U.S. Small Business Administration

Evaluation of Community Development Financial Institution and Minority Depository Institution Lender Participation in SBA Capital Programs

Final Report

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Disclaimer

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Glossary

Term	Definition
504/CDC Loan Program	Provides growing small businesses with long-term, fixed-rate financing for owner-occupied real estate and heavy equipment. A CDC is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. Generally, a business must create or retain one job for every $65,000 provided by the SBA; “Small Manufacturers” have a job creation or retention goal of $100,000.
7(a) Loan Program	The SBA's primary small business loan program, which assists small businesses with financing when they are unable to access credit elsewhere. The Agency guarantees 50% to 90% of each loan a participating lender makes to an eligible small business. The SBA guaranty assures the lender that if the borrower does not repay the loan and the lender has adhered to all applicable regulations concerning the loan, the SBA will reimburse the lender for its loss, up to the percentage of the SBA’s guaranty.
Active Lenders	Lenders participating in SBA’s traditional loan programs.
Attractors	Factors that draw and incentivize lenders to participate in SBA loan programs and the Lender Match tool.
Barriers	Program features, processes, or actions by SBA and lender organizational factors that make it more complicated, more difficult, and less efficient for lenders to participate in SBA loan programs and the Lender Match tool.
7(a) Community Advantage Pilot Program	This program began in 2011 and is limited to mission-focused lenders. 7(a) CA lenders must offer technical assistance and make at least 60% of their 7(a) CA loans in SBA-designated underserved markets. Under the 7(a) CA program, the Agency guarantees 75% to 85% of each loan of $350,000 or less that a participating lender makes to an eligible small business.
Facilitators	SBA processes or actions that make it easier, less difficult, and more efficient for lenders to participate in SBA loan programs and the Lender Match tool.
Federally Regulated CDFI	Must meet specific certification criteria to participate in the Community Development Financial Institutions (CDFI) Fund’s programs. These CDFIs can be community development banks or credit unions. These organizations assist families, community residents, and communities themselves with financial needs, including basic financial services, affordable credit, investment capital, and access to training and direct technical assistance opportunities.
Lender Match tool	This virtual tool helps streamline the lending process by connecting small businesses with SBA-approved CDFIs, Minority Depository Institutions (MDIs), CDCs, Farm Credit System lenders, and microlenders that specialize in servicing borrowers in underserved and disadvantaged areas.

Term	Definition
Microloan Program	This program provides loans of up to $50,000 and technical assistance and training to small businesses through SBA-approved Microloan intermediaries. Although the program is open to all small businesses, it targets businesses in underserved markets, low-income borrowers, and women and minority entrepreneurs who generally do not qualify for conventional loans or other, larger SBA-guaranteed loans.
Minority Depository Institution	Minority Depository Institution (MDIs) are federally insured banks where a) racial or ethnic minorities own 51% of the bank's voting stock and/or b) a majority of the members of the board of directors qualify as racial/ethnic minorities and many of the residents/customers in the bank's targeted market qualify as ethnic/racial minorities. MDIs can also be federally insured credit unions where a majority of the members are racial/ethnic minorities and the elected leadership has a majority membership of racial/ethnic members.
New Lenders	Lenders who first participated in the Paycheck Protection Program (PPP) who have gone on to begin lending in SBA’s traditional loan program.
Non-Federally Regulated CDFI	Must meet the CDFI Fund’s certification criteria but is not bound to the same federal regulations as regulated CDFIs. Examples of Non-Federally Regulated CDFIs include loan funds and venture capital funds.
Potential Lenders	Lenders who are eligible to participate but have not participated in SBA’s traditional loan programs.

List of Acronyms

Term	Description
CA	Community Advantage
CDC	Certified Development Company
CDFI	Community Development Financial Institution
FDIC	Federal Deposit Insurance Corporation
FRC	Federally Regulated CDFI
MDI	Minority Depository Institution
NCUA	National Credit Union Administration
NFRC	Non-Federally Regulated CDFI
OCA	Office of Capital Access
POC	Point of Contact
PPP	Paycheck Protection Program

Executive Summary

The U.S. Small Business Administration's (SBA) capital programs are designed to bring capital to underserved and minority-owned businesses to promote their communities' economic development. This goal requires an examination of the issues that facilitate or prevent lenders' participation in the SBA's capital programs. The SBA works with community lenders to expand its capital programs and reach its targeted populations. The Paycheck Protection Program (PPP) provided an opportunity for community lenders to learn about and participate in the SBA's capital programs. However, few who participated in PPP became new lenders in the SBA programs.

This evaluation focuses on the following types of community lenders: Federally Regulated CDFIs, Non-Federally Regulated CDFIs, Minority Depository Institutions (MDI), and dual designation lenders (i.e., CDFI *and* MDI). The study covers four capital programs (7(a) Loan Program, 7(a) Community Advantage (CA) Pilot Program, 504/ Certified Development Company (CDC) Program and the Microloan Program) and the Lender Match tool. Each program and tool have unique features that may drive community financial institutions and small businesses to participate. Taken together with the participation status in the SBA's capital programs and the Lender Match tool (active, new, and potential), there were nine groups under consideration in this study.

The factors of interest to participate in the four SBA capital programs and the Lender Match tool are:

- **Attractors**: factors that draw and incentivize lenders to participate
- **Facilitators:** SBA processes or actions that make it easier, less difficult, and more efficient for lenders to participate
- **Barriers**: SBA program features, processes, or actions and lender organizational factors that make it more complicated, more difficult, and less efficient for lenders to participate

The study identified common and unique factors among types of community lenders, by SBA capital program, and by SBA capital program participation status. The study also suggested how the SBA can encourage greater community lender participation in SBA capital programs to improve equitable capital distribution.

The evaluation gathered data from primary (web-based surveys and virtual interviews with lenders) and secondary and administrative data (administrative data and public files). Optimal discussed and vetted the collected information with SBA capital programs' leadership and managers and the OCA liaison during several working sessions.

Out of all lender survey respondents, 60% were currently participating in at least one of the SBA's capital programs or the Lender Match tool. Among the main lending activities, 79% of study participants conducted for-profit small business finance within the last five years. Small business lending comprised approximately 36% (on average) of respondents' lending portfolios.

About two-thirds of all survey respondents were at least a little knowledgeable about the SBA's capital programs and the Lender Match tool. Respondents were most knowledgeable about the 7(a) program, the SBA's flagship capital program. Active and potential lenders shared similar levels of interest across the capital programs and the Lender Match tool. Potential lenders were more interested in the 7(a) and Microloan programs.

Summary of Findings

Lenders were asked what factors, features, or processes make each of the SBA capital programs under study attractive to them; these are referenced as **attractors**. Across all SBA capital programs, the most reported attractors by any lender group were "mitigation of lending risk" and the "ability to serve higher-risk borrowers." The SBA staff confirmed that it also considered these attractors to be the most important features of the capital programs. Lenders also mentioned other attractors such as the "opportunity to expand the market" and "better ability to compete for borrowers."

In terms of **facilitators**, 47% of active (current and new) lenders reported an SBA facilitator. The primary facilitators were "standardized financial forms" and "clear program eligibility requirements."

Lenders provided feedback on a variety of **barriers** to program participation, whether expanding their program participation (more loans) or entering the program. More than 50% of lenders participating in the survey identified internal lender organizational barriers and SBA programmatic rules/regulations barriers as the main barriers to program participation. The SBA had limited influence on removing the internal barriers. Less than 30% of lenders believed that SBA administration of programs created a barrier to participation.

Among the most important distinctions between lender groups reporting barriers are:

- About 75% of active NFRCs reported programmatic barriers, at least five percentage points higher than any other group.
- Half of the active MDI and CDFI/MDIs groups reported SBA operational barriers as their main barriers, which is at least ten percentage points higher than any other lender group.

Optimal also assessed the **Lender Match tool** for factors affecting lender participation in the tool. About half of the active lenders reported participating in the Lender Match tool. Some lenders provided positive feedback regarding the Lender Match tool, reporting that it is a good way to connect with prospective borrowers. However, overall perceptions of the tool ranged from indifferent to mildly negative. Ultimately, lenders determined the Lender Match tool was difficult to use and resulted in a disproportionately small number of loan conversions relative to the number of referrals.

The study examined the perspectives of lenders that participated in the PPP and either did not follow up with an SBA participation agreement to provide loans to members of their community or, if they did follow up, have not executed SBA loans. Most **new lenders** were organizations with limited lending staff or a very narrow lending focus. Some of these community lenders participated in PPP to support the one-time needs of their customer base; before PPP, there was not a planned or orchestrated effort to participate in the SBA capital programs. New lenders expressed concern that they lack staffing or in-house resources to comply with SBA requirements for participation, underwriting, and reporting, or they are unwilling to be at risk if the SBA guaranty does not hold.

Researchers asked community lenders across all types of lenders and SBA program participation groups the following: "*How can the SBA grow the use of SBA capital programs among CDFI and MDI lenders that target underserved small business markets to further equitable distribution of capital?*"

Respondents indicated moderate to high interest in participating in the four SBA capital programs. Lenders' interest in participation as well as their potential investment in human and operational resources to participate are dependent on several factors, including external (economic) considerations and the mitigation or reduction of their barriers to participation.

External forces limiting these community lenders' involvement in SBA capital programs include:

- Current high interest rates and the prospects of an economic recession
- Lenders have access to other funding sources (ARPA 2021 funds with fewer restrictions in reporting and compliance than SBA capital programs)
- Some underserved borrowers are not ready for SBA loans

These conditions have affected lenders' borrowing levels and SBA participation in recent years. Lenders argued that at least a couple of these considerations would change in the short-term, and there may be a new pro-SBA environment in the future, which may result in additional funds available to underserved borrowers and communities. However, lenders who have been shy about SBA program participation also believed that it is easier to complete the loan in-house due to excessive costs and time commitments for both the borrower and the lender of the SBA capital programs.

Regarding underserved borrowers, lenders reported that there is an unmet demand for capital. A few lenders, particularly in rural areas, were more conservative in their assessment of unmet needs.

For small lenders to build their capacity and to expand or add SBA capital programs to their lending portfolio, these lenders suggest the following assistance:

- Simplify the Standard Operating Procedures (SOPs) by providing checklists and deconstructing all the "exceptions" in the program requirements
- Provide capacity-building grants to support a portion of a dedicated loan officer
- Establish comprehensive and ongoing training for lender staff to acquire and frequently update their knowledge of SBA loan requirements
- Co-share lenders service provider (LSP) costs that support lenders through the application, reporting, and closing of loans

These suggestions address critical challenges, which are essentially about developing and nurturing community lenders. Although the SBA is not an incubator for community lenders, there are actions that the SBA could implement or support to mitigate barriers and support lenders to meet the capital needs of their underserved customers.

Recommendations

SBA staff acknowledged familiarity with some stated barriers to program participation and noted specific works-in-progress that are designed to eliminate or lessen the barriers. Other barriers are more difficult to address as they are outside the Agency's purview or require extraordinary measures such as Congressional action. Optimal prepared recommendations that are actionable, in alignment with the OCA's strategic plan, and do not require significant resources from the SBA. In many instances, these recommendations focus on two points: monitoring the performance of tools and processes and ensuring that the SBA remains mindful of community lenders' limited resources and knowledge of the SBA capital programs. Optimal has organized its recommendations to improve and/or expand lender participation in the SBA capital programs across the following four major themes:

- Loan requirement complexity
- IT and systems functionality
- SBA communication and response times
- Lender staff and resource capacity

Regarding loan requirement complexity, there are two main recommendations:

- Continue to monitor statutory requirements that would allow for increased flexibility for lenders and borrowers
- Continue monitoring technological improvements in this space to reduce the burden on lenders and borrowers, particularly in a remote working environment

Regarding IT and systems functionality, there are three topics where the SBA can have an active role in monitoring technology developments:

- Leverage the Unified Lending Platform to simplify financial documentation requests
- Monitor ease of access and use of the new Unified Lending Platform, a tool designed to mitigate issues with the application and operations of the 7(a) and 504/CDC programs
- Enhance systems and improve functionality to make the system(s) more user-friendly for the Microloan program
- Reexamine the Lender Match tool's functionality to ensure that it meets borrowers' and lenders' needs

In terms of SBA communication and response times, there are at least three areas where the SBA can expand its involvement with community lenders:

- Increase awareness of or access to current and new trainings and educational materials
- Explore user-friendly ways to convey and share information and knowledge, with a focus on *potential* community lenders
- Assess the usability, effectiveness (knowledge gains), and customer satisfaction of currently available and new training or informational materials

Regarding lender staff and resource capacity, there is one main recommendation:

- Emphasize collaborations with other federal agencies such as the CDFI Fund and the NCUA as well as other stakeholders (e.g., National Association of Government Guaranteed Lenders (NAGGL), Credit Union Service Organizations (CUSO), Grow America Fund, and enterprise fund) to train and share resources and build community lender capacity

Changes in these may lead to a substantial number of all lenders stating that they could increase their SBA lending if barriers to SBA program participation were mitigated. Mitigation of barriers along with upcoming changes in the external economic factors are likely to lead to an uptake in SBA program participation soon.

Introduction

Background

The U.S. Small Business Administration's (SBA) capital programs are designed to bring capital to underserved and minority-owned businesses to promote their communities' economic development. The SBA's goal to increase capital access to underserved and minority-owned small businesses requires an examination of the issues that facilitate or prevent community lenders' participation in the SBA's capital programs. The Paycheck Protection Program (PPP) provided an opportunity for lenders to learn about and participate in the SBA's capital programs. However, the number of new CDFI and MDI lenders (148 in total) that became participants in the SBA's capital programs after their participation in PPP (15) is small.

Community lenders service clients in and support distressed communities. The SBA can work with these organizations to expand its capital programs and reach its targeted populations.

The study covers four SBA capital programs and the Lender Match tool. Each program and tool have unique features that may drive community financial institutions and small businesses to participate. For a full description of each program/tool, please see the glossary above.

- 7(a) Loan Program
- 7(a) Community Advantage (CA) Pilot Program [1]
- Microloan Program
- 504 Certified Development Company (CDC) Loan Program
- Lender Match tool

This evaluation considered Federally Regulated CDFIs (FRCs), Non-Federally Regulated CDFIs (NFRCs), MDIs, and dual designation lenders (i.e., CDFI *and* MDI designation). It also considered participation status in the SBA's capital programs and the Lender Match tool (i.e., active, new, and potential), the descriptions for which can be seen in **Table 1** below. In total, there were nine groups under consideration, as seen in **Figure 1** below.

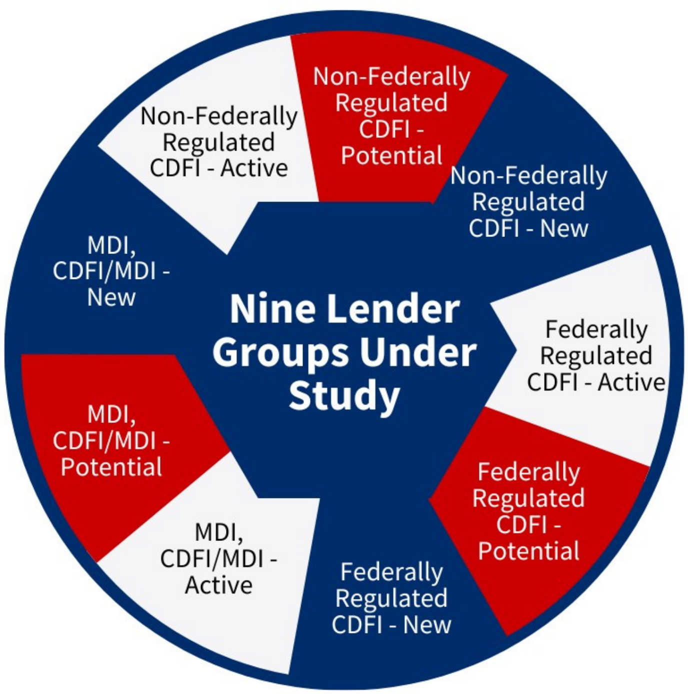
[1] The SBA sunsetted the 7(a) Community Advantage program on October 31, 2023.

Table 1. Description of Lender Populations Under Study

Study group	Lenders' participation in the SBA's capital programs and Lender Match tool	Timeframe Relative to PPP *	
		Pre PPP	*Post PPP*
Active	Lenders participating in the five SBA programs under study before and after PPP, or that have entered into an active loan agreement with the SBA	Yes	Yes
New **	Lenders first participated in PPP and then entered into an active loan agreement with the SBA	No	Yes
	Lenders only participated in PPP and have no activity in any of the SBA programs under study	No	No
Potential	Lenders that are eligible to participate but have not participated in PPP or the selected five SBA programs	No	No

Note: * First PPP Drawing.
Note: ** This group is expected to be very small.

Figure 1. Nine Lender Group Types Under Study



Purpose of the Study

The SBA is interested in learning what factors may be attracting, facilitating, and acting as barriers for participation in the SBA's capital programs and the Lender Match tool among community lenders that assist underserved and minority-owned small businesses. These factors are defined below.

- **Attractors**: factors that draw and incentivize lenders to participate in the examined SBA capital programs and the Lender Match tool
- **Facilitators:** SBA processes or actions that make it easier, less difficult, and more efficient for lenders to participate in the examined programs and the Lender Match tool

- **Barriers**: SBA program features, processes, or actions, and lender organizational factors, that make it more complicated, more difficult, and less efficient for lenders to participate in the examined programs and the Lender Match tool

The study seeks to identify common and unique factors that could be distinct among types of community lenders, by SBA capital program, and SBA program participation status. The study also suggested how the SBA can encourage greater community lender participation in SBA capital programs to improve equitable capital distribution.

Study Design

Research Questions

The evaluation of community lenders' participation in four SBA capital programs and the Lender Match tool will address the following research questions:

1. What are the attractors, facilitators, and barriers to CDFI and MDI entity participation in the SBA capital programs, including the Lender Match tool, globally and by lender type?
2. How can the SBA increase participation in SBA capital programs among CDFI and MDI lenders that target underserved small business markets to further the equitable distribution of capital?
   a. How could the SBA's capital programs help CDFI and MDI lenders meet their unmet capital needs?
   b. If SBA attracted additional CDFI and MDI lenders, what is the potential market size?

Data Sources

Optimal first conducted a thorough literature review to identify (among other topics) major barriers to lender participation in SBA capital programs and subsequently to inform the instrument design(s). Based on the literature review, Optimal identified the following five barriers as the most significant to lender participation:

- Limited programmatic knowledge among lenders and borrowers
- Programmatic complexities such as Standard Operating Procedures (SOP) requirements, burdensome application processes, and/or extensive lender training(s)
- Lenders' internal limitations, including limited staff, budget, and stakeholder engagement, as well as incompatible technological platforms
- High proportion of underserved small business borrowers within lenders' portfolios
- Borrower composition (i.e., borrowers in industries that either have a high default rate or are affected by geographic factors)

Optimal then developed and conducted web-based surveys and virtual interviews from a universe of nearly 1,400 lenders to address the research questions.

SBA and Secondary Data Sources

Optimal used SBA administrative data and secondary data sources to develop the universe of lenders for the data collection. These data sources included information on the number of CDFI, MDI, and CDFI/MDI lenders, the number of active SBA lenders, and the number of those who participated in PPP. After merging this data with Optimal's original database, Optimal maintained at least one point of contact for 666 lenders (note: many of these lenders had more than one point of contact listed). Optimal then conducted a multi-level web-scraping of the in-universe lenders to collect email addresses (including generic business email addresses and personal (work) email addresses where applicable) for all lenders, including those for whom Optimal had a point of contact originally. Optimal was able to consolidate 1,964 email addresses, including email addresses for multiple points of contact within the same lender, 1,393 of which were for unique lenders. The list of SBA administrative and secondary data sources is below.

- SBA Lender Information Portal excerpt: The list of names, addresses, and organization types of SBA lenders participating in the four selected programs and the separate list of new SBA lenders that began participating in SBA programs after participating in the PPP
- SBA public data of PPP lenders: The list of PPP lenders with organization name and address [2]
- National Credit Union Administration (NCUA) and Federal Deposit Insurance Corporation (FDIC) MDIs 2022 list: With organization name and address [3]
- The CDFI Fund (list of CDFIs) 2022: With organization name, address, and organization type [4]

Primary Data Sources

Optimal then collected data via web-based surveys and virtual interviews with lenders. Lenders were categorized into nine groups based on the type of lender and SBA program participation status.

Table 2 below provides a breakdown of the lender groups used for the virtual interviews and the web-based survey analysis. Given the small universe size and low survey response rate of the new lender group, Optimal elected to combine it with the potential group for the purposes of the survey. Thus, we only present survey results for six groups.

Table 2. Breakdown of CDFI and MDI Lenders by Type and SBA Capital Program(s) Participation Status

<table>
<tr><th colspan="6">Web-Based Survey</th></tr>
<tr><th colspan="3">Active</th><th colspan="3">New/Potential</th></tr>
<tr><td colspan="3">• Federally Regulated CDFI
• Non-Federally Regulated CDFI
• MDI or CDFI/MDI</td><td colspan="3">• Federally Regulated CDFI
• Non-Federally Regulated CDFI
• MDI or CDFI/MDI</td></tr>
<tr><th colspan="6">Virtual Interview</th></tr>
<tr><th colspan="2">Active</th><th colspan="2">New</th><th colspan="2">Potential</th></tr>
<tr><td colspan="2">• Federally Regulated CDFI
• Non-Federally Regulated CDFI
• MDI or CDFI/MDI</td><td colspan="2">• Federally Regulated CDFI
• Non-Federally Regulated CDFI
• MDI or CDFI/MDI</td><td colspan="2">• Federally Regulated CDFI
• Non-Federally Regulated CDFI
• MDI or CDFI/MDI</td></tr>
</table>

[2] https://data.sba.gov/dataset/ppp-foia

[3] Link: https://www.ncua.gov/support-services/credit-union-resources-expansion/resources/minority-depository-institution-preservation; https://www.fdic.gov/regulations/resources/minority/mdi.html

[4] The CDFI Fund sites: https://www.cdfifund.gov/documents/data-releases and https://www.cdfifund.gov/tools-resources

Figure 2. Web-Based Survey and Virtual Interviews Response Rates

Web-based survey
Response rate: 26% (360/1,393)

Virtual interview
Response rate: 82% (89/108)

The **web-based survey** was delivered to nearly 1,400 unique lenders. It captured lenders' knowledge of, interest, and current participation in the SBA capital programs and identified any attractors, facilitators, and barriers (SBA programmatic and administrative barriers, and internal (lender) barriers) to lender participation. It also asked for detailed information on portfolio size, potential changes to lending activity following potential mitigation of the main SBA-related barriers, and suggestions for SBA communications and/or outreach. The study used distinct question formats (matrix vs open-ended) to collect information from lenders for the capital programs and the Lender Match tool. Thus, the report presents first the results focused on the four capital programs. The results for the Lender Match tool are shown later in the report. Optimal conducted the surveys over approximately two months.

Optimal conducted **virtual interviews** with 89 lenders over 45 days as a follow-up to the web-based survey to gather detailed information on the survey-reported attractors, barriers, and facilitators. These interviews included lenders who did and did not complete the survey. Both groups provided a perspective to validate survey responses and preliminary themes.

For the overall response rates across each of these primary data sources, please see **Figure 2** above.

With the above data, Optimal conducted statistical analysis and thematic coding by lender type, program participation status, and a combination of lender type and SBA program participation status.

Optimal also conducted **virtual working sessions** with SBA capital program managers, OCA liaisons, and members of the OCA leadership team four times (twice before the survey and twice after) to gather feedback on data collection findings. The sessions also prompted suggestions for programmatic, operational, and regulatory changes to increase CDFI and MDI lenders' use of SBA capital programs and to address small businesses' unmet capital needs.

Study Caveats

The final universe of lenders was subject to discrepancies due to incomplete, outdated, and/or unspecific data from the SBA and public sources.

Response rates. There was a relatively low survey response rate across each of the lender groups, particularly for the active regulated CDFI and the MDI, CDFI/MDI groups. The low response rate limited the analyses' power to identify significant differences between these lender groups.

Small universe of new lenders. New lenders are a small universe as a group, and the survey had 16 respondents in this group. The small universe and the low response rate limited the power of analysis for their survey results. New lenders did not have a clear pattern of results with either of the other two groups (active and potential lenders). For analytical and simplicity purposes, Optimal aggregated new lenders' and potential lenders' responses. However, given the SBA's interest in the feedback from new lenders, the team kept the lender composition (active, new, and potential lenders) when conducting lender interviews.

Administrative data vs. self-reported data. Optimal noticed inconsistencies between how lenders were categorized by SBA participation status and by lender type according to the public record/administrative data and the self-reported data. These inconsistencies were also present in the virtual lender interviews and may lead to inaccurate attribution of the findings to specific community lender groups. For instance, a Federally Regulated CDFI was classified as potential according to administrative and the survey self-reported data, but when interviewed, the lender stated that they were active and had participated in the capital programs for some time. The analyses below are based on lenders' self-reported data.

Program eligibility. There were inconsistencies in SBA capital program participation and lender group eligibility. Federally Regulated CDFIs are not eligible to participate in the 7(a) CA program nor the Microloan program, yet 9% and 8%, respectively, of survey respondents reported that they participated in these programs. Similarly, Non-Federally Regulated CDFIs are ineligible to participate in the 7(a) program, yet 13% of survey respondents reported that they did, in fact, participate in this program.

Confusion about facilitators. During the lender interviews, Optimal discovered that lenders tended to see questions about facilitators as actions that the SBA *could take on* to make it easier for lenders (lender suggestions for improvement) rather than what made current participation easier. The interviews helped revise some of the narratives about facilitators.

Self-reported data. During the lender interviews, Optimal received much anecdotal evidence from the lenders in support of unmet demand in their areas. However, since Optimal did not speak to borrowers directly to confirm their level of demand, this data is based solely on the lenders' perception. The real amount of unmet demand for small business loans is therefore unconfirmed.

Characteristics of Lender Participants in the Study

Figure 3 below shows the key characteristics of the lender survey respondents. Out of all survey respondents, 60% participated in PPP and were *currently participating* in at least one of the SBA's capital programs or the Lender Match tool. Additionally, among the main lending activities [5], 79% of survey respondents conducted for-profit small business finance within the last five years. Small business lending comprised approximately 36% (on average) of respondents' lending portfolios. The average number of small business loans made by lenders (in 2022) was approximately 357, with an average amount of total small business loans ($) of $51 million.

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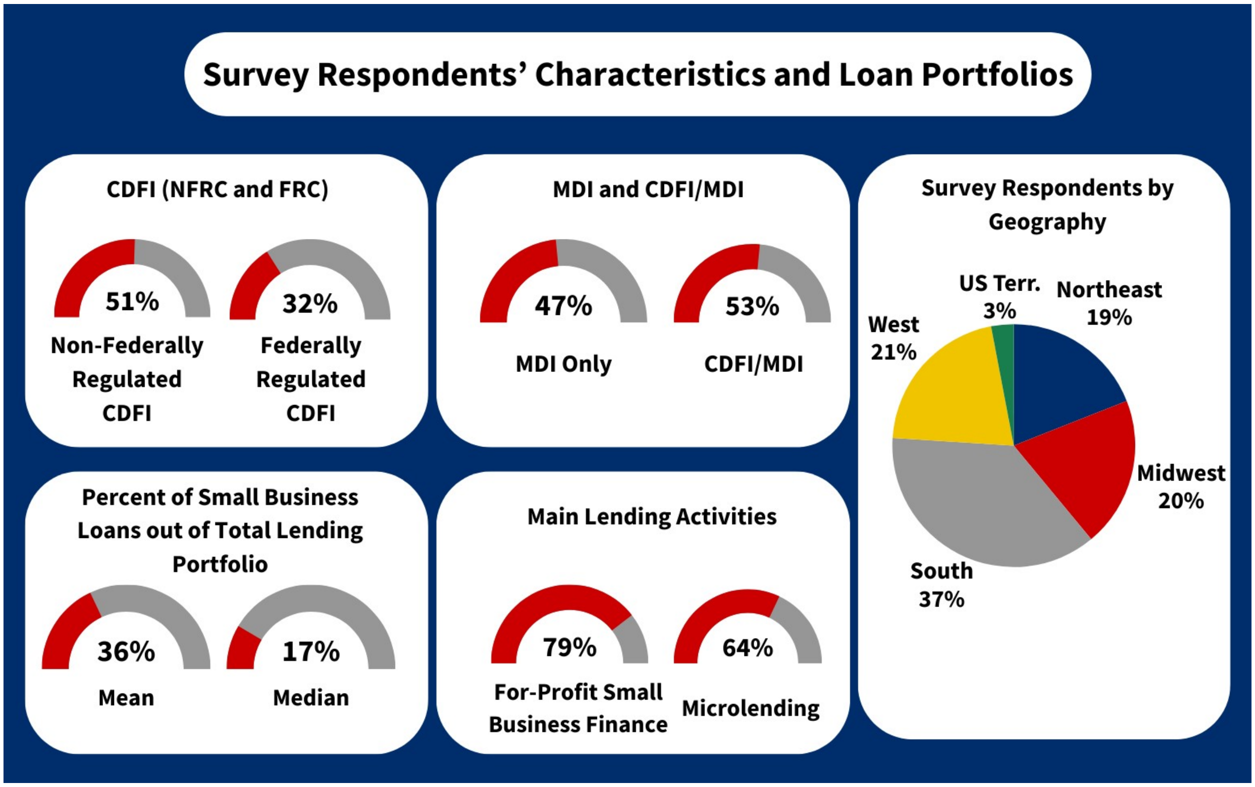
[5] The eight potential lending activities included in this study were: 1) for-profit small business finance, 2) nonprofit small business finance, 3) micro-lending business, 4) commercial real estate, 5) residential mortgages, 6) nonprofit community facilities, 7) consumer lending, and 8) other. Only lenders that selected items 1, 2, or 3 as listed above participated in the full survey. Lenders that responded otherwise were automatically opted out based on inapplicability. That is, the five other types of lending were deemed inapplicable to the evaluation of the capital programs.

Figure 3. Survey Respondents' Characteristics and Loan Portfolios

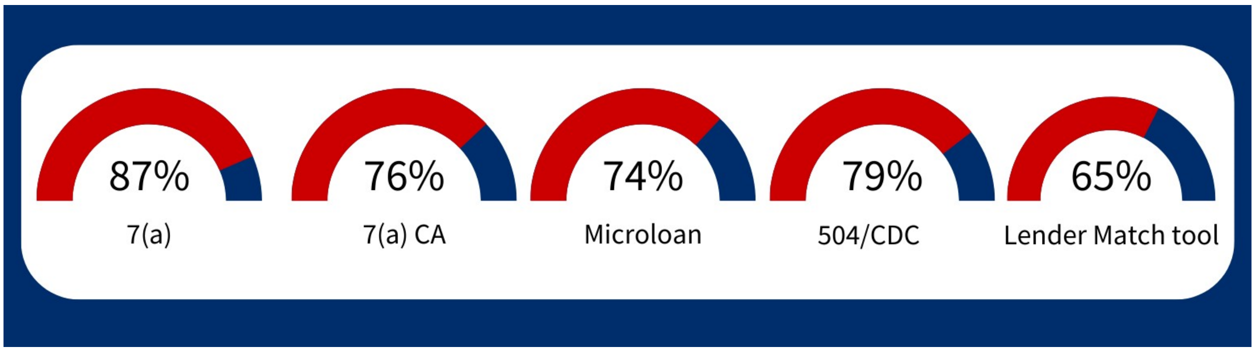


Please see **Appendix A** for a detailed breakdown of survey response rates across the six lender groups used for the survey.

Lenders' Knowledge, Participation, and Interest

There are two main takeaways from **Figure 4** and **Table 3** below, respectively. First, about two-thirds or more of all survey respondents are at least a little knowledgeable about the SBA's capital programs and the Lender Match tool. Respondents are most knowledgeable about the SBA's flagship capital program, the 7(a) program; 87% of respondents reported that they were at least a little knowledgeable. Secondly, active and potential lenders (as seen in **Table 3** below) share similar levels of interest across the SBA programs. Potential lenders are relatively more interested in the 7(a) and Microloan programs. Potential lenders and interest in the Microloan program may be driven, at least in part, by the large proportion of Non-Federally Regulated CDFI respondents.

Figure 4. Percentage of Survey Respondents' Knowledge of SBA Capital Programs



Note (1): Calculations based on the total across active, new, and potential lender responses
Note (2): Calculations of knowledge are based on the percentage of respondents that reported to be at least a little knowledgeable (that is, knowledge percentages include "a little," "somewhat," "quite a bit," and "a great deal" categories)

Table 3. Percentage of Survey Respondents' Interest in SBA Capital Programs by SBA Participation Status

SBA Participation Status	7(a)	7(a) CA	Microloan	504/CDC	Lender Match tool
Active	34	45	34	30	34
New	83	80	75	80	64
Potential	38	44	48	28	34

Note: Percentages of program interest for the new lenders are based on very few responses (16) and may, therefore, be disproportionately high.

Table 4 below shows Federally Regulated CDFIs and MDIs, CDFI/MDIs most frequently participated in the 7(a) capital program (85% participation for each of these two groups), followed by the 504/CDC program (62% and 63%, respectively). Non-Federally Regulated CDFIs, on the other hand, most frequently participated in the Microloan program (75%), followed closed by the 7(a) CA program (62%).

Table 4. Percentage of Survey Respondents' Participation in SBA's Capital Programs

Lender Type	7(a)	504/CDC	7(a) CA	Microloan	Lender Match tool
Federally Regulated CDFI	85	62	9	8	39
MDI, CDFI/MDI	85	63	30	30	34
Non-Federally Regulated CDFI	13	23	62	75	59

Note: Calculations based on active lender responses on participation in SBA capital programs.

Notably, active and potential lenders reported limited awareness and knowledge of SBA programs. Lenders reported limited knowledge of programs they were not participating in, even if they were eligible.

Non-Federally Regulated CDFIs participated or used the Lending Match tool significantly more frequently than the other two lender groups (20 percentage points greater than Federally Regulated CDFIs and 24 percentage points greater than the MDI, CDFI/MDI group). This appears to be consistent with active Non-Federally Regulated CDFIs being the most knowledgeable about the Lender Match tool (75%) and the second-most interested in the Lender Match tool (38.3%) compared to the other two lender groups.

What Are The Attractors, Facilitators, and Barriers to CDFI and MDI Entity Participation in the SBA's Capital Programs?

The following sections discuss the reported attractors, facilitators, and barriers to CDFI and MDI entity participation in the SBA's capital programs. Lenders provided responses to several questions on the specific factors under consideration and open-ended questions on how the SBA could enhance, improve, or mitigate the issues. The results below show the selected factors by lenders. Importantly, a non-trivial percent of lenders stated "Do not know" to the existence of attractors, facilitators, and barriers.

Attractors

The study asked lenders what factors, features, or processes (henceforth "attractors") make each of the four SBA capital programs and the Lender Match tool attractive to them to participate in these programs. When completing the survey, lenders were able to select up to 14 factors that applied to their experiences with the study SBA programs. Lenders also had the option to provide additional attractors. About 85% of respondents reported that there was at least one attractor in the SBA programs and the Lender Match tool. The list of attractors asked of lenders in the survey can be seen in **Appendix B**.

Across all programs, the most reported attractors by any lender group (type and participation status) were "mitigation of lending risk" and "ability to serve higher-risk borrowers." The SBA staff confirmed that they also consider these attractors to be the most important features of the SBA capital programs under study. Two other attractors lenders mentioned were "opportunity to expand the market" and "better able to compete for borrowers." The MDI and MDI/CDFI lender group was particularly keen on the benefits of the "better able to compete for borrowers" attractor in SBA programs.

Both active and potential MDI, CDFI/MDI lenders as a group endorsed two attractors that were not reported by any other lender group: "ability to provide larger loans" and "the SBA provides technical assistance to lenders" (particularly, potential lenders in this group).

Lenders had the following to say about SBA capital program attractors:

"Ability to leverage our offerings with SBA guarantees and/or shared lending via the 504 program allows us to reach more borrowers that may not have qualified otherwise." - *Active FRC*

"7a and 504 would allow us to make some loans that we otherwise would not make." – *Potential FRC*

"Mitigation of lending risk through the guaranty offered by the SBA. Opportunity to expand our reach in the market we serve. Technical assistance available to us and our clients. – *Active NFRC*

During our interviews, we asked lenders what they would say to their peers about the benefits or advantages of participation in the SBA programs. Lenders had opinions about why lenders like them should participate in these capital programs. Active lenders recommended these programs based on fundamental benefits, such as risk mitigation when lending to potentially riskier borrowers or those with less favorable financial profiles, as well as program-specific benefits. For example, lenders recommended the Microloan program because of the added support via technical assistance (TA) grant provisions that they (and likely similar lenders) were already doing for their customers.

Lenders did, however, recommend a word of caution for the message sent to lenders: active lenders looking to expand into a new capital program or potential lenders seeking to enter the SBA lending market should carefully consider the amount of time and resources needed to properly execute the SBA loans. Lenders must ensure they have the internal capacity to meet the SBA's reporting and monitoring requirements.

Ultimately, lenders stated that the SBA loan programs are an important component of their lending portfolio and an element that helps them meet the needs of their (underserved) customers.

Facilitators

Facilitators are SBA processes or actions that make it easier, less difficult, and more efficient for lenders to participate in the study SBA capital programs. This section is only applicable to current (active and new SBA capital program participants) because these lenders are the only ones who can provide insights on the actual experience of program participation in the SBA programs.

About 47% of all active lenders reported at least one SBA facilitator. Note, the most frequently endorsed (in this context, endorsed means that they were in fact facilitators to the capital programs) facilitators by active lenders on the survey were "clear program eligibility requirements" (37.1% of active lenders), "standardizing financial forms" (32.9% of active lenders), and "collaboration with SBA District Offices" (31.5% of active lenders). Same as with the attractors, a non-trivial percent of lenders stated "Do not

Know" to the existence of facilitators. The entire list of facilitators asked of lenders in the survey can be seen in **Appendix B**.

"Clear program eligibility requirements" stands out by MDIs and CDFI/MDIs group since it was endorsed by 47% of the active lenders in this group. Both NFRCs and MDIs listed "collaboration with SBA District Offices" and "availability of technical assistance and information sharing" as their top facilitator choices.

Lenders suggested that standardizing financial forms could be improved by ensuring that all definitions and requirements are readily available, such as by being in one location, so there is no need to jump across different platforms or websites.

Active lenders had the following to say about SBA capital program facilitators:

"7a and 504 connect calls bring us current information." - *Active NFRC*

"SBA's online presence makes it easier to connect with borrowers, resources and tools, and staff." – *Active NFRC*

"Local SBA offices and the availability and responsiveness of their staff is [the] primary reason we utilize SBA programs." – *Active FRC*

Lenders were encouraged by the level of support provided by SBA District Offices in terms of inquiries about the programs and what is needed to participate. However, these lenders also acknowledged the limited input or ability of SBA District Offices to support specific loan or program participation deals.

Barriers: SBA Programmatic, Program Administration, and Lender Organizational

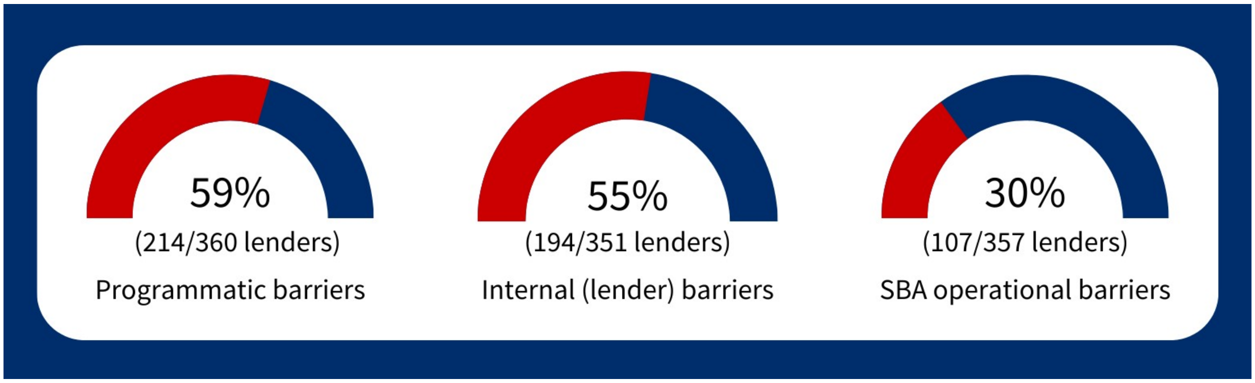
The study sought to identify the potential three types of barriers under study.

- The first type of barrier – **programmatic barriers** – refers to any rules, regulations, or challenges (regarding the capital programs) that hinder or limit lenders' involvement/participation in the capital programs. Examples of these barriers, as seen in **Appendix B** below, include burdensome (complex) reporting requirements, rigid underwriting/collateral requirements, and high fees on borrowers.
- The second type of barrier – **(SBA) operational barriers** – refers to any processes, factors, or actions associated with the SBA's administration of the capital programs that hinder or limit lenders' involvement/participation in the capital programs. These barriers include insufficient communication with the SBA, timeliness of SBA approval decisions, and insufficient coordination among SBA District Offices and SBA headquarters.
- The third and final type of barrier – **internal (lender) barriers** – refers to factors that lenders experience internally (e.g., insufficient staff, insufficient budget, and insufficient number of loans executed) that may hinder or limit their involvement/participation in the capital programs.

The specification of these barriers is an attempt to be comprehensive about potential issues that could be elicited from lenders. **Appendix B** includes the full list of 26 potential barriers across these three categories.

Like the large percentage of active and potential lenders that identified an SBA program attractor, 60% of lenders identified an SBA programmatic and operational barrier or an internal lender barrier to program participation. For reference purposes, 75% of lenders reported an attractor on the SBA loan programs. More than 50% of lenders participating in the survey identified internal lender organizational barriers and SBA programmatic rules/regulations barriers as the main barriers to program participation. Please see **Figure 5** below for the total percentage (for each of the three barrier categories) of survey respondents that endorsed at least one of the barrier response options.

Figure 5. Percentage of Survey Respondents That Endorsed Each Barrier Type



Two lender groups stand out when looking at the three barrier categories overall: 75% of active NFRCs reported programmatic barriers (the second-highest group (active MDI, CDFI/MDIs) was approximately six percentage points less), and 51% of active MDI, CDFI/MDIs reported SBA operational barriers as barriers to participation (the second-highest group (active NFRCs) was approximately 13 percentage points less).

Lenders had the following to say about the type of barriers:

Programmatic	Internal (lender)	(SBA) Operational
"(Reporting and compliance requirements) Programs are too burdensome to administer by [lender] staff and it takes away from clients and impact." – *Active NFRC*	"The level of lender program knowledge needed to efficiently and successfully navigate all of the requirements and restrictions typically requires either a dedicated department or a strict automated system which may not be practical for smaller [financial] institutions." – *Active MDI, CDFI/MDI*	"More communication between SBA loan officers and CDFIs would be extremely beneficial. The SOP manual doesn't explicitly state the rules and regulations and how they would pertain to certain deals since everyone's financial position and story are different." - *Active NFRC*

During the survey and interviews, lenders argued that mitigation of the main barriers could result in a moderate to substantial increase in SBA lending.

SBA staff acknowledged familiarity with some stated barriers to program participation and noted specific works-in-progress that are designed to eliminate or lessen the barriers. Other barriers are more difficult to address as they are outside the Agency's purview or require extraordinary measures such as Congressional action. For example, the SBA has:

- Developed the new Unified Lender Platform that has direct benefits for access and functionality of the 7(a) and 504/CDC programs
- Produced a Section 508-compliant on-demand training for the 504/CDC program

Our conversation with the OCA also brought up that some barriers are statutory or, given the zero-subsidy status of the SBA programs, unlikely to change without an act of Congress, such as the maximum loan and lending amount for Microlenders for both borrowers and lenders. Also, there are some barriers that are unlikely to be mitigated without significant funding for IT (safeguarding of e-signatures) and/or new training platforms that address customer experience.

Lender Match Tool

> "Have not received any referral emails lately. It would be more helpful to receive fewer, but more targeted referrals." – *Active FRC*

In the preceding sections, the discussion focused on the four SBA capital programs, which have similar survey questions. This section focuses on the Lender Match tool, which used open-ended questions. As mentioned earlier, about half (48.4%) of active lenders (potential lenders excluded from the calculation) reported participating in the Lender Match tool. While lenders did note positive aspects of the Lender Match tool – that it is a good way to connect with prospective borrowers and that it reduces the need for lenders to market their own services – by and large, perceptions of the tool ranged from indifferent (at best) to mildly negative. The reported feedback was grouped as follows:

- **Poor-quality leads.** Borrowers either were interested in pursuing a loan but not qualified (as per lenders and SBA standards) or would require more assistance than what the lender was capable/comfortable with providing.
- **Loan leads disappear from the tool's queue.** Lenders mentioned that borrowers literally disappeared from their list of prospects too soon and the lenders were, therefore, unable to follow up with them.
- **Prospective borrowers are not ready.** Borrowers were often solely interested in collecting more information about available loans and, therefore, were not ready to commit to one.
- **Systems are clunky.** The tool is not user-friendly, and the information needed is in multiple locations.
- **A quick response is unrealistic.** Referrals seemingly require almost immediate action, which is unrealistic for lenders, especially ones with limited internal capacity.

The Lender Match tool was ranked as the program with the least potential to increase the total loan value in a lender's portfolio. In fact, less than five percent (4.4%) of all survey respondents reported that the Lender Match tool has the most potential to increase their portfolio's total loan value.

Ultimately, while it had a few "cheerleaders," the Lender Match tool is still difficult to use and results in a disproportionately small number of loan conversions relative to the number of referrals.

Special Topics: Changes to the 7(a) Community Advantage Program and New Lenders

March 2022 Changes to the 7(a) Community Advantage Program

On March 30, 2022, the SBA announced changes to the 7(a) Community Advantage program, which included the following:

- Extended the program for an additional two years (to September 30, 2024)
- Lifted the temporary moratorium on adding new CA lender participants
- Increased the maximum loan size by $100,000 (from $250,000 to $350,000)
- Removed restrictions that precluded (CA) loan access for some individuals with criminal backgrounds
- Simplified the underwriting and collateral requirements for CA loans

- Provided lenders with authority to 1) make revolving lines of credit, 2) provide interest-only periods, and 3) make other loan modifications
- Amended requirements regarding CA loan packaging fees

Overall, 62% of eligible lenders responded that they were aware that the program had been extended (to September 2024) and that the SBA was accepting new applications. Less than half (46%) were aware that the SBA had provided additional lender flexibility in the program. Slightly more than half of lenders (53%) who were eligible and were aware of the recent changes reported that they were more likely to participate in the program.

> "The increased loan amount limit has already proven beneficial, and the extended period has allowed us to continue to offer the program for our current fiscal year." - *Active NFRC*

Here is what lenders said about the 7(a) CA program:

- The changes did not make a difference, and lenders were not willing to make their borrowers go through the extensive SBA paperwork.
- The changes did make the program more attractive, and lenders greatly appreciated the program.

Some of the most frequently mentioned aspects of the recent changes included the increased loan size that enabled lenders to loan more and expand their market, the removal of or at least reduction in underwriting and collateral requirements, and the removal of some areas of burdensome "red tape." This feedback came very shortly before the SBA's decision to sunset the 7(a) CA pilot program [6] in favor of a permanent role of Community Advantage Small Business Lending Company (CA-SBLC) licensing within the 7(a) loan program.

New Lenders - Lenders that started a relationship with the SBA because of PPP

The SBA was interested in learning about the perspectives of the community lenders that participated in the PPP and did not follow up with an SBA participation agreement to provide small business loans to members of their community, or if they did, the lenders have not executed SBA loans.

Most new lenders are small organizations with limited lending staff or a very tailored lending focus. The new lender interviews offered the following insights: Lenders participated in PPP to support the one-time needs of their customer base. New lenders participating in PPP started their relationship with the SBA to support their members and their communities at large. Before PPP, for most of the new lenders, there was not an orchestrated effort to participate in the SBA capital programs.

The experience with PPP was a good one for most of the new lenders, and most of them remained interested in participating in the SBA programs or executing their loan agreements with the SBA. Few lenders were dissatisfied with their experience on the PPP. There is a substantial concern from new lenders that the burdensome (complex) requirements of participation, underwriting, and reporting are

[6] The SBA's 7(a) Community Advantage Pilot Program was officially sunset on October 31, 2023. For more information on this decision and plans for the program's future, you may use this link.

substantially higher than what the organizations have the capacity to support (staffing, in-house resources) or willingness to be at-risk for (if the guaranty does not hold because of errors in securing the loan). Some new lenders are somewhat interested in SBA capital programs but are not knowledgeable about them. New lenders will require intensive and ongoing communication and training by the SBA.

How Can the SBA Grow the Use of SBA Capital Programs Among CDFI and MDI Lenders That Target Underserved Small Business Markets to Further Equitable Distribution of Capital?

Community lenders across all types and SBA program participation groups indicated a moderate to high interest in participating in the SBA capital programs examined in this study. The interest of these lenders and their potential investment in human and operational resources to participate are a function of the potential market needs, external considerations, and mitigation or reduction of their barriers to participation. External forces are limiting these community lenders' involvement in SBA capital programs, including:

- Current high interest rates and the prospects of an economic recession
- Lenders have access to other funding sources (ARPA 2021 funds with fewer restrictions in reporting and compliance than SBA capital programs)
- Some underserved borrowers are not ready for SBA loans

These conditions have affected lenders' borrowing levels and SBA participation in recent years. Lenders noted that at least a couple of these considerations would change in the short term, and there may be a new pro-SBA environment in the coming years that may result in additional funds being available to underserved borrowers and communities. However, lenders who have been shy about SBA program participation also believed that it is easier to complete small business loans in-house due to excessive costs and time commitments for both the borrower and the lender of the SBA capital programs.

Regarding underserved borrowers, lenders reported that there is an unmet demand for capital. A few lenders, particularly in rural areas, were more conservative in their assessment of unmet needs. **Figure 6** below shows the percentage of lenders that reported a moderate to substantial increase in the number of small business loans made (if main barriers were addressed). Overall, nearly 80% of all active lenders reported a moderate to substantial increase in the number of small business loans made. Federally Regulated CDFIs least frequently reported a moderate to substantial increase in the number of small business loans made (67% and 55% respectively) compared to their Non-Federally Regulated CDFI and MDI, CDFI/MDI counterparts.

"I think we would be able to double [the amount of lending] and that's my guesstimate. We would be able to double the underserved if we have more money to lend." – Active NFRC

Figure 6. Percentage of Lenders That Reported a Moderate to Substantial Increase in the Number of Small Business Loans Made if Main Barriers Were Addressed (By Type And SBA Participation Status)

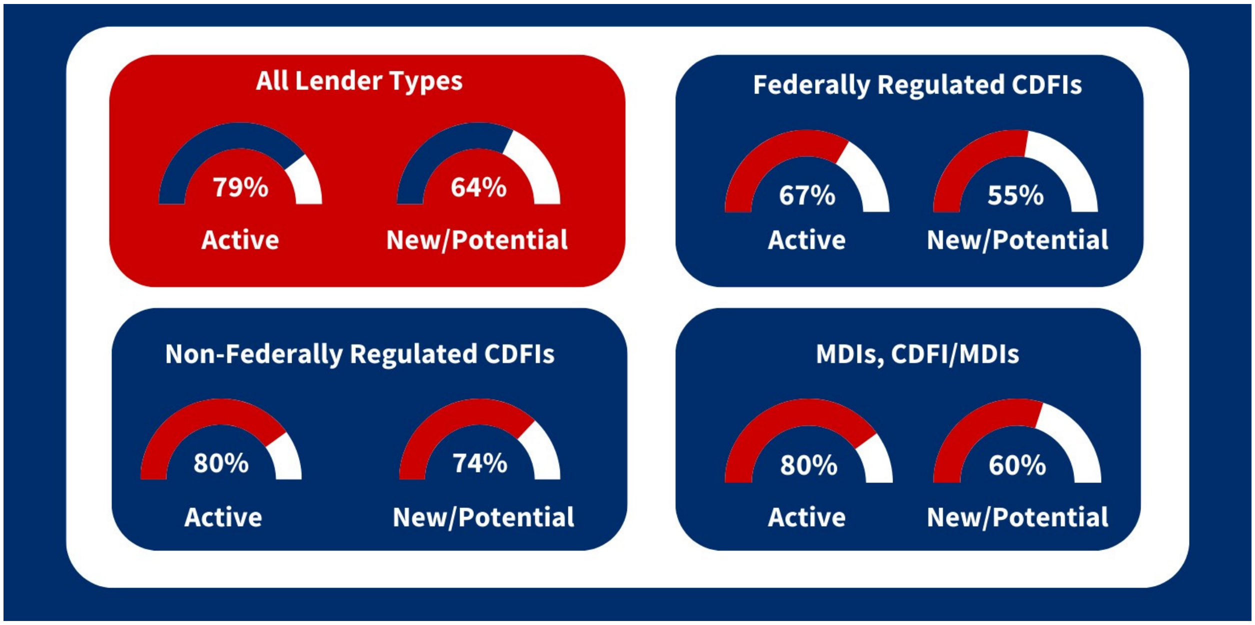
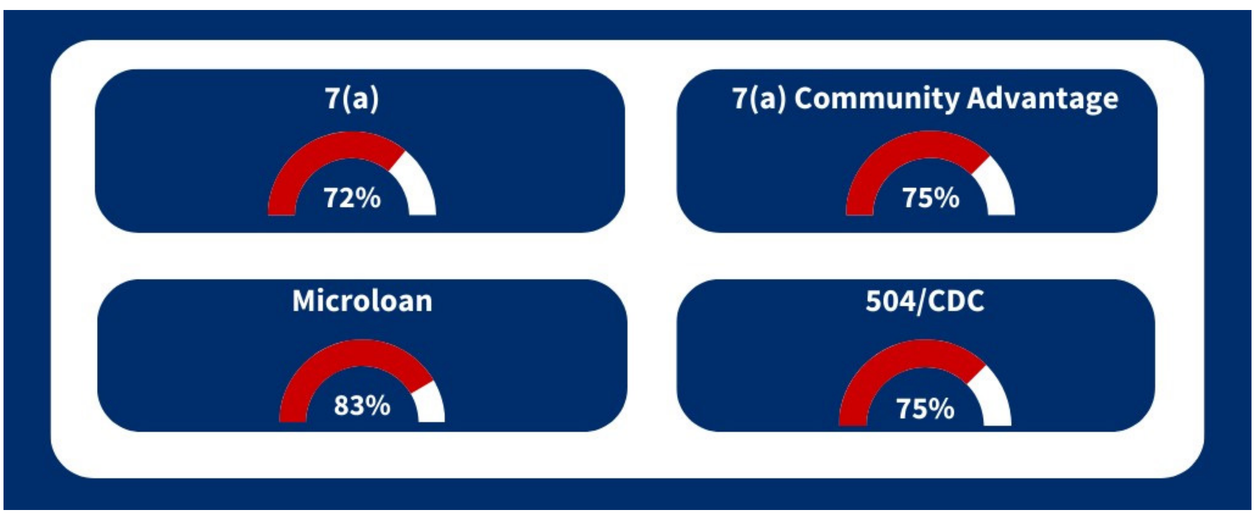


Figure 7 below shows that for each of the four capital programs, at least 70% of lenders (across all types) reported a moderate to substantial increase in the number of small business loans if the SBA addressed the main barriers. The greatest percentage of lenders (83%) that reported a moderate to substantial increase, however, was for the Microloan program. In fact, close to 95% of lenders said they would increase their lending to some level if barriers were resolved.

Figure 7. Percentage of Lenders That Reported A Moderate To Substantial Increase in the Number of Small Business Loans Made if Main Barriers Were Addressed (By SBA Capital Program)



Lenders stated that they would need at least two, if not all, of the issues below, addressed to build their capacity and to expand or add SBA capital programs to their lending portfolio:

- Simplify the SOPs by providing checklists and deconstructing all the “exceptions” in the program requirements
- Provide capacity-building grants to support a portion of a dedicated loan officer
- Provide comprehensive and ongoing training funds for lender staff to acquire and frequently update their knowledge of SBA loan requirements
- Co-share LSP cost that supports lenders from application, reporting, and closing

The above actions are mostly about developing community lenders. During the analysis of the lender feedback and in conversations with the SBA, there was a consensus that some of the barriers’ lenders identified are not likely to be mitigated by the SBA, either because they are outside of the agency’s purview or because they require extraordinary measures (Congressional action), such as removing the 51/49 requirement for the technical assistance grant.

Lenders’ Feedback on Communication and Outreach

Close to 75 lenders provided feedback on how the SBA could improve communication and outreach with community lenders and potential borrowers in underserved communities. The study asked lenders for suggestions or recommendations on SBA communications and outreach that would in turn help grow the use of SBA capital programs and reduce disparities in access and use of credit. **Figure 8** below displays the most common themes of the feedback overall, listed in order of frequency reported.

Figure 8. Lender Suggestions For New Forms of or Improvements in SBA Outreach or Communications

Increase public awareness of SBA capital programs. Lenders recommend that the SBA does more marketing in these underserved communities to bring in new borrowers and improve equitable distribution of capital.

Provide targeted communications. Everyone has limited time, so ensure that regular communications provide valuable information rather than "pointless emails".

Cover all programs in communications from the SBA. Provide brief information about all SBA capital programs in emails or marketing materials. This is an opportunity to make lenders aware of other programs that may be of interest to their customers.

Work with local partners for outreach and communications. Local partners can facilitate community events and provide a more personal outreach effort.

Deliver communications in multiple languages. To increase lender and borrower engagement, the SBA should provide communications (and training) in multiple languages.

Other, less frequently mentioned suggestions: Use an e-newsletter or create a list to increase outreach; reach out to lenders via one-on-one meetings rather than written communications; encourage District Offices to improve outreach (in many instances, the communication is started by the lenders); and create networking events for community lenders to learn about the experiences and innovation from other, similar lenders.

Two items emerged as things that the SBA is doing well and should continue to do more of: 1) the SBA should continue to prioritize local engagement and communications because District Offices and other local resources keep lenders informed of the SBA loan process, and 2) the SBA should continue to message lenders regarding programmatic benefits.

Recommendations to Improve and/or Expand Lender Participation

When completing the survey, lenders could choose from a list of more than 20 specific barriers. Four broad themes were derived from the analysis that are actionable, are in alignment with the OCA's strategic plan, and do not require significant resources from the SBA. In many instances, these recommendations focus on monitoring the performance of tools and processes and keeping the SBA mindful of community lenders' limited resources and knowledge of the SBA programs. Recommendations to improve and/or expand lender participation are presented as four major themes:

- *Burdensome and complex loan requirements*: Underwriting requirements that were referenced across all programs, the Microloan technical assistance requirements, loan documentation requirements, and the loan guarantee process
- *IT and systems functionality*: Accessibility and functionality of IT systems and customer experience, making the systems more user-friendly
- *SBA communication and response times (SBA Headquarters):* Long turnaround time for the closing process and getting responses to questions about loan applications or loan funds, insufficient communication with the SBA loan specialists, and insufficient training materials or technical assistance from SBA HQ
- *Lender staff and resource capacity:* Perceived limited resources (of potential lenders) for supporting the SBA loan programs

Despite the mildly negative to indifferent opinions about the Lender Match tool, the tool is potentially beneficial for new and potential SBA lenders. Lenders had several comments about how to improve the tool, but the feedback was too heterogenous to provide concrete recommendations for tool improvement. Considering the functionality issue combined with the value most active lenders placed on it, Optimal recommends that the SBA reexamines the tool's functionality to ensure that it meets borrowers' and lenders' needs.

Figures 9 through **12** below provide Optimal's recommendations and the associated representative lender quotations for each of the four recommendation themes. There are ten recommendations in total, each of which has been developed in coordination with the SBA and is expected to be within the SBA's control.

Figure 9. Recommendations and Lender Feedback on Theme 1: Burdensome and Complex Loan Requirements

Burdensome and Complex Loan Requirements

Recommendations

- Continue to monitor statutory requirements that would allow for increased flexibility for lenders and borrowers
- Continue monitoring technological improvements in this space to reduce the burden to lenders and borrowers, particularly in a remote working environment

"Microloan compliance is ridiculous on both the loan (MPERS) and technical assistance grant reporting give how small the loans are and there is almost no risk to the SBA." – *NFRC*

"It is a struggle for borrowers to provide uniform proforma statements or financials dated within the previous 90 days." – *FRC*

"The 7(a) loan program underwriting, submission, and approval requirements are extremely burdensome for borrowers who may not have sophisticated financial reporting systems and structures to meet all of the program requirements." – *MDI*

Figure 10. Recommendations and Lender Feedback on Theme 2: IT and Systems Functionality

IT and Systems Functionality

Recommendations

- Leverage the Unified Lending Platform to simplify financial documentation requests
- Monitor ease of access and use of the new Unified Lending Platform, a tool to mitigate issues with the application and operations of the 7(a) and 504/CDC programs
- Enhance systems and integrate improved functionality to make the system(s) more user friendly for the Microloan program
- Reexamine the Lender Match tool's functionality to ensure that it meets borrowers' and lenders' needs

"Better online application tools, underwriting tools, documentation. The whole system needs to be modernized. The TA Grant calculator is an excellent example of a tool that assists lenders to manage, report and stay in compliance." – *NFRC*

"MPERS could be better utilized to track client information and reporting. Improve and update MPERS for ease of use and [to make it] less error prone." – *NFRC*

"E-tran poses some challenges and is not the most user friendly. Correcting any issues in the systems for 1502 reporting is challenging." – *FRC*

Figure 11. Recommendations and Lender Feedback on Theme 3: SBA Communication and Response Time

Figure 12. Recommendations and Lender Feedback on Theme 4: Lender Staff and Resource Capacity

Lender Staff and Resource Capacity

Recommendation

- Emphasize collaborations with other federal agencies such as the CDFI Fund and the NCUA as well as other stakeholders (e.g., National Association of Government Guaranteed Lenders (NAGGL), Credit Union Service Organizations (CUSO), Grow America Fund, and enterprise fund) to train and share resources and build community lender capacity

"… it makes entertaining the [7(a)] program problematic for most lenders. Either you need to staff up, train, and audit in order to understand and successfully execute or you need to outsource. Both require use of resources and money to accomplish." – *FRC*

"Insufficient staff drives the other barriers - trying to do more lending while still being compliant." – *NFRC*

From a different perspective, the SBA could accelerate the expansion of capital in underserved communities by prioritizing focusing on Non-Federally Regulated CDFIs, as these lenders were the most interested in and open to participating and/or expanding their SBA loan portfolios. These microloans are small, but their overall reach in underserved communities is important for entrepreneurs. Lenders in very rural and agricultural markets are likely the lowest priority to invest in if potential demand for loans is used as a criterion for SBA support.

Conclusions

The findings from this study support the Agency's efforts to extend access to the SBA capital programs through institutions specializing in local communities, and it furthers the SBA's efforts to reduce disparities in accessing and using credit. While there are opportunities for the SBA to expand the number of community lenders participating in the SBA programs by bringing in new potential lenders and increasing the number of loans and loan programs offered by active lenders, remediation of some of the more critical barriers can only be influenced through Congressional action.

Appendices

Appendix A: Detailed Survey Response Rates by Lender Group

Lender Group	Targeted (Number of Responses)	Completed According to Self-Report Data	Percent of Target
Regulated CDFI: Active	91	60	66%
Regulated CDFI: New/Potential	49	58	*114%*
Non-Regulated CDFI: Active	42	109	*260%*
Non-Regulated CDFI: New/Potential	52	83	*158%*
MDI, CDFI/MDI: Active	35	39	*111%*
MDI, CDFI/MDI: New/Potential	62	26	42%
Total	**331**	**375**	**113%**

Note: As discussed in the caveat section above, there were inconsistencies between lender group categorization according to administrative/public data and self-reported data. The study uses the self-reported lender group. Note: This table reports the total number of responses to the survey (375), and there are cases where multiple individuals from the same lender responded to the survey. The unique number of lenders is 360 responses.

Appendix B: Full List of Potential Attractors, Facilitators, and Barriers Included in the Survey

Attractors (process and features) Under Study	
Ability to serve higher-risk borrowers	Follow stricter underwriting/collateral requirements
Ability to provide larger loans than usual	Potential to collaborate with other lenders
Ability to charge higher origination fees	SBA provides technical assistance to lenders
Better able to compete for borrowers	Mitigation of lending risk
Opportunity to expand market	Community Reinvestment Act (CRA) obligations
Capital liquidity	Peer lenders' success with program
Standardization of business loan	SBA loans have better terms than other federal agencies

Facilitators Under Study	
On-line program descriptions & requirements	Standardized online system for documentation and reporting requirements
On-line listing of participating lenders	Availability of SBA technical assistance / information sharing
Connecting prospective borrowers to lenders	Collaboration with SBA District Offices
Availability of local district officials	SBA's social media presence
Standardized financial forms	Direct communication with SBA loan officers
Clear program eligibility requirements	Other, specify

Barriers Under Study		
Programmatic Barriers	**(SBA) Operational Barriers**	**Internal Lender Barriers**
Limited awareness of program requirements	Insufficient communication with the SBA	Insufficient staff
Difficulty finding qualified borrowers	Insufficient training or technical assistance from the SBA	Insufficient budget
Credit scoring model disqualifies borrowers	Insufficient coordination among SBA District Offices and headquarters	High risk of default on SBA-eligible loans
Underwriting/collateral requirements too rigid	Burdensome application process	No specific Community Reinvestment Act (CRA) participation benefits
Long turnaround time for the closing process	Insufficient application assistance from SBA	We don't make enough loans
Burdensome compliance requirements	Timeliness of the SBA approval decisions	Our loans are too small
Burdensome reporting requirements		Our loans don't meet the SBA standards
Burdensome administrative complexities		
High cost of administering the program		
High lender program fees		
High fees on borrowers		
Incompatibility with CDFI certification or program requirements		
Uncertainty about the program's permanence		