



News Release

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SBA'S COMMUNITY EXPRESS PROGRAM: MYTH VS FACT

MYTH: Community Express's cap significantly diminishes the SBA loans reaching small businesses.

FACT: Community Express, currently a pilot program, accounts for about 2 percent of SBA loan volume in dollars. As we review the program's pilot status and make decisions about its future, we want to ensure that the program minimizes fraud, waste and abuse, and truly delivers good loan products at reasonable prices to underserved borrowers. However, due to relatively higher credit risk in the program to date, the agency has referred the matter to SBA's Office of Inspector General for audit.

MYTH: Community Express is a major source of small SBA loans.

FACT: Several other proven SBA products reach the same markets with the same or similar guarantees as Community Express including Patriot Express, SBA Express, and the regular 7(a) program.

- In FY 2006, 42,000 borrowers were approved for 7(a) loans under \$35,000; 5,000 of those loans were Community Express.
- In FY 2007, 45,671 loans were approved for 7(a) loans in dollar amounts under \$35,000; 7,000 of those loans were Community Express.

MYTH: Large Community Express lenders had no prior notice the cap was approaching.

FACT: Large Community Express lenders have been aware of the cap issue for many months. SBA encouraged lenders to diversify their product portfolios, advised them of SBA's many other programs, and offered to do training on other SBA loan products that could be used to assist qualified lenders.

Janet Tasker, Deputy Associate Administrator for Capital Access, met with major Community Express lenders in late February to highlight the cap issue and encourage them to shift to other SBA products and reduce their Community Express output.

Eric Zarnikow, Associate Administrator for Capital Access, met with major lenders in early April and communicated that they had a per month loan cap beginning that month.

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Zarnikow also offered that SBA would work with lenders on their loan pipelines if they had alternatives they wanted to propose and that the agency would work with them on other SBA products. With only one exception, SBA did not receive any alternative proposals.

Rather than moderating per SBA's instruction, some lenders' loan production increased for the month of April, and one lender's production dramatically exceeded the cap they had been communicated. We have reset targets based on the actual production and current 7(a) loan volume and have communicated the revised cap of loans per month.

Rather than work with SBA to manage to the cap, some Community Express lenders continued to make loans in excess of the cap, pushing SBA to impose the cap in a way that cooperation would have made unnecessary.

It's important to understand that the Community Express pilot program was created to complement SBA's main loan programs, and not to become the entire focus of a lender's business.

MYTH: The current volume cap is based on the mistaken assumption that the limit applies to the dollar amount of loans rather than the number of loans.

FACT: Section 7(a)(25)(A) of the Small Business Act states, "Not more than 10 percent of the total number of loans guaranteed in any fiscal year under this subsection may be awarded as part of a pilot program ..." (emphasis added). This directive could not be more clear.

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