

FACTS ABOUT SBA'S COMMUNITY EXPRESS PROGRAM DECEMBER 9, 2008

The Community Express Pilot Program was created to complement SBA's main loan programs and help lenders reach underserved markets. SBA made changes to the program before the start of Fiscal Year 2009 to address ongoing concerns with lending practices and ensure the program is effectively helping underserved populations.

WHAT ARE SBA'S CONCERNS ABOUT COMMUNITY EXPRESS?

- **SBA is concerned with Some Lenders' Community Express Practices.** We have heard anecdotally that predatory lending may be taking place in the program, and we are very concerned. The changes this year put the program on pause so that SBA can evaluate how effective it has been at helping underserved populations and to ensure there is no fraud or abuse in the program. We are so concerned by this potential, that we referred the program to our Inspector General for review.
- **Just Two Lenders Account for 80% of Community Express Loans.** At the same time, over 80% of the total number of Community Express loans comes from just two lenders—one of which is Superior Financial Group LLC of Walnut Creek, Calif, the lender quoted in a recent *Wall Street Journal* article about Community Express. This concentration increases risk to the program and raises additional questions about the manner in which the program is reaching its intended recipients.
- **Community Express has a 7% Default rate – the highest of all SBA loan programs.** While the 7(a) loan program has an overall default rate under 3%, the Community Express rate is nearly 7% – more than double the average rate – and it has been climbing over the last six months.
- **Lenders may not be providing required Technical Assistance.** SBA wants to make sure that lenders are applying the business counseling requirements of Community Express so that borrowers fully understand the consequences when they sign on the dotted line and have the skills needed to make them more likely to be successful and understand the debt they are assuming. What we were hearing was that this training requirement was not always being enforced and its quality lacked consistency.

THE TRUTH ABOUT COMMUNITY EXPRESS LOAN LIMITS

- **All SBA Pilot Programs are Limited to 10% of the Number of 7(a) Loans.** As a pilot program, the Community Express loan volume can only be 10% of the 7(a) regular lending volume because of a statutory limit for all pilot programs. This is not an “obscure” limitation, but a law that has been in place for 12 years.

- **Lenders have always known about these limits.** Lenders knew about these limitations well in advance of deciding to participate in the program, and SBA communicated with them continuously beginning in late 2007 to inform them that these limitations would continue to be in place, and that we would manage them for each lender. As we saw significant declines in SBA loan volume in FY 2008 due to the overall economy, SBA had to manage Community Express in order to not exceed 10 percent of the smaller number of 7(a) loans.
- **Community Express just recently became a higher volume program.** Until 2005 when Community Express loan volume reached 6% of total 7(a) loan volume, the program was not widely used by lenders so the 10% overall limit was not problematic and did not raise concerns.
- **Even with this advance notification, some lenders have been raising false expectations among small business owners** by promising loans that they know they cannot make, and refusing to make loans to these same credit-worthy applicants through other proven SBA programs unhampered by volume limits. We have reached out to individuals who were quoted in a recent article, to help them identify other lenders that will work with them to identify SBA loan products appropriate for their businesses.

SBA LENDING TO MINORITIES AND WOMEN OUTPERFORMS CONVENTIONAL LENDING

- **SBA-backed loans are three to five times more often made to minority and women owned businesses than conventional small business loans made by banks,** according to a recent study by the Urban Institute. A greater share of SBA backed loans and loan dollars go to minority-owned businesses than conventional small business loans made by banks. SBA's loans reach minorities and women through all of its proven programs, including 504, regular 7(a), SBA Express and Patriot Express.
- **SBA has a great track record on assisting minority and women owned businesses**
 - Without counting Community Express lending, in 2008, nearly 22,000 (28%) of the 78,000 loans approved by SBA, totaling about \$5.6 billion (31%) out of the overall \$18 billion approved, went to minority owned businesses.
 - Also in 2008, without counting Community Express, over 14,000 (18%) of the total 78,000 loans approved by SBA, totaling just over \$3 billion (17%) out of the overall \$18 billion, went to women owned businesses.
- **In fiscal year 2008, the Community Express loan program accounted for just about 1% of total SBA lending dollars to minority and women owned businesses.** Limits on this program could not possibly lead to sharply reduced SBA funds going to minorities and women, as the article's title states.

- **Over the past eight years, SBA lending to minorities as a percentage of total lending has been consistent.** Nearly a third of both numbers of loans and dollars approved go to minorities, and nearly a quarter of the number and a fifth of the dollars of loans approved go to women owned businesses.
- **SBA has a number of programs that address underserved communities.** Community Express is actually only a small part of a broad range of SBA programs and services geared towards minorities and women and other underserved markets. SBA recently launched its Emerging 200 initiative which targets 200 inner city small, poised-for-growth businesses. Our hope is that Community Express borrowers may one day be part of E200.

SOME LENDERS ARE DRIVEN MORE BY PROFIT THAN BY MISSION

- **As we all know, lenders are in the business to make a profit** but SBA's programs have to be designed to protect borrowers from usurious practices and to guarantee that credit is made available on reasonable terms.
- **The Community Express program was envisioned as a small program providing incentives to lenders to reach out to underserved communities.** SBA's programs are designed to protect borrowers from usury practices and to guarantee that credit is made available on reasonable terms to small business owners who can't access it elsewhere.
- **What we are seeing instead is some lender business models focused on obtaining application and processing fees** on a large volume of loans, and quick sales of these loans – in order to maximize profitability for themselves. While at the same time, we've seen less attention to technical assistance and ongoing support for the borrowers. Our analysis also shows these loans have a higher default rate and loss rate than other loans.

RECENT COMMUNITY EXPRESS CHANGES ADDRESS KEY CONCERNS

- **Recent program changes are responsible fixes to address SBA concerns about predatory lending,** the high concentration of Community Express loans among a few lenders, troubling default rates, and lax technical assistance. At the same time, the agency had to address some Constitutional issues.
- **Changes to the Program included:**
 1. **Strengthening technical assistance requirements** so that counseling takes place prior to the loan disbursements and business owners understand about the debt they are assuming.

2. **Shifting from demographic eligibility to geographic eligibility** based on HUB Zone and Community Reinvestment Act (CRA) areas—areas where the majority of underserved populations are located.
3. **Extending eligibility to everyone for loans \$25,000 or less** to ensure that the program reaches out to and meets the needs of women and minorities.

TECHNICAL ASSISTANCE IS CRITICAL TO SMALL BUSINESS SUCCESS

- **Small Businesses, particularly startups, can benefit from assistance.** The majority of these loans are to start up business owners, who may not be fully prepared for the challenges of starting, managing, and sustaining a successful business. We know that small business owners who plan and receive guidance are more likely to start and grow successful businesses. Entrepreneurs who don't receive counseling are more likely to start their business in a vacuum and in the long run, lose the business and be saddled with debt they can not repay.
- **SBA offers a number of free and low cost technical assistance programs that are open to everyone**—regardless of whether or not you take out a loan with an SBA guarantee. These services are easy to access at the over 1,200 SBA partner organizations throughout the country and through the comprehensive materials provided on our website.

THE FUTURE OF COMMUNITY EXPRESS

- We are making the fixes and laying the groundwork to make sure this program is helping those who need these loans the most—those with no other real options of getting the money they need to start a small business. We want to provide these individuals with the guidance they need to help build and grow their communities.
- We care so much about making sure that the program is serving its mission to help underserved markets that we have made this a priority in our briefings to President Elect Obama's transition team. We are encouraging them to consider keeping Community Express and, once the changes are made and analysis has been done, to expand it.

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