Small Business Administration Microloan Program

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Summary

The Small Business Administration's (SBA's) Microloan program provides direct loans to qualified nonprofit intermediary lenders who, in turn, provide "microloans" of up to $50,000 to small businesses and nonprofit child care centers. It also provides marketing, management, and technical assistance to microloan borrowers and potential borrowers. Authorized in 1991 as a five-year demonstration project, it became operational in 1992, and was made permanent, subject to reauthorization, in 1997.

The Microloan program is designed to assist women, low-income, veteran, and minority entrepreneurs and small business owners by providing them small-scale loans for working capital or the acquisition of materials, supplies, or equipment. In FY2017, Microloan intermediaries provided 4,992 microloans totaling $69.3 million. The average Microloan was $13,884 and had a 7.5% interest rate.

Critics of the SBA's Microloan program argue that it is expensive relative to alternative programs, duplicative of the SBA's 7(a) loan guaranty program, and subject to administrative shortfalls. The program's advocates argue that it assists many who otherwise would not be served by the private sector and is an important source of capital and training assistance for low-income, women, and minority business owners.

Congressional interest in the Microloan program has increased in recent years, primarily because microloans are viewed as a means to assist very small businesses, especially women- and minority-owned startups, to get loans that enable them to create and retain jobs. Job creation, always a congressional interest, has taken on increased importance given continuing concerns about job growth during the current economic recovery.

This report opens with a discussion of the rationale provided for having a Microloan program, describes the program's eligibility standards and operating requirements for lenders and borrowers, and examines the arguments presented by the program's critics and advocates. It then discusses P.L. 111-240, the Small Business Jobs Act of 2010, which increased the Microloan program's loan limit for borrowers from $35,000 to $50,000, and the aggregate loan limit for intermediaries after their first year of participation in the program from $3.5 million to $5 million.

It also discusses P.L. 115-141, the Consolidated Appropriations Act, 2018, which, among other provisions, relaxed requirements on Microloan intermediaries that prohibited them from spending more than 25% of their technical assistance grant funds on prospective borrowers and more than 25% of those grant funds on contracts with third parties to provide that technical assistance. The act increased those percentages to 50% (originally in H.R. 2056, the Microloan Modernization Act of 2017, and S. 526, its companion bill in the Senate).

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Small Business Microloans and Training Assistance

The Small Business Administration (SBA) administers programs that support small businesses, including loan guarantees to lenders to encourage them to provide loans to small businesses "that might not otherwise obtain financing on reasonable terms and conditions" and grants to nonprofit organizations to provide marketing, management, and technical training assistance to small business owners.[1] Historically, one of the justifications presented for funding the SBA's loan guarantee programs has been that small businesses can be at a disadvantage, compared with other businesses, when trying to obtain access to sufficient capital and credit.[2] It has been argued that this disadvantage is particularly acute for startups and microbusinesses (firms with fewer than five employees):

> Traditional lending institutions, such as banks and investors, are unlikely to offer loans and investment capital to microfirms due to a variety of reasons. One barrier to microlending is a concern that startups and smaller enterprises are risky investments since growing businesses typically exhibit erratic bursts of growth and downturn. The perceived risk of these types of companies reduces the chances of a microbusiness to obtain financing. Another issue is that microbusinesses by and large require smaller amounts of capital, and thus banks or investment companies often believe that it is not efficient use of their time or resources, nor will they receive a substantive return on investment from such a small loan amount.[3]

An Urban Institute survey of SBA 7(a), 504/Certified Development Company (504/CDC), Small Business Investment Company (SBIC), and Microloan borrowers conducted in 2007 found that Microloan borrowers reported having the most difficulty in finding acceptable financing elsewhere. Less than one-third (31%) of Microloan borrowers reported that they would have been able to find acceptable financing elsewhere, compared with 35% of SBIC borrowers, 40% of 7(a) borrowers, and 48% of 504/CDC borrowers.[4]

Since its inception in 1953, the SBA has provided loan guarantees to encourage lenders to issue small businesses loans.[5] Interest in creating a separate loan program to address the specific needs of startups and microbusinesses increased during the 1980s, primarily due to the growth and experience of microlending institutions abroad and evidence concerning private lending practices that led Congress to conclude that a new loan program was necessary "to reach very small businesses that were not being served by traditional lenders of SBA's credit programs."[6]

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[1] U.S. Small Business Administration (SBA), "Fiscal Year 2010 Congressional Budget Justification," pp. 29-30, at https://www.sba.gov/sites/default/files/aboutsbaarticle/Congressional_Budget_Justification_2010.pdf.

[2] Veronique de Rugy, *Why the Small Business Administration's Loan Programs Should Be Abolished*, American Enterprise Institute for Public Policy Research, AEI Working Paper #126, April 13, 2006, at http://www.aei.org/files/2006/04/13/20060414_wp126.pdf. Also, see U.S. Government Accountability Office, *Small Business Administration: 7(a) Loan Program Needs Additional Performance Measures*, GAO-08-226T, November 1, 2007, pp. 3, 9-11, at http://www.gao.gov/new.items/d08226t.pdf.

[3] U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA's Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 6.

[4] Christopher Hayes, *An Assessment of the Small Business Administration's Loan and Investment Programs: Survey of Assisted Businesses* (Washington: The Urban Institute, January 2008), p. 5, at http://www.urban.org/UploadedPDF/411599_assisted_business_survey.pdf.

[5] The SBA also provided direct loans to small businesses until 1994. For further analysis, see CRS Report R40985, *Small Business: Access to Capital and Job Creation*, by Robert Jay Dilger.

[6] Robert Cull, Asli Demiriguc-Kunt, and Jonathan Morduch, "Microfinance Meets the Market," *Journal of Economic Perspectives*, vol. 23, no. 1 (Winter 2009), pp. 169-172; and U.S. Congress, Senate Committee on Small Business and (continued...)

To address the perceived disadvantages faced by very small businesses in gaining access to capital, Congress authorized the SBA's Microloan lending program in 1991 (P.L. 102-140, the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1992). The program became operational in 1992. Its stated purpose is

> to assist women, low-income, veteran ... and minority entrepreneurs and business owners and other individuals possessing the capability to operate successful business concerns; to assist small business concerns in those areas suffering from a lack of credit due to economic downturns; ... to make loans to eligible intermediaries to enable such intermediaries to provide small-scale loans, particularly loans in amounts averaging not more than $10,000, to start-up, newly established, or growing small business concerns for working capital or the acquisition of materials, supplies, or equipment; [and] to make grants to eligible intermediaries that, together with non-Federal matching funds, will enable such intermediaries to provide intensive marketing, management, and technical assistance to microloan borrowers.[7]

The SBA's Microloan lending program was authorized initially as a five-year demonstration project. It was made permanent, subject to reauthorization, in 1997 (P.L. 105-135, the Small Business Reauthorization Act of 1997).[8]

Congressional interest in the Microloan program has increased in recent years, primarily because microloans are viewed as a means to assist very small businesses, especially women- and minority-owned startups, obtain loans that enable them to create jobs. Job creation and preservation, always a congressional interest, has taken on increased importance given continuing concerns about job growth.[9]

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Entrepreneurship, *Microloan Program Improvement Act of 2001*, report to accompany S. 174, 107th Cong., 1st sess., May 26, 2001, S.Rept. 107-18 (Washington: GPO, 2001). About 3.54 million employer firms in the United States in 2012 had fewer than five employees. See U.S. Census Bureau, *Statistics of U.S. Businesses: U.S. & States, Totals*, at http://www2.census.gov/econ/susb/data/2012/us_state_totals_2012.xls.

[7] 15 U.S.C. §636(m)(1)(A).

[8] Prior to the Microloan program, the SBA temporarily established, in 1964, the "6 on 6" pilot lending program, which provided up to $6,000 for a term of up to 6 years "aimed specifically at disadvantaged potential entrepreneurs." See U.S. Congress, House Select Committee on Small Business, Subcommittee on Minority Small Business Enterprise, *Government Minority Small Business Programs*, hearing pursuant to H. Res. 5 and 19, 92nd Cong., 1st sess., July 27, 1971 (Washington: GPO, 1972), p. 6. Also, in 1964, P.L. 88-452, the Economic Opportunity Act of 1964 (Title IV-Employment and Investment Incentives), authorized the director of the Office of Economic Opportunity, through the SBA, to provide what were subsequently called Economic Opportunity Loans (EOL). The EOL program became operational in January 1965 and continued through 1992 (the final EOL loan disbursement took place in 1996). P.L. 93-386, the Small Business Amendments (approved August 23, 1974) transferred authority for the EOL program from the Office of Economic Opportunity to the SBA. Initially, the EOL program provided direct loans (of up to $25,000, with loan terms of up to 15 years) to assist small businesses promote employment of the long-term unemployed. Starting in 1968, EOL loans increasingly were issued as guaranteed loans. The program's loan limits were increased, by law, from $25,000 to $50,000 in 1972 and to $100,000 in 1976. The EOL program's requirements and operations evolved over time, but remained focused on providing loans to low-income, minority-owned, very small businesses. The EOL program also emphasized the provision of management and technical training assistance to disadvantaged entrepreneurs. See U.S. Congress, House Committee on Education and Labor, *Economic Opportunity Act Amendments of 1967*, hearing on H.R. 8311, 90th Cong., 1st sess., June 23, 1967 (Washington: GPO, 1967), pp. 1356-1362; U.S. Congress, House Committee on Appropriations, Subcommittee on Commerce, Justice, State, and Judiciary, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations for 1993*, 102nd Cong., 2nd sess., February 19, 1992 (Washington: GPO, 1992), pp. 503-504; and U.S. General Accounting (now Government Accountability) Office, *Most Borrowers of Economic Opportunity Loans Have Not Succeeded in Business*, CED-81-3, December 8, 1980, pp. 1-8, at http://www.gao.gov/assets/140/131190.pdf.

[9] SBA, Office of Advocacy, *Small Business Economic Indicators for 2003*, August 2004, p. 3; and Brian Headd, "Small (continued...)

This report describes the Microloan program's eligibility standards and operating requirements for lenders and borrowers and examines the arguments presented by the program's critics and advocates. It also examines changes to the program authorized by P.L. 111-240, the Small Business Jobs Act of 2010.

P.L. 111-240 authorized the Secretary of the Treasury to establish a $30 billion Small Business Lending Fund (SBLF) to encourage community banks to provide small business loans ($4.0 billion was issued), a $1.5 billion State Small Business Credit Initiative to provide funding to participating states with small business capital access programs, and about $12 billion in tax relief for small businesses.[10] It also authorized changes to the SBA's loan guaranty programs, including increasing the Microloan program's loan limit for borrowers from $35,000 to $50,000, and the aggregate loan limit for intermediaries after their first year of participation in the program from $3.5 million to $5 million. It also authorized the SBA to waive, in whole or in part through FY2012, the nonfederal share requirement for loans to the Microloan program's intermediaries and for grants made to Microloan intermediaries for small business marketing, management, and technical assistance for up to a fiscal year.

P.L. 115-141, the Consolidated Appropriations Act, 2018, among other provisions, relaxed requirements on Microloan intermediaries that prohibited them from spending more than 25% of their technical assistance grant funds on prospective borrowers and more than 25% of those grant funds on contracts with third parties to provide that technical assistance. The act increased those percentages to 50% (originally in H.R. 2056, the Microloan Modernization Act of 2017, and S. 526, its companion bill in the Senate).

This report also discusses several bills introduced during the 114th and 115th Congresses. For example, during the 114th Congress,

- S. 1445, the Microloan Act of 2015, would have removed the requirements that no more than 25% of Microloan technical assistance grant funds may be used to provide information and technical assistance to prospective borrowers or on third-party contracts to provide that assistance. It would have also eliminated the Microloan program's minimum state allocation formula.[11]
- H.R. 2670, the Microloan Modernization Act of 2015, and S. 1857, the Senate companion bill, would have increased the Microloan program's aggregate loan

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Businesses Most Likely to Lead Economic Recovery," *The Small Business Advocate*, vol. 28, no. 6 (July 2009), pp. 1, 2.

[10] For further information and analysis concerning the Small Business Lending Fund, see CRS Report R42045, *The Small Business Lending Fund*, by Robert Jay Dilger. For further information and analysis concerning the State Small Business Credit Initiative, see CRS Report R42581, *State Small Business Credit Initiative: Implementation and Funding Issues*, by Robert Jay Dilger.

[11] The Microloan program's minimum allocation formula is "Subject to the availability of appropriations, of the total amount of new loan funds made available for award under this subsection in each fiscal year, the Administration shall make available for award in each State (including the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, and American Samoa) an amount equal to the sum of (I) the lesser of – (aa) $800,000; or (bb) 1/55 of the total amount of new loan funds made available for award under this subsection for that fiscal year; and (II) any additional amount, as determined by the Administration." See 15 U.S.C. 636 (m)(7)(B)(i).

The Obama Administration supported the elimination of the Microloan program's minimum state allocation formula and the 25% restriction on the use of Microloan technical assistance funds to provide information and technical assistance to prospective borrowers and on third-party contracts to provide that assistance. See SBA, "Fiscal Year 2017 Congressional Budget Justification and FY2015 Annual Performance Report," p. 100, at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf.

limit for intermediaries after their first year of participation in the program from $5 million to $6 million, increased the program's repayment terms from not more than 6 years to not more than 10 years for loans greater than $10,000, and required the SBA Administrator to establish a rule enabling intermediaries to apply for a waiver of the requirement that no more than 25% of Microloan technical assistance grant funds may be used to provide information and technical assistance to prospective borrowers. The House passed H.R. 2670 on July 13, 2015.[12]

- S. 2850, the Microloan Program Modernization Act of 2016, would have increased the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program from $5 million to $6 million and, among other provisions, eliminated the requirements that intermediaries spend no more than 25% of Microloan technical assistance grant funds on technical assistance to prospective borrowers and no more than 25% of those funds on third party contracts for technical assistance.

During the 115th Congress,

- H.R. 2056, the Microloan Modernization Act of 2017, and S. 526, its companion bill in the Senate would, as introduced, increase the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program from $5 million to $6 million and, among other provisions, eliminate the requirement that intermediaries spend no more than 25% of Microloan technical assistance grant funds on technical assistance to prospective borrowers and no more than 25% of those funds on third-party contracts for technical assistance.

H.R. 2056 and S. 526 were amended in committee to require intermediaries to spend no more than 50% of Microloan technical assistance grant funds on technical assistance to prospective borrowers and no more than 50% of those funds on third-party contracts for technical assistance. The House bill, as amended, was favorably reported by the House Committee on Small Business on July 12, 2017, and agreed to by the House on July 24, 2017, by voice vote.[13] The Senate bill was favorably reported by the Senate Committee on Small Business and Entrepreneurship on March 19, 2018. As mentioned previously, the 50% thresholds were included in P.L. 115-141.

[12] H.R. 2670 was reported by the House Committee on Small Business on June 25, 2015. Amendments to remove the requirement that no more than 25% of Microloan technical assistance grant funds may be used on third-party contracts to provide technical assistance and to eliminate Microloan program's minimum state allocation formula were not agreed to during committee markup. S. 1857 was reported by the Senate Committee on Small Business and Entrepreneurship on September 15, 2015.

[13] The Trump Administration supports the elimination of the Microloan program's minimum state allocation formula and increasing to 50% the 25% restriction on the use of Microloan technical assistance funds to provide information and technical assistance to prospective borrowers and on third-party contracts to provide that assistance. See SBA, "Fiscal Year 2018 Congressional Budget Justification and FY2016 Annual Performance Report," p. 92, at https://www.sba.gov/sites/default/files/aboutsbaarticle/FINAL_SBA_FY_2018_CBJ_May_22_2017c.pdf.

The SBA Microloan Program: Funding, Eligibility Standards, Program Requirements, and Statistics

Unlike the SBA's 7(a) and 504/CDC loan guarantee programs, the SBA Microloan program does not guarantee loans.[14] Instead, it provides direct loans to qualified nonprofit intermediary Microloan lenders who, in turn, provide "microloans" of up to $50,000 to small business owners, entrepreneurs, and nonprofit child care centers.[15] There are currently 144 active Microloan intermediaries serving 49 states, the District of Columbia, and Puerto Rico.[16]

Funding

The Microloan program's administrative costs (anticipated to be $47.66 million in FY2018) are funded through the SBA's salaries and expenses and business loan administration accounts. In addition, each year the SBA receives an appropriation for credit subsidies for its direct lending (Microloan) program.

Business loan credit subsidies represent the net present value of cash flows to and from the SBA over the life of the loan portfolio. For guaranteed loans, the net present value of cash flows is primarily affected by the difference between the cost of purchasing loans that have defaulted and the revenue generated from fees and collateral liquidation. For direct (Microloan) lending, the net present value of cash flows is primarily affected by the cost of offering below market interest rates to intermediaries because the cost of purchasing loans that have defaulted is typically relatively small because intermediaries are required to maintain a loan loss reserve. In addition, the SBA does not charge intermediaries fees.[17]

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[14] For information and analysis concerning the SBA's 7(a) and 504/CDC programs, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger and CRS Report R41184, *Small Business Administration 504/CDC Loan Guaranty Program*, by Robert Jay Dilger.

[15] P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for borrowers from $35,000 to $50,000.

[16] SBA, "Fiscal Year 2019 Congressional Budget Justification and FY2017 Annual Performance Report," p. 37, at https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_19_508Final5_1.pdf. For a list of all Microloan intermediaries, regardless of lending volume, see SBA, *Microloan Program: Partner Identification & Management System Participating Intermediary Microlenders Report*, June 21, 2017, at https://www.sba.gov/sites/default/files/articles/microlenderrpt5_20170621.pdf.

[17] The SBA's Office of Financial Analysis and Modeling is responsible for ensuring that the computation of subsidy rates for the SBA's credit programs are in compliance with the Federal Credit Reform Act of 1990 (FCRA). As indicated on its website: "The FCRA requires all credit agencies, including the SBA, to budget and account for the cost of credit programs by determining the net present value of cash flows to and from the Government over the life of the portfolio and expressing the net amount as a credit subsidy rate. The process to develop a subsidy rate is lengthy and complex, requiring unique data collection techniques and analysis efforts. SBA develops its subsidy rates by creating models that incorporate data on loan maturity, borrowers' interest rates, fees, grace periods, interest subsidies, delinquencies, purchases or defaults, recoveries, prepayments, advances and borrower characteristics. See SBA, Office of Financial Analysis and Modeling, "Summary of Responsibilities," at https://www.sba.gov/offices/headquarters/ocfo/resources/13299. Also, see U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *Small Business Reauthorization and Improvements Act of 2006*, report to accompany S. 3778, 109th Cong., 2nd sess., November 16, 2006, S.Rept. 109-361 (Washington: GPO, 2006), p. 6; and U.S. Government Accountability Office, *Participants in SBA's Microloan Program Could Provide Additional Information to Enhance the Public's Understanding of Recovery Act Fund Uses and Expected Outcomes*, GAO-10-1032R, September 29, 2010, p. 2, at http://www.gao.gov/assets/100/97128.pdf.

In FY2018, the SBA was provided $3.438 million, to remain available until expended, for direct (Microloan) business loan credit subsidies. This appropriation was expected to support about $36.0 million in lending to intermediaries.[18]

The SBA received an appropriation of $31.0 million in FY2018 for grants to selected Microloan intermediaries and qualified "non-lending technical assistance providers" to provide Microloan borrowers and prospective borrowers marketing, management, and technical training assistance.[19]

As shown in **Table 1**, Microloan intermediaries provided counseling services to 19,600 small businesses in FY2017. The data indicate that the number of small businesses served by the Microloan technical assistance program has generally increased in recent years.

Table 1. Microloan Technical Assistance Program Counseling Services, FY2010-FY2017

Fiscal Year	Number of Small Businesses Provided Microloan Technical Assistance Counseling Services
2010	14,916
2011	15,900
2012	15,892
2013	19,368
2014	15,668
2015	17,200
2016	17,948
2017	19,600

Sources: U.S. Small Business Administration, "Fiscal Year 2017 Congressional Budget Justification and FY2015 Annual Performance Report," p. 99, at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf; and U.S. Small Business Administration, "Fiscal Year 2019 Congressional Budget Justification and FY2017 Annual Performance Report," p. 37, at https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_19_508Final5_1.pdf.

Intermediary Microloan Lender Eligibility Standards

To become a qualified intermediary Microloan lender, an applicant must

- be organized as a nonprofit community development corporation or other entity, a consortium of nonprofit community development corporations or other entities, a quasigovernmental economic development corporation, or an agency established by a Native American Tribal Government;
- be located in the United States, including the Commonwealth of Puerto Rico, the U.S. Virginia Islands, Guam, and American Samoa;
- have made and serviced short-term, fixed rate loans of not more than $50,000 to newly established or growing small businesses for at least one year; and

[18] SBA, "Fiscal Year 2018 Congressional Budget Justification and FY2016 Annual Performance Report," p. 92, at https://www.sba.gov/sites/default/files/aboutsbaarticle/FINAL_SBA_FY_2018_CBJ_May_22_2017c.pdf; and P.L. 115-141, the Consolidated Appropriations Act, 2018.

[19] P.L. 115-141.

- have at least one year of experience providing technical assistance to its borrowers.[20]

If accepted into the program by the SBA, it can borrow no more than $750,000 from the SBA during its first year of participation, no more than $1.25 million each year thereafter, and no more than an aggregate of $5 million.[21]

As mentioned previously, legislation was introduced during the 114th Congress (H.R. 2670, S. 1857, and S. 2850) and the 115th Congress (H.R. 2056 and S. 526) to increase the Microloan program's aggregate loan limit for Microloan intermediaries after their first year of participation in the program from $5 million to $6 million.

Intermediary Microloan Lender Program Requirements

Intermediaries are not required to make any interest payments on the Microloan during the first year, but interest accrues from the date that the SBA disburses the loan proceeds to the intermediary. After that, the SBA determines the schedule for periodic payments. Loans must be repaid within 10 years.[22]

The SBA charges intermediaries an interest rate that is based on the five-year Treasury rate, adjusted to the nearest one-eighth percent (called the Base Rate), less 1.25% if the intermediary maintains an historic portfolio of Microloans averaging more than $10,000, and less 2.0% if the intermediary maintains an historic portfolio of Microloans averaging $10,000 or less. The Base Rate, after adjustment, is called the Intermediary's Cost of Funds. The Intermediary's Cost of Funds is initially calculated one year from the date of the note and is reviewed annually and adjusted as necessary (called recasting). The interest rate cannot be less than zero.[23]

Intermediaries are required to contribute not less than 15% of the loan amount in cash from nonfederal sources and, as security for repayment of the loan, must provide the SBA first lien position on all notes receivable from any microloans issued under the program.[24] Unlike the SBA's 7(a) and 504/CDC loan guarantee programs, the SBA does not charge intermediaries upfront or ongoing service fees under the Microloan program.[25]

As mentioned previously, P.L. 111-240 temporarily allowed the SBA to waive, in whole or in part through FY2012, the intermediary's 15% nonfederal share requirement under specified circumstances (e.g., the economic conditions affecting the intermediary and the intermediary's performance) for up to a fiscal year.[26]

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[20] 13 C.F.R §120.701; and 13 C.F.R §120.702. P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for borrowers from $35,000 to $50,000.

[21] 13 C.F.R §120.706; and SBA, "SOP 52 00 A: Microloan Program," (effective April 28, 2016), p. 20, at https://www.sba.gov/sites/default/files/sops/SOP-52-00-A-Microloan.pdf. P.L. 111-240, the Small Business Jobs Act of 2010, increased the aggregate loan limit for intermediaries after their first year of participation in the program from $3.5 million to $5 million.

[22] 13 C.F.R §120.706.

[23] 15 U.S.C. §636(m)(3)(F)(iii); and SBA, "SOP 52 00 A: Microloan Program," (effective April 28, 2016), p. 20, at https://www.sba.gov/sites/default/files/sops/SOP-52-00-A-Microloan.pdf. In recent years, the Intermediary's Cost of Funds has been either zero or close to zero.

[24] 13 C.F.R §120.706. Note: The 15% contribution must be from nonfederal sources and may not be borrowed. For purposes of this program, Community Development Block Grants are considered nonfederal sources.

[25] Ibid.

[26] P.L. 111-240, the Small Business Jobs Act of 2010, §1401. Matching Requirements Under Small Business Programs.

Intermediaries are required to deposit the proceeds from the SBA's loans, their 15% contribution, and payments from their Microloan borrowers into a Microloan Revolving Fund. Intermediaries may only withdraw from this account funds necessary to make microloans to borrowers, repay the SBA, and establish and maintain a Loan Loss Reserve Fund to pay any shortage in the Microloan Revolving Fund caused by delinquencies or losses on its microloans.[27] They are required, until they have been in the program for at least five years, to maintain a balance in the Loan Loss Reserve Fund equal to 15% of the outstanding balance of the notes receivable from their Microloan borrowers.[28] After five years, if the intermediary's average annual loss rate during the preceding five years is less than 15% and no other factors exist that may impair the intermediary's ability to repay its obligations to the SBA, the SBA Administrator may reduce the required balance in the intermediary's Loan Loss Reserve Fund to the intermediary's average annual loss rate during the preceding five years, but not less than 10% of the portfolio.[29] Intermediaries are required to maintain their Loan Loss Reserve Fund until they have repaid all obligations owed to the SBA.

The SBA does not maintain detailed data necessary to determine an aggregate default rate for Microloan borrowers. However, in 2007, the SBA estimated that the borrower default rate for the Microloan program was about 12%.[30] Because the Loan Loss Reserve Fund is used to contribute toward the cost of borrower defaults, and is often sufficient to cover the entire cost of such defaults, the SBA's loss rate for intermediary repayment is typically less than 3% each year.[31]

An intermediary may be suspended or removed from the Microloan program if it fails to comply with a specified list of program performance standards. For example, intermediaries are required to close and fund at least 10 microloans per year, cover the service territory assigned by the SBA, honor the SBA determined boundaries of neighboring intermediaries and non-lender technical assistance providers, fulfill reporting requirements, maintain a loan currency rate of 85% or more (where loans are no more than 30 days late in scheduled payments), maintain a default rate of 15% or less, and "satisfactorily provide" in-house technical assistance to microloan clients and prospective microloan clients.[32]

[27] 13 C.F.R §120.709.

[28] 13 C.F.R §120.710.

[29] Ibid.

[30] U.S. Congress, House Committee on Small Business, *Full Committee Hearings on the Small Business Administration's Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), p. 15. Note: A study released on December 28, 2009 by the SBA's Office of the Inspector General concluded that Microloan intermediaries may be under-reporting the default rate. See SBA, Office of the Inspector General, "SBA's Administration of the Microloan Program under the Recovery Act," December 28, 2009, at http://www.sba.gov/office-of-inspector-general/868/12427.

[31] In FY2016, the Microloan program's intermediary default rate was 1.6%. See SBA, *Agency Financial Report, Fiscal Year 2016*, p. 68, at https://www.sba.gov/sites/default/files/aboutsbaarticle/Agency_Financial_Report_FY_2016.pdf. At the end of FY2016, $9.46 million in loans to intermediaries had been charged off. This represents 1.96% of total funds disbursed to intermediaries ($9.46 million of $483.59 million) and 6.54% of the current outstanding principal balance of loans to intermediary lenders ($9.46 million of $144.67 million). SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," December 2, 2016.

[32] 13 C.F.R §120.716. A new Microloan intermediary is not required to meet the minimum loan requirement during the year it enters the program.

Intermediary Marketing, Management, and Technical Training Assistance

As mentioned previously, in FY2018, the SBA received $31.0 million for grants to Microloan intermediaries and qualified "non-lending technical assistance providers" to provide Microloan borrowers and prospective borrowers marketing, management, and technical training assistance (see **Appendix** for previous funding levels).

Intermediaries are eligible to receive a Microloan technical assistance grant "of not more than 25% of the total outstanding balance of loans made to it under this subsection."[33] Grant funds may be used only to provide marketing, management, and technical assistance to Microloan borrowers, except that no more than 50% of the funds may be used to provide such assistance to prospective Microloan borrowers. Grant funds may also be used to attend training required by the SBA.[34] Also, intermediaries must contribute, solely from nonfederal sources, an amount equal to 25% of the grant amount. In addition to cash or other direct funding, the contribution may include indirect costs or in-kind contributions paid for under nonfederal programs.[35] Intermediaries may expend no more than 50% of the grant funds on third-party contracts for the provision of technical assistance.[36]

In addition, as mentioned earlier, P.L. 111-240 temporarily allowed the SBA to waive, in whole or in part through FY2012, the 25% nonfederal share requirement for grants made to Microloan intermediaries for small business marketing, management, and technical assistance under specified circumstances (e.g., the economic conditions affecting the intermediary and the intermediary's performance) for up to a fiscal year.[37]

The SBA does not require Microloan borrowers to participate in the marketing, management, and technical assistance program. However, intermediaries typically require Microloan borrowers to participate in the training program as a condition of the receipt of a microloan. Combining loan and intensive training assistance is one of the Microloan program's distinguishing features.

Intermediaries that have a portfolio of loans made under the program "that averages not more than $10,000 during the period of the intermediary's participation in the program" are eligible to receive an additional training grant equal to 5% of "the total outstanding balance of loans made to the intermediary."[38] Intermediaries are not required to make a matching contribution as a condition of receiving these additional grant funds.

Non-lending Technical Assistance Providers

Each year, the SBA is authorized to select qualified nonprofit, non-lending technical assistance providers to receive grant funds to provide marketing, management, and technical assistance to

[33] 15 U.S.C. §636(m)(4)(A). Note: The SBA's Program for Investment in Microentrepreneurs Act (PRIME) program also provides nonprofit organizations grant funding to assist low-income entrepreneurs with training assistance. See, SBA, "PRIME Program," at https://www.sba.gov/offices/headquarters/oca/resources/11416.

[34] 13 C.F.R §120.712.

[35] 13 C.F.R §120.712. Intermediaries may not borrow their contribution.

[36] Ibid.

[37] P.L. 111-240, the Small Business Jobs Act of 2010, §1401. Matching Requirements Under Small Business Programs.

[38] 13 C.F.R §120.712; and 15 U.S.C. §636(m)(4)(C)(i).

Microloan borrowers. Any nonprofit entity that is not an intermediary may apply for these funds.[39]

The SBA may award up to 55 grants each year to qualified non-lending technical assistance providers to deliver marketing, management, and technical assistance to Microloan borrowers. The grants may be for terms of up to five years and may not exceed $200,000.[40] The nonprofit entity must contribute, solely from nonfederal sources, an amount equal to 20% of the grant. In addition to cash or other direct funding, the contribution may include indirect costs or in-kind contributions paid for under nonfederal programs.[41]

The SBA stopped awarding these grants at the beginning of FY2005. The SBA determined at that time that the non-lending technical assistance providers duplicated much of what was already being provided by Microloan intermediaries and other SBA entrepreneurial development programs.[42]

Microloan Borrower Eligibility Standards

With one exception, Microloan borrowers must be an eligible, for-profit small business as defined by the Small Business Act. P.L. 105-135, the Small Business Reauthorization Act of 1997, expanded the Microloan program's eligibility to include borrowers establishing a nonprofit childcare business.

Microloan Borrower Program Requirements

Intermediaries are directed by legislative language to provide borrowers "small-scale loans, particularly loans in amounts averaging not more than $10,000."[43] They are also directed, "to the extent practicable ... to maintain a microloan portfolio with an average loan size of not more than $15,000."[44] Microloans for more than $20,000 are allowed "only if such small business concern demonstrates that it is unable to obtain credit elsewhere at comparable interest rates and that it has good prospects for success."[45] The maximum loan amount is $50,000 and no borrower may owe an intermediary more than $50,000 at any one time.[46]

Microloan proceeds may be used only for working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. Loans cannot be made to acquire land or property, and must be repaid within six years.[47] Within these parameters, loan terms vary depending on the loan's size, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower. During the 114th Congress, H.R. 2670 would have increased the program's repayment terms from not more than 6 years to not more than 10 years for loans greater than $10,000.

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[39] 13 C.F.R §120.714.

[40] Ibid.

[41] Ibid.

[42] SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," August 2, 2012.

[43] 15 U.S.C. §636(m)(1)(A)(iii)(I).

[44] 15 U.S.C. §636(m)(6)(B).

[45] 15 U.S.C. §636(m)(3)(E).

[46] 13 C.F.R §120.707. P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for borrowers from $35,000 to $50,000.

[47] Ibid.

On loans of more than $10,000, the maximum interest rate that can be charged to the borrower is the interest rate charged by the SBA on the loan to the intermediary, plus 7.75 percentage points. On loans of $10,000 or less, the maximum interest rate that can be charged to the borrower is the interest charged by the SBA on the loan to the intermediary, plus 8.5 percentage points.[48] Rates are negotiated between the borrower and the intermediary, and typically range from 6.5% to 9%. In FY2017, the average interest rate charged was 7.5%.[49]

Each intermediary establishes its own lending and credit requirements. However, borrowers are generally required to provide some type of collateral (consistent with prudent lending practices), and a personal guarantee to repay the loan.[50] The SBA does not review the loan for creditworthiness.[51]

Intermediaries are allowed to charge borrowers reasonable application and origination fees up to 2% of the Microloan, and actual out-of-pocket closing expenses, such as collateral appraisals and credit reports. These fees may be added to the loan amount and financed over the life of the loan.[52]

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[48] 15 U.S.C. §636(m)(6)(C)(i) and 15 U.S.C. §636(m)(6)(C)(ii) indicate that the threshold average loan amount for determining the maximum interest rate charged to borrowers is $7,500. The SBA increased the threshold average loan amount used to determine the maximum interest rate charged to borrowers from $7,500 to $10,000 in 2001, citing authority provided in P.L. 106-554, the Consolidated Appropriations Act, 2001 (2000 legislation–Small Business Reauthorization Act of 2000): "SBA is amending § 120.707(c) [the section in the U.S. Code of Federal Regulations concerning the threshold average loan amount for determining the maximum interest rate charged to borrowers] to reflect the statutory change which increased the dollar amount to $10,000 up from $7,500." See SBA, "Microloan Program," 66 *Federal Register* 47877, September 4, 2001. However, P.L. 106-554 included language amending Section 7(m) of the Small Business Act (15 U.S.C. 636(m)) "in paragraphs (1)(A)(iii)(I), (3)(A)(ii), and (4)(C)(i)(II), by striking "$7,500" each place it appears and inserting "$10,000." The three sections cited in P.L. 106-554 referred to encouraging intermediaries to make "loans in amounts averaging not more than $7,500;" directing the Administration to "give priority to those applicants that provide loans in amounts averaging not more than $7,500;" and eligibility for technical assistance grants "the intermediary has a portfolio of loans made under this subsection that averages not more than $7,500 during the period of the intermediary's participation in the program." According to the SBA, "at the time of the change in the law, SBA staff believed that Congress intended to raise all of the microloan thresholds to $10,000 from $7,500, as evidenced by the fact that Congress revised the general purpose language in §7(m)(1)(A)(iii). That provision was revised to state that one of the purposes of the Microloan program is to enable intermediaries to provide small-scale loans, 'particularly in amounts averaging not more than $10,000.' In addition, the legislative history indicates that the loan amounts were increased to reflect inflation, but does not explain why only some loan amounts were adjusted and not others…. Furthermore, it would be confusing to have different thresholds in the several provisions that incentivize intermediaries to make small loans, especially when those thresholds had been the same prior to the changes implemented by P.L. 106-554…. For these reasons, SBA staff believed that increasing all of the microloan thresholds to $10,000 from $7,500 would achieve the Congressional purpose in making more small loans available. The regulations implemented the legislative changes in 2001. There is Congressional awareness of these longstanding microloan program regulations, which have never been challenged or questioned. There is also Congressional awareness of the discrepancies in the statute, as evidenced by the 13 bills that have been introduced since 2001 to correct them." SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," November 14, 2013.

[49] SBA, "Nationwide Loan Report, October 1, 2016 through September 30, 2017," March 13, 2018.

[50] The SBA urges intermediaries in its Microloan SOP "to temper collateral requirements with strong technical assistance and to be creative in their definition of acceptable collateral." See SBA, "SOP 52 00 A: Microloan Program," (effective April 28, 2016), p. 50, at https://www.sba.gov/sites/default/files/sops/SOP-52-00-A-Microloan.pdf.

[51] SBA, "Microloan Program," at https://www.sba.gov/content/microloan-program.

[52] SBA, "SOP 52 00 A: Microloan Program," (effective April 28, 2016), p. 51, at https://www.sba.gov/sites/default/files/sops/SOP-52-00-A-Microloan.pdf.

Microloan Program Statistics

As of the end of FY2017, the SBA had disbursed 1,167 loans to Microloan intermediaries totaling $524.8 million. About 43% (504) of these loans, with an unpaid principal balance of $157.3 million, were still active.[53]

In FY2017, the SBA disbursed 29 loans totaling $13.6 million to intermediaries and intermediaries provided 4,992 microloans totaling $69.3 million to small businesses.[54] The average loan to an intermediary was $469,828, and the average microloan to a small business was $13,884.[55]

Table 2 provides the number and amount of loans to intermediaries and the number and amount of Microloans to small businesses from FY2010 to FY2017. The data indicate that the amount of Microloans provided to small businesses has generally increased in recent years.

Table 2. Microloan Program Statistics, FY2010-FY2017

($ in millions)

FY	# of SBA Loans to Intermediaries	Amount of SBA Loans to Intermediaries	# of Microloans to Small Businesses	Amount of Microloans to Small Businesses
2010	71	$34.2	3,729	$44.1
2011	67	$32.2	4,002	$46.8
2012	42	$21.6	3,973	$44.7
2013	68	$38.3	4,426	$51.2
2014	34	$24.2	3,948	$56.1
2015	56	$30.3	3,682	$51.9
2016	44	$27.5	4,493	$60.8
2017	29	$13.6	4,992	$69.3

Sources: U.S. Small Business Administration, Office of Congressional and Legislative Affairs, "Correspondence with the author," November 22, 2017; and U.S. Small Business Administration, "Nationwide Loan Report, October 1, 2009 through September 30, 2010," January 14, 2011; "Nationwide Loan Report, October 1, 2010 through September 30, 2011," November 2, 2011; "Nationwide Loan Report, October 1, 2011 through September 30, 2012," October 15, 2012; "Nationwide Loan Report, October 1, 2012 through September 30, 2013," October 28, 2013; "Nationwide Loan Report, October 1, 2013 through September 30, 2014," June 4, 2015; "Nationwide Loan Report, October 1, 2014 through September 30, 2015," November 16, 2015; "Nationwide Loan Report, October 1, 2015 through September 30, 2016," November 28, 2016; and "Nationwide Loan Report, October 1, 2016 through September 30, 2017," March 13, 2018.

The Microloan program is open to all small business entrepreneurs, but targets new and early-stage businesses in "underserved markets, including borrowers with little to no credit history, low-income borrowers, and women and minority entrepreneurs in both rural and urban areas who generally do not qualify for conventional loans or other, larger SBA guaranteed loans."[56] An

[53] SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," November 22, 2017.

[54] SBA, "Nationwide Loan Report, October 1, 2016 through September 30, 2017," March 13, 2018; and SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," November 22, 2017.

[55] SBA, "Nationwide Loan Report, October 1, 2016 through September 30, 2017," March 13, 2018; and SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," November 22, 2017.

[56] SBA, "Microloans Help Small Businesses Start, Grow and Succeed," (no longer available on-line).

analysis conducted by the Urban Institute found that about 9.9% of conventional small business loans are issued to minority-owned small businesses and about 16% of conventional small business loans are issued to women-owned businesses.[57] In FY2017, of those reporting their race, minority-owned or -controlled firms received 46.4% of the number of microloans issued and 33.3% of the amount issued.[58] Women-owned or -controlled firms received 46.7% of the number of microloans issued and 38.4% of the amount issued.[59]

More than three-quarters of all Microloan borrowers (81.5%) in FY2017 were located in an urban area. Also, startup companies received 37.7% of the number of microloans issued in FY2017, and 37.1% of the total amount of microloans issued in FY2017.[60]

As mentioned previously, the Microloan program's estimated borrower default rate is about 12%.[61] Because the Loan Loss Reserve Fund is used to contribute toward the cost of borrower defaults, and is often sufficient to cover the entire cost of such defaults, the SBA's loss rate for intermediary repayment is typically less than 3% annually. For example, the Microloan program's intermediary default rate was 2.36% in FY2015, 1.60% in FY2016, and 2.26% in FY2017.[62]

Microloans are often used for more than one purpose. In FY2017, they were most commonly used for working capital (70.0%), new equipment (25.8%), inventory (21.6%), and supplies (7.9%).[63]

Congressional Issues

Critics of the SBA's Microloan program argue that it is duplicative of other available programs, expensive relative to alternative programs, and subject to administrative shortfalls. The program's advocates argue that it provides assistance that "reaches many who otherwise would not be served by the private sector or even the SBA's 7(a) loan program" and "has provided an important source of capital for low-income women business owners and minority borrowers."[64]

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[57] Kenneth Temkin, Brett Theodos, with Kerstin Gentsch, *Competitive and Special Competitive Opportunity Gap Analysis of the 7(A) and 504 Programs* (Washington: The Urban Institute, 2008), p. 13, at http://www.urban.org/UploadedPDF/411596_504_gap_analysis.pdf.

[58] SBA, "Nationwide Loan Report, October 1, 2016 through September 30, 2017," March 13, 2018. 814 of 4,992 Microloan borrowers (16.3%) did not report their race. These borrowers received $9.6 million in loans. Because the race of these borrowers is unknown, their borrowing was removed from the calculation of the proportional share percentage figures provided for minority-owned or -controlled firms.

[59] Ibid.

[60] Ibid.

[61] U.S. Congress, House Committee on Small Business, *Full Committee Hearings on the Small Business Administration's Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), p. 15. Note: A study released on December 28, 2009 by the SBA's Office of the Inspector General concluded that Microloan intermediaries may be under-reporting the default rate. See SBA, Office of the Inspector General, "SBA's Administration of the Microloan Program under the Recovery Act," December 28, 2009, at http://www.sba.gov/office-of-inspector-general/868/12427.

[62] SBA, *Agency Financial Report, Fiscal Year 2015*, p. 73, at https://www.sba.gov/sites/default/files/aboutsbaarticle/4-Financial%20Reporting.pdf; SBA, *Agency Financial Report, Fiscal Year 2016*, p. 68, at https://www.sba.gov/sites/default/files/aboutsbaarticle/Agency_Financial_Report_FY_2016.pdf; and SBA, *Agency Financial Report, Fiscal Year 2017*, p. 71, at https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_2017_AFR_.pdf.

[63] SBA, "Nationwide Loan Report, October 1, 2016 through September 30, 2017," March 13, 2018. Percentages add to more than 100% as proceeds may be used for more than one purpose.

[64] U.S. Congress, House Committee on Small Business, *Full Committee Hearing on the Small Business Administration's Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), (continued...)

Program Duplication

Critics of the SBA's Microloan program argue that its direct lending program is duplicative of the SBA's 7(a) loan guarantee program and its marketing, management, and technical training assistance grant program is duplicative of the SBA's training assistance provided through Small Business Development Centers, SCORE (Service Corps of Retired Executives), and Women Business Centers. For example, President George W. Bush proposed to eliminate all funding for the Microloan program in his FY2005, FY2006, and FY2007 budget requests to Congress, arguing that "the 7(a) program is capable of serving the same clientele through the Community Express programs for much lower cost to the Government."[65] President Bush also proposed to terminate the Microloan program's marketing, management, and technical assistance grant program in his FY2008 and FY2009 budget requests to Congress.[66]

Critics argued in 2007 that about 44% of the SBA's 7(a) program's loan guarantees at that time were for loans under $35,000 (the Microloan program's former loan limit for borrowers), representing more than 17 times the number of loans issued through the SBA's Microloan program.[67] In their view, the 7(a) program had demonstrated that it can service the needs of small businesses targeted by the SBA's Microloan program.[68] They also argued that the SBA's Microloan program's marketing, management, and technical assistance grants program was not necessary because the SBA "already supports a nationwide network of resource partners who provide counseling and training to entrepreneurs, including Small Business Development Centers, Women's Business Centers, and SCORE."[69] They argued that about 94% of Microloan intermediaries are located within 20 miles of a Small Business Development Center, a Women's Business Center, or a SCORE partner.[70]

Advocates argue that the SBA's Microloan program is complementary, not duplicative, of the SBA's 7(a) loan guarantee program. They assert that Microloan borrowers are particularly disadvantaged when seeking access to capital, often having no credit history or lower credit scores than most applicants for the SBA's 7(a) loan guarantee program.[71] In their view, it is important that the SBA has a program whose sole focus is to assist Microloan borrowers in

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pp. 1, 2.

[65] U.S. Office of Management and Budget (OMB), *Budget of the United States Government: Fiscal Year 2005*, p. 334, at http://www.gpoaccess.gov/usbudget/fy05/pdf/budget/sba.pdf; OMB, *Budget of the United States Government: Fiscal Year 2006*, p. 313, at http://www.gpoaccess.gov/usbudget/fy06/pdf/budget/sba.pdf; and OMB, *Budget of the United States Government: Fiscal Year 2007*, p. 283, at http://www.gpoaccess.gov/usbudget/fy07/pdf/budget/sba.pdf.

[66] OMB, *Budget of the United States Government: Fiscal Year 2008*, pp. 139, 140, at http://www.gpoaccess.gov/usbudget/fy08/pdf/budget/sba.pdf; and OMB, *Budget of the United States Government: Fiscal Year 2009*, p. 130, at http://www.gpoaccess.gov/usbudget/fy09/pdf/budget/sba.pdf. The Bush Administration also proposed to increase the interest rate charged to intermediaries.

[67] U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA's Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 37.

[68] Ibid.

[69] Ibid., pp. 37, 38.

[70] U.S. Congress, House Committee on Small Business, *Full Committee Hearing on the Small Business Administration's Microloan Program*, 110th Cong., 1st sess., June 14, 2007, H.Hrg. 110-30 (Washington: GPO, 2007), p. 7.

[71] U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA's Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 27.

starting microbusinesses and have in place intermediaries that "have essential expertise on the needs of this key demographic."[72]

Advocates also argue that the SBA's Microloan marketing, management, and technical assistance grants program is "a crucial element which enables intermediaries to assist microbusiness owners step by step through their development and growth" and "not only increases the likelihood of full repayment of the loan, but augments business survival and success."[73] As mentioned previously, intermediaries typically require Microloan borrowers to participate in the training program as a condition of the receipt of the microloan.

Program Cost

Critics of the SBA's Microloan program argue that it is expensive relative to other SBA programs, costing about $7,506 per small business assisted in FY2017, compared to $1,316 per small business assisted in the SBA's 7(a) loan guarantee program.[74] President George W. Bush cited the program's higher expense when he recommended in his FY2005, FY2006, and FY2007 budget requests to Congress that the program be terminated and when he recommended in his FY2008 and FY2009 budget requests to Congress that the interest rate charged to Microloan intermediaries be increased to make the program "self-financing."[75]

Advocates argue that the program's higher cost per small business assisted is unavoidable given the relatively unique nature of the program and the special needs of its borrowers. They assert that intermediaries often have to spend a significant amount of time with Microloan borrowers because those borrowers tend to have less experience with the credit application process and a more difficult time documenting their qualifications for assistance than borrowers in the SBA's loan guaranty programs. Also, in their view, raising the interest rate charged to intermediaries to make the program self-financing would reduce the program's cost, but could also defeat the program's purpose. They assert that because microloans are small, it is difficult for intermediaries to generate enough interest income to cover their costs. As a result, if the interest rate charged to intermediaries is increased, they contend that intermediaries would have to pass the increase on to Microloan borrowers. In their view, increasing the program's cost to Microloan borrowers "will create an economic hardship for them and make it more difficult for them to grow their businesses" and "lead to fewer jobs created and fewer tax dollars paid."[76]

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[72] Ibid., p. 7.

[73] Ibid.

[74] SBA, "Fiscal Year 2019 Congressional Budget Justification and FY2017 Annual Performance Report," pp. 31, 36, 37, at https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_19_508Final5_1.pdf.

[75] OMB, *Budget of the United States Government: Fiscal Year 2008*, pp. 139, 140, at http://www.gpoaccess.gov/usbudget/fy08/pdf/budget/sba.pdf; OMB, *Budget of the United States Government: Fiscal Year 2009*, p. 130, at http://www.gpoaccess.gov/usbudget/fy09/pdf/budget/sba.pdf; U.S. Congress, House Committee on Small Business, *Full Committee Legislative Hearing on the SBA's Microloan and Trade Programs*, 110th Cong., 1st sess., July 12, 2007, H.Hrg. 110-35 (Washington: GPO, 2007), p. 38; and U.S. Congress, House Committee on Small Business, Subcommittee on Finance and Tax, *Subcommittee Hearing on Improving the SBA's Access to Capital Programs for our Nation's Small Businesses*, 110th Cong., 2nd sess., March 5, 2008, H.Hrg. 110-76 (Washington: GPO, 2008), p. 33.

[76] U.S. Congress, House Committee on Small Business, Subcommittee on Finance and Tax, *Subcommittee Hearing on Improving the SBA's Access to Capital Programs for our Nation's Small Businesses*, 110th Cong., 2nd sess., March 5, 2008, H.Hrg. 110-76 (Washington: GPO, 2008), p. 46.

Program Administration

On September 28, 2017, the SBA's Office of Inspector General (OIG) released an audit of the SBA's administration of the Microloan program, following up on an earlier audit released on December 28, 2009. The OIG reported a number of deficiencies that it argued needed to be addressed "to ensure effective operation of the Microloan program."[77]

In 2009, the OIG found that

- the SBA's oversight of the Microloan program was focused on the intermediaries' ability to repay their SBA loans and was limited to a cursory review of quarterly financial reports supported by only one monthly bank statement. The bank statements were used to simply verify the outstanding balances reported on the intermediaries' quarterly reports. This review process did not allow the SBA to analyze the sources and uses of funds "which is necessary to detect inappropriate fund transfers between the intermediaries' [Microloan Revolving Funds and Loan Loss Reserve Funds] accounts."[78]
- onsite reviews were conducted only when an intermediary defaulted on its SBA loan.
- the program was inadequately staffed, operating at that time "with 6 analysts who oversee more than 160 intermediaries, 460 intermediary loans, and approximately 2,500 microloans per year."[79]
- the reported Microloan borrower default rate of 12% "appeared low given the high-risk nature of the program."[80]
- the audit identified duplicate loan reporting and 92 Microloan borrowers with outstanding microloan balances exceeding the then-$35,000 limit.
- the SBA's output performance metrics "do not ensure the ultimate program beneficiaries, the microloan borrowers, are truly assisted by the program" and "without appropriate [outcome performance] metrics, SBA cannot ensure the Microloan program is meeting policy goals."[81] The OIG recommended that the SBA "develop additional performance metrics to measure the program's achievement in assisting microloan borrowers in establishing and maintaining successful small businesses."[82]

In its 2017 audit, the OIG found that the SBA had taken several actions (see footnote below) to improve its oversight of the Microloan program since the 2009 audit but that the agency still had "internal control weaknesses" that prevented it from conducting "adequate program oversight to measure program performance and ensure program integrity."[83]

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[77] SBA, Office of the Inspector General, "SBA's Administration of the Microloan Program under the Recovery Act," p. 3, at https://www.sba.gov/sites/default/files/oig/om10-10.pdf.

[78] Ibid., p. 1.

[79] Ibid.

[80] Ibid., p. 4. The OIG found that 1 intermediary made 1,182 microloans valued at over $11 million since 1993 and only reported slightly more than a 1% historical default rate, and 39 other intermediaries that reported that none of their loans had defaulted.

[81] Ibid., p.6.

[82] Ibid., p. 7.

[83] SBA, Office of the Inspector General, "Audit of SBA's Microloan Program," executive summary, at
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Specifically, the OIG audited 14 intermediary lenders and 52 microloan files and found documentation deficiencies, or differences between the information contained in the lender's loan file versus that in the SBA Microloan Program Electronic Reporting System (MPERS) in 44 of the 52 files. The OIG also argued that the audit revealed that inadequate documentation exists to show that the "no credit elsewhere" test had been properly administered; that, in some cases, inadequate supporting documentation existed to show how the microloan funds were used by the borrower; and that, in some cases, interest rates and fees were charged that exceeded the limits allowed under the program rules and regulations.[84]

The identified internal control weaknesses

> were due to the SBA not having an overall site visit plan, an adequate information system, available funding for system improvements, or clear Standard Operating Procedures (SOPs). Additionally, SBA management focused on output-based performance measures instead of outcome measures.[85]

The OIG recommended that the SBA (1) continue efforts to improve the information system to include outcome-based performance measurements and ensure the data captured can be used to effectively monitor the Microloan Program compliance, performance, and integrity; (2) develop and implement a site visit plan to comprehensively monitor microloan portfolio performance and ensure program results can be evaluated program-wide; (3) update SOP 52 00A to clarify requirements regarding evidence for use of proceeds and credit elsewhere; and (4) update the microloan reporting system manual to reflect current technology capabilities. The SBA concurred with the four recommendations and stated that the agency will target September 30, 2019, for full implementation.[86]

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https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_17-19.pdf. The SBA provided the OIG a list of actions taken to improve Microloan program oversight in recent years, including: …In 2010, the program office implemented a comprehensive quarterly reporting analysis, which has been completed on a quarterly basis for each active intermediary in the Microloan Program since that time. …This information enables SBA to understand each Intermediary's relative health by displaying historical default rate, delinquency rate, collateral coverage rate, loan loss reserve coverage rate and other valuable risk indicators. Performing this quarterly analysis on every Intermediary has enabled SBA to minimize its losses due to Intermediary non-payment by providing warning signs well before performance issues reach a non-recoverable level. Also in 2010, OEO [the Office of Economic Opportunity] implemented an annual financial statement analysis that OEO staff has completed annually for each Intermediary. This analysis also allows SBA to see potential financial issues well in advance of becoming a problem in order to limit the risk of Intermediary non-payment to SBA. Further, in 2012 OEO designed its first Site Visit Checklist to be used by SBA District Office personnel when conducting annual site visits to the Microloan intermediaries. ... In 2013 OEO published its first Microloan Standard Operating Procedure (SOP) since the Program's inception in 1992. This SOP provides guidance to both SBA staff who are involved in managing the Program and the Intermediary lenders who participate. This SOP was updated in 2015 to incorporate changes made to the Microloan Program regulations. In 2014 the Microloan Program Office designed and implemented a grant calculator spreadsheet that is used by both OEO staff and each Intermediary as a project management tool for the technical assistance grants and the Intermediary's quarterly expense billings and performance reports. …OEO conducts monthly webinar sessions with all participating lenders in order to provide Program-related updates, ongoing training and allow for presentation of best practices. See Ibid., pp. 13, 14.

[84] Ibid., p. 14.

[85] Ibid., p. 7.

[86] Ibid., p. 8.

Legislation

As mentioned previously, during the 111th Congress, P.L. 111-240, the Small Business Jobs Act of 2010, increased the Microloan program's loan limit for borrowers from $35,000 to $50,000, and increased the loan limit for Microloan intermediaries after their first year of participation in the program from $3.5 million to $5 million.[87] It also temporarily allowed the SBA to waive, in whole or in part through FY2012, the nonfederal share requirement for loans to the Microloan program's intermediaries and for grants made to Microloan intermediaries for small business marketing, management, and technical assistance under specified circumstances (e.g., the economic conditions affecting the intermediary and the intermediary's performance) for up to a fiscal year.[88]

No bills were introduced during the 112th Congress concerning the Microloan program.

During the 113th Congress,

- H.R. 3191, the Expanding Opportunities to Underserved Businesses Act, would have increased the Microloan program's loan limit for borrowers from $50,000 to $75,000.
- S. 2487, the Access to Capital, Access to Opportunity Act, would have increased that limit to $100,000.
- S. 2693, the Women's Small Business Ownership Act of 2014, and its House companion bill, H.R. 5584, would have increased the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program from $5 million to $7 million. These bills would have also removed the requirements that no more than 25% of Microloan technical assistance grant funds may be used to provide information and technical assistance to prospective borrowers or on third-party contracts to provide the assistance.

During the 114th Congress, as mentioned earlier,

- S. 1445, the Microloan Act of 2015, would have removed the requirements that no more than 25% of Microloan technical assistance grant funds may be used to provide information and technical assistance to prospective borrowers or on third-party contracts to provide the assistance. It would have also eliminated the Microloan program's minimum state allocation formula.
- H.R. 2670, the Microloan Modernization Act of 2015, and its companion bill in the Senate (S. 1857) would have increased the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program

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[87] P.L. 111-240, the Small Business Jobs Act of 2010, §1113. Maximum Loan Limits Under Microloan Program.

[88] P.L. 111-240, §1401. Matching Requirements Under Small Business Programs. During the 111th Congress, H.R. 3854, the Small Business Financing and Investment Act of 2009, passed by the House by a vote of 389-32, on October 29, 2009, would have increased the Microloan program's loan funding to "such sums as may be necessary" to support $110 million in direct microloans in FY2010 and $110 million in FY2011, increased the program's technical assistance grant funding to $80 million in FY2010 and $80 million in FY2011, authorized $20 million ($10 million in FY2010 and $10 million in FY2012) for a new Microloan interest assistance grant program, broadened the eligibility requirements for Microloan intermediaries to qualify for lower interest rates, increased the program's maximum loan amount to intermediaries during their first year in the program from $750,000 to $1 million, and in later years from an aggregate of $3.5 million to $7 million, and increased the percentage of technical assistance grant funds that an intermediary can spend on prospective borrowers from 25% to 35%, and on the provision of technical assistance through third-party providers from 25% to 35%.

from $5 million to $6 million, increased the program's repayment terms from not more than 6 years to not more than 10 years for loans greater than $10,000, and require the SBA Administrator to establish a rule enabling intermediaries to apply for a waiver of the requirement that no more than 25% of Microloan technical assistance grant funds may be used to provide information and technical assistance to prospective borrowers. The House passed H.R. 2670 on July 13, 2015. S. 1857 was reported by the Senate Committee on Small Business and Entrepreneurship on July 29, 2015.

- S. 2850, the Microloan Program Modernization Act of 2016, would have increased the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program from $5 million to $6 million; eliminated the requirements that intermediaries spend no more than 25% of Microloan technical assistance grant funds on technical assistance to prospective borrowers and no more than 25% of those funds on third-party contracts for technical assistance; required the SBA to study and report on the operations of a representative sample of Microloan intermediaries and other intermediaries and make recommendations on how to reduce costs associated with intermediaries' participation in the program and to increase intermediary participation in the program; and required the Government Accountability Office to study and report on the SBA's oversight of the program, SBA's processes to ensure intermediary compliance with program rules and regulations, and the program's overall performance.

During the 115th Congress,

- P.L. 115-141, the Consolidated Appropriations Act, 2018, relaxed the requirements that intermediaries spend no more than 25% of Microloan technical assistance grant funds on technical assistance to prospective borrowers and no more than 25% of those funds on third-party contracts for technical assistance by increasing those percentages to 50%. These provisions were originally in H.R. 2056, the Microloan Modernization Act of 2017, and S. 526, its companion bill in the Senate (as amended in committee).
- H.R. 2056, the Microloan Modernization Act of 2017, and S. 526, its companion bill in the Senate, would, among other provisions, increase the Microloan program's aggregate loan limit for intermediaries after their first year of participation in the program from $5 million to $6 million.

Concluding Observations

During the 111th Congress, congressional debate concerning proposed changes to the SBA's loan guaranty programs, including the Microloan program, centered on the likely impact the changes would have on small business access to capital, job retention, and job creation. As a general proposition, some, including President Obama, argued that economic conditions made it imperative that the SBA be provided additional resources to assist small businesses in acquiring capital necessary to start, continue, or expand operations and create jobs.[89] Others worried about

[89] Rep. Nydia Velázquez, Small Business Financing and Investment Act of 2009," House debate, *Congressional Record*, daily edition, vol. 155, no. 159 (October 29, 2009), pp. H12074, H12075; Senator Mary Landrieu, "Statements on Introduced Bills and Joint Resolutions," remarks in the Senate, *Congressional Record*, daily edition, vol. 155, no. 185 (December 10, 2009), p. S12910; and The White House, "Remarks by the President on Job Creation and Economic (continued...)

the long-term adverse economic effects of spending programs that increase the federal deficit. They advocated business tax reduction, reform of financial credit market regulation, and federal fiscal restraint as the best means to assist small business economic growth and job creation.[90]

In terms of specific program changes, the provisions enacted in P.L. 111-240 (allowing the SBA to temporarily waive the Microloan program's nonfederal share matching requirements, increasing the loan limit for borrowers from $35,000 to $50,000, and increasing the loan limit for intermediaries after their first year of participation in the program from $3.5 million to $5 million) and legislation introduced during recent Congresses (increasing borrower loan limits, increasing intermediary loan limits, and removing restraints on the use of technical assistance grants) are all designed to achieve the same goal: create jobs by enhancing micro borrowers' access to capital and technical training assistance.

Determining how specific changes in federal policy are most likely to lead to job creation is a challenging question. For example, a 2008 Urban Institute study concluded that differences in the term, interest rate, and amount of SBA financing "was not significantly associated with increasing sales or employment among firms receiving SBA financing."[91] However, they also reported that their analysis accounted for less than 10% of the variation in firm performance. The Urban Institute suggested that local economic conditions, local zoning regulations, state and local tax rates, state and local business assistance programs, and the business owner's charisma or business acumen also "may play a role in determining how well a business performs after receipt of SBA financing."[92]

As the Urban Institute study suggests, given the many factors that influence business success, measuring the SBA's Microloan program's effect on job retention and creation is complicated. That task is made even more challenging by the absence of performance-oriented measures that could serve as a guide.

The SBA's Office of Inspector General has recommended that the SBA adopt performance-oriented measures, specifically recommending that the SBA track the number of Microloan borrowers who remain in business after receiving a microloan to measure the extent to which the Microloan program contributed to their ability to stay in business. It has also recommended that the SBA require intermediaries to report the technical assistance provided to each Microloan borrower and "use this data to analyze the effect technical assistance may have on the success of Microloan borrowers and their ability to repay microloans."[93] Other performance-oriented measures that Congress might also consider include requiring the SBA to survey Microloan borrowers to measure the difficulty they experienced in obtaining a loan from the private sector; the ease or difficulty of finding, applying, and obtaining a microloan from an intermediary; and

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Growth," December 8, 2009, at https://obamawhitehouse.archives.gov/the-press-office/remarks-president-job-creation-and-economic-growth.

[90] Susan Eckerly, "NFIB Responds to President's Small Business Lending Initiatives," October 21, 2009; and NFIB, "Government Spending," at https://www.nfib.com/content/issues/economy/government-spending-small-businesses-have-a-bottom-line-government-should-too-49051/.

[91] Shelli B. Rossman and Brett Theodos, with Rachel Brash, Megan Gallagher, Christopher Hayes, and Kenneth Temkin, *Key Findings from the Evaluation of the Small Business Administration's Loan and Investment Programs: Executive Summary* (Washington, DC: The Urban Institute, January 2008), p. 58, at http://www.urban.org/UploadedPDF/411602_executive_summary.pdf.

[92] Ibid.

[93] SBA, Office of the Inspector General, "SBA's Administration of the Microloan Program under the Recovery Act," pp. 6, 7, at https://www.sba.gov/sites/default/files/oig/om10-10.pdf.

the extent to which the microloan or technical assistance received contributed to their ability to create jobs or expand their scope of operations.

Appendix. Microloan Technical Assistance Program Funding

Table A-1. Microloan Technical Assistance Program Funding, FY2000-FY2017

(appropriations and actual expenditures, $ in millions)

Fiscal Year	Initial Appropriation	Modifications	Final Appropriation	Actual Expenditures
2000	$23.200	($0.088)[a]	$23.112	$19.243
2001	$20.000	($0.044)[b]	$19.956	$18.385
2002	$17.500	—	$17.500	$17.742
2003	$15.000	($0.098)[c]	$14.902	$14.899
2004	$15.000	($0.089)[d]	$14.911	$14.655
2005	$14.000	($0.112)[e]	$13.888	$13.813
2006	$13.000	($0.130)[f]	$12.870	$12.792
2007	$13.000	—	$13.000	$12.800
2008	$15.000	—	$15.000	$14.816
2009	$20.000	—	$20.000	$19.813
2010	$22.000	$24.000[g]	$46.000	$43.220
2011	$22.000	($0.044)[h]	$21.956	$24.603
2012	$20.000	—	$20.000	$19.446
2013	$20.000	($0.191)[i]	$19.809	$19.985
2014	$20.000	—	$20.000	$19.267
2015	$22.300	—	$22.300	$22.247
2016	$25.000	—	$25.000	$24.340
2017	$31.000	—	—	$23.535

Source: SBA, Congressional Budget Justification, (FY2002-FY2010), at http://archive.sba.gov/aboutsba/budgetsplans/BUDGET_REQ_PERF_PLAN.html; SBA, Congressional Budget Justification, [FY2011-FY2019], at http://www.sba.gov/about-sba-services/217; P.L. 109-148, the Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006; P.L. 111-5, the American Recovery and Reinvestment Act of 2009; P.L. 112-10, the Department of Defense and Full-Year Continuing Appropriations Act, 2011; P.L. 112-25, the Budget Control Act of 2011; P.L. 112-74, the Consolidated Appropriations Act, 2012, P.L. 112-175, the Continuing Appropriations Resolution, 2013; P.L. 113-6, the Consolidated and Further Continuing Appropriations Act, 2013; P.L. 113-76, the Consolidated Appropriations Act, 2014; P.L. 113-235, the Consolidated and Further Continuing Appropriations Act, 2015; P.L. 114-113, Consolidated Appropriations Act, 2016; and P.L. 115-31, the Consolidated Appropriations Act, 2017.

a. In FY2000, P.L. 106-113, the Consolidated Appropriations Act, 2000, required a 0.38% across-the-board rescission for federal agencies in FY2000, resulting in a reduction of $0.088 million from the Microloan Technical Assistance program.

b. In FY2001, P.L. 106-554, the Consolidated Appropriations Act, 2001, imposed a 0.22% rescission on federal agencies, resulting in a $0.044 million reduction from the Microloan Technical Assistance program.

c. In FY2003, P.L. 108-7, the Consolidated Appropriations Resolution, 2003, imposed a rescission of 0.65% on federal agencies, resulting in a $0.098 million reduction from the Microloan Technical Assistance program.

d. In FY2004, P.L. 108-199, the Consolidated Appropriations Act, 2004, imposed a 0.59% rescission on federal agencies, resulting in a reduction of $0.089 million from the Microloan Technical Assistance program.

e. In FY2005, P.L. 108-447, the Consolidated Appropriations Act, 2005, imposed a 0.8% rescission on federal agencies, resulting in a reduction of $0.112 million from the Microloan Technical Assistance program.

f. In FY2006, P.L. 109-148 imposed a 1.0% rescission on federal agencies, resulting in a reduction of $0.130 million from the Microloan Technical Assistance program.

g. In FY2009, P.L. 111-5 provided the Microloan Technical Assistance Program an additional $24 million to remain available until September 30, 2010. The funds were awarded in FY2010.

h. In FY2011, P.L. 112-10 imposed a 0.2% rescission on federal agencies, resulting in a reduction of $0.044 million from the Microloan Technical Assistance program.

i. In FY2013, P.L. 112-25 and P.L. 113-6 imposed in a federal government-wide sequestration process and a required 0.2% across-the-board rescission, resulting in a $0.191 million reduction from the Microloan Technical Assistance program.

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