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Chairman Steve Chabot and members of the Subcommittee, thank you for the opportunity to submit testimony about a solution of crucial importance to the American business community. My name is Brandon Napoli and I am the Director of Micro Lending at VEDC, located in Los Angeles, CA. We are one of the largest SBA micro lenders in the nation.

Allow me to start with a story. Maria Martir has always been an entrepreneur; she started her own business at age 12 in Mexico and years later, when given the opportunity, she came to the U.S. with her 4 children and worked non-stop to support her family. Many years passed, and Maria worked in almost every position in the restaurant industry and dreamed to start her own. Today Maria is the proud owner of, "De Todo Un Poquito Cafe"- A Little of Everything.

However, raising the funds to start her own business was not easy; she saved what she could out of every paycheck she received. Three years later and with $40,000 in savings she approached several banks for the last $10,000 to provide a working capital cushion for the first several months of operation. After being turned down several times, due to lack of existing cash flow, or no outside collateral, she heard about VEDC, which offered un-bankable businesses financing as well as free technical assistance.

Maria applied, and was surprised to find herself pre-approved for a $10,000 loan as well as the offering of assistance with writing her business plan. We know from years of experience that hands on technical assistance, coupled with need based financing, greatly increases a small business's chances of success. Three years later, Maria has expanded her café to occupy the vacant space next to her, created jobs for her 4 children, and is looking to expand elsewhere.

But micro lending is not just about making very small loans. It is about reaching entrepreneurs that are outside of the economic mainstream and helping them start and sustain a business that eventually creates jobs, adds to the tax base, and after a few years becomes bankable. Nearly every day we hear about online lenders and how they are addressing the financial needs of small businesses. But a lender that provides short term, extremely high interest rate products without transparency in their pricing is not what small businesses need. It's unfortunately what many of our small businesses find. The good news is that there are initiatives like microloan.org and SBA LINC, both new gateway referral programs for small business owners. And efficiencies are being built, through automation, yet staying committed to the long term, client centered, relationship based lending.

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

Maria Martir is one of the 25 million businesses, or 88% of all businesses, in the United States considered a micro-business – a business with 5 or fewer employees and start-up capital of under $50,000. Microbusinesses are everywhere - the farmer at the Saturday market, your neighbor who runs the local childcare center, the trucker that works long hours on the road, the contractor that built your home, the beauty salon or barber shop that knows the town's gossip, your favorite neighborhood restaurant that you always suggest needs to commercialize their bar-b-que sauce, or the miniature golf course you worked at as a kid– think of the businesses you frequent on a daily or weekly basis and I'm sure that you've encountered several microbusinesses you call your own.

All those micro-businesses add up to big numbers. These businesses generate $2.4 trillion in receipts, account for 17% of U.S. GDP, and employ more than 31 million Americans.1

Maria and other microbusiness couldn't do what they do without the support they get from SBA micro loan intermediaries like VEDC. Since 1998, VEDC has lent over $11 million by providing over 1,000 SBA micro loans, as well as pairing business technical assistance with the loans. Thankfully, there are many others like VEDC around the country. These participating intermediary lenders, like CDC Small Business Finance in California, Lift Fund which lends in over five Southern States, Common Capital in Massachusetts, Community Investment Corporation in Connecticut, Entrepreneur Fund in Minnesota, Wisconsin Women's Business Initiative Corporation, and the Economic and Community Development Institute in Ohio provide a 'one-stop-shop' where a business owner can secure flexible financing as well as the individualized business assistance as needed throughout the life of their loan. This model forges a unique dynamic between the lender and the business owner that has enabled intermediary lenders to maintain healthy and growing loan portfolios while financing businesses deemed 'un-bankable' by conventional lenders.

The SBA Microloan Program reclaims the American Dream, one micro-business at a time. Intermediaries work with every day entrepreneurs to harness their innovative ideas and creativity and empower them to become their own bosses. Our micro entrepreneurs work hard to become self-sufficient. They hire locally, pay taxes and in other ways give back to their communities. And it is our responsibility to make sure they have the access to capital they need.

[1] Survey of Business Owners and Self-Employed Persons, conducted by the U.S. Census Bureau in 2007 and 2008.

Since the program was authorized in 1991, intermediary lenders have borrowed $414 million from the SBA and used those funds to originate more than $629 million in loans to small businesses that have created or retained 185,800 jobs at a cost to the federal government of less than $2,228 per job. After 24 years the cumulative default rate on SBA loans made to intermediary lenders is 1.8 percent. This is greatly due to these intermediaries having 'skin in the game' in terms of having to pay back the SBA, and therefore a vital interest in their borrower's success. There are currently 137 active intermediary lenders participating in the program and in 2014 alone, these lenders made 3,917 loans totaling $55.5 million to small businesses supporting 15,880 jobs. Overall, they have proven that this is an efficient model to make smart investments in our local communities.

After 24 years these intermediaries have also realized that several of the, well-intentioned policies, originally placed by cautious policy makers, now serve as barriers to gains in efficiencies. Most restricting is the statutory restraint of utilizing 75% of the technical assistance post funding and only 25% pre funding. As with Maria, and the majority of micro entrepreneurs, the need for intense technical assistance before receiving financing ensures the loan will be utilized effectively and paid back. Additionally, these micro lenders now offer a continuum of services; including, technical assistance, microloan, the SBA 7(a), small business loan, or a 504 loan, that support a business until they are bankable. When they speak to one of the hundreds or even thousands of pre-loan clients, the need identified through the pre-loan technical assistance provided, may result in the client being better suited with one of these other products. In other words, technical assistance is provided to all clients, regardless of the loan they end up with, but that is not known at the start of the process.

We are all cognizant of the current budget situation. However, it is my belief that programs designed to encourage and promote job creation – especially those with proven track records such as the Microloan programs at SBA – require continued support.

Intermediary lenders participating in the SBA Microloan Program receive two streams of funding from the SBA: a direct SBA loan to the intermediary lender which is used to capitalize a revolving business loan fund and grant funds to help support costs associated with providing technical assistance to business borrowers. Direct SBA loans to the intermediary lender carry a 10-year term with a fixed interest rate based on the 5-year Treasury note and the lender must contribute a non-federal match equal to 15 percent of the SBA dollars borrowed in addition to maintaining a loan loss reserve equal to 15 percent of the lenders outstanding small business loans. Intermediary lenders are eligible to receive SBA technical assistance (TA) grants on an annual basis and the amount of the TA grant is based on the number of loans made in the previous year, the lender's outstanding debt to SBA and the availability of appropriated funds. To receive a TA grant a lender must also contribute a match of non-federal funds equal to 25 percent of the TA grant.

The proposed FY2016 SBA Budget provides continued opportunities for American's entrepreneurs to start their own businesses and become successful, independent and self-reliant like Maria has become. To keep the American Dream a reality for the millions of micro-business owners, **Congress needs to increase the effective investment it has made in SBA Micro Loan Program from $24.8 million to $28.3 million and make the programmatic changes suggested by current intermediary micro lenders.**

I would like to thank the Subcommittee for giving me the opportunity to share my views.