U.S. Small Business Administration

SBA

Your Small Business Resource

News Release

PRESS OFFICE

Release Date: July 17, 2007
Release Number: 08-72

Contact: Mike Stamler (202) 205-6919
Internet Address: http://www.sba.gov/news

Community Express Myth-Fact

SBA's goal is to ensure the Community Express program is the best possible vehicle to meet underserved markets' financing needs on reasonable terms and conditions. We want to make sure that these borrowers – with the most need for access to capital – receive loans that will support and enhance their businesses without creating an unnecessary financial burden.

Myth: Community Express is the only SBA loan program for underserved borrowers.

Fact: SBA has many loan programs available to small businesses, including those in underserved markets. These programs include: SBA*Express*, Patriot Express, regular 7(a) loans, and short-term and export loan products. (More information is available at: www.sba.gov/services/financialassistance) All these programs are widely available through SBA's network of thousands of lending partners nationwide. They are available in every part of the country, through banks, credit unions, and other financing companies. They are available in inner cities, rural areas, and suburbs: again, all over the country. Furthermore, the SBA has been working hard to bring new lenders into its programs, especially in underserved markets.

Myth: For every Community Express loan made, three to five jobs are created in the economy.

Fact: SBA's loans do have a positive impact on a firm's job growth. As outlined in a study by the Urban Institute, the average small business utilizing a 7(a) loan grew from 14 employees in the year before taking to loan to 16 employees two years after taking on the loan. In other words, the job growth is gradual and measured. With average Community Express loan size being roughly one-sixth the size of a regular 7(a) loan, it's highly unlikely that each Community Express loan creates three to five jobs.

Myth: An average Community Express loan will generate about $100,000 in tax revenue from the borrower.

Fact: Generating tax revenues indicates that a small business is profitable and, thus, a sustainable enterprise. But the fact that a small business received a Community Express loan does not directly translate into tax revenue. First, a significant percentage – about 40 percent, far more than in other 7(a) programs -- of Community Express loans go to start-ups, which generally do not immediately generate taxable income and, in fact, can take several years to do so. Second, as noted below, SBA's Community Express loans do not perform as well as the agency's other guaranteed loan programs. Thus, Community Express loans are more likely to default, indicating the borrowers are not generating sufficient income to make loan payments, are not profitable, and not able to generate taxable income.

Myth: The Community Express loan program mirrors the financial and risk profile of the rest of SBA's loan portfolio.

Fact: Community Express represents a very small percentage of SBA loan dollar volume, about 2 percent. However, its financial results are weaker than those in other loan programs. The Community Express default rate in the past three years is more than double that of SBA's other loan programs, and delinquencies are 45 percent higher than in other programs. Other performance metrics are similarly troubling. All of these considerations require SBA to closely monitor and evaluate its performance.

Myth: The SBA should be satisfied with the performance of the Community Express program.

Fact: As stated above, several performance measures are cause for concern in Community Express. The program must be transparent, accountable and fiscally responsible. Additionally, SBA wants to ensure the program minimizes fraud, waste and abuse, and truly delivers good loan products at reasonable prices to underserved borrowers. Community Express is a pilot program that continues to need testing and refinement. Following extensive internal analysis and discussion, as well as discussions with SBA's lending partners, SBA is restructuring and enhancing the Community Express Pilot Program to improve its management, administration, oversight, and delivery. Notice of the restructuring has appeared in the Federal Register, with more details forthcoming. The agency welcomes comments on the changes from all interested parties.

At the same time, the Inspector General has been asked to review the program due to relatively higher credit risk in the program to date. SBA must ensure Community Express is properly designed to help underserved borrowers fairly and appropriately. We also must make sure the program minimizes waste, fraud and abuse. As we review the program's pilot status and make decisions about its future, we want to ensure the program minimizes fraud, waste and abuse, and truly delivers good loan products at reasonable prices to underserved borrowers.

Myth: Community Express is widely utilized by SBA's lending partner network.

Fact: The opposite is true. This is one of the most worrying facts about Community Express: very few SBA-approved lenders utilize the program. Of SBA's 4,500 lenders, fewer than 150 use Community Express. And just two lenders make more than 90 percent of Community Express loans. That means the program, as currently constructed, isn't meeting the needs of most small business lenders and presents a greater risk to the agency and the taxpayer. SBA is looking at ways to make sure the program is useful to lenders. The agency thinks that the alterations to the pilot will expand the impact and reach of the program, and will attract more lenders to participate in the program.

Myth: The SBA and Congress are not working together to address the future of the Community Express program.

Fact: Again, the opposite is true. SBA is regularly consulting with Congress in its review of the program. The agency is dedicated to meeting the Congressional goals and mandates of the program, especially the goal of reaching and helping underserved borrowers throughout the country.

Myth: The number of loans made in an SBA program is the most important metric in evaluating the success of that loan program.

Fact: SBA's mission is to aid, counsel, assist and protect the interests of small businesses, to preserve free competitive enterprise, and to maintain and strengthen the overall economy of our nation. Above all, SBA looks at a wide variety of performance measures to ensure each of its loan programs are effectively achieving their goals. Those goals always mean ensuring that borrowers are protected, and that the strength and health of the program are protecting the taxpayers. Ultimately, a loan program's success is determined by a complex mix of many measures and considerations. Numbers of loans, and dollars loaned, can be important metrics. So can the number of lenders participating in a program. Additionally, other financial metrics, like delinquency rates, are important factors. Again, the aim in having several perspectives of success is to ensure we are good stewards of the American taxpayers' funds.

###