



May 16, 2014

Ms. Jody Raskind
Chief
Microenterprise Development Branch
U.S. Small Business Administration
409 3rd Street SW
Washington, DC 20416

RE: 13 CFR Part 120 [Docket No. SBA-2013-0002] Microloan Program Expanded Eligibility and Other Program Changes

Dear Ms. Raskind,

The Association for Enterprise Opportunity is pleased to take this opportunity to provide comments on the proposed Microloan Program changes.

The Association for Enterprise Opportunity (AEO) is the national member organization and voice of microbusiness in the United States. For more than two decades, AEO and its 450 members and partner network have helped millions of entrepreneurs contribute to economic growth as they support themselves, their families, and their communities. Our member organizations provide capital and business development services to underserved business owners in every state, Washington, DC and Puerto Rico.

According to U.S. Treasury Secretary Jacob Lew, more than 8,000 business loans are declined daily in the United States.¹ Recognizing this market failure, AEO formed a private multi-stakeholder task force, the Micro Capital Task Force (MCTF), to present fact-based and practical recommendations to the Administration and the Congress regarding access to capital for the smallest businesses.² AEO's comments on the SBA's proposed rule follow from the research and observations of the MCTF.

¹ Remarks of U.S. Treasury Secretary Jacob Lew, Capital Access Innovation Summit, June 10, 2013, <http://www.treasury.gov/press-center/press-releases/Pages/j1979.aspx>.

² For more information on the Micro Capital Task Force, please visit http://www.aeoworks.org/index.php/site/page/category/micro_capital_task_force/.

For more than 20 years, the Microloan Program has been a critical component of the entrepreneurial ecosystem, enabling entrepreneurs in underserved communities to access capital when mainstream financial institutions declined to do so. As the landscape of our nation's economy evolved over the last couple of decades, so have the needs of businesses and the financial services and loan products available to them. In this regard, we are pleased to see the Small Business Administration's willingness to review and amend, where necessary, its loan programs and services.

AEO Comments To Proposed Rule

1) Revision Regarding Insured Depository Institutions

AEO supports the proposal to allow microlenders to maintain accounts in federally insured credit unions. It will allow microlenders greater flexibility in choosing a depository institution in which to maintain their Microloan Revolving Fund (MRF) and Loan Loss Reserve Funds (LLRFs).

2) Removal of Interest Bearing Account Requirements

AEO supports the proposal to remove the requirement that MRF and LLRF accounts be held in interest bearing accounts. AEO members have reported difficulty in finding depository institutions willing to maintain these types of accounts at reasonable costs.

However, microlenders, who chose to continue holding their MRF and LLRF in interest bearing accounts, should be able to use proceeds from those accounts without restriction. The proceeds are typically used to cover operating expenses and microlenders should be able to do so without restrictions from the SBA.

3) Borrower Eligibility Expansion

AEO supports the proposal to extend borrower eligibility to individuals on probation or parole. These individuals typically face higher burdens accessing capital and tend to be the least served by mainstream financial institutions. As proposed, microloan intermediaries should be permitted to make loans to businesses with an associate (as defined in § 120.10) who is currently on probation or parole.

4) Increase in Minimum Loan Requirements

AEO supports the SBA's proposal to increase the minimum number of loans a microloan intermediary must make to 12. As noted in the proposed rule, this increase would phase in over three years.

According to research commissioned by AEO, the capital gap to main street businesses represents \$44 billion to \$52 billion in unmet demand.³ Coupled with U.S. Treasury Secretary Lew’s statement that 8,000 small business loans applications are declined daily, AEO believes that the SBA’s proposal to increase the minimum number of loans is sound.

AEO Comments Beyond Scope of Proposed Rule

AEO is cognizant that the below comments fall beyond the parameters of the proposed rule. However, as an association representing a majority of SBA microlenders, these comments are those most frequently cited by members as hindering their ability to serve entrepreneurs effectively and efficiently.

1) Requirements Pertaining to the Provision of Technical Assistance: “25/75 Rule”

The Microloan Program restricts intermediaries from using not more than 25% of their TA grant award on training entrepreneurs prior to a loan (“pre-loan”) being made. A minimum of 75% of the TA grant must be used for counseling and training for borrowers after a loan has been made (“post-loan”).

Although AEO understands that this requirement is in statute, AEO recommends that this requirement be removed. Microloan intermediaries should be able to allocate TA grant funding as each determines necessary.

The business owners described by U.S. Treasury Secretary Lew, whose applications for credit are not approved, generally experience “decline and drop,” as banks have few incentives and limited availability to provide guidance or counseling directly to declined applicants. One of the core strengths of the Microloan Program is the ability to provide TA to entrepreneurs as they prepare to apply for a loan. In fact, as many have noted, the Microloan Program is intended for individuals who are not successful securing capital from mainstream lending institutions – in other words, individuals that need upfront guidance, counseling, and training the most.

2) Technical Assistance Reporting Requirements

With respect to performance metrics, the SBA requires each intermediary to report the breakdown in pre- and post-loan TA, describing each hour spent with each entrepreneur. While the debate over the tradeoffs between the need for regulatory controls and the costs of compliance – especially for smaller institutions – is ongoing and lively, AEO believes the right balance of “carrots and sticks” would serve to ensure performance, while easing the reporting burdens on intermediaries.

³ Ira Lieberman, “Micro and Small Business Finance in the USA: A Strategy for Structural and Policy Changes in the Sector,” January 2014, <http://www.aeoworks.org/pdf/Lieberman%20Micro%20and%20Small%20Business%20Finance%20in%20the%20USA%20Summary%20Deck.pdf>

Specifically, AEO urges the SBA to review the program's reporting requirements, with an eye toward identifying opportunities to streamline and simplify reporting requirements, while increasing program transparency and the availability of program performance data.

3) Allowable Fee Structure on Microloans

The Microloan Program prohibits intermediaries from charging more than 2% of the total amount of the loan in fees when closing a microloan. Microloan intermediaries typically use these fees to cover operating expenses.

AEO recommends that the SBA consider adopting a similar fee structure to the 7(a) Loan Program, which allows local SBA District Offices to determine rates commensurate with local and/or regional market rates. Specifically, the 7(a) Loan Program allows lenders to charge an "amount deemed reasonable and customary by the local SBA office for the market area."

On behalf of our members and the underserved entrepreneurs we all serve, we thank you for the opportunity to provide these comments. Please feel free to contact me with any additional questions or concerns.

Sincerely,



Connie E. Evans
President & CEO