

Representative Rice, Representative Chu, and other distinguished members of the committee: Thank you for inviting me to testify before the subcommittee. I know you all share the goal that I do, which is to ensure American small businesses have the access to capital necessary to grow and, in doing so, help their local communities flourish. I look forward to the exchange of ideas today on ways we can work together towards that vision.

My name is Barbara A. Vohryzek and I serve as President and CEO of the National Association of Development Companies, or as we're commonly known, NADCO. In that role, I represent more than 90% of the Certified Development Companies in the country. These Certified Development Companies, or CDCs, are mostly non-profit entities that execute the financing for SBA's 504 loan program, while often also participating in other federal, state, and local economic development programs, including the SBA Microloan program and the SBA Community Advantage Loans program. This is familiar territory to me-I founded and ran California Statewide CDC for over 21 years.

The 504 loan program is a financing tool for economic development that provides small businesses with long-term, fixed-rate loans to help them acquire major fixed assets for expansion or modernization of their businesses. These loans are most frequently used to acquire land, buildings, machinery, or equipment. Eligibility for 504 loans is linked to job creation. By law, each \$65,000 in financing must create or sustain one job, or meet one of several public policy goals. Our loans are closely linked with our local government and local communities so we can help them grow. A loan which includes a 504 guarantee portion can be over \$13 million, which allows the CDC community to contribute to impactful economic development work.

The 504 loan program had challenging years during the economic downturn. As a real estate-heavy program, it experienced losses and, in directly tracking with the real estate market, took a while to recover. I am pleased to report though that this October, it is back to being self-funded with no appropriation, as it had been since the program went to self-funding in FY1996. Now that we are on firm footing, we must turn to where the 504 program and the CDC industry must go next.

I recommend that during the 114th Congress, the subcommittee focus on several long term modifications as well as make some immediate fixes to a few current challenges that the CDC industry and the 504 loan program face.

First, the 504 loan program lacks definition. It is SBA's economic development loan program and CDCs are economic development entities. However, no definition exists in statute or regulation for "economic development" or for "CDC." I recommend that we work together, as we have already started to with SBA, to formalize these definitions so that there are clear metrics for this program to fulfill its mission and be respectful stewards of the taxpayer's guarantee. This will be an opportunity for us to delve into many important topics, such as making the Community Advantage loan program permanent and increasing outreach to minority borrowers.

Second, I recommend that the successful debt refinancing with a 504 loan program, a program that was in place several years ago, be restarted permanently. When this program was active from mid-2011 through September 2012, the peak of the economic downturn, more than 2,300 small businesses refinanced over \$5 billion in capital. This returned to their business the many tens of thousands of

dollars a year previously spent on high interest rates or saved them from balloon loans. Small businesses who participated in the refi program were required to reinvest the savings in their businesses, creating jobs and opportunity for them and into the wider community. SBA estimates that this program would operate at a zero subsidy cost, so no appropriation, if restarted. In fact, this year's subsidy reestimates for the programs show that existing refis have operated at a negative subsidy rate, meaning that they have actually made money for the government. A program with such a strong track record should be available again to our small businesses.

This request is timely as well over 4,000 small balance commercial mortgage-backed security loans will mature in the next 3 years. Most of these borrowers will need to refinance yet many banks that handled small balance loans prior to the financial crisis are no longer in the market or no longer in business. This will be a gap for small business owners which must be filled. Refinancing these conventional loans with the 504 loan program can do that.

Third, last year the committee introduced H.R. 5600, which clarified SBA franchise and affiliation rules. NADCO would welcome passage of a similar bill to address this confusing issue.

While these long term changes will strengthen the 504 program for future small business borrowers, several pressing matters are preventing CDCs from best serving their communities today. Most timely is a recent SBA procedural notice which states, for the first time in the program's history, that the Anti-Deficiency Act prevents 504 loans with open-ended indemnities from closing without onerous waivers, costly attorney fees, and many hours of red tape for small business owners

and CDCs. When this unprecedented policy was first issued, NADCO surveyed our members and discovered that a billion dollars in financing had been delayed or canceled from this change. And that was only as of October 31, 2014. More perplexing yet, this policy was issued despite the fact that, according to the SBA, not one single loan has caused any loss of taxpayer dollars due to this issue. While fixing this problem is within SBA's regulatory authority, the Agency has not, as of yet, found a solution that is workable for small businesses. I hope we have the opportunity to discuss this complex issue during your questions. There is no issue more critical in the 504 program and, in my opinion, in the government lending arena, since it seems that this policy logically extends to the many other SBA and federal government loan and guarantee programs that have real estate as collateral.

A final challenge that the CDC industry faces is a challenge that I know is shared by many of the other SBA partners-that of adequate levels of SBA staffing. Recent retirements and other departures mean that a single SBA staff member may now cover portfolios previously managed by 2, 3, or even more staff members. This result of this change is both a slowing of our ability to support small business entrepreneurs seeking SBA 504 loans, and an increasing concern and lack of confidence within the business community about our ability to deliver 504 loans in a timely fashion. Our small business borrowers deserve to have access to capital that is unconstrained by the vacancy of these SBA positions that are so critical to our ability to deliver this high value loan program. We hope this subcommittee provides adequate resources through the budget and appropriations process to hire and train strong SBA employees.

Thank you again for the opportunity to share NADCO's thoughts. I look forward to your questions.