

U.S. Small Business Administration,
Strategic Plan-Office of Performance Management
Office of the Chief Financial Officer
409 Third Street, SW., Suite 6000
Washington, DC 20416
Via email: Strategicplan@sba.gov

August 30, 2010

To whom it may concern:

Opportunity Finance Network (OFN) appreciates the opportunity to comment on the Small Business Administration's Strategic Plan for Fiscal Years 2011-2016. OFN, the national network of more than 170 financial institutions, creates growth that is good for communities, investors, individuals, and the economy. Its members include community development financial institutions (CDFIs) and other opportunity finance institutions that work just outside the margins of conventional finance to bring those markets into the economic mainstream and to help the economic mainstream flow into those markets. CDFI financing has resulted in significant numbers of new jobs, jobs preserved, quality, affordable housing units, and new commercial and community facility space in all 50 states. Over the past 30 years, the Opportunity Finance industry has provided more than \$30 billion in financing that would not otherwise have happened in markets that conventional finance would not otherwise reach.

We would encourage you to incorporate CDFIs and other opportunity finance institutions into your strategic planning and consider their participation as an important way to help the SBA meet the goals and objectives in the proposed strategic plan. In particular, CDFIs can help the SBA reach underserved small business markets and more successfully lend to minority- and women-owned businesses; start-up entrepreneurs, and business started by low-income people, serving low-income communities, and hiring low-income people.

We especially urge the SBA to expand CDFI participation in the 7(a) loan guarantee program. CDFIs are integral participants in the nation's small business finance infrastructure, especially in small business markets less well served by conventional financial institutions:

- At the end of FY2008, a sample of CDFIs had more than \$6 billion in financing outstanding in small business and microenterprise. In just one year, this financing created or maintained more than 35,000 jobs.¹
- The Federal Reserve Board's most recent (2003) Survey of Small Business Finance noted that "firms whose ownership was black, American Indian or Alaska Native, Hispanic, or female were less likely to use any financial service than were firms whose ownership was

¹ CDFI Data Project, *CDFIs: Providing Capital, Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact*, Fiscal Year 2008, Eighth Edition, 2010.



white, non-Hispanic, or male.”² By way of context, CDFI customers in FY2008 were 49 percent minority and 46 percent female. CDFI customers were also 70 percent low-income.³

CDFIs are proven lending partners that make prudent financing decisions and would be safe and sound participants in SBA loan guarantee programs:

- CDFIs actively participate in other SBA programs; for example, approximately 60 percent of SBA Microloan Intermediaries are CDFIs.
- CDFIs are adept at managing risks through a combination of solid capital structures and loan loss reserves, close monitoring of portfolios, and provision of technical assistance. In 2008, participants in the industry-wide CDFI Data Project had a net charge-off rate of 0.75%, which compares favorably to the net charge-off rate of 1.28%⁵ for all insured financial institutions. Delinquency rates are also relatively low: CDFI banks and loan funds had 90 day plus delinquency rates of 0.4% and 4.4%, respectively; credit unions, which measure delinquency at 60 days rather than 90 days, had a 60-day delinquency rate of 2.3%.⁴

Specific Goals to Which CDFIs Could Contribute

Expanding CDFI participation in SBA’s lending programs would better position the SBA to achieve several of the objectives it sets out in its strategic plan. The following goals, objectives, and performance measures particularly would be more successful with increased CDFI activity:

Strategic Objective 1.1: Expand Access to capital through SBA’s extensive lending network.

Performance indicators listed here include the numbers of small businesses assisted, of active lending partners, of loan dollars approved, and of jobs supported, specifically:

- Expand access to capital by increasing the number of active SBA lending partners for the 7(a) loan program to 3,000 by September 30, 2011, a 15 percent increase over the FY 2008 and FY 2009 average.
- The long-term goal from Fiscal Year 2011 to Fiscal Year 2014 is to assist small businesses through \$74 billion in approved loans
- The long-term goal from Fiscal Year 2011 through Fiscal Year 2014 is to help create 37,000 small businesses.

² Traci L. Mach and John D.. Wolken, "Financial Services Used By Small Businesses: Evidence from The 2003 Survey Of Small Business Finances," *Federal Reserve Bulletin* (2006). Available at <http://www.federalreserve.gov/pubs/bulletin/2006/smallbusiness/default.htm#nl3>

³ Opportunity Finance Network, *Opportunity Finance Institutions: Side by Side, Fiscal Year 2008 Eleventh Edition*.

⁴ CDFI Data Project, Id at 1.



Partnership with CDFIs and increasing their participation as 7(a) lenders, can help SBA increase these numbers.

Strategic Objective 1.6: Strengthen Outreach to underserved communities and underserved populations. CDFIs are experts in serving these populations and could make a significant contribution to SBA's efforts in reaching those populations. The Strategic Plan notes two performance indicators relevant to CDFIs in this objective: capital access, through "loan approval dollars in Underserved Markets for 7(a), 504, SBIC, and Microloans;" and "percentage of clients from underserved demographics or geographically-based constituencies that are served by all resource providers." Unlike its objectives for loan volume, the SBA does not attach specific goals to its reach in underserved markets. As such markets will be increasingly important to the nation's economy during the time period of this strategic plan, we urge the SBA to elevate its consideration of these activities.

Strategic Objective 3.1 Collaborate with other agencies to strengthen the delivery of programs, resources, and services. The SBA, by statute, has a seat on the Community Development Advisory Board of the Community Development Financial Institutions Fund (CDFI Fund). The SBA should use participation on the Advisory Board to inform its work with CDFIs and to incorporate opportunity finance into its initiatives.

In addition to SBA's participation in the CDFI Fund's Community Development Advisory Board, the SBA should pursue other avenues with the Fund to increase coordination and collaboration with the goal of increasing CDFI access to SBA programs.

Thank you very much for the opportunity to comment. OFN looks forward to working with the SBA to expand the reach of its small business lending and technical assistance programs. If you would like additional information about the opportunity finance industry, its track record, or its small business lending and investing activity, please do not hesitate to contact me.

Sincerely,

Mark Pinsky
President and CEO