Recorded by: Jennifer Razzino
CONTENTS

1 Welcome and Introduction - Larry Stubblefield 3
2 Roll Call, Motion to Approve Minutes 4
3 OVBD Updates - Larry Stubblefield 3
4 National Veterans Transportation Services, Inc. 5
5 - Jim Wong 15
6 CDFI 8
7 - Gary Lindner, PeopleFund 44
8 All Small Mentor-Protégé Program - Derrick Brown 66
9 Public Comments 77, 115
10 Military Reservist Economic Injury Disaster 12
11 Loan Program - Alejandro Contreras 92
13
14
15
16
17
18
19
20
21
22
23
24
25
PROCEEDINGS

(Meeting called to order, 9:16 a.m.)

MR. STUBBLEFIELD: Okay, good morning, everyone. Welcome to our quarterly committee meeting. For those of you who do not know me, I’m Larry Stubblefield, the associate administrator in the Office of Veterans Business Development. Our chairperson emailed me late last night, and her flight has been delayed. So Liz is looking to join us -- hopefully she may be on the phone. She was going to call in for opening remarks and roll call, and she’ll be here hopefully around noon today.

So, Liz, are you on the phone?

(No response.)

MR. STUBBLEFIELD: Okay, if not, then I guess we’ll start with roll call. So I will start here to my left with Fran.

MS. PEREZ-WILHITE: Good morning, everyone.

I’m Fran Perez-Wilhite with the North Carolina Military Business Center. It’s good to be here.

MR. SHARPE: Joe Sharpe with the American Legion.

MR. LOWDER: Lynn Lowder, Veterans Business Project.
MR. CRANE: Eli Crane, Bottle Breacher.
MR. BENNET: Grant Bennett, PeopleFund.
MR. LINDNER: Gary Lindner, President and CEO, People Fund out of Austin, Texas.
MS. LOWHORN: Chris Lowhorn, JPMorgan Chase Military and Veteran Affairs.
MR. WONG: Jim Wong with Main Street Launch in California.
MR. O’FARRELL: Jim O’Farrell, AMSG.
MR. GWINNER: Sean Gwinner, Bunker Labs.
MR. ZACCHEA: Mike Zacchea, UConn Entrepreneur Bootcamp for Veterans.

MR. STUBBLEFIELD: Okay. Do we have any committee members on the phone?
(No response.)

MR. STUBBLEFIELD: Okay, I take that to be a negative reply. So the next think on our agenda, Liz was going to make a motion to approve our minutes from the last committee meeting. So I guess I’ll make that motion for her. Does anybody second?

MR. LOWDER: Second.

MR. STUBBLEFIELD: Okay, all in favor of approving the minutes from the last committee meeting, say aye.

(Chorus of ayes.)
MR. STUBBLEFIELD: Anyone opposing, nay?

(No response.)

MR. STUBBLEFIELD: Okay, the ayes have it.

The minutes from the last committee meeting are approved.

Okay, so we’ll just jump right on into our agenda. I’ll provide the OVBD updates. There’s three areas that I wanted to cover. If you have any questions -- actually four -- if you have any questions, you know, just feel free to jump in.

Since our last meeting, we’ve brought on Timothy Green, Tim Green, from the Department of Labor, joined us about three weeks ago. He’s our new deputy associate administrator. I don’t know how many of you know Tim, but, you know, Tim’s been around for a while. He’s a retired Air Force colonel, and we are very pleased and happy to have him onboard. He’ll be here later today. This morning, he’s covering the TAP, the Transition Assistance Program’s executive committee meeting so that I could be here. And so you’ll meet Tim later on today.

In terms of the second bullet there, the pilot -- the training pilot program, if you recall, the President donated his quarterly salary, $100,000, to the Office of Veterans Business Development. And so
we’re in the process right now of launching an entrepreneurial development program that we’re looking to kick the program off in the September time frame, if you will. And this is going to be with an organization up in New England, the Veteran Entrepreneurial Training and Resource Network. They’re outside of Boston.

They’ve had kind of like a startup, if you will, a little bit, but this is -- they run a program that’s what I would say is a step under the Emerging Leaders Program.

So Emerging Leaders, you’ve been in business for X number of years, $300,000 in profits, if you will. With this program, we’re looking for the people who have gone past Boots to Business but they’re not quite to Emerging Leaders, $100,000, you know, two employees and so forth. So we’re looking to have the cohorts, and like I said, this is in the New England area is where we’re going to start. And if the pilot is successful, the plan is to try to grow this and make it a national program similar to the Veterans Institute for Procurement, the VIP Program. The VIP Program started just like this as well, as a pilot. And so hopefully this will be a success.

Are there any questions on the pilot program?

Right now, we’re in the process -- we had to convert
the $100,000 over into a grant and then going through, you know, Grants.gov and SAM and all like that to get the funding to veterans, so we’re in the process now. So the 17th of June is the date when the funding will be approved, and then we’re going to -- I’m going to go up to the Boston area on the 27th of June and just to look at things, to see how things are going, and then we’re going to have a big kickoff in August, something similar to a ribbon-cutting ceremony. And then the first cohort will start in September. So that will go September to March, and then the next cohort, the second cohort, will start in March.

MR. O’FARRELL: Larry, Jim O’Farrell. How many veterans are in each cohort?

MR. STUBBLEFIELD: There’s going to be something like 13 to 20 will be in each of the groups. And as we further develop the program, I’ll keep the committee informed. And if you’d like to know anything in terms of the agenda -- I mean the curriculum and things of that nature, I can provide that to you as well.

So here’s one where we would like help from the committee, and that’s the Veteran Small Business Enhancement Act of 2018. And I’m sure many of you are probably aware of this law, but it allows veteran
business owners to receive federal surplus property, where we are now, the reason why I’m asking for help, we’re developing talking points, and we can share the talking points with the committee members as well so that when business owners come up to you and ask about the program, you’ll -- you know, you’ll have the -- you know, the latest status as to where we are, because what the problem is, the law was passed, and business owners are hitting Congress, they’re calling us, they’re reaching out to district offices.

And everyone wants to know, you know, when can we go and pick up surplus property, but the way this works is, you know, there’s a number of players involved, and we’re talking about GSA, we’re talking about the VA, we’re talking about SBA, we’re talking about the 50 states all have a property management system in place. And so we’re in the process right now of going through rulemaking, establishing the policies, regulations, the agreements with the 50 states and so forth. And so this is not anything that’s going to happen overnight. We’re actually shooting for maybe a rollout -- an official rollout -- next June. So June 2020 will allow us to go through the rulemaking process and put the, you know, regulations and things in place.

And I forgot to mention that OMB, you know,
when you talk about rules and policies and things of that nature, you get things approved through the OMB process. So we have a dedicated team here in our Government Contracting and Business Development Office that’s working with GSA, the VA, and others to get the program in place.

So, again, where the committee can help -- when we get the talking points, as folks come to you, you’ll know what’s going on because I’ve had a couple calls now from staffers wanting to know about the program, and I’ve told them we’re going to provide the talking points to them as well because they’re -- you know, and I understand, you know, the law is passed and people are ready to get the property, but you have to put things in place first. And sometimes, you know, it takes a little bit of time to do that.

MR. CRANE: Larry, Eli Crane here. Is the point of that to give the properties to veterans, or give the property to veteran-owned businesses at a discounted rate? Do you know?

MR. STUBBLEFIELD: I’m probably speaking out of line here a little bit because I know our Government Contracting and Business Development folks are working this, but it’s going to be similar to how the 8(a) property works, where as long as you’re in the 8(a)
program, I guess you have the property, it’s kind of like on loan to you.

And I know they’re talking through what the policies and things are going to be because, for example, you don’t want a business to go out and acquire the property and then turn around and sell it and things of that nature. So how it’s going to be accounted for is part of the ongoing discussion with GSA.

Okay, and then the last bullet there just talks about our VBOC conference. You know, we have 22 VBOCs located around the country. We plan to bring the VBOCs into the DC area, 13 through 15 August. We’re not going to have the conference here at SBA Headquarters. We have a venue now -- I’m trying to remember exactly -- what is it, it’s up somewhere in kind of like the Chinatown area.

MR. KURTZ: Yeah, Gallery Place area.

MR. STUBBLEFIELD: Okay, yeah. We’re going to be at a facility off of Gallery Place here, here in town. So very excited about getting the VBOCs in, and there’s a few things we’re going to have to train on when they come here, and one of them is a requirement that came out of our most recent IG audit that -- where Congress is saying that instead of accounting for all
their funding under transition assistance, the TAP program, we’re going to break funding out to what’s actually spent on Boots to Business and what’s spent on the other things and transition assistance, if you will. So that’s going to be a heavy focus of the conference when we have the VBOCs here in August.

MR. O’FARRELL: Jim O’Farrell. Is that conference open to ACVBA members to attend, some or all?

MR. STUBBLEFIELD: How would you answer that?

MR. KURTZ: Yeah, this is Stan Kurtz with OVBD. Yeah, just let us know. We’re going to be in the Architectural Center, so very nice, modern building. So if you’re planning on attending, just let us know, you know, so we can introduce the VBOCs to you, and it’s a good opportunity, also, to get to meet the VBOCs in your area or that cover your area as well so we see any problems. Let us know if you’re interested.

MR. STUBBLEFIELD: Yeah, and the sooner the better, because I know we planned for 50, and I think they put us in that area for 50, and if we need to expand the area a little bit, they do have the capability to give us a little bit more room. So if you let us know up-front, you know, we’ll work with
MR. O’FARRELL: Just shooting from the hip here, if there was an opportunity for several of us ACVBA members to attend a session or for you all to possibly organize a session where they could come of their own free will, show up, and talk to us about what’s working and not working within the VBOCs, perhaps there’s an opportunity for us to implement some recommendations in our annual report for things that might improve the VBOC, whether it’s funding, whether it’s the processes, whether it’s collaboration. We’ve had discussions over the years about the -- you know, whether it’s Salesforce.com or, you know, the technologies, basically people, process, technology, what are some the things that could be improved. It’s not every day that we get the opportunity like that to sit with all of the VBOC leads from across the country.

MR. STUBBLEFIELD: No, I think that’s an excellent point. And, in fact, I guess as we work through the agenda, maybe what we could do is put a committee member block in the agenda, and then, yeah, I mean, because we’re all in this together, and like you said, it would be part of the report, it would go forward to Congress, the President, and folks would see it. So thank you very much for that.
MR. KURTZ: This is Stan Kurtz with OVBD.

Just kind of -- just for your awareness, so each year, the small business committees from the House and the Senate reach out to VBOCs, various VBOCs in the field, and they do online calls with them and ask those type of questions, you know, how could we help you, what’s good, you know, what needs to be improved. And then each year, one of the VBOCs goes up on the Hill and testifies. So this year, we actually had two. So Cherylynn Sagester from the Norfolk area went up and -- up to the Hill and she testified, and then Darcella Cravens, she is from the Missouri area, she testified, too, and Larry was with her.

Last year, we had -- North Carolina VBOC also testified as well. So they’re constantly engaged to small business committees for the House and the Senate. They’re engaged with the VBOCs, want to know how we can help you, you know, what are the things you’re running into. So we constantly give that feedback to them.

MR. O’FARRELL: Jim O’Farrell. Just as feedback to your feedback, Mike Phipps and I went up to the Hill a couple of years ago now and sat with several of the staffers around a conference room table. And that’s what was interesting to me was they had -- it almost seemed like they had fresher, real-world
information than we did, which then led to us going and visiting -- several of us went and visited our, you know, local -- like, I went down to the Hampton Roads/Norfolk area, to Springfield, Virginia, and we had several others. But having them all together, and then they can actually be hearing what each other are saying, as opposed to a staffer calling out of the blue or some guy from some committee comes up to the Hill and talks to a staffer. Okay, thanks.

MR. STUBBLEFIELD: I was going to just say, it would just be another source of going, because we can’t tell the message enough, you know, if they’re talking to -- if they’re testifying or if the report or we’re meeting, we can’t have that dialogue enough, so thank you again for that suggestion.

Okay, I guess I’ll ask again. Liz, are you on the phone?

(No response.)

MR. STUBBLEFIELD: Okay, so Liz is not on the phone, so we’re a little bit ahead of the schedule. Next up is -- now, this schedule here was kind of really put together with some things that Liz wanted to discuss and present in front of the committee. And when she gets here, I guess she’ll talk a little bit more about it, but I know she was focused really on the
MR. WONG: Thank you, Larry. I was a VBOC, albeit for only six months. I had Region 9, so I had the four western states and really got my feet wet understanding the day-to-day problems of veteran entrepreneurs. And we also handled a lot of military spouse entrepreneurs. I serve on the board of the National Veterans Transition Services.

In October 2014, the JCS Office of Veteran Reintegration issued a seminal guidance letter saying there are 45,000 VSOs, at that time. Today, there are 50,000, so that’s a pretty fast rate of growth and makes you wonder how are all these VSOs working together collaboratively. There’s an old African proverb that says if you want to go fast, go alone; if you want to go far, go together. I always interpreted that to mean for persons, but I think it means even more for organizations, like who we have around the table.

So the seminal letter from the JCS Office of
Veteran Integration suggested that we need to adopt a joint public/private partnership with the private sector taking the lead. So shortly thereafter, NVTSI -- I took over the reins from Admiral Froman, a woman, two-star, and we transformed our organization, which provides a three-week reverse bootcamp. I had a lot of problems when I came out of the service the first time 50 years ago. I came back from Vietnam, didn’t know I had PTSD, but struggled trying to reintegrate. The only therapy for me was going back into the Marine Corps. I became an officer, and so when I got out as an officer, I thought this would be a lot easier now I’m an officer. I had more trouble getting out as an officer than I did as an enlisted man.

So therein lies some of the problems we’re trying to deal with. I have started 20 companies, 10 of which didn’t last past the fifth year, but two of them exceeded a billion in sales, so when I get in front of people and say I’m a good coach because I can tell you all the mistakes I’ve made, those are more valuable to you than my successes, and even my successes I was kind of dumb. I was very naive. I didn’t take all the equity I should have, didn’t cash in my stock option, so -- with the first company that
went into $3.7 billion was sold for $750 million, and I
tell you, I got very little of it. Now I know what I
know, I would have walked away with a lot more money
and probably would have flown in on my own plane.
So those things kind of color how I think and
how I work with people. We formed a collaborative, and
Gary is part of that collaborative of CDFIs around the
country. I think we’re over a dozen already of CDFIs
that will take veteran military spouse entrepreneurs
and give them not only access to capital but a lot of
mentoring, a lot of entrepreneurship education.
When I was a student at Harvard, I asked one
of my professors, how come you never talk about
franchising? And the answer I got was, Jim, you don’t
come to Harvard to learn about franchising. Come on,
you’re going to go do greater things. And I said,
well, I have three corporals who are former Marine
buddies, each of whom started a franchise, they’re all
billionaires. So that kind of tells you the value of
the big MBA programs, things like what Mike Zacchea is
doing, I mean, that’s what we need because he’s
providing very basic education to people like us, cash
flow management, how to do projections, how to befriend
the banker, because all those are mistakes that are
veterans, and I see them making it every day.
Just to put my seven slides into perspective,
I’d like to tell you about three people, we’re working
with one. One military spouse, Michelle, she’s in
Silicon Valley, and her husband is a disabled veteran,
so she’s kind of taken the helm and started a company
using augmented reality, super technology, and given
that she’s in Silicon Valley, people are looking at her
as, okay, you’re a 20X return on investment, so no
problem probably gathering the right equity folks, and
-- but she needs cash now. You know, it’s the old Zig
Ziglar saying, money is like oxygen. When you need it,
you really need it. So I’ve kind of kept that in the
back of my mind. That’s what the CDFIs are there for.
We don’t have a minimum FICO score. You don’t need to
own 51 percent of your company. You only need to own
20 percent. We underwrite our own loans.

So with that, let me just go into review some
things. I believe you heard from the Treasury
Department in the last meeting?

MR. STUBBLEFIELD: Yes. Well, I think it was
two -- was it last or two meetings ago?

MR. WONG: Or two meetings ago? So my first
slide is a review, then. The CDFI Fund was created --
I think there’s one more slide before this. There we
go. Two things came together -- the CDFI fund created
by the 95th Congress, President Carter, that said we need to level the playing field so that the big banks, like JPMorgan Chase, will allow access to their capital to everyone. And the legs on the CDFI Fund actually are people -- there are over 1,000 CDFIs, and we’re capping -- capitalizing on the CRA, the Community Reinvestment Act that if you join those two together and you have a powerful force, people at the big banks have to commit so much money.

We -- 75 percent or more of our money at Main Street Launch, we’re in our 40th year, so we’re one of the older CDFIs around the country. Seventy-five percent of our money comes from the global banks. JPMorgan is number one on our list, so thank you. But all the other banks are pretty much in tow. They typically will ask us, well, how much did you get from union bank or from Wells Fargo or from Bank of America, and they will match it. What’s nice is that because we get grant dollars, we can underwrite the loans that we provide. The other 25 percent comes from the same people in terms of low-interest loan capital.

Our average interest rate is around 2 percent, so we issue the loans at prime-plus-three, so there’s a pretty good gap. And so, you know, we tell people, we’ll never run out of money because there are people
who really care about your success; therefore, keep coming to us.

The mission, you’ve heard, but the mission, if you look at it, sounds really good. It’s kind of like telling you the average depth of the ocean is six inches. It doesn’t tell you anything until you get to the personal level of people like Michelle and Craig, who’s one of our pitch contestants next week, who is an Army vet, retired, he runs an office supply company. He gets a lot of the set-asides, so I met him in Fresno, California.

He said I’m using my disability payments and my pension to fund my startup. This is our first year. The state of California pays us net 45, but my suppliers require that I pay them net 30. And that seems like, okay, that’s not much difference, about two weeks, until you start asking him, well, when do you actually get paid? He said, oh, when I send my office supplies to an agency, like CALTRANS or one of the major agencies, they take five days to inventory the product, and then they tell me, okay, now you can invoice us by snail mail. So it takes another five days. And then they mail the check by snail mail, so now we’re up to net 60.

His suppliers, much more savvy, say here’s our
1 routing number; pay us net 30 on day 30. So where does
2 he get money? Predatory lenders. Those of you who’ve
3 been onboard military bases, as soon as you drive out
4 the main gate, there is the guy who says, you need
5 money, we’ll take your next paycheck, and we’ll give
6 you money now.
7
8 There are people -- and those -- in
9 California, the usury law is 10 percent. These folks
10 who say we’ll give you a credit card, 0 percent for 18
11 months, and if you ask what’s my interest rate after
12 the 18 months, it’s way, way past the usury rate
13 allows. But they get away with it because they don’t
14 have to comply with the usury rates. So predatory
15 lenders are killing the people who start businesses,
16 but if they have no resource, it’s the old Zig Ziglar
17 saying, when you need oxygen, you really need it.
18
19 So what we’re trying to do is create a
20 collaborative -- the endpoint I like to reach is with
21 our collaborative, we’re going to keep growing across
22 the country. If you take the big states, Texas,
23 California, the Carolinas, DC, where a lot of the
24 veterans are, if we can just form enough strength
25 around where the majority of the veteran entrepreneurs
26 and military spouse entrepreneurs are, we can keep them
27 from going to the predatory lenders and let them

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survive beyond five years.

We’re also petitioning CalVet and DGS, the Department of General Services in California, why don’t we set up an incentive system so if people -- if you can pay in 40 days, we’ll give you a 2 percent discount. If you can pay in 30 days, we’ll give you a 5 percent discount, because if you look at the cost of capital, and it’s something that’s not taught in MBA programs, if you look at the cost of capital, it’s to your benefit to give a discount if you can get the cash earlier. I mean, cash is king, and for these people, it’s survival.

So can you switch to the next slide? I’m going to go through these real fast. You heard this already. There are two systems how the CDFI works. Either you’re in the census track, where you qualify for CDFI money, or you’re an individual who’s low to moderate income, and then there’s this thing called other targeted population. Right now, African Americans, Hispanics, Hawaiian Natives, they all qualify. Well, why not at least disabled veterans?

I don’t think that the Treasury Department -- I don’t know what you heard from the people who showed up last time, they haven’t changed the OTP classification in over 20 years. It’s unlikely that
they’re going to change unless you give them such an issue that they can’t ignore it because there’s bipartisan support of what we’re doing at the CDFIs and the credit unions and so forth, so it would be very hard and probably look bad for a lot of people if they say, no, we’re not going to consider disabled veterans OTP. So that’s what we’re trying to push for.

With the SBA’s help, we can petition the Treasury Department to give us that, even on a trial basis, to see how many startups can we promote compared with what’s been happening in previous years. There was a scathing state auditor’s report in California issued in February, and since I worked on the advisory council to the DVBE program, it looks really bad for us because out of the 1,600 registered DVBEs in California, 8 percent of the DVBEs, mostly the major ones, got 100 percent of the contracts. And why is that? It’s because the small DVBEs don’t have enough cash flow to make it big.

Craig, the Army retiree, could get some bigger contracts. He could get the $100,000 office supply contract, but he can’t because with the net 45, which is really net 60, and having to pay the suppliers net 30, he can’t handle the big jobs. His disability check and pension will only allow him to cover the small
jobs. So if that’s true, and he’s one of the lucky ones who actually gets the set-aside contracts, that means we’re impeding probably a dozen more from getting into the game. So there are a lot of things that we need to fix.

Next slide, please. This one just shows -- you know, I picked off the major states, where there are a lot of veterans. We’re all over. So if you can’t find a CDFI, you’re not trying hard enough.

Next slide. This is what the census track looks like in California. So CDFIs cater to all the people who are in the red zone. And you notice around Southern California where Camp Pendleton, the Navy base, SURFPAC Fleet, they’re all there, and so they can have access, but we need to be more specific because, you know, even though Main Street Launch has been around 40 years, and we have a great advisory board of military spouses, we have people of color, we have every color in the spectrum, we have to do a better job with our outreach.

When I was at VBOC, believe it or not, I didn’t know Main Street Launch existed, so that limited my capabilities. I could have sent a lot of my candidates directly to Main Street Launch to get the low-interest loans and without the restrictions. The
SBA Guaranteed Loan Program at that time was Patriot Express. If you’re lucky, you might get an answer in three months, but the average is about six months. And at that time, the SBA IG actually issued a report that SBA guaranteed loans typically did not apply to startups.

Next slide, please. One more. If you can read the little Venn diagram on the bottom left, you’ll notice that 50 percent -- I mean, more than 50 percent of the borrowers fit the demographic or OTP categories. So just looking at what we’ve done in the last 10 years, $63.6 million we have invested in 742 companies creating or sustaining over 5,000 jobs, CDFIs are working. We just need to collaborate, and we can go much farther if we collaborate, and I think the SBA is a very powerful arm.

We need to educate the VBOC directors that, hey, get to know the CDFIs in your area. I think Gary knows all the folks who are in the VBOCs around him. We need -- and I’ve gotten to know all 22 since I was one of them in California. We need to get the word out, and I think the millennials have to be -- they’re attracted by different things than -- I mean, I’m old. To get to me, a phone call, email works. But for the millennials, Instagram, Facebook, those things can get
their attention.

And so we’re trying to wise up. We’ve been doing quarterly entrepreneurship conferences, and, in fact, I invited Mike Zacchea to come talk about the U.S. Veterans Chamber. And we’ve been focusing on getting all 114 community colleges in California, the Chancellor -- Chancellor Oakley is an Army vet, and we’re trying to get him to take up the baton that -- because community colleges cater to veterans, there are 70,000 veterans enrolled in community colleges in California; there should be no reason that we can’t provide asynchronous, online courseware.

Most of the veteran entrepreneurs that we talk to work during the day, and they were trying to start up their business at night and on weekends. When people -- and I hate to drop a dime on Stanford -- the people who come and say, I have an MBA from Stanford, I usually say, well, that’s too bad, I went to Harvard, and I can say the same things about Harvard. You need to know a lot of things that are not taught by the MBA programs. They get their money from big corporations.

You’re trying to start a little, bitty company. You need help at the community college level. It’s cheap. I mean, California, I mean, it’s like next to nothing to enroll. And if you can do it online,
have your spouse next to you when you’re taking that
course online so you can get two for the price of one.
You know, do things that are smart for you, and see if
you can survive past five years, because if you do
that, you’re going to be okay.

I also tell the people who are looking at set-
asides, you know, that’s the only thing that you’re
focusing on, then you’re limiting your own chances of
success. Now, go for the regular population of
customers; market throughout the whole area that you
focus on. Don’t just depend on set-asides because that
3 percent just might end someday, and then you’ll be
left with nothing.

Next slide, please. This is something that
Gary can talk much better at than I. The bullet points
in red are what I focus on. You know, we can give
people their money within 30 days because we underwrite
our own loans. If you get deployed these days and you
forget to make your house payment or you forget to make
your car payment, your FICO score is going to take a
dive. If you do that more than two or three times,
you’re not going to qualify at a commercial bank for a
bank loan because they have a minimum. It’s around
680. I know really squared-away folks who don’t have
680. So all of a sudden, no matter how good their
Also, insisting that the borrowers have 51 percent equity in their business, usually by the time you go through the family, friends, and fools round, like I had to, you don’t own 51 percent. My uncle owns some; my brothers own some; I didn’t own 51 percent. So how do you deal with those people? So I think while that’s okay for a lot of folks, for the people who slip through the cracks, we need to catch them. And CDFIs are a great filter. We’re going to help all three of the folks that -- they’re all pitching at the entrepreneurship conference coming up next weekend, and we have the big guys.

You know, we think that just because there’s a veteran-owned business that’s doing 10 million or more that they’re okay. There’s the guy who pitched last year who said I’m doing 12 million, but I’m banking on set-asides, and I need one and a half million in a credit line from my bank, and I don’t know who my banker is.

So now I’m getting commercial bankers to show up at these conferences, and I’m telling them, you can make a lot of money issuing a $1.5 million credit line to this guy. I’m convincing the equity guys to show up because Michelle’s company with the high-tech augmented
reality, she’s going to get 20X for valuation. So come
to the conference and see if you can scoop one or two
of these deals. We’ve been at it now for three years.
We’ve got the Rosie Network providing all the
entrepreneurship training, mentoring to military
spouses; Veteran Launch providing the loans; NVTSI,
we’re, I think, the only nonprofit that’s been allowed
by the base commanders in Southern California to go in
two years before people will take their uniforms off
under the pre-sep program.

I don’t know how many people here know the
pre-separation program, mandated by law, that the
commander has to provide an orientation to all the
people within two years of them being released from
active duty. Having been a commander, I would have
fought that. I would have said, wait a minute, this
person’s still got two years left, I might deploy him
two more times. So don’t bug him about what he’s going
to do getting out.

But now they’re wising up because at the DOD
level, the top brass is realizing, okay, if you don’t
give these folks who are getting out a smooth
transition, and the reintegration problems surface, the
suicides go up, it’s going to hurt your recruiters.

When I was a Marine recruiter at one time, and I used
to bullshit like the best of them, and I got a lot of people in, but in those days, you know, the economy was different. Now, I think the commanders are realizing, okay, let’s not create our own bad PR before the -- you know, the people get out so the recruiters don’t have to backpedal all the time saying, oh, yeah, yeah, forget the suicides; eeh, that doesn’t concern you. Bullshit, it concerns you.

And women -- mostly women -- military spouses, right now are facing 23 percent unemployment, and that’s not even counting underemployment. That’s a much bigger number. And nobody talks about military -- about military spouse or women vet suicides. It’s a major number. So let’s address all of those things with systems and processes that work, and, you know, we’re here to talk about trying to get the Treasury Department to reclassify disabled veterans as OTP to give them a leg up.

We have to continue feeding all the other services. The VBOCs need to do their job. The SBDCs, the woman business center, they all have to do their job, so I think the SBA is sort of the fulcrum. We can help people leverage so that if you don’t have an answer, maybe somebody next to you, that agency, that sister agency does. Let’s not be so proud. After all,
all of the VSOs are struggling, hand in hand. Believe it or not, only 4 percent of businesses in the U.S. have cracked a million in revenue. That also defines the VSOs. If you’re not doing a million or more as a nonprofit VSO, good luck. You’re not going to be able to pay your people either. And you can’t work off volunteers, even though I’ve done a pretty good job doing that, because I’m a volunteer.

But the message I want to leave is that I think that the SBA, because its focus is on the small business firm startup, business expansion, we focus too much on startups. Veterans own 9 percent of all businesses in America, and that statistic comes from the SBA. Well, if you take away the old farts like me, we’re disproportionate owners of small businesses because, you know, when you get into the mid ’70s, like me and Lynn, we’re not the startup artists, right, although he is doing it. He’s starting a business. I’m starting another business in California, an “other destructive technology” business, so the dream’s got to continue, but, you know, we own a large, large share of small businesses. I think our net receipts, last time I looked, was $1.22 trillion in annual sales for the 9 percent, half of a trillion dollars in payroll. It’s over 500 million. So we’re creating jobs. The public
doesn’t know. Women veterans still come to me and ask for help, and I say, how come nobody knows you’re a woman veteran? You don’t advertise it? No, I don’t like to do that. Well, it’s time, because that is a good label for all of you. Take advantage of it because of all the benefits.

Any questions? Have I gone over my time, Larry? Almost?

MR. STUBBLEFIELD: No, actually, you’re doing just fine. Any questions or comments for Mr. Wong?

MR. GWINNER: Hi, Mr. Wong. Sean Gwinner from Bunker Labs. Just looking at all this, so our space is helping startup, veteran-owned -- veteran and spouse-owned --

MR. WONG: Bunker Labs is coming to our conference next Friday, and I know Todd really well.

MR. GWINNER: Yes, yes. Actually, I was talking with Adam just a little bit ago showing him this because this covers that space that there’s traditionally been a gap.

MR. WONG: Yeah.

MR. GWINNER: And one of the biggest barriers has been that FICO score. That’s been said over and over.

MR. WONG: Absolutely.
MR. GWINNER: So myself and my partner utilized an SBA loan, but knowing what’s involved with this, so my question is this, going through the process, what’s the underwriting look like? So, for example, first a business that’s already generating revenue, what’s that -- what do you guys generally like to see as the threshold of revenue? And then, also, what does -- let’s say they go into a franchise versus a traditional startup that they -- what’s that kind of look like, if I could get a picture of that, please?

MR. WONG: Good question, because we get that all the time.

Yes.

MR. STUBBLEFIELD: I’m just going to ask you, make sure you speak into that so we can capture for the people that are offline.

MR. WONG: We actually will fund a total startup. If you come in and say here’s my plan, that’s all I have, we’ll still fund you. Fifty percent of our borrowers are in that situation. I think, you know, people have trouble going to a commercial bank and saying, hey, I got a piece of paper, it looks really good, man. You ain’t going to get funded.

But we will. Fifty -- look at our numbers. Fifty percent of our borrowers are startups. And over
50 percent are women. So I love the makerspace that Bunker Labs is doing all across the country. I noticed that the acting administrator of the SBA just issued a makerspace grant, a million dollars. I’m going for it because makerspace, that’s what it’s all about. Put people together who can share problems, share issues, they can solve those issues together. At the CDFI level, and Gary’s been in that space for a long time, we don’t do enough of that because we’re limited by how many personnel, so we lean on the VBOCs, the SBDCs, and the Bunker Labs, you’re helping to support the whole infrastructure.

I’m putting real pressure on the community colleges. Mills College, which is the first women’s college west of the Rockies, the President, Beth Hillman, is an Air Force vet. So I went to her and said, you know, women veterans are not getting -- now, they are underserved, and gave her the statistics. And she said, okay, how do we host our own conference next year for women veterans, people of color, LGBTQ. Her law -- she was formerly a law professor at UC Berkeley, the Hastings School of Law.

She said, my practice is gender equality, so absolutely, count us in, we want to play. She’s sending her business school dean to the conference.
All it took was a phone call or an email or an Instagram or Facebook. It’s so easy. We need help. We need people to feed into the funnel, because we can take borrowers all day long. We just keep beefing up as long as JPMorgan Chase gives us more money. Right? Where’s your purse? I want to see it before we...

And believe it or not, Union Bank just stepped up. People don’t know MUFG Union Bank, that’s Mitsubishi, UFC, and Bank of Tokyo. They are the fifth largest bank in the world, but if you look at who’s the top four, they’re all Chinese Government-owned. So, in effect, Union Bank is number one. So they asked just recently, last November, how much did JPMorgan give you. And it’s disclosed -- our mean, our 990s disclose all of that, so we said more than you have given so far. And so they’re stepping up, they’re saying, okay, we’ll give you loan capital.

And so those are things that -- I mean, the banks are helping us. All -- we’ve got the veteran person sitting next to me, the message that she’s taking back to New York is this is a worthy investment for us, not only for -- as part of the CSR, corporate social responsibility -- it’s just a darn good investment, because we’re giving them the future clients for their commercial loans.
MR. LOWDER: Hey, Jim. Lynn Lowder from Veteran Business Project. Thanks for your presentation. Thanks for what you’re doing, man. What’s the average size of your loan?

MR. WONG: 120,000. We can give up to a quarter-million. So far, that seems -- for over 10 years now, it’s 120,000. Believe it or not, women ask for less, and they get the cash flow faster.

MR. LOWDER: One other question, Jim. I noticed in your pie chart, you guys have a good amount of food and beverage business. My experience has been a lot of banks shy away from that right from the get-go. How’s that been working out?

MR. WONG: Because I was a Pizza Hut franchisee, I finally did get a franchise, and the Harvard education did not help. Maybe they can focus on that from now on. We’re trying to push people into franchises. McDonald’s, which is the biggest, you know, well known, they have a 10-year failure rate of .1 percent. Yeah, so they don’t -- they don’t fail. Pizza Hut doesn’t fail. If my numbers take a turn for the south, the Pizza Hut folks would fly people all the way to Brazil where my franchise was to say, what can we do for you.

So food and beverage is tough. We’re getting
people in, and being a food and beverage guy, I work for PepsiCo as well. I go in and say, okay, let’s look at how you’re retaining your customers. Let’s talk through the nuts and bolts and let us help you. That kind of mentorship is just -- you know, we’re asking for volunteers to go in to help, so -- but that’s a good question. The failure rate for food service, the first year, 95 percent.

MR. O’FARRELL: Jim O’Farrell. Jim, could I ask this question? So looking at that slide that had the 63 million in 10 years and 742 businesses, so we’re talking about approximately 6 million a year and 74 businesses a year. So my question is kind of a two-part. One is what’s holding you back, what’s keeping you from scaling across the country? You did have another slide where you referenced the different CDFIs in the different states. You know, why couldn’t that number be 630 million and 7,400 businesses? And that’s question number one.

And question number two is what do you need from us? What can we do to help? As you may or may not be aware, the Advisory Committee on Veteran Business Affairs is an independent committee that advises the SBA, sends a report to the White House and to the Congress each year, and that report is intended
to drive policy decisions. So if you could write the paragraph that describes what you’d like to see in our report, what would it say?

So that was a two-part question. How can you scale? What do you need to help with scale? And, secondly, what do you need from us?

MR. WONG: The first question, the answer is if you look at -- since I only joined the board two years ago, we’re seeing a hockey stick because we’re adding to our staff on the Veteran Launch side. Veteran Launch is a program underneath Main Street Launch. Main Street Launch is restricted by census tracks, but Veteran Launch is allowed to work throughout the state of California. And if I have somebody who talks to me about they want to open something in San Antonio, I call Gary up and say, hey, I’m passing the baton to you. So that fabric, at least for the 12 or so CDFIs, we do pretty good hand-offs.

Second question, what can this committee do for us, I think we do need to get elected officials to understand that veteran-owned businesses, military spouse-owned businesses, they are doing very well. We’re not asking for a handout. We’re asking for recognition. We need legislation, like, if we can reclassify disabled veterans as OTP, that would go a
long ways -- I mean, today, probably 30 percent of the people that -- at least -- we see are disabled and would qualify. Why not recognize them?

You know, I live in a neighborhood that is multicolored, everything, but not everybody -- if you go to the Midwest, you know, maybe the demographics are a little bit different. We need as much help there as we do on either coast. So there are -- there’s legislation that are past the House, we’re waiting for Senate approval, that’s looking at the transition program.

For those of you who went through TAP, you know it sucks. You know, I mean, it sucks. You’re drinking from a fire hose from day one to day five. It’s mandatory, but it’s the biggest bullshit I’ve ever seen. I was teaching some of those, and you got to tell people, okay, all right, here are the things you really need to know, and we need to start that early. So the pre-sep program is taking advantage of that. Capstone, you know, those are the three programs. The public doesn’t know that you can get to veterans -- I mean, get to military service members long before they take their uniforms off. We need public education through the pre-sep program.

Right now, Congressman Takano, Democrat,
California, took over the House Committee on Veterans Affairs. We need to get to him. We need to get to Congressman Mike Levin. These are the young bucks who are saying, wait a minute, let’s question some of these policies that we’ve had. Let’s see if we can come up with policy alternatives. This Committee I see as coming up and looking and proposing policy alternatives.

For ages, we’ve been talking about taking the GI Bill that’s worth approximately $180,000 and allowing people who are entrepreneurs to take advantage of that. I know there are mechanical problems. I was the money guy in the Marine Corps, and I used to partner with an old friend who’s an Army two-start after Vietnam, and I said, I don’t have the money; I need my pilots to fly; how about if I let them fly for you, you pay for the gas. And we did that in one meeting, and then we took six weeks to figure out, how do we pay each other. Let’s not let the bureaucracy get in the way. Let’s solve the problem.

I see this Committee as so powerful in opening people’s eyes, especially the elected officials, that -- because we’re trying to generate jobs using the GI Bill, maybe there’s a better way since 25 percent or more of our exiting service members
say they want to be self-employed or be entrepreneurs, we’re ignoring them. Maybe they don’t need to go to school. Maybe they can start their business now, and with that funding, 180,000, that’s quite a bit. So that’s a really good question.

MR. STUBBLEFIELD: Okay, we have one more question, and then we’ll take a break.

MR. GODWIN: Thank you. Good morning. Just a quick comment. My name is Jerry Godwin. I’m with the Office of Veterans Business Development. I work for Larry on his team. So before being in federal service, I was an entrepreneur, and after one of my companies, one of my exits, and then before I started another, we started a CDC here in Washington, DC, where we did microloans. We became a CDFI. This is in 2000, so a few years ago.

But to answer your question, Sean, what we did is we looked at nontraditional sources of credit to help the under -- we had our own capital and we underwrote our own loans basically. We looked at things like, well, have you paid your electric bill on time, that’s credit. Have you paid your phone bill on time, your utilities bill? So that was a good indicator where there was no previous credit history. So that — we used that as a tool to help us.
And, Lynn, we underwrote and we gave microloans, some of them as small as $500, some of them to restaurants here on 18th Street, also landscaping companies, GCs, but we would make loan payments cyclical based on seasons. So for restaurants, we would charge them higher in the summer -- spring, summer, and fall -- because that’s when their revenues were higher. In the winters, their payments would be lower. So we were able to be very creative and make it work. And then we partnered with nationally chartered banks as well.

MR. WONG: Well, these are all things that we can do. We don’t need to change legislation. We can do it right now. Ninety percent of the people I talked to don’t know what a Paydex score is. I’m like, okay. FICO is not the only score that people use -- Dun & Bradstreet. Use your Paydex score. Get a business line of credit. If you’re buying supplies for your restaurant, when you go to Office Depot or when you go to Costco and they give you a loan -- I mean a credit application and where it says Social Security number, cross that out, put in your EIN, put in -- you know, because even the clerks I go to say, no, sir, I need an SSN. I’m like, no, I want a business line of credit. So little things.
MR. STUBBLEFIELD: Okay. I want to thank you, Mr. Wong, for your presentation here today. I want to continue the dialogue with you in terms of OTP because we are working with Treasury. And this thing about evidence-based, you know, I’ve been talking to Treasury, I guess, for almost a year, and we haven’t moved the needle one bit. Like you said, they’re very stagnant in looking forward. So if there’s anything you can help me with in terms of that dialogue, I would appreciate it.

MR. WONG: Absolutely.

MR. STUBBLEFIELD: All right, so, okay, what we’re going to do now is, I understand Liz is on the way. And so we’re going to take a break until about 10:35, and then we’ll have our friends from JPMorgan Chase up next. All right, thank you all.

(Meeting in recess.)

MR. STUBBLEFIELD: Okay, before we get started, I’m going to open roll call back up for anyone who has joined us.

MR. PHIPPS: Michael Phipps. Thank you, Larry.

MR. STUBBLEFIELD: Thank you for being here. Thank you.

All right, we want to capture you. Make sure
you’re on the record.

MS. LEWIS: Valerie Lewis.

(Brief discussion off microphone.)

MR. BROWN: Derrick Brown.

MR. STUBBLEFIELD: Okay, anyone online?

MS. LEWIS: Valerie Lewis.

MR. STUBBLEFIELD: Okay, thank you. And just

a reminder for those of you who are online to mute your

phones, please.

Okay, we’re back on schedule, and so at this
time, I’m going to turn it over to Gary Lindner, who’s
from the Peoplefund, President and CEO. So thank you
very much for being here.

MR. LINDNER: Well, first of all, let me tell

you that I’m not the swiftest fox in the forest. I’m

really proud that I graduated in the top half of my
class of 35 in Comfort, Texas, and I went to a trade

school in the Rockies for, you know, the Air Force.

Anyway, I spent three years in combat in

Southeast Asia flying B-52s; came back, started flying

a lot of different jets, and did that for about 20

years, interrupted by a prison sentence to the

Pentagon, but I was committed to two years for bad

behavior, so I got to go back and fly again.

Unfortunately, I kept getting promoted, and
for the last 10 years, I was running pretty large
military installations in the Europe and the U.S.,
5,000 to 50,000 and above, so that was a great
experience. So transition now to what I’m doing for
the last 15 years, and that’s with, you know, small
business lending, Jim talked about, and so I’ve done 15
years and had the good fortune of making 7,000 loans
during those 15 years to small businesses.

We’re located in Austin, Texas. We have eight
offices around the state. And we’re going to talk --
and what’s really important to us is we have the -- all
the SBA loan products, the microloan, the Community
Advantage, and the 504 loans. And that really meets a
lot of needs out there in the community. And then
we’re also fortunate with the CDFI fund, we’ve gotten
some grants from the CDFI fund, and also $100 million
over time in the new markets tax credit project, where
we’re using those in severely distressed census tracks
for community facilities and to create jobs in areas of
great distress. So that’s been a great program for us.

We also lend to startups. We have -- 50
percent of our loans are to startups. Twenty-five
percent of our loans go to veterans, and we’ll talk --
that’s what we’re going to talk about today. But we
have an impressive education and training component,
and because of that, we have -- our default rate last year was zero-point -- losses were 0.7 percent, which is really -- we think that’s really great, given, you know, the risk that we have. And we take all the risk on our loans. We don’t sell our loans, and we don’t do anything. We keep all the risk ourselves.

So we’re going to talk a little bit about -- we’ll just go ahead. I got to keep up with the slide-clicker, okay. Okay, so, you know, really, a little bit about veterans, a lot of veterans out there. Some states have -- you know the three states that have the most right there, and like Killeen, Texas, which is around Fort Hood, one out of every three people in that city has a veteran, either active-duty or, you know, separated or retired. And like Jim mentioned earlier, you know, veterans own 9 percent of all the businesses and generate a lot of economic activity, and interestingly, even though there’s 18 million veterans, there’s only about less than -- well, less than half of those are still in the workforce. The others are, you know, mostly Vietnam veterans, quite frankly, about half of that total. And that’s going to change over time, obviously, but that’s what it is right now.

And, yeah, obviously, we can talk about veterans are great business owners. You know,
basically, twice -- you know, if you look at the per-capita, one in seven veterans owns a business and one in 14 of the U.S. citizens own them. If you look at Nike, FedEx, Chick-fil-A, and Little Caesar’s, it was -- those are all created by veterans. And I always said, you know, obviously -- I said the FedEx guy had to be an Air Force pilot. It turns out it was an Army logistics officer that figured all that out and got FedEx going. So very impressive, and just -- it goes to show that veterans are big business owners.

We have Chris here from JPMorgan Chase, and they’ve been a fabulous partner. Back in 2016, we started having conversations about what can we do to help veteran lending. And in 2017, JPMorgan Chase stepped up and gave us a $3.6 million grant to three of us over a three-year period to jumpstart the -- you know, veteran lending. And the three states, obviously, Texas, California, and North Carolina, all high veteran, you know, populations were the ones who started that.

And, obviously, JPMorgan Chase had some outcomes that they expected of us. In the first year, we met all or exceeded all the outcomes that, you know, we were asked to meet. So we started a Vet.loan program. That’s our website. It has online training,
and it’s a very -- it’s really a great portal for all of our members. And we created a national business model that other people can subscribe to whether they’re a member or not. We were asked to deploy $12 million over three years. We deployed $12 million in the first year. So we far exceeded what the expectation was.

We asked -- they were asked to do a match to grant with a four-to-one leverage. We leveraged seven-to-one. So we brought a lot of other capital, you know, to match that money. And then we have a national project officer who happens to be sitting on my right. The name is Grant Bennet. So he’s the one that really takes care of the whole collaborative on the day-to-day basis, and it just so happens he works at PeopleFund, but -- so he can watch it pretty closely, but he’s done a great job with all the -- you know, with the collaborative members. And then we report metrics annually.

One of the benefits is the technical assistance curriculum that’s available to anybody that might want to go to it. And the nice thing about the website, it geolocates. When somebody goes to the website, it says, oh, it looks like you’re calling from Ohio. And then we’re able to match them with a CDFI
that may or may not be a member of the collaborative.

So that’s really a really nice feature of that.

And then amongst us, we implement best practice among us. We have conference calls. We’ve had people from the SBA talk about all the SBA programs. We’ve had -- most recently, we had Kirby Atwood from Bunker Labs talk to all the veteran collaborative members. So we think, you know, that’s been a plus for us. We’ve also talked about Community Advantage. Some of those were actually newer at the business. And then a lot of information-sharing, and we’re looking for capital-raising efforts for CDFIs that serve veterans.

And then this is something that JPMorgan virtual Service Corps. It’s a bunch of volunteers put together. They gave us kind of a matrix of things we might want to consider when we look at all the veterans, CDFIs, and who we want to invite to join.

So the way we do that, we look for top-tier CDFIs, you know, that have proven leadership and a commitment to veterans. So we’re looking at geographic coverage. We want to do state-wide lenders rather than somebody that just does a county or a region, so we’re looking for CDFIs that provide the state opportunities.

We’re looking at the number of vet -- at the
per-capita veteran percentages. So, you know, for example, some of the states like Montana, Idaho had the highest per-capita of veterans in the population. It just so happens the population is not very big. So it’s really -- it’s interesting to look at all these different -- what I call criteria or, you know, selection criteria. But ultimately it boils down to the CDFIs that we’ve known over the years, and we trust them and they trust us, and that’s why they’ve joined the collaborative, quite frankly.

We have -- we call them an invitation, and everybody signs a memorandum or agreement. Probably the most important of it is a commitment to provide loans to veterans at the single-digit interest rate. We report metrics, and then obviously we’re always trying to pursue more grant and capital, you know, for the veterans.

This year and next, we want to get up to -- right now, we’ll have 13 -- 10 new CDFIs plus the original 3. We’ll have those right now almost. And then we’re going to try to get to about -- up to about 20 by the end of 2020, and still raising grant funds at the national level. We’re in conversation with JPMorgan Chase about some additional capital that goes beyond what the original grant was and maybe some low-
cost loan capital. And then on top of that, we’ve been able to get about $20 million for us from Bank of America at 1 percent interest rate for veterans.

This is where we started, California, you know, the Carolinas, Texas, and Oklahoma. And that was five states that we covered about 25 percent of the veteran population. And we always look at the number of bases that we cover. There’s -- 26 percent of the bases are located in California and, you know, our footprint right there. California has actually 40 military installations in it, which you might -- which is really pretty incredible. Texas has about 20.

And those are the ones who are in our -- with us right now. And those -- they come from Alabama, Pennsylvania, New York, New Jersey, the Carolinas, Georgia, Ohio, Wisconsin. And then we’ve all -- we visit each other. Some -- they’ve come and benchmarked with us; we go up and have some conversations with them as well.

And then what we’re looking for, by Q3 is -- this would be our coverage. The ones in yellow, we’re already in discussions with. It’s just a matter of going ahead with the formality to signing an MOA, but they’ve all made a verbal commitment that they want to join the organization.
And this is a little bit -- this was last year’s performance of the collaborative, the three plus a couple. I think what’s interesting, if you look at it, 66 percent of all the loans that went to veterans came -- were with the Community Advantage loan in terms of the dollar amount. So that’s a really important program for all of us. We, ourselves, have over 220 CA loans across the board, but not just to veterans. So that’s important.

The other thing that’s important is that over 50 percent of the loans go to what I would call other than the white population, so it’s an ethnic -- very diverse in terms of our distribution of loans. Because right now, 75 percent of veteran force is white. But you’ll look then -- about 50 percent were white, and the others go to ethnic minorities, which we think is a positive sign about what we’re doing and the impact that we’re having across the board.

And then if you look down at female loans, 9 percent of the veterans are women, but 26 percent of our loans are going, you know, to the women population. So the CA program has been really helpful at reaching out to groups that otherwise have been disenfranchised. And we think this is a positive thing for the SBA but also for our -- in working with the veterans.
And then we just -- this is what we’ve done over the last six years. In our case, it’s very -- it mirrors, actually what happened with the collaborative. So 65 percent of our loans go to -- of the dollars go to veterans, and then in our case, 56 percent of our loans go to other than, you know, to white veterans.

And then gender, same thing, 31 percent to women. And we talked about interest rates, in our case, well, you can see what our standard rate is on the left, and every veteran gets a fixed -- 5 percent fixed interest rate loan. No questions asked. Now, not all CDFIs are able to do that. We’re able to do it because we’ve been able to secure very inexpensive money, either 0 percent or 1 percent. And that allows us to, you know, lend at 5 percent and have a little bit of a margin for, you know, overhead, losses, and what have you. So that’s -- we think -- you can see what the rates are, and that’s what the veterans get across the board. And that’s what we’ve done ever since 2012.

SBA resources, invaluable to us. We work with all -- well, there’s four districts in Texas, SBA districts. We have a close relationship with all of them and obviously the products. We’ve been participating in the Boots to Business program with the
SBA. We work -- we have two veteran business outreach centers in Texas, one up in the north of Texas and one down in the Rio Grande Valley. And we’ve worked obviously with SCORE, brings us folks, but this is important, are the SBDCs.

You know, they have quotas, too, and sometimes we refer people who aren’t ready for a loan to SBDC for additional training, and when they have somebody ready for a loan, they send them to us to, you know, make the loan.

Okay, and from our standpoint, we think the Community Advantage program should have permanent status. I think that’s a valid cry to anybody that’s what I would call a high-volume CA lender, to realize how critical that particular program is to our success and actually to the success of veterans. It would be nice if we had the maximum loan amount -- right now it’s 250,000, if we could go to 350,000. And there was a time when there was a 50 percent, you know, discount for veterans on the CA loans, and that was eliminated fairly recently in the last SOP, and we think that’s really unfortunate, and that really -- somebody should take a really close look at that and at least give veterans some kind of a concession on the fees.

And then obviously Jim talked about it.
extensively, but ultimately we’re looking to try to get veterans as part of the other targeted population, the CDFI fund, and at a minimum, we’d like to see the disabled vets. I don’t know what -- our data shows it’s about 8 percent of all the veterans are what we call service-disabled that would, you know, fit in that criteria of 50 percent or greater on the disability.

So as I said, I’m pretty simpleminded, simple presentation, but I hope it’s been helpful to you.


MR. LINDNER: Yes, sir.

MR. LOWDER: You and Jim, are the other CDFIs of the same point of view on getting disabled veterans into the OTP status?

MR. LINDNER: Yes.

MR. LOWDER: Okay. How do we do it, brother? How do we do that?

MR. LINDNER: Well, we’ve actually -- Chris’ predecessor, who just happened to be Chris but he was a different gender.

(Telephone interference.)

MR. LINDNER: Yeah, first of all, we are actually working with what’s called the Mission Lenders Working Group, and it’s a lobbyist effort, yeah, and
you see and it’s not just veterans, it’s across the board with getting the permit status, but without question, no one -- everybody that we work with CDFI fund, no one would be against the target population, at least for disabled veterans.

It’s including the entire veterans population.

(Brief pause for technical difficulties.)

MR. LINDNER: To answer your question, though, to answer your question, there is nobody who’s opposed to at least disabled veterans being part of other target population. And we worked extensively with JPMorgan Chase and Chris to try to hopefully get the SBA and the CDFI Fund to have a conversation to push that, and as I said, there’s -- it’s intransigent in some respects, but as I said, I think there’s hope that there’s -- it would be nice to see the VA and the SBA to put a little bit of what I would call at least encourage them to do the right thing. And as I said, they then to be -- there’s a lot of inertia. It took us three years to get our targeted population, and that’s --

(Telephone interference.)

MR. PHIPPS: Gary, how do you determine -- these rates are unbelievably great.

MR. LINDNER: Yeah.
MR. PHIPPS: Is there a range with these rates, or I think that’s on a previous slide.

MR. KURTZ: People on the phone, please mute your phone.

People on the line, please mute your phone.

MR. PHIPPS: So we’ve seen lenders through -- that have been coming in here, Jim, what four years now, and these are probably some of the best -- is there a range to these rates? Like, what’s the highest rate you guys go to?

MR. LINDNER: Oh, hang on. Let me -- we have a new product. I’m not sure it’s on there, the flash funds? Yeah, to answer your question, the rates are risk-based, so what you see on the left side, that’s representative rate, and in some cases they’re a little bit above. In most cases, they’re below. So I’d say across the board our average interest rates are right under the 8 percent across the board, and that’s, you know, excluding the veterans. The veterans, it’s going to be fixed 5 percent, period.

And we don’t do variable-rate loans. A lot of people -- for example, under Community Advantage, the guarantee portion, if you do a variable-rate loan, you can sell it on the secondary market at a premium. We will not sell a single CA loan. We retain them all.
And if you look -- keep them over the life of the loan, you’re actually -- we’re better off. So unlike a lot of CDFIs that are capital-constrained, we’re fortunate not to be.

So for that reason, we don’t sell -- we don’t sell anything. And other people sell their portfolio; they sell their CA -- and what happens is, great, except your balance sheet gets totally upside down. You’ve got everything under management but nothing on your balance sheet. And so that’s -- to us, that’s a consideration because we have a strong -- the ironic thing about us, we have abundant capital, and sometimes -- and I’ll use Union Bank as an example -- he was talking about Union Bank. We’re in Texas, and Union Bank, we talked to them, and they said, is it okay if we lend you a million dollars at 2 percent? Yeah, that’s okay.

I mean, so it’s -- so we have 47 different funders. A lot of them are -- you know, most of them are banks for CRA purposes, and as a consequence, so our average, our weighted average cost of capital is about 2.2 percent. So that allows us to give rates to our clients at a reasonable amount and not at a predatory amount. You know, we can double our interest rates, sit back and just count the money. That’s just
MR. PHIPPS: So I love the statistics and the research that you have done. You know, it has not gone unnoticed. I mean, we love the data behind what you guys are doing, and we’ve always thought that veterans are better at repaying their loans than the rest of the population. Do you have statistics on defaults?

MR. LINDNER: It’s -- yeah, we segregated the veterans out, and it’s not statistically different, and I’ll tell you the reason it’s not statistically different is that we have such an -- we have a whole team dedicated to nothing but supporting our clients after they make the loan, because the startups left to their own devices will probably crash.

And so we give a lot of assistance. We have 200 mentors -- volunteer mentors around the state. And we have a team that does all these workshops and one-on-one coaching. So every week, we have a team that looks at our entire portfolio, and if somebody’s 10 days behind on their loan, we contact them and say, is there something we can help you with, as opposed to pay us, or we’re going to come after you. Now, do we have clients from hell? Yeah, but there’s -- but it’s a very, very small percentage.

So to answer your question, veterans do well.
The thing that -- and we’ve had -- we have a veteran that the business went under but they continued to pay because I think the veterans, more than the general population, feel like their word is their bond. And if they sign something, they’re going to honor it. And so we’ve seen that happen -- and that happens outside in the general population, but the veterans -- I think -- one thing I think, we’ve done a lot of extensive veteran entrepreneur training programs around the state. And one thing that I think is really interesting, and anybody that’s a veteran can attest to this, that it doesn’t make any difference what your gender is, what your ethnic background is. If there’s a common bond, you can get together, and you don’t -- you consider your -- what you have in common, not what’s different about you, especially if you’ve been in combat. You could give a rat’s ass what somebody is in the next airplane, as long as they can fight.

MR. PHIPPS: No, that’s great.

MR. LINDNER: Like I said, I’m not -- you know, Jim’s really good at anecdotal stuff because I’m very limited in my education, so I can’t speak it very well, so I hope you can appreciate that.

MR. O’FARRELL: The school of hard knocks.

MR. LOWDER: Gary, one last question. So I
1 presume the CDFI group you’d be strongly behind leading
2 to try to get the disabled veterans into the OTP rank
3 and you guys would stand strong on that.
4 MR. LINDNER: Oh, yeah. We’ll stand very
5 strong on that. And the nice thing is JPMorgan Chase
6 has allowed us to be the fiscal agent, so we’re -- you
7 know, we -- obviously the money comes through us. It’s
8 easier to send it to one CDFI, and then we distribute
9 it amongst the others, and so we’re having some
10 conversations about some significant injection of low-
11 cost capital, and to be determined, but the fact is
12 there’s groups like -- and it really -- the important
13 thing is it’s helping veterans, but it’s also helping
14 our big banks because it shows a commitment to the
15 veterans, and it puts them in a different light, too,
16 to the outside population. So I’d say JPMorgan Chase
17 more than anyone, and then Bank of America, also, has
18 stepped up, as has Capital One and others.
19 MR. STUBBLEFIELD: Okay. You are doing some
20 pretty amazing things. Thank you very much for being
21 here today. I’m going to be in touch with you as well
22 because I spoke with Jim, and we’re going to partner on
23 taking this fight to Treasury. And so I’ll get with
24 you as well.
25 MR. LINDNER: Yeah, I kind of like adversarial
situations.

(Laughter.)

MR. LINDNER: I shouldn’t say that, but I kind of do.

MR. STUBBLEFIELD: I will definitely --

MR. LINDNER: You want to get yourself --

MR. STUBBLEFIELD: I will definitely get with you.

MR. LINDNER: But, also, you know, and I want to tell you, too, like we’re meeting with Todd and Kirby Atwell in Chicago next week, and we sent them some client stories recently, and so we’re going to really get together and I think there’s a lot of synergy between Bunker Labs and what they do and what we do. But there’s -- you know, everything’s about partnerships. You know, nobody can operate independently, and we’re no different than anyone else, so we make pretty good and we get good results. We make a case for money.

MR. O’FARRELL: Jim O’Farrell. So I got a saved round here, as we would say in the military. On your slide up there, so you have up there, Increase CA Maximum Amount to 350, and you said it’s currently 250.

MR. LINDNER: Right.

MR. O’FARRELL: By increasing it to -- 100
grand, what would that -- what would that cost be? Did you guys study that? What would the expected cost be to the entity that would pay it?

MR. LINDNER: Yeah, the -- for example -- well, the cost, yeah, we use our money on CA loans. It’s just a government guarantee --

MR. O’FARRELL: Right.

MR. LINDNER: -- that backs -- you know, 85 percent, that’s 150,000 or 75 percent above that. So there’s a risk, obviously.

MR. O’FARRELL: So it’s a risk increase. So then I kind of thought that would be your answer.

So, Larry, do we -- can we have somebody look at that maybe for the next meeting? If the ACVBA is going to support this position, what does the anticipated risk curve look like or the anticipated increase in cost, year over year, that the Government would end up incurring.

MR. LINDNER: You know, in our case, we’ve had a couple -- 200-and-something loans, we’ve had about, I think, half a dozen of --

MR. O’FARRELL: Right.

MR. LINDNER: -- around that, and we had to -- we did everything we could to make -- cure them.

MR. O’FARRELL: Right.
MR. LINDNER: But to the credit of the SBA, they instantly paid off the guarantee fee because we did everything that we were supposed to do.

MR. O’FARRELL: Right.

MR. LINDNER: So there’s been no pushback on that, but, you know, most recently -- the most recent SOP actually made it more restrictive on some of the criteria, and it really -- so we had the mission lenders working, and we said, wait a minute, I thought this was a good program, but I think the SBA has to mitigate risk, you know, because they’re using public money, and we certainly understand that.

MR. STUBBLEFIELD: Yeah, we’ll take this as an action item, and we’ll report out at the next --

MR. O’FARRELL: Okay, and while you’re grabbing action items, so the next one would be restoring the 50 percent guarantee fee, what would that do, because for years, I and Mike Phipps, since we’ve been on this committee, for years that was a fee that was waived, yeah. And so --

MR. LINDNER: And in the last iteration, it was taken away, and the only ones that get credit now are rural.

MR. PHIPPS: Is that because the zero -- is that because the zero subsidy wasn’t met, that the
loans were that the --

MR. LINDNER: No, it was not a zero subsidy, it was a 50 percent reduction.

MR. PHIPPS: So why is the fee back?

MR. LINDNER: Beats the hell out of me. I mean, you know, it doesn’t make any sense to us.

MR. O’FARRELL: And what was the total amount of the fees on an annual basis? That was kind of -- that’s what I was wondering, too.

MR. STUBBLEFIELD: We’ll take the slide as an action item. I will tell you that the short answer, but we need a deeper dive on it, is that the focus had gone away from this to, as Gary said, to rural. But we’ll do a deeper dive and we’ll present at the next meeting. I’ll get the experts here.

Okay, any other questions or comments for our team here?

(No response.)

MR. STUBBLEFIELD: If not, thank you again for being here. We’re going to transition over now to the -- our final presentation, the All Small Mentor-Protégé Program, and we have Derrick Brown here, who will lead that discussion. And by the way, for the record, we want to acknowledge that our chairperson has joined the group. Liz O’Brien is here.
Okay, Derrick, are you ready to go?

MR. BROWN: Yes, sir, I am.

MR. STUBBLEFIELD: All right, just a second.

MR. BROWN: Good morning. My name is Derrick Brown, and I’m the principal senior business analyst at the All Small Mentor-Protégé Program. And here I’m going to just explain to you briefly how we are measuring success. We look at two things. We look at outputs and outcomes or the output and outcomes. But when we look at the two -- when we look at outputs or outcomes, we have to ask ourselves two questions, especially with the outputs. Is the program growing, and are we reaching a wide variety of small businesses?

Okay, so to answer the first question, is the program growing, measuring this helps us gauge whether we are reaching people and whether small businesses find the program valuable. So they would not apply if they didn’t know about it or find it useful. So as you can see from the chart at the top left, we are growing, all right? At the end of Quarter 2, we had 757 active agreements in place, which makes us the single-most extensive mentor-protégé program in the Federal Government. We currently have more than 825 active agreements. At the end of Quarter 2, we have received 250 applications, which is an increase of more than 10.
percent over the same time last year.

The second question, are we reaching a wide variety of small businesses? As you can see from the remaining three charts, we are reaching a whole cross-section of small businesses. A look at our NAICS codes demonstrates -- that’s to the right, the right chart -- demonstrates we are reaching a variety of industries, but although driven by construction and engineering services clearly, which is NAICS code 236220.

We are reaching protégés from a broad cross-section of socioeconomic categories driven by 8(a) and also SDVOB businesses or firms. 8(a) is at 52 percent; and SDVOBs are at 56 percent. Protégés from across the country are finding and using the program, so with outcomes, we have to ask the question, what difference does any of this make? So it is actually if a wide variety of businesses have accessed the program, but how is this making a difference? So we have to look at our outcomes.

Now, before we go to outcomes, I just want to -- the bottom chart represents the 10 district offices with the most MPAs. And right now, Washington, DC has the most MPAs at about 173 MPAs, mentor-protégé agreements. And then Baltimore is second.

All right, now, when we go to the outcomes
slide, we focus on four major data points, all right? The first data point would be the business development support; the second would be measuring independent bids won by protégés; the third would be -- or the third is measuring jobs created and subcontracted -- subcontracts awarded; and our fourth is joint ventures formed or joint venture contracts.

So our first indicator, business development support, as the mentors deliver a wide variety of support to protégés, so we have to ask that question, are they delivering a wide variety of support to the protégés. The pie chart in the upper left corner demonstrates what we see throughout our review of applications and annual reviews. Protégés are receiving a variety of depth of business development assistance. And you can see the top is 698 request management and technical assistance, and 419 request financial assistance and so forth. But the pie chart breaks it down on who -- what they request. Trade education is the least amount.

Our second indicator measures independent bids won by protégés. The goal of this program is to help small businesses stand on their own in government contracting or the government contracting arena. So we measure their success in proposing and winning bids,
independent from their mentor. In Fiscal Year 19, the number of independent bids tripled, and protégés won 31 percent of their offers. We consider that a success, if you look at that in the top right chart.

Now, our third indicator measures jobs created and subcontracts received or awarded -- well, received. We have to ask the questions: are companies gaining contracts, and are they adding employees and growing? So if you -- so for this chart, it helps us to understand that Fiscal Year 18 represents the outcomes of our first cohort of 300 protégés participating in the full year. Fiscal Year 19 describes the results of the two cohorts for half a year. So in other words, we expect Fiscal Year 19 numbers to double what the year-to-date shows.

As you can see, protégés are winning subcontracts from their mentors and -- at an increasing rate and extraordinary value.

MR. O’FARRELL: Jim O’Farrell. Can I interrupt you for one second? Lower left there where you have the 1,325 FTEs in FY 18 and 250 year-to-date?

MR. BROWN: Yes, sir.

MR. O’FARRELL: Why is that number -- I realize it’s year-to-date, FY 19, but it seems significantly lower given the subcontracts numbers
below it that have increased.

MR. BROWN: Are you talking about between the two years?

MR. O’FARRELL: Yeah, 1,325 down to 250.

They’re selling more products instead of services? You would think the headcount would be half of 1,325 or --

MR. BROWN: Yeah, but in Fiscal Year -- well, we’re not finished with Fiscal Year 19. And I understand -- I understand what you’re getting at, but it could be the type of awards are being -- that they are receiving, where they may not have to add more employment. You know, it just depends, but I could go back and get those numbers for you.

MR. O’FARRELL: Right, because the dollar amount’s about five times the size of the FY 18 number, so...

MR. BROWN: Exactly.

MS. O’BRIEN: We would appreciate if you could go back and get those numbers for us for the next meeting.

MR. BROWN: Yes, I will definitely do that for you.

MS. O’BRIEN: Thank you.

MR. BROWN: All right, and the fourth indicator --
MS. LEWIS: Excuse me, can you please share the slides?

MR. BROWN: Excuse me?

MS. LEWIS: We cannot see the slides online. The screen is blacked out.

MR. STUBBLEFIELD: Okay, we’re going to work on it, but continue, Mr. Brown.

MR. BROWN: Okay. All right, on the fourth indicator, joint ventures formed and joint venture contracts, JVs are the unique feature of this program, and where we would expect to see protégés benefitting the most, as noted in the chart on the lower right, more than 1 billion in contracts flowed to all small mentor-protégé JVs, as reported in Fiscal Year 19, so far at an average of $9 million per JV award.

As a reminder, the JVs must be owned 51 percent by the protégé, so that means arguably protégés are receiving at least one half of a billion dollars in JV contracts so far in Fiscal Year 19.

So to sum it up, successful outcomes demonstrate that the all small mentor-protégé drives results to small businesses with an impressive return on investment.

MR. O’FARRELL: For a future meeting, could you break out what agencies are awarding that 1.3
billion so far in FY19 that shows where the -- there’s
the most activity? Thank you.

MR. BROWN: Yes, sir.

MR. O’FARRELL: While we have a moment of
pause here, I just want to say -- Jim O’Farrell, AMSG.
We recently went through this mentor-protégé program to
set up a mentor-protégé, and it was one of the best
experiences we’ve ever had in federal government work
with dealing with the customer service personnel, the
online portal.

It was outstanding. I had not seen something
like this. And I can’t resist the temptation, though,
to compare and contrast with the VA CVE verification
process. I realize they’re kind of apples and
tangerines, but still the way that you all treated us
as human beings and with respect was top-notch, and we
don’t necessarily always see that in the VA’s
verification process. Thank you.

MR. BROWN: Thank you.

MR. STUBBLEFIELD: I just want to say thank
you for the feedback, and I will definitely make sure
the senior leadership hear those words, so thank you.

MR. PHIPPS: Do you know the average time it
takes to get the mentor-protégé approved, because I
think it’s one of the best in government? It used to
be three days, or three weeks.

MR. BROWN: Right, right.

MR. PHIPPS: And that was early on in the program, but I think as the program has matured, we’ll see better numbers on what that number -- on the approval process.

MR. BROWN: Right now, we have increased that process in time due to the influx of applications. They have been coming in tremendously. However, with that, we do have Ms. Lori, our director, Lori Gillen, we have put in detailees and people that we are training, which we have seen a significant reduction in the processing time, which I may not be able to get it back to the three days, but we are reducing -- we are reducing our time --

MR. PHIPPS: Is it about three weeks right now?

MR. BROWN: Right now, it’s a little over three weeks. We’re talking about a month, maybe a little over a month. It’s closer -- to be quite honest with you, it’s closer to maybe 50 days right now, but we are going to reduce that number. We are working toward that. But with the amount of applications coming in and, you know, the amount of people we have to work the applications, it, you know, presents a
challenge for us, but we can work over that challenge.

MR. PHIPPS: So the correct information doesn’t get lost, the VA briefed yesterday at the IATF. They briefed that the average approval time to get into -- to get approved by CVE was 24 days. I don’t believe it. We already know that there’s an issue. I want it on the record, we have got to address those VA numbers because 50 days is still an impressive number, and we know that’s not happening at the VA, even though they’re briefing 24 days.

MR. O’FARRELL: Liz, Jim O’Farrell. Is there -- can we have them come -- I thought they were going to be here maybe for this meeting, but could we have them request that that they come back for the next meeting? There was some discussion at a prior meeting about some possibility that people -- that companies are put into the CVE verification process and then if they run into any hiccups, they’re taken out of the process, and that’s maybe suppressing the metrics from the verification program on the number of days it takes to get verified. And we were trying to drill into that a little bit more, but having them to answer would be helpful.

I do want to follow up, though, Derrick, with the other side of this. Are you doing anything -- so,
you know, I have this picture in my mind of, say, this GSA Schedule out for bid that they’re doing an on-ramp called GSA OASIS right now. And it potentially is driving mentor-protégés to get together and submit to you. And then that passes and time goes by, and you now have all these newly minted all small mentor-protégé agreements in place with numerous companies.

Are you doing anything, or is it in the purview of the SBA to hold an all small mentor-protégé conference, for example, where you could bring together different federal agencies to talk about, here’s how you can go to market with your all small mentor-protégé program? I know that myself, as a business owner, would really appreciate something like that, and there are probably a lot of others who are less experienced in federal contracting that would definitely appreciate something like that.

MR. BROWN: That’s a good question, Mr. O’Farrell. To answer your question, yes, we do. And we’re having a conference. It should be coming up, I believe, in October, I’m not sure. It’s in the planning phase right now, but if you stay connected or email me, I can get you more information on that.

MR. O’FARRELL: Thank you very much.

MR. BROWN: Thank you.
MS. PEREZ-WILHITE: Do we know where that conference will be held?

MR. O’FARRELL: Fran, just real quick, I just had to point that out. There’s a perfect example, and I hate to be sitting here as the independent advisory committee singing the praises of the SBA, but there’s a quick thing where a business owner has a need, they’ve already anticipated it, and they’re already planning for it. So, Derrick, it better happen. That’s all I’m saying.

MR. BROWN: Sir, it’s in the planning stages.

MR. O’FARRELL: Okay, all right.

MS. PEREZ-WILHITE: Do we know where that conference is going to be held?

MR. BROWN: I don’t know who asked that question, but to answer your -- oh, yeah, Ms. Fran to answer your question, right now, it’s in the planning stage. We had one last year that was held in -- I can’t -- what is it, the Doubletree in Arlington, I believe it’s Arlington. It was at the Doubletree of Arlington, and then it was the year before that. We had -- this will be our third annual, so stay tuned.

MR. STUBBLEFIELD: Okay, was that it?

MR. BROWN: Yes, sir.

MR. STUBBLEFIELD: Okay. Any more questions
for Derrick?
(No response.)

MR. STUBBLEFIELD: Okay, if not, we’re a little bit ahead of schedule, five minutes ahead of schedule for the public comment period. I guess we can open it up to the public comment period.

MR. WIGGINS: All right. Good morning, everybody. My name is Matt Wiggins. I’m representing the International Franchise Association and our VetFran program. VetFran is an initiative of the International Franchise Association. It’s been around about 30 years now. We aggregate about 600 different companies, franchise companies, who have offered to give anywhere from 10 to 100 percent off of their initial franchise fee to qualified veterans.

We’re here today because of some points brought up to us by some of our franchisees who are experiencing issues with the veteran-owned small business and service-disabled veteran-owned small business certifications. We’ve been in touch with Ray Milano here at the SBA who recommended that I come and brief you all on these issues that they are having.

The main issue, of course, is that veterans who own their own franchises and apply for these certifications through the VA and the CVE program are
being denied simply based on the grounds that they are a franchise. I have two cases, and many more that are coming in, but I have the actual rejection letters for two, one who is a service-disabled veteran who owns a PestMaster Services franchise in the state of New York, and one who owns a CertiPro Painters franchise in the state of Pennsylvania.

On the topic of our Pestmaster franchisee in the state of New York, he has received the New York State service-disabled veteran-owned small business certification; however, he’s been denied for the certification from the federal level. In both of the cases, the reasoning that’s provided is simply because these veterans allegedly do not have control over their business, and the reasoning that’s being cited here is part of the Veterans Affairs 38 CFR 74.4.

This is stating that control is not the same as ownership, although both may reside in the same person. The CVE regards control as including both the strategic policy-setting exercise by boards of directors and the day-to-day management and administrative business operations.

Now, what’s crucial to understand here is that just because someone owns their own franchise, and just because the franchiser has licensed that location to
them, does not mean that the franchiser is at all involved in the day-to-day operation or control of this business. Franchisees are not controlled by franchisers.

Franchisees do receive support and the ability to license the location, and the only thing that the franchiser does is protect their own trademark by, you know, requiring that certain logos are used. So franchisees are not inherently, you know, out of control of their own business. They hire whom they want, and they fire whom they want. And at the end of the day, their bottom line is entirely their responsibility.

So, in that vein and in, you know, using that line of sense, there’s truly no reason why these rules should be written the way that they are, preventing veteran franchisees from being able to participate and be awarded these certifications. It’s anti-franchise and, you know, it is legislation and rulings that clearly are discriminating against franchise businesses. You know, it is in the interest of all of us here to promote veteran-owned businesses in all forms. And if veterans have been able to find success in this form of business ownership, there’s no reason why they should not be able to be eligible for the
contracts -- the priority for the contracts that their peers are who do not own franchise businesses. Moreover, you know --

MR. O’FARRELL: Jim O’Farrell. Can I just jump in with a question here?

MR. WIGGINS: Sure.

MR. O’FARRELL: So with the rest of the Federal Government, aside from the Department of Veterans Affairs, if I’m self-certifying that I’m a service-disabled, veteran-owned small business, does the SBA have any issues with franchisees, Larry, that you’re aware of?

MR. STUBBLEFIELD: No. Not that I am aware of.

MR. O’FARRELL: Okay, so as long as they’re self-certifying, they’re okay. I mean, Liz, this is definitely something we should think about incorporating into our annual report with recommendation because this issue has come up before. Either the last meeting or two meetings ago. there was a company at Fort Bragg, I think they were a UPS franchisee or something, and they weren’t allowed to bid on a contract. Maybe, Fran, you brought it up, being in North Carolina. We see this so many times. And, also, just as a quick aside, I just had a
veteran business owner in Oklahoma call me and say that she was in the Vietnam era, she was in the Reserves, she did her active duty for training, she raised her right hand, she could have been called into active duty anytime, and the VA allowed her to be CVE-verified for six or seven years, and they just pulled her verification. They just decided willy-nilly that we’ve got this new rule now, we can’t let anybody that was in the Reserves be CVE-verified. So a quick tangent, sorry about that.

So back to this. You hit a cord with me because what you’re doing, what you’re telling us is that the VA -- and it’s limited to the VA -- but the VA is the second largest federal agency. They award, I think award approximately 23 percent of their spend annually on contracts to SDVOSB and VOSBs, so with that amount of throughput, that’s a far cry from 3 percent. That’s a big stake for veteran-owned businesses to go after annually. It’s billions of dollars.

So, you know, what would you like us to do? Obviously, you’d like us to put in our recommendations that they eliminate this requirement from the VA, and that goes to having the VA come to our next meeting so we can address this with them. I would like to ask you to come back to our next meeting when we have the VA
rep here, and I’d also like to have you bring either on the phone, because I understand these folks are out here trying to make a living, but if somebody locally could come here and speak first-person, as a franchisee that is trying to get, you know, into the VA to do work with the VA. And by the way, that’s a very commendable, laudable thing to want to be able to support the VA.

MR. KURTZ: Yeah, this is Stan Kurtz with OVBD.

MR. O’FARRELL: Go ahead, Stan.

MR. KURTZ: So Tom McGrath with the VA is now on the call. Tom, can you hear us?

MR. MCGRATH: Yes, I can.

MR. KURTZ: Okay, so you’ve heard the conversation so far?

MR. MCGRATH: Yes.

MR. O’FARRELL: Mute your computer. Turn the speaker off on your computer.

MR. MCGRATH: It’s off.

MR. KURTZ: Who else have you spoken to besides our advisory board about this?

MR. WIGGINS: So, you know, this is something that we’re just kind of getting into. This is just the tip of the iceberg. We were made of these fairly
recently, and when we reached out to Ray, he
recommended that we come to this meeting. Our
government relations team is currently working on this
as well, you know, in a capacity that they actually
have the ability to go and work with more of these
federal agencies than we do as a nonprofit.

However, you know, we are aware of multiple --
more cases that are coming, and we’re also trying to
figure out if this is an issue that has trickled down
to the franchisees where to the point that people are
not even applying for this certification for knowledge
that they’ll be rejected. So that’s why we think that
this is the tip of the iceberg.

And to a couple of your points, Mr. O’Farrell,
we tried to get one of those franchisees to come here
today, the one from Pennsylvania. And, unfortunately,
like you said, he is running his own business and was
unable to make it today, but we’ll place priority on
trying to make that happen for the next one of these
meetings.

You know, I was made -- through the Pest
Master conversation that we had, they connected me with
someone who is with the -- I believe the VBOC in
Florida, in Fort Lauderdale, who’s done a bit of
research on this and highlighted to me that, you know,
the VA ruling currently is in conflict with the current
SBA standard operating procedure that says how this all
should work with franchises. And he detailed that
here, you know, so he says that while the SBA is
supposed to be the operative authority regarding small
businesses, the VA CVE is still using its own approach.

MR. O’FARRELL: So I do want to jump in there.
So they did change the rule a year or so ago that the
SBA now is the appellate -- the appealing authority for
-- through OHA, I believe, for a SDVOSB entity that is
rejected by the CVE. So perhaps -- it’s kind of silly,
but perhaps you should have -- one of the franchisees
should go through the process, get rejected, so then it
can be appealed to SBA.

MR. WIGGINS: Well, and per this rejection
letter that I have as a copy from our CertaPro
franchisee, his two options, according to the letter,
are to either submit your intent to withdraw your
application or you may otherwise, you know, request an
initial denial letter of your choice. It says do not
send letters of explanation, requests for additional
consideration, or revised or additional business
documents as part of this process. The CVE cannot
accept them, nor will they be considered.

So they have really no option to even clarify
their business structure. The CVE comes back and tells them this is basically the end of the road. Your options are either exit left or exit right.

MR. PHIPPS: Matt, this committee --

MR. MCGRATH: So that’s not correct. That’s not entirely correct. This is Mr. McGrath. He still has the option to talk directly to -- or appeal the case to OHA, and we can get a ruling on it to clarify it if that continues to be the issue.

The other point is, as far as he didn’t get this -- we talked to him and discussed in great detail about the issues of franchises, and it was very clear that it didn’t qualify. So we encourage him to take it to OHA if he feels that he didn’t get the proper ruling from us.

MR. WIGGINS: I think that the issue is not that he’s even not necessarily receiving proper ruling; it’s that this system is inherently stacked against them. You know, if from the beginning the ruling is saying from this fact sheet that, you know, the examples of provisions that CVE would find controlling in the case of a franchise, the franchisee shall participate in the system-wide marketing and advertising established by the franchiser. That’s no different than if a regular business owner goes out and
hires a PR firm and pays for them. They’re simply paying back to the franchise system who’s doing their marketing.

MR. PHIPPS: Matt, this can go back and forth in an emotional --

MR. WIGGINS: Absolutely.

MR. PHIPPS: -- battle. What we do is try to change the legislation and make it the law that this is not going to happen again. So what we would like as a committee is your language on how the CVE language should read, and we can take that language and make recommendations based on that language, and at least it gives us a baseline because we have been involved with this battle back and forth of words. It’s meaningless until we can change the legislation.

MR. WIGGINS: Yeah.

MR. PHIPPS: So you guys are in the prime position to give us that language so we can move it forward and actually have some substance of change.

MR. WIGGINS: Yeah, and --

MR. MCGRATH: SBV concurs with that. Thank you.

MR. LOWDER: Lynn Lowder. I was general counsel for Mailboxes, Etc. And we had 3,500 franchisees worldwide. Without a doubt, some of our
very, very best franchisees were military veterans. They got it. You know, they knew the system, the
process, and they just did a great job. You’ve probably got -- I assume you do have -- statistics of
your franchisees across different franchisers, and you can point to those veterans, saying these guys and gals
do great work, they’re productive. You’ve got a system; it’s to maximize operational efficiencies and
all that. It all works -- it all works great. Franchising, a good franchise, business format
franchising, is a great turn for a lot of veterans. So I’d dig deep into that information.

MR. PHIPPS: Yes.

MR. WIGGINS: I mean, the bottom line is there’s about 780,000 franchise locations across this
country, and 14 percent of them are veteran-owned. And from all the data that we have, veterans are
consistently punching well above their weight compared to their nonveteran peers in the franchise space. So
to your point, Mr. Phipps, to wrap up, you know, really what we’re looking for here is just to bring this to
your attention and to work with all of you in whatever way that we can, you know, however you have influence
over this sphere, we would love to remain in touch with you. You know, I’ve read the minutes of previous
meetings of this committee and seen that this issue has
been brought up, so I felt like it was a good time to
come in and continue to make sure that this is on the
forefront of your minds.

So I’m happy to provide each of you with one
of my business cards before we leave and so we can stay
in touch. And we will definitely reappear at the next
meeting to continue providing information however we
can to make sure that we can change this to be more
friendly to all types of business owners, regardless of
whether they’re franchise or nonfranchise, so that we
can consistently be promoting veteran-owned small
businesses and ensuring that these -- you know, those
who have served have the opportunity afforded to them
when they return.

MR. O’FARRELL: In fact, in previous years, we
actually had a member of the International Association
of Franchisees, if I recall correctly, on the
committee.

MR. PHIPPS: Matt, can you make sure that you
get that language to Liz, because Liz is the
chairperson of the committee? She’s responsible for
the annual report. Our annual report has the
recommendations in it for changing language and for
reaching -- and even -- I’m sure even the VA is
hamstrung to a certain part because of what their
language says right now or in their direction. So Liz
is your primary point of contact to get that into our
report for recommendations.

MR. WIGGINS: Sure. And we’re very dedicated
to ensuring that we can solve this, among other things,
and I believe that the director of our program has
actually just applied to be on this committee, so, you
know, in order to try and kind of make sure that we can
continue our voice here. So, again, we’ll be in touch,
and we hope to reappear next time, and we’ll make sure
that we get Liz — we’ll work with our government
relations department to make sure that we can get you
some great language that we’d like to move forward
with.

MS. O’BRIEN: Thanks.

MR. STUBBLEFIELD: I was just going to say,
too, in the short term, VA, we need to make sure
whatever correspondence comes out that the OHA appeal
process is contained in that.

MR. WIGGINS: Great. Well, thank you all very
much for your time, and I’ll leave some business cards
behind.

MR. STUBBLEFIELD: Thank you for appearing.

Anyone else in the room for the public comment
period? Anyone on the phone for the public comment period?

(No response.)

MR. LOWDER: Hey, Larry, if I could, while everybody’s in the room, I put a one-pager out today on behalf of what the Veteran Business Project, the 501(c)(3) that I run. We really have gotten into a nice situation. Today, Stars & Stripes gave coverage, it went all across the nation, on the successful business deal that we were able to do, matching up veterans that were looking to get into business with an existing business.

You know, the difference between buying a good used car and a new car, the difference between trying to convince a bank to give a startup loan or a loan to a business that’s already in existence. We were pulled into this. Over the last four to five years, we’d get veterans, we’d get people coming up, business owners, a lot of baby boomers, and sort of the typical scenario is Mom and Dad, they’ve had this business for a while, the kids are all raised up, put them through college, the kids don’t want -- they’re not interested in the business now. So the couple is looking to retire to Florida. They come to us and they say, maybe we could find a veteran. We always say, yes, sure, and we help
match them up.

We loosely refer to this as the apprenticeship to ownership program. We went ahead and formalized it, shifted our name from One Veteran at a Time to Veteran Business Project. This is our fifth deal. We’ve been able to engineer loans of 375,000, 275,000, 250,000, getting veterans into business. We want to -- we want to expand this across the country.

So what I’d like you all to do, if you could, if you have a way to get the word out, we’d appreciate it. We need veterans that are looking to buy a business, come onto the website, it doesn’t cost them anything, and register. We need businesses that are looking to sell to veterans to do the same thing: come there and register. And what we do is we case manage each one of those situations. And we’re looking to match veterans up and get them a rolling start. It’s a whole different deal, slipping over into a seat and taking the con on a business that’s already moving along successfully. So we do the scrutiny on both sides, so that’s it. Thank you all.

MS. O’BRIEN: We are going to go ahead and break for lunch.

(Meeting in recess at 11:56 a.m.)
AFTERNOON SESSION

1:19 p.m.

MS. O’BRIEN: All right, everybody, we’re going to go ahead and get started, call back to order. We are now on the record. We’re going to go ahead and welcome Alex from Military Reservist Economic Injury Disaster Loan Program.

Thank you, Alex, for joining us today.

MR. CONTRERAS: Thank you very much. So my name’s Alex Contreras. I’m the director of Preparedness, Communications, and Coordination in SBA’s Office of Disaster Assistance. If that preparedness office sounds new, it is. If you’re familiar with any of the program offices at SBA, it’s a new office that we just created in January of this year, meant so that way we can have an increased focus on messaging for preparedness and also mitigation and also to handle some of the interagency coordination tasks that we have within SBA.

So we can go to the next slide. So I’m going to go over -- this is just an overview of kind of how we break up our presentation. I’m going to talk a little bit about preparedness and then go into the recovery programs and then mitigation. And in here, I’ll also have some slides that focus on the military
reservist economic injury disaster loan program.

Next slide. So preparedness is one of these things as, you know, many of you small business owners know, this is a hard thing for businesses to prioritize. Sometime, you know, you’re so busy running your business, trying to grow your business, you know, this is one of the things that kind of is lower priority. And what we’ve seen in the disaster assistance field is that a lot of even homeowners, even renters, and especially businesses, it’s kind of out of sight, out of mind. It’s this mentality that, you know, it hasn’t happened here, it’s not going to happen here, or, you know, even when it comes to things like floods, there’s this misperception that it’s a 100-year flood, so it just happened here and it didn’t affect me, so it probably won’t happen again for another 100 years, which is just not a great way to look at it, better things to look at.

It’s not a matter of if it’s going to happen; it’s when and that you should be prepared because when something does happen, whether it’s a natural disaster, you know, a man-made disaster, economic or environmental disaster, or even maybe, you know, a cyber attack nowadays is, you know, a very real threat, that it can bring your business down. You know, being
out of -- you know, being shut down, closed for even
just a couple of days for some small businesses is
enough to put them out of business because they’re
operating on such a small profit margin that even the
slightest disruption could be devastating to that
business.

So I won’t go into this in a lot of detail and
try to get us back on track a little bit, but you’ll --
when you look over that slide, you’ll see some of the
things that we usually stress when we’re out there
talking to the public about why it’s important to
prioritize preparedness.

Next slide. So at SBA, our disaster loan
program is activated whenever there’s a major
presidential disaster declaration, which is the large
events that you’re probably, you know, familiar with.
You see them on the news all the time, talking about,
like, Hurricane Sandy, Hurricane Harvey, the California
wildfires, the recent Midwest floods.

But SBA also has its own declaration-making
authority. So we have a much lower threshold, where a
governor can come directly to SBA and request our
administrator to declare a disaster event. All they
need to have is 25 or more homes or businesses -- any
combination of those -- with major, uninsured damage
within a county or a jurisdiction. So that’s a pretty
easy threshold to meet, you know? All you have to have
is 25 homes, let’s say, that had major flooding damage
that didn’t have any flood insurance. Boom, right
there in that one county you’ve met the criteria, or
the same thing for a business.

We also offer economic injury disaster loan
declarations if a governor can certify that at least
five small businesses had major economic injury. And
we have a worksheet that helps them complete that, and
we work directly with the governor’s office to do
those. And so the point is, we’re around the country a
lot, even for events that don’t quite rise to the level
of these big major disaster events that you are seeing
on the news all the time, but we’re pretty active
around the country year-round.

Next slide. So these are just the basic
elements of creating a preparedness plan that we always
stress to small businesses. Three main things we talk
about when we talk about preparedness is, one, look at
your vulnerabilities, you know, do an assessment of
what hazards and threats could affect your business,
you know, right now. If you’re in a coastal state,
obviously it might be something like flooding or
hurricanes. If you’re in the Midwest, it could be
tornados. It might even be earthquakes because there are areas that have seismic activity. And then for some types of businesses it might be cyber attacks that could be just a year-round type of threat.

But the second part of that is creating the plan itself. And so these are the basic elements that we tell businesses to look at. Have a communications plan; find ways to protect your documents, you know, keeping electronic copies of them that you can access and readily print out and provide to -- you know, so that way you can apply for programs if you need to. Look at your insurance coverage. Make sure that you’re adequately covered. This is something even the -- you know, the best business owners that are really on top of it don’t always get around to, updating their coverage amounts as the business is growing, so they want to make sure that they do that.

Creating a solid supply chain, making sure that you’re looking at your vendors, also, because they might be vulnerable to disaster, and if one of them has a disruption, how is that going to affect your business? Plan and look at alternative locations if that might benefit your business and help it stay in operations.

And then the last part is exercising that
plan. Don’t just stop at creating it and putting it on the shelf, you know, let it gathering dust and then you go looking for it when something happens. Try and get into a routine, you know, maybe on a yearly schedule. There’s all kinds of readiness and disaster preparedness campaigns that happen throughout the year. A business could find one that’s relevant to them and try and stay on that schedule, and that way you create a routine and some muscle memory for your staff and for yourself, so that when something does happen, it’s not a shock to everyone, they kind of know what to do.

Next slide. So going on to the recovery, and this is where I’ll get into the different types of programs that we off.

Next slide. So our mission in the Office of Disaster Assistance is to provide affordable, timely, and accessible financial assistance to businesses of all sizes, private nonprofit organizations, homeowners and renters following a declared disaster. So a couple of things in that mission statement. You’ll see businesses of all sizes. The disaster loan program is the only program at SBA not limited to small businesses. So in the event of a disaster, if they have physical damage, we can provide assistance, even to a large business.
And then also to homeowners and renters. In fact, the bulk of the assistance that we provide for disaster loans is probably to homeowners and renters, just because they’re just affected in greater numbers usually.

And then also a declared disaster, and that’s just kind of a broad term meaning not just the major presidential declarations but also the SBA agency declarations.

So the sequence of delivery, this is kind of where we fall out. This is a really oversimplification of the types of -- forms of assistance that are out there, but we always say that in disaster assistance, it starts and stops locally. So the most immediate forms of assistance that you’re going to find are the local responders, those local charities, those churches, charitable organizations, volunteer services. They’re the first ones usually on the ground providing sheltering, food, medical assistance.

After that, insurance is probably going to be the best form of assistance to any property owner. It’s by far the best investment because even if you are able to qualify for a loan, you’re going to have to pay that loan back. And then grant assistance usually is not in very high amounts, if it’s available at all.
And the federal assistance, things like FEMA grants, which are limited to individuals, they don’t have FEMA grants for businesses. There are some rare exceptions for nonprofits in the public assistance side, but otherwise, a business -- a for-profit business is not going to find a grant program from FEMA for them. So that’s even more reason why it’s important for them to be prepared. SBA disaster loans, and then in some cases HUD’s community development block grant for disaster recovery grants.

Next slide. I’ve kind of gone over a lot of this already. This is our mission. This is, you know, what assistance we’ve provided in the past, and so we can go to the next slide and look at some of the historical lending.

So just to give you an idea of the amount of assistance we provided in recent large-scale events, Hurricanes Katrina, Rita, and Wilma in 2005 was to date our largest disaster response effort, and we provided almost $11 billion in approved loans. After that, Hurricanes Harvey, Irma, and Maria in 2017, over 7.3 billion. The 1994 Northridge Earthquake in California, 4 billion. Hurricane Sandy in 2012, over 2.5 billion. And then the 2004 hurricanes, 2.2 billion.

So you can see the trend here. Most of these
are hurricanes. And it’s because they affected, you know, a really wide geographic area, but it’s also the type of damage that they’re causing. It’s a lot of flood damage and wind damage where we’re seeing the property owners don’t have insurance coverage for this type of hazard.

Next slide. So you can look at the disaster loans in three main categories and then add on to that the military reservist program. The first one is the home and personal property disaster loans. We can provide up to $200,000 to repair or replace the primary residence after a declared disaster event. We can provide up to $40,000 to replace personal property for a homeowner or a renter.

The terms can go out as far as 30 years. We typically offer either a 15- or 30-year term based on the borrower’s ability to repay. So they can’t just automatically select and say I want a 30-year loan. If they can afford to pay it back without taking on, you know, a financial hardship within 15 years, we’ll probably offer them a 15-year term instead.

The interest rates are low, below 2 percent of fixed rate right now for the home loans. We do have a second rate, which we call like a market rate. We have a test that we do. It’s called a Credit Elsewhere
test, and it doesn’t mean that if they can get credit
someplace else that they have to pay the higher rate.
It means that we have certain criteria that we look at
based on their credit, cash flow, and the ratio of
their assets to the amount of damage that they had.
And if they’re above certain levels on those tests,
then they don’t really need a subsidized loan in order
to recover, but they still qualify for one because they
had damage in a declared event. So we’re going to
offer them the loan, but it’s going to be at the market
rate, which is actually still a pretty decent rate.

And collateral. So we always say we’re not a
collateral lender, meaning we won’t decline somebody
because they don’t have anything to pledge as
collateral or because they don’t have equity in their
property, but if it’s available and the loan is over a
certain amount, then we have to take that property as
collateral to secure the loan. So for our loans, it’s
over $25,000 for physical damages. So if they have
some property that they can pledge as collateral, we
might require them to do that.

Next slide. The second category of loans, so
the business physical disaster loans, these can go up
to $2 million, again for businesses of all sizes,
nonprofits. Terms can go out as far as 30 years. The
interest rate for the business loans is 4 percent.
That’s the low interest rate. And then for nonprofits,
2.75 percent. And then, again, same thing with the
collateral. $25,000 is our unsecured loan limit.

Next slide. So economic injury disaster
loans, these are working capital loans. Again, $2
million. Our overall limit is 2 million, so a small
business could get 2 million in economic injury. They
could get maybe a combination of physical damage and
economic injury, so maybe like a million for each. You
know, 2 million is the overall limit normally. We do
have an exception for businesses that are considered
major sources of employment where we can go above 2
million, but those are -- that’s on a case-by-case
basis. Those are the rare occasion when we find a
business who’s that -- who’s the major source of
employment for that area and they need a loan larger
than $2 million. We have the authority to waive that 2
million statutory limit and go above it.

And then -- we can go to the next slide,
sorry. So the military reservist economic injury
disaster loans. So this is a different -- this is
different in that it has its own declaration. We make
this declaration every year, once a year, and it’s open
year-round, the application period. But it’s still --
it’s a 2 million loan for economic injury. The term
can go up to 30 years. The interest rate is 4 percent.
The collateral, the statutory limit on it, is $50,000,
which is higher than on the physical damage and the
other regular EIDL assistance.

And so I know this will probably come up.
Down at the bottom, so the program, since it started
back in 2002, we’ve approved 382 loans. I think we
have a new one in there, so it might be up to 383 now,
for over $33.6 million. We can go to the next slide.

So here are some key things with the program
that we’re looking at. Essential employees is an
individual, whether it’s the owner or not, whose
managerial or technical expertise is critical to the
successful day-to-day operations of the small business.
So a lot of people, when they hear the name of the
program, they think it’s a loan program for somebody
who’s in the military, and that’s not necessarily the
case. It’s for a business who relies on an essential
employee who then is called away to serve and might
have a disruption in the revenue and might need a
working capital loan during that period.

So some examples might be -- we were just
talking about them -- is, you know, you might have a
dental practice and maybe one of the dentists is called
away to serve and, you know, what happens with all of those appointments and customers, they might leave and, you know, they have to be rescheduled or postponed or they might go to another dentist altogether and that, you know, that practice is going to suffer as a result. So the business, whether that dentist is an owner or not, could apply for a military reservist EIDL loan and get working capital funds to help through that period.

A period of military conflict is defined for us as a period of war declared by Congress, a period of national emergency declared by the Congress or the President, or, three, a period of contingency operation. A contingency operation is designated by the Secretary of Defense as an operation in which our military may become involved in military action, operations, or hostilities, such as peacekeeping operations.

Substantial economic injury means that the business either has been or will be adversely impacted by the deployment of the military reservist and that the business is, one, unable to meet its financial obligations as they mature and/or, two, unable to meet -- or unable to pay its ordinary and necessary operating expenses, and/or, three, the small business is unable to market, produce, or provide a service
ordinarily marketed, produced, or provided. So basically it’s a disruption.

And then, last, the filing period begins on the date the essential employee receives notice of expected call-up to active duty and ends one year from the date the essential employee is discharged or released from active duty.

MS. O’BRIEN: Alex, can I ask you a question before you move forward? This is Liz O’Brien. Does this cover reservists based in Puerto Rico and/or reservists that are located overseas, so hypothetically I am a military spouse that owns a small business on installation in Germany; I’m also a reservist.

MR. CONTRERAS: Yes.

MS. O’BRIEN: All covered?

MR. CONTRERAS: Yes, all covered.

Go to the next slide. So going on to the last part, mitigation -- we can go one more slide. So this is a part of the SBA program. This doesn’t necessarily have to do with the military reservist program, but it’s kind of a newer or, you know, an increased focus for us, is informing people about the availability of mitigation assistance through the disaster loan program.

So mitigation loans are to protect property
against future damage and include but not limited to things such as retaining walls, upgrading the roofing construction to reduce wind and water entry, elevating flood-prone structures. There’s even wildfire protection or adding or constructing safe rooms or storm shelters could also be included in that.

Next slide. So mitigation funds are in addition to the amount that we’re providing for the repair, replacement of damaged property, which really just means that we have to be providing something for the repair. But the mitigation amount can actually be more than what we’re providing to do the repairs. The eligibility for mitigation cannot exceed 20 percent of the total amount of physical damage as verified by SBA. And borrowers generally have up to two years to request an increase to their loan, so we can look at a mitigation measure, you know, after we’ve done the initial loan approval, even after maybe we’ve started disbursing some of the funds.

But this is important that we message this because I think in the past, a lot of people look at the disaster loan program as kind of a means of last resort, right? They don’t have enough insurance or other resources to do their recovery, so then, okay, then I’ll do a loan. Nobody wants to take out a loan
after a disaster. You know, it’s a fallback measure. But what some people out there don’t know is that if they’re mostly covered by insurance, like let’s say they even have just, you know, $1,000 that’s not covered, they probably wouldn’t come to the loan program to look to get, you know, something to finance that and to just tap into their savings or something. But what they don’t realize is they could get up to 20 percent of their total physical losses to do a mitigation measure. And so it’s just a marketing thing. We haven’t been marketing the program as a way to fund mitigation measures for people that are mostly covered by insurance already. So hopefully that’s something that we can overcome in the near future.

So limits for mitigation. Home loans have an overall limit of $200,000. Businesses still have that same overall limit of 2 million that mitigation can fall under. And, again, the mitigation, it can exceed the loan amount for the repair or replacement of physical losses. So essentially somebody would be getting more of a mitigation loan than really they are to do the repairs.

Next slide. So just -- I think this is -- let me just check here. Yeah, this is, I think, the last slide before we go to questions. Just to give you a
general overview of the process that somebody goes through when they apply for assistance or try and get an SBA loan, step one, obviously, is to apply. They can apply online, in person at any one of our disaster recovery centers that we open around the country whenever there’s a declared disaster event, or they can send in the paper application forms by mail.

Once we get an application, one of the first things we do is an initial credit check just to make sure, you know, there aren’t any, like, really major kind of deal-breaking issues on the credit, but we’re pretty flexible, more flexible, I’d say, than a traditional bank when they’re looking at credit.

The next step after that is to verify the losses. So for physical damages, we do a desktop verification. We have our own inspectors. What they’ll do is they’ll contact the applicant and do a phone interview. We’ll use third-party, online resources to look at the property and then come up with an initial estimate of what it’s going to cost to repair or replace everything back to the way it was before the event occurred.

And if you’ve ever been through a home renovation project or a remodel, you know that that initial estimate that you get from your contractor is
almost never what you end up paying at the end. Our loans are kind of similar to that. You know, initial estimate is our best guess with what we know at the time, but the loan is probably going to change. It could increase or it could decrease based on whatever that contractor says or is, you know, is able to do the repair work for. So a lot of times we see our loans be modified later on.

So we can make -- we tell people we try to make a credit decision with two to three weeks, so apply as soon as possible. In reality, whenever -- it depends on the workload, you know? If we have normal activity, we’re doing it -- getting credit decisions much faster than that, if it’s not a complicated case. Some business applications can be really complicated, complex structure, it might take a little bit longer, but generally it’s probably closer to like a week or two weeks to get a credit decision.

And then once we do -- once we approve the loan, the third and final steps is to do the loan closing and then to disburse funds. So a lot of people think, okay, I’ve got approved and I’m going to get all of my money, which it doesn’t actually happen that way. We do an initial disbursement within five days of receiving back the signed loan closing documents, and
then after that, we’ll schedule the disbursements in increments based on getting back from the borrower contractors’ estimates and receipts showing how the money’s been used.

I think that’s it, so we can go to questions.

MS. O’BRIEN: You said that you have flexible terms for the credit. Can you define that actually for me? What are you looking at in credit scores? What is bad, what’s good? What’s passable?

MR. CONTRERAS: So -- right. So three things we look at when we approve a loan, like general overarching things. The main one is eligibility, so it is an eligible type of loss. Is it -- are they the owner of that property? You know, is it in a declared county, that kind of thing. The second thing is satisfactory credit, is it satisfactory based on our own standards.

We try not to put too much like too -- define it in too much detail because we want to be flexible based on that individual borrower, okay, so we don’t ever, you know, go out and say you have to have a range of this to this on your credit score, right? I’m not sure how better to explain how we look at credit.

MS. LARSON: Well, there’s times when we pull a credit report, and they could be reporting something
as low as 439,500, but when you look at it, it’s someone who’s living in Minot, North Dakota who only has one credit card, because they don’t live off credit up around there, but they have one medical collection, and that’s what’s dropped their score.

So we don’t necessarily go by credit score. We’re going to look at the totality. And if they have derogatory credit, we’re going to talk to them, what caused it? Because things happen in people’s lives, you know, and they just went through cancer and they weren’t expecting to have to apply for a loan. And so we can see that they had credit before, they had some problems, did they reestablish or what? And it’s just working with them, finding out what the problems are.

And our basis is are we -- can we be reasonably assured that based on their history of their credit that they have all good intentions of repaying the SBA loan.

MS. O’BRIEN: So does that go to a committee or it’s an individual person making that decision?

MS. LARSON: You have a rule of two, so you have a loan officer and then you’ll have a supervisory loan officer. And depending on if there’s certain criteria, it may have to go up higher. For instance, any loan over a million, it comes up here to
headquarters; we review it; and then our associate administrator is the final sign-off on our $2 million loans or anything above a million. So it’s varying, but it always has to be at least a rule of two.

MR. CONTRERAS: So and then the third thing is the cash flow. So eligibility, credit and then cash flow. They have to be able to afford the loan because we don’t want to set them up to fail and end up, you know, defaulting on the loan.

MS. O’BRIEN: Thank you.

Anybody else?

(No response.)

MS. O’BRIEN: Thank you, Alex.

MR. CONTRERAS: Sure. So the last thing I would leave you guys with is you have any ideas for ways to help market the program, we have a team of public information officers in our field operation centers in Sacramento and in Atlanta that normally are out there responding to the physical disaster events, but we can certainly, you know, look at doing some efforts and outreach and things like that for this program.

What we need are like partnerships, right, people to help us connect with the right people in the communities on it. We’re really well connected with
emergency managers, you know, people in that space, but this was a little bit different because it’s not really tied to a disaster event the way our other programs are.

MS. O’BRIEN: Do you have metrics based on where you’ve given out the most loans across the country for this particularly program for reservists?

MR. CONTRERAS: Mm-hmm.

MS. O’BRIEN: I mean, it seems like a logical area to start targeting marketing.

MR. CONTRERAS: Yeah, so, we’re -- yeah. Our loans, you know, we track, you know, which states, counties, you know, number of applications we receive, decisions, were they withdrawn, did we decline them, were they approved, for how much. Certainly we have that.

MS. O’BRIEN: Thank you.

MR. GREEN: I was just over at a TAP meeting, and they had ESGR, Employee Support of Guard and Reserve. Have you connected with them at all on --

MR. CONTRERAS: No.

MR. GREEN: I can connect you if you’d like.

MR. CONTRERAS: Okay, great.

MR. GREEN: They might be able to help market it, at least to the reserve.
MR. CONTRERAS: Yeah.

MR. GREEN: Excellent.

MS. O’BRIEN: Thank you.

(Brief pause.)

MS. O’BRIEN: We’ll wait for Larry to come back, and then we’ll go ahead and review the annual report.

(Brief pause.)

MS. O’BRIEN: All right. So we’re going to move forward and review -- this is Liz -- we’re going to go ahead and review the annual report from 2018. Everybody should have received a copy of it. I believe it was sent out --

MR. PHIPPS: Are we still on the record? For the annual report review?

MR. STUBBLEFIELD: Do we --

MR. O’FARRELL: We were going to do it off the record, such that we could, so we could talk about it among the committee members.

MR. PHIPPS: Normally, we review it off the record because it’s kind of an internal --

MR. STUBBLEFIELD: Okay, well, then, I guess what we could do, if it’s going to be the committee reviewing the report --

MS. O’BRIEN: Yes.
MR. STUBBLEFIELD: -- so then should we close
our session?

MR. PHIPPS: Public comment. Any more
comments?

MS. O’BRIEN: Is there any more public
comments in the room or on the telephone?

MR. PHIPPS: I just want to bring up the issue
of the VA. We’ve invited the VA to be here in person.
I know they’ve gone through some changes. I heard Tom
-- Beth yesterday briefed us that Tom had moved on to
another division within the SBA. I’m not sure who the
person that’s going to be taking over Tom is.

We were briefed yesterday that the CVE process
takes 24 days on average. And we know from last time
there were some issues with businesses kind of getting
kicked out of the loop and kind of improving that
number. And I think we had started digging down into
the reasonings of -- there was an IT issue, and it
might have been the company maybe that was running that
process. We never really got answers on that.

And one thing Beth did say, which I think is a
positive thing, after 30 days of no response, that
person does get kicked out of the queue to a certain
extent, and I’ll let the VA correct me if I’m
explaining that wrong, but if you don’t respond within
30 days, they kind of pull back, call you, and figure out what’s going on, or if you’re no longer interested, they take you out of that queue. But I don’t think that was the issue that we were addressing.

And I think the issue we were addressing, which is people intentionally somehow getting kicked out of the queue, either to improve their numbers or because there was an IT issue. And the minute we brought this up last month, we had people who had nothing to do with government contracting calling us and saying we’ve been going through this process for 90 days, we’ve been going -- and our average -- we got kicked out of the queue so they restarted the clock on us.

And I think those are some very -- those numbers -- we have to address that, because if we got immediate response from, say, half a dozen companies with just bringing it up and socializing it internally, it’s probably a much bigger issue. We don’t know. I think we would like this committee to ask the VA formally to address what’s going on in that process and figure -- and at least if -- report on there is an IT issue, it’s a big issue. Tom had brought that up at one point.

Just keep us informed about it instead of
briefing numbers like 24 days average time to get your CVE, which we know from last time it was double or more than that. So I just would like to put that out to a request to the VA. And we’re -- we know Tom left, and we would like to have somebody -- just to reiterate to the VA that it’s an open invitation for somebody to be here in person because they are such a big part of this committee, and things legislatively that we can make recommendations for.

MR. ZACCHEA: This is Mike Zacchea. So two of the three veteran-owned businesses that we had that testified about the delays in getting -- and the trials of getting certified actually have contacted me in the last two weeks and they were both certified. One is from Virginia; one is from Wisconsin. But to your point, Mike, over a year for both of them to get certified, and the problem seems to be, and I think it’s the management of the timeline, is that they stopped the clock, so they only consider -- so that 24 days that they’re saying is average does not include any of the time -- the time gap between when they stopped the clock and restart the clock. So the VA is saying it’s 24 days, but in real time, it’s over a year for these people.

MR. STUBBLEFIELD: Yeah, I was just going to
add, Tom Leney, like you said, is out, and the new
person over there, her name is Ruby Harvey, and so I’ve
reached out to Ruby, and I shared with Jim, you know,
one of the things that I’m going to suggest to her, and
maybe it’s not too late to put this in the report, is
that they should establish their own advisory
committee, you know, for the CVE process.

And I would put a little bit more emphasis on
it. It would bring it closer to home. And we may --
you know, an advisory committee may be able to help put
a little bit of, you know, horsepower, if you will,
between the problems of that process.

MR. PHIPPS: With the integration of the
definitions for what a veteran-owned business is with
the SBA and the VA, has there been any more discussion
on certification and how that’s going to look, SBA-wise
versus VA? I know you guys were talking about that at
one point.

MR. STUBBLEFIELD: Let me ask her real quick.
Amy, we haven’t had any more of the meetings, right?

MS. GARCIA: No, I mean the funding obviously
is the biggest issue on that --

MR. PHIPPS: Right.

MS. GARCIA: -- just because they can’t -- we
can’t get the VA loan, so it’s a funding issue, and
there haven’t been many -- much discussed --

MR. PHIPPS: And we had talked about maybe the third-party verification, because I know for women-owned businesses the SBA allows the third-party verification. Has there -- has that been in discussion and moved up to possibly allowing third-party verification?

MR. STUBBLEFIELD: That’s -- I guess we owe you a due-out on that one. Yeah, we’ll take a due-out on that one.

MS. GARCIA: HR1615 is the most recent bill that’s alive. So HR1615, I believe -- I don’t think it’s 1516. I think it’s 1615 is a bill that addresses that. It was introduced in March, I think.

MR. PHIPPS: And was that saying that --

MS. GARCIA: It was just the -- it’s the most recent CV -- like, certification bill that was introduced.

MR. PHIPPS: Bill, okay.

MR. ZACCHEA: Mike, to your point -- this is Mike Zacchea -- so it’s not just the women-owned but LGBT businesses are certified through the LGBT Chamber of Commerce. Minority businesses are certified through

UNIDENTIFIED PARTICIPANT: Supply and
Development Council.

MR. ZACCHEA: Right.

MR. PHIPPS: Supply and Development.

UNIDENTIFIED PARTICIPANT: NMSDC.

MR. ZACCHEA: Right, so there’s already in place a model for a nongovernment, third-party certifier for all these other MBEs.

MR. SHARPE: Is it possible to get more information on what specifically the funding issue is for SBA for the certification program?

MR. STUBBLEFIELD: You’re just talking about the funding issue that the committee was discussing?

MS. O’BRIEN: Sure. I’m sorry, I didn’t hear the question.

MR. SHARPE: I’d like to get more detailed information on what the funding issue is for SBA to do --

MS. GARCIA: SBA has not appropriate any money for it, and the price tags are estimated to be pretty large.

MR. SHARPE: What is the price tag?

MS. GARCIA: Oh, I don’t know what the current estimate is. I know someone from SBA testified that it would be -- I think it was about $150 million or something like that. That seems a little high. I
would think VA spends upwards of -- don’t quote me on this -- but I think upwards of, like, $30 million or something, between $20 and 30.

MS. PEREZ-WILHITE: I think Tom Leney said to Congress that it was 20 million, but it had to go over 100 million for SBA to take it over and expand it.

MR. SHARPE: It would be 100 million, did you say?

MS. PEREZ-WILHITE: I think he said that, yeah, to Congress.

MR. PHIPPS: I want to see that line itemed.

MR. SHARPE: Is it possible to get some better numbers than that? It sounds like everyone’s kind of guessing.

MS. PEREZ-WILHITE: It’s online actually. It’s online, his speech to Congress is online.

MR. PHIPPS: But maybe from the SBA we want to see it.

MR. SHARPE: Yeah.

MR. PHIPPS: You know, like how they -- maybe -- if there’s not an estimate --

MR. ZACCHEA: This is Mike Zacchea again. So as it is, CVE has -- outsources the certification to two for-profit companies, and I believe each contract is $40 million, and he has an internal operating budget.
of 20 million. I think that’s why he said -- that’s how he got the $100 million number. So CVE is not even doing the certification; they’re outsourcing it to for-profit companies.

MR. O’FARRELL: For-profit companies that are SDVOSBs in some cases.

MS. GARCIA: I mean, their funding, too, comes from like a reserve or something. It’s much -- it’s structured differently than if we were to add a program and it would be funded and it would have to be appropriated. We’d have to have a line item for that.

And their funding stream is set up much differently, and we can’t get, even if they wanted to send it over, money and all, it wouldn’t work out that way. We can’t -- VA wouldn’t be able give us their reserved money for that, so we use a special pot of money for that.

MR. O’FARRELL: So just so I’m on the same page again, so where it stands right now the current law was changed through, I think, the Defense Authorization Act at some point, that said that the VA will follow the SBA’s process but continue to manage, and then the SBA will handle appeals of decisions.

That’s where we are.

MS. GARCIA: The appeal only.

MR. O’FARRELL: The appeal only, not even the
process. They keep doing it their own way. Okay. And that’s been my experience.

I agree with everything you said, Mr. Phipps. We need to have someone come here, and maybe we need to send questions ahead of time, going back to Joe’s question about could we get some numbers. And then the question ahead of time, we would like the SBA to at least tell us what they think the number would be.

And we could also ask the VA, what are you currently spending, what have you spent per year the last five years on this program, so we could also see that what I suspect is the growth.

MR. PHIPPS: And if there’s an IT cost up-front for the program, is there any decline in that, because you’re paying for all of the programming and all of that up-front. And so what’s the long-term kind of projection so -- I mean, that would be great for the SBA to have to kind of do an apples-to-apples assessment.

MR. KURTZ: Jim, to your point -- this is Stan Kurtz, OVBD -- I think a list would be great. It would help us. We can identify the right person to address those, line item by line item, and make sure that you get all the answers that you need.

MR. O’FARRELL: Thanks, Stan. We’ll work on
that in our closed session, which I think we’re headed toward.

MS. O’BRIEN: Anything else for public record?

MS. PEREZ-WILHITE: I have a question before we close it. I thought Mike did a good job with last year’s report. He sent it out to all of us, and I think we gave our responses, and didn’t Mike send in the final draft? So why are we closing and why don’t we just say yeah or nay to it?

MS. O’BRIEN: Well, that’s not exactly accurate. I never saw it before it was submitted. I don’t know that Brandon saw it or some other folks so we felt it applicable that we all have an opportunity to contribute or review, and that’s why we’ll have the closed-door session.

MR. STUBBLEFIELD: I’m going to officially close out the meeting. Okay, if there is no further committee meeting or committee business, this meeting is adjourned.

(Whereupon, at 2:04 p.m., the meeting was adjourned.)
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