

Testimony of

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Good morning Mr. Chairman, thank you and the entire House Small Business Committee for inviting me to testify on behalf of the Small Business Administration today. My name is James Van Horn, and I am the Lead Lender Relations Specialist in the North Florida District Office here in Jacksonville. The North Florida Office is responsible for the delivery of SBA's many programs and services throughout the region. Today's hearing topic of Access to Capital and supporting minority firms is one of the core missions of the SBA.

SBA has a number of programs that provide access to capital. The most common and widely known is the 7(a) loan program. The role that the SBA and the Office of Capital Access plays in our credit markets fills an important gap in the lending marketplace. Our agency aims to help small businesses obtain credit which is otherwise unavailable through conventional lending. As many of you know, oftentimes entrepreneurs have the will and drive to succeed, but access to capital unfortunately proves to be an insurmountable hurdle. That is where we come in. Our programs have been helping small businesses get on their feet and grow for decades, particularly here in North Florida.

The 7(a) loan program is the Small Business Administration's primary program providing financial assistance to small businesses. This loan program offers guaranteed loans to small businesses of up to \$5 million on reasonable terms and conditions that can be used for business purposes, including acquiring land, purchasing or constructing a building, purchasing equipment, or working capital. The SBA works with lenders to provide loans to small businesses. The agency doesn't lend money directly to small business owners through the 7(a) loan program. The lender provides the loan to the small business and SBA provides a guaranty to the lender. The SBA has established credit criteria and terms

and conditions for loans made by its partnering lenders, community development organizations, and micro-lending institutions. The SBA reduces risk for lenders and makes it easier for small businesses to get loans.

Administrator McMahon and our Office of Capital Access in headquarters have been stressing to our lending partners that we want to see more small-dollar loans being made to entrepreneurs. Our focus is on helping those who need capital most – that includes minority-owned businesses, women-owned businesses, our veterans, and all of our emerging markets.

For those small businesses who need longer-term loans for real estate, fixed assets, or large equipment, we have the 504 Certified Development Company program. The SBA 504 Loan program is a powerful economic development loan program that offers small businesses another avenue for business financing, while promoting business growth, and job creation. 504 loans are made available through Certified Development Companies (CDCs), SBA's community based partners for providing 504 Loans.

504 Loans are typically structured with SBA providing 40% of the total project costs, a participating lender covering up to 50% of the total project costs, and the borrower contributing at least 10% of the project costs. Under certain circumstances, a borrower may be required to contribute up to 20% of the total project costs.

For business needs at the smaller end of the dollar spectrum, SBA has the direct Microloan program. Microloans are loans in what would be considered “smaller” amounts than conventional business loans. SBA’s Microloan program, for instance, provides loans of up to \$50,000 to help small businesses and certain not-for-profit childcare centers start-up and expand. SBA makes loans to not-for-profit lending intermediaries who then make microloans to small businesses for up to \$50,000. However, the program has an average loan size of just \$13,800. Year-over-year, we have seen a 5% increase in these loans which have supported an estimated 17,500 American jobs. Another interesting fact is that over 8% of our microloan recipients have gone on to receive larger loans from the SBA to support their continued growth. This is incredibly encouraging and we would definitely like to see this number continue to increase. The key to this program is the Technical Assistance the microlender provides to the borrower.

It is incredibly encouraging to see the impact that the Microloan program has had for so many American small business owners. This program is a way for aspiring and existing small business owners to access capital at a reasonable rate, especially when you compare it to maxing out multiple credit cards at much higher interest rates.

All of SBA's loan programs have unique eligibility requirements. In general, eligibility is based on what a business does to receive its income, the character of its ownership, and where the business operates. Also, businesses must meet size standards, be able to repay the loan from the cash flow of the business, and have a sound business purpose. Even those with bad credit may qualify for an SBA-guaranteed loan.

In addition to the finance programs noted earlier, I would like to take a moment to highlight some of SBA's other services. In particular, our counseling and assistance programs. If a small business seeks additional funding, but perhaps needs some technical assistance or to polish their business plan, we can help with that. Our office can connect a small business with a vast network of counseling services through the Small Business Development Centers and other resource partners. We have found that these services are invaluable in preparing a small business to seek additional funding.

I am proud to work for the SBA and to help the local community here in Jacksonville. Thank you for inviting me here today and I'm happy to answer any questions you may have.