can spend on prospective borrowers from 25% to 35%, and on the provision of technical assistance through third-party providers from 25% to 35%.⁹²
- required the SBA to annually provide the House Committee on Small Business and the Senate Committee on Small Business and Entrepreneurship a detailed, comprehensive report on the Microloan program.⁹³

S. 2869, the Small Business Job Creation and Access to Capital Act of 2009, was ordered to be reported by the Senate Committee on Small Business and Entrepreneurship on December 10, 2009. It would have authorized changes to several SBA programs, including the Microloan program. The Senate did not take further action on the bill, but several of its provisions, including those affecting the Microloan program, were later included in P.L. 111-240. For example, it would have

- increased the SBA's Microloan program's maximum loan amount to intermediaries after their first year of participation in the program from \$3.5 million to \$5 million.⁹⁴
- increased the maximum loan amount to Microloan borrowers from \$35,000 to \$50,000.⁹⁵

As mentioned previously, P.L. 111-240 the Small Business Jobs Act of 2010, authorized the Secretary of the Treasury to create a \$30 billion SBLF to encourage community banks to provide small business loans (\$4 billion was issued), a \$1.5 billion State Small Business Credit Initiative, and about \$12 billion in tax relief for small businesses. It also includes revenue raising provisions to offset the act's cost, and authorizes a number of changes to the SBA's loan guaranty, export promotion, and contracting programs, including changes to the SBA's Microloan program. For example, it

- authorized the SBA to increase the Microloan program's loan limit for borrowers from \$35,000 to \$50,000, and for Microloan intermediaries after their first year of participation in the program from \$3.5 million to \$5 million.⁹⁶

⁹² U.S. Congress, House Committee on Small Business, *Small Business Financing and Investment Act of 2009*, report to accompany H.R. 3854, 111th Cong., 1st sess., October 26, 2009, H.Rept. 111-315 (Washington: GPO, 2009), p. 35.

⁹³ H.R. 3854, the Small Business Financing and Investment Act of 2009, §308. Reporting Requirement. The report was to include the following information: the names and locations of each intermediary participating in the program; the amounts of each loan and each grant provided to each intermediary during the fiscal year and in prior fiscal years; a description of the contributions from non-federal sources; the number and amounts of microloans made by intermediaries to all borrowers and to each of the following: women entrepreneurs and business owners, low-income entrepreneurs and business owners, veteran entrepreneurs and business owners, disabled entrepreneurs and business owners, and minority entrepreneurs and business owners; a description of the marketing, management, and technical assistance provided by each intermediary to all borrowers and to each of the following: women entrepreneurs and business owners, low-income entrepreneurs and business owners, veteran entrepreneurs and business owners, disabled entrepreneurs and business owners, and minority entrepreneurs and business owners; the number of jobs created and retained as a result of microloans and marketing, management, and technical assistance provided by each intermediary; the repayment history of each intermediary; and the number of businesses that achieved success after receipt of a microloan.

⁹⁴ S. 2869, the Small Business Job Creation and Access to Capital Act of 2009, §103. Maximum Loan Limits Under Microloan Program.

⁹⁵ Ibid.

⁹⁶ P.L. 111-240, the Small Business Jobs Act of 2010, §1113. Maximum Loan Limits Under Microloan Program.

- temporarily allowed the SBA to waive, in whole or in part through FY2012, the non-federal share requirement for loans to the Microloan program's intermediaries and for grants made to Microloan intermediaries for small business marketing, management, and technical assistance under specified circumstances (e.g., the economic conditions affecting the intermediary and the intermediary's performance) for up to a fiscal year.⁹⁷

Concluding Observations

During the 111th Congress, congressional debate concerning proposed changes to the SBA's loan guaranty programs, including the Microloan program, centered on the likely impact the changes would have on small business access to capital, job retention, and job creation. As a general proposition, some, including President Obama, argued that economic conditions made it imperative that the SBA be provided additional resources to assist small businesses in acquiring capital necessary to start, continue, or expand operations and create jobs.⁹⁸ Others worried about the long-term adverse economic effects of spending programs that increase the federal deficit. They advocated business tax reduction, reform of financial credit market regulation, and federal fiscal restraint as the best means to assist small business economic growth and job creation.⁹⁹

In terms of specific program changes, the provisions considered in H.R. 3854 and S. 2869 and authorized by P.L. 111-240 (allowing the SBA to temporarily waive the Microloan program's non-federal share matching requirements, increasing its loan limit for borrowers from \$35,000 to \$50,000, and increasing its loan limit for intermediaries after their first year of participation in the program from \$3.5 million to \$5 million) were all designed to achieve the same goal: to enhance job creation by increasing the ability of Microloan borrowers to obtain credit at affordable rates. Determining how specific changes in federal policy are most likely to enhance job creation is a challenging question. For example, a 2008 Urban Institute study concluded that differences in the term, interest rate, and amount of SBA financing "was not significantly associated with increasing sales or employment among firms receiving SBA financing."¹⁰⁰ However, they also reported that their analysis accounted for less than 10% of the variation in firm performance. The Urban Institute suggested that local economic conditions, local zoning regulations, state and local tax rates, state and local business assistance programs, and the business owner's charisma or business

⁹⁷ P.L. 111-240, the Small Business Jobs Act of 2010, §1401. Matching Requirements Under Small Business Programs.

⁹⁸ Representative Nydia Velázquez, Small Business Financing and Investment Act of 2009," House debate, *Congressional Record*, daily edition, vol. 155, no. 159 (October 29, 2009), pp. H12074, H12075; Senator Mary Landrieu, "Statements on Introduced Bills and Joint Resolutions," remarks in the Senate, *Congressional Record*, daily edition, vol. 155, no. 185 (December 10, 2009), p. S12910; and The White House, "Remarks by the President on Job Creation and Economic Growth," December 8, 2009, at <http://www.whitehouse.gov/the-press-office/remarks-president-job-creation-and-economic-growth>.

⁹⁹ Susan Eckerly, "NFIB Responds to President's Small Business Lending Initiatives," Washington, DC, October 21, 2009, at <http://www.nfib.com/press-media/press-media-item?cmsid=50080>; and NFIB, "Government Spending," Washington, DC, at <http://www.nfib.com/issues-elections/issues-elections-item/cmsid/49051/>.

¹⁰⁰ Shelli B. Rossman and Brett Theodos, with Rachel Brash, Megan Gallagher, Christopher Hayes, and Kenneth Temkin, *Key Findings from the Evaluation of the Small Business Administration's Loan and Investment Programs: Executive Summary* (Washington, DC: The Urban Institute, January 2008), p. 58, at http://www.urban.org/UploadedPDF/411602_executive_summary.pdf.

acumen also “may play a role in determining how well a business performs after receipt of SBA financing.”¹⁰¹

As the Urban Institute study suggests, given the many factors that influence business success, measuring the SBA’s Microloan program’s effect on job retention and creation is complicated. That task is made even more challenging by the absence of performance-oriented measures that could serve as a guide.

The SBA’s Office of Inspector General has recommended that the SBA adopt performance-oriented measures, specifically recommending that the SBA track the number of Microloan borrowers who remain in business after receiving a microloan to measure the extent to which the Microloan program contributed to their ability to stay in business. It has also recommended that the SBA require intermediaries to report the technical assistance provided to each Microloan borrower and “use this data to analyze the effect technical assistance may have on the success of Microloan borrowers and their ability to repay microloans.”¹⁰² Other performance-oriented measures that Congress might also consider include requiring the SBA to survey Microloan borrowers to measure the difficulty they experienced in obtaining a loan from the private sector; the ease or difficulty of finding, applying, and obtaining a microloan from an intermediary; and the extent to which the microloan or technical assistance received contributed to their ability to create jobs or expand their scope of operations.

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¹⁰¹ Ibid.

¹⁰² U.S. Small Business Administration, Office of the Inspector General, “SBA’s Administration of the Microloan Program under the Recovery Act,” pp. 6, 7, at <http://www.sba.gov/office-of-inspector-general/868/12427>.