



“A Review of SBA's 504/CDC Loan Program”

**Testimony before the House Committee on Small Business Subcommittee
on Economic Growth, Tax and Capital Access**

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Submitted by
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Chairman Brat, Ranking Member Evans, and distinguished members of the Subcommittee, good morning. I am Sherwood Robbins, here as Managing Director of South Eastern Economic Development Company of Pennsylvania, (Seedcopa). I am pleased to have the opportunity to discuss the economic development success that our CDC has in Pennsylvania and the job creation we facilitate with the 504 lending program.

Seedcopa was founded 1983 by the Chester County Economic Development Council as an affiliate, not-for-profit dedicated to SBA 504 lending as an SBA Certified Development Company (CDC). Seedcopa is primarily a 504 lending company covering the entire Commonwealth of Pennsylvania. Seedcopa utilizes other Federal and State economic development loan programs (such as the Pennsylvania PIDA program) when they are advantageous to Pennsylvania's start-up and expanding businesses, yet the SBA 504 program remains our flagship economic development tool.

I joined Seedcopa in 2007 as a loan officer, just at the onset of the great recession. During that time, and continuing through the present, I have witnessed dozens of examples of small businesses that received high leverage funding through the 504 program that either saved the small business or allowed the small business to expand and create additional employment. Even in today's stable economic climate, the 504 program continues to do the same, sponsoring growth in business revenue, economic stability, and living wage employment.

In just the last ten years since I have been a part of Seedcopa, our dedicated staff of seven full-time employees received 313 loan approvals under SBA's 504 lending program. As you are aware, SBA 504 loans require borrowers to create jobs to receive funding under the program. Seedcopa's loan approvals over the past ten years have resulted in borrowers committing to the creation of more than 4,500 local jobs. Over the life of Seedcopa's program, our 504 lending program has created one new fulltime job for every \$30,149 we have lent, far surpassing SBA's minimum job creation requirements.

Since inception, Seedcopa has collaborated with SBA to approve 644 loans that cover the landscape across Pennsylvania. It is near impossible to drive through our area and not see multiple borrowers that have been funded by the 504 program through Seedcopa. These

borrowers are active, vibrant, and have become key employers and good corporate citizens, supporting jobs and much more.

As we continue expanding our reach with the 504 program, I am very excited about the re-authorization that Congress provided in 2015 of the 504 refinance program. There are a significant number of businesses in our region whose real estate has been financed through traditional commercial loans that are ballooning over the next two years. With real estate values still recovering from the great recession, renewal of these loans may be difficult for the current lenders due to their regulatory loan-to-value limitations. I anticipate that the 504 refinance will be very useful in assisting businesses in refinancing their high loan-to-value real estate debt, preserving their ability to operate and the people they employ.

I would like to take a few moments to reflect on three examples of small business owners who have utilized the 504 program to grow their businesses. A local entrepreneur from Bryn Mawr, PA located in Ranking Member Evans' District, was self-employed as a personal trainer. This gentleman had a vision to take personal training to a higher level by offering the services to large area employers and co-develop fitness and wellness programs at the employer's locations; however, he would need a building from which to operate the business and to offer expanded services to smaller employers who did not have readily available space onsite to accommodate the program for their employees. The owner's most significant problem was that he had limited resources. Although cash flow was strong, the constant need to reinvest in the business and expand training did not leave him in a position where he could afford to fund a 20% deposit on the new building and continue to fund the business' growth and reinvestment needs. The 504 Loan was the perfect solution for this borrower. The program's 90% financing of both the real estate and a large portion of the loan costs reduced the owner's cash investment by more than 50%, allowing the acquisition of the building and the continued, uninterrupted operation of his business at a high level.

This borrower closed on the 504 Loan in 2014 with a requirement to create five new jobs in the next two years. At the two-year anniversary date of the loan closing, the borrower reported that he had exceeded his job creation requirement by 400% and had hired 21 new employees due to the increase in demand for the business' services!

Another example of the impact of 504 lending in our area of operations is a local salon and day spa business with seven locations in southeastern Pennsylvania. The most recent location is in Perkiomenville, PA in Congressman Fitzpatrick's District. Four of the seven locations have been financed by Seedcopa through the SBA 504 loan program. The owners utilize the 504 loan program's long term, 20-year fixed rate financing as a means to increase the financial stability of the business. In addition, the higher leverage financing enables the owners to maintain working capital in order to support growth and expansion of the business. The business growth facilitated through the SBA 504 loan program has seen this borrower develop from a small "Main Street" salon with only a few employees into a significant, woman-owned small business with 238 employees.

The last example is a manufacturer in Northampton County, PA, a county formerly known for its steel industry. This company is a traditional manufacturer, rolling, shaping and pressing steel to make commercial storage, racking and mezzanine systems, employing 104 local persons. The company's history goes back to the early 1900s as a designer and manufacturer of motorcycle parts, later manufacturing components for the Ford Model T chassis. The SBA 504 is very important for this borrower. The company has leased its current location for many years and had the first rights to purchase the building. When the building was offered for purchase, the company's principal struggled with two issues. First, injecting the traditional 20% equity into the property would nearly exhaust the company's necessary working capital. Second, the cost and effect of moving to a new location would be drastic. The prohibitive cost to move the heavy equipment to a new location was estimated at over \$1,500,000! Additionally, if the company moved out of its current territory, the loss of employees who could not relocate was very concerning. The borrower stated that, without the 504 program, the company might have folded. With this loan now approved by the SBA and the bank funding minor improvements included in the project, the borrower is looking forward to closing on the SBA debenture to lock in their 20-year fixed interest rate very soon.

In each of the examples, it is important look beyond just the direct employment numbers. Traditionally, in the fitness and salon industries, the employees are hourly, 1099 independent contractors who are paid by the number of fitness classes they teach or the

number of heads that they coif with no benefits. These two visionary entrepreneurs have leveraged the SBA 504 program to develop a new model of operations whereby the personal trainers and salon employees are now fulltime, regular employees with access to medical benefits and retirement savings. In the traditional manufacturer example, the 504 loan was the difference between employees losing their livelihoods and a community losing one of the few remaining manufacturer of the area's heritage industry - steel.

The employees in these examples have dependable, recurring income that increases not just their sense of financial stability, but also their disposable income which is in-turn spent at other small businesses throughout the area. The true impact of 504 lending, in these and many other examples, goes beyond the number of jobs created at a borrower site to include the inferred job creation that occurs throughout the surrounding community and the overall increase in consumer confidence that generates and maintains consumer spending across the economy. The overall economic impact of the 504 program, SBA's continual willingness and effort to work with NADCO and CDCs to improve and streamline the lending process, and this Subcommittee's understanding and support of SBA 504 lending will continue to have a strong and significant positive impact on small businesses, which are the backbone of our economy.

Thank you once again for accepting my testimony. I am happy to answer any questions the Subcommittee may have.