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National Association of Development Companies

Testimony of:
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A Review of SBA's 504/CDC Loan Program
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Subcommittee on Economic Growth, Tax, & Capital Access
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Chairman Brat, Ranking Member Evans, and other distinguished members of the committee: Thank you for inviting me to testify today.

My name is Barbara A. Vohryzek and I am here on behalf of the National Association of Development Companies, or as we're commonly known, NADCO. I serve as President and CEO and, in that role, represent more than 95% of the 230 Certified Development Companies in the country. These Certified Development Companies, or CDCs, are non-profit entities dedicated to economic development in their local communities. The work of a CDC is familiar territory to me - I founded and ran California Statewide CDC for over 21 years. There is at least one CDC covering each congressional district in the country, creating jobs and supporting small business owners. My colleagues on this panel can speak at great length about their CDC's daily work, but while CDCs can be rural or urban, large or small, what unites them all is their participation in SBA's 504 loan program.

The 504 loan program is an economic development tool that provides small businesses with long-term, fixed-rate loans to help them acquire major fixed assets for expansion or modernization of their businesses. These loans are most frequently used to acquire land, buildings, machinery, or equipment. A 504 loan can be 10 or 20 years, and SBA has recently announced it will also add a 25 year term, which is a beneficial addition for small business owners. Pairing the fixed rate aspect with these term options gives a small business owner stability, allowing her to budget, without concerns about rising rates or balloon payments.

A loan package that includes a 504 is made up of three parts, which we often describe in shorthand as "50-40-10." First, a bank provides approximately 50% of the loan package. The 504 loan is the next portion. This can be up to 40% of the package total, up to a maximum of $5.5 million for businesses that meet certain criteria, though most 504 loans do not come close to this cap. The 504 loan is guaranteed by SBA and funded through a debenture sale on Wall Street, not by funds from the government. CDCs "quarterback" this part of the loan package by working with the borrower to get SBA's approval, ensuring the loan is funded through the private markets, and servicing the loan after closing. The final part of the loan is funded by the small business borrower herself. Through the balance of this structure, fees, and rigorous SBA oversight of CDCs and the loan portfolio, the 504 loan program operates at zero subsidy. The fact that 504 requires no subsidy from the taxpayer is a point of pride, and we hope and work to ensure the loan portfolio continues to operate that way each year.

Beyond these structural aspects of the loan, the distinguishing feature of the 504 loan program is jobs. By law, each $65,000 in financing through the 504 loan program must create or sustain one job, or meet one of several public policy goals. Job creation and retention is the primary metric of the 504 loan program-if a CDC does not maintain this 1 to 65,000 ratio of jobs to loaned dollars, it cannot operate as a CDC any longer. 504 is a jobs program at its core, and every day CDCs work with borrowers to get financing that will help them hire new workers, or save jobs that would be lost but for the existence of the 504 loan they receive.

The statistics of this program speak for themselves. Since 1991, 504 loans have created or sustained 2.1 million jobs through 128,000 loans, delivering $70 billion in financing to Main Street, according to SBA data. These businesses include the local toy store where you buy Christmas gifts and the animal hospital that does house calls to your farm. They are the pillars of the community whose products you order online when you're homesick, and what make your current neighborhood special and unique. There are also some 504 loan recipients whose names are likely familiar to everyone in this room, regardless of hometown. If we all pulled out our cell phones right now, I bet we'd see the words "Otterbox" stamped across several cases, like mine. A few more of you may have had a Chobani yogurt for breakfast. For the music lovers in the room, a trip to South by Southwest is likely on your bucket list, and the foodies likely have dinner at The French Laundry on theirs. All of these products and places, and the jobs created through them, received 504 financing. Many of these businesses would not exist at all without it.

All CDCs pursue their economic development mission through SBA's 504 loan program, the primary focus of our hearing today. However, I would be remiss if I did not highlight that CDCs often also participate in other federal, state, and local economic development programs. While 504 was designed to be the larger SBA loan and have a strong jobs impact through the small business' acquisition of real estate and equipment, many CDCs also look for opportunities to serve entrepreneurs who need smaller loans earlier in their development. Within SBA programs, CDCs are active participants in the Community Advantage pilot loan program, the Microloan program, and Intermediate Lending Pilot (ILP) Program. In addition, incubators, CDFIs, and EDA revolving loan funds are all represented by multiple CDCs in our community, among many other programs. Economic development is the watchword for the CDC industry, as this range of programs and the range of programs provided by the two CDCs at the witness table with me demonstrate.

The 504 loan is a wonderful tool for both a small business owner and for communities looking to grow and create job opportunities. Thank you again for the privilege of joining you today. I look forward to your questions.