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CALIFORNIA REINVESTMENT COALITION

December 21, 2009

Hon. Barney Frank, Chair  
Financial Services Committee, US House of Representatives  
2129 Rayburn House Office Building  
Washington, D.C. 20515

Hon. Christopher Dodd, Chair  
Committee on Banking, Housing, and Urban Affairs, US Senate  
534 Dirksen Senate Office Building  
Washington, D.C. 20515

Hon. Nydia Velazquez, Chair  
Committee on Small Business,  
US House of Representatives  
2361 Rayburn House Office Building  
Washington, D.C. 20515

Hon. Mary Landrieu, Chair  
Committee on Small Business and Entrepreneurship, US Senate  
428A Russell Senate Office Bldg.  
Washington, D.C. 20515

Dear Congresspersons and Senators:

California is experiencing a devastating and lengthening economic crisis. Small businesses are closing, long-term workers losing their jobs, and families losing their homes. California's small businesses are normally a critical piece of a strong economy and employment. While the private sector should be helping solve access to credit for small businesses instead, it is nonprofit community lenders and technical assistance providers that are stepping up to bolster the economy and fill the gap. This letter identifies a number of key "shovel ready" programs where Congress can support these community-based organizations to build a Main Street Stimulus for small businesses and jobs.

California's thousands of small businesses are suffocating because of their lack of access to bank credit. Conventional small business lending by California banks dropped by 502,481 loans and \$39.7 billion just between 2007 and 2008. SBA 7(a) loans to California businesses dropped by 10,186 loans amounting to \$1.2 billion between 2007 and 2009. In addition, while overall SBA 7(a) lending dropped by 70 percent in this

period, lending to minority-owned businesses dropped even further. For example, lending to Latino-owned businesses sank 82 percent. This is a disaster for the California economy because half of all employees work in small businesses and two-thirds of all net new jobs are created in small businesses.

As small businesses are denied mainstream credit, they have turned to local nonprofit community lenders for credit assistance and to technical assistance providers to strengthen their businesses operations without increasing their debt load. Unfortunately, these nonprofit economic development organizations have limited sources of public and private financial support. As a result, failed businesses, lost jobs and empty retail store fronts are growing across California and expanding most dramatically in lower income neighborhoods, neighborhoods of color and rural areas.

The California Reinvestment Coalition (CRC) represents 275 nonprofit organizations in California. Earlier this year, twenty-six key organizations held an Economic Development Summit to identify key issues and solutions for small businesses that are included in this letter. CRC's survey of community lenders and technical assistance providers showed a massive increase (77 percent) in clients just since last year.

#### Key Role of Nonprofit Economic Development Organizations

- Nonprofit Community Development Corporations (CDC) and Community Development Financial Institutions (CDFI) understand their local communities and are seeking to respond to the increased demand. They have the time, patience and experience to work with their borrowers so that they succeed.
- Business advisory services / technical assistance adds significantly in a variety of positive ways to small businesses strength and growth. 1) Technical assistance providers and community lenders work with small businesses so they can stay profitable and repay their loans. 2) Technical assistance providers work with entrepreneurs to keep their businesses open in the current difficult economic times without increased debt. 3) Start-up businesses use technical assistance to add themselves and employees to the workforce at a time of increased unemployment.

The California economy is unlikely to recover dramatically or banks become significantly responsive to small business credit needs before 2011 or 2012. CRC is therefore presenting programmatic recommendations for a two to three year period. Clearly, the SBA and CDFI Fund are best positioned for the immediate future to begin implementing the Stimulus.

#### “Shovel Ready” Programs for Small Business Stability and Growth

- Authorizing increased participation and access for nonprofit community lenders as SBA originators in the SBA 7(a) and 504 programs.
- Make the SBA Community Express pilot a full-fledged program and reinstate the program requirements prior to 2008. More than half of its loans have gone to minority-owned businesses and this proportion was higher prior to program changes in 2008. In addition, several major banks are now expressing interest.
- The eleven California SBA Micro-Loan programs made \$2.8 million in loans of \$35,000 or less to 250 small businesses last year. There is a much greater capacity for lending by

Micro-Loan programs if loan size were expanded to at least \$50,000, increase the maximum allowed to borrow to \$7 million, and less liability was placed on the programs themselves. (SBA Community Express has an 85 percent guarantee for banks.)

- SBA Women's Business Centers serve mainly clients with household incomes less than \$50,000 and who are people of color. California has thirteen Centers that trained 33,373 women in the last year. Funding for SBA Womens' Business Centers should be increased from \$100,000 to \$250,000 each to serve more businesses.
- Approve an immediate additional allocation of \$100 million to the CDFI Fund to fund nonprofit California Community Development Financial Institution and Community Development Corporation's which currently provide 1) small business loans or venture capital and 2) critical advisory services / technical assistance directly or in collaboration with nonprofit technical assistance providers.

#### Level of California Small Business Demand and Opportunity

California nonprofit community lenders and technical assistance providers have the potential to utilize \$500 million to \$1 billion over a two to three year period depending on the programs incorporated in the Main Street Stimulus effort.

- CRC projects that the level of small business credit demand is somewhere between the \$1.2 billion drop in California SBA 7(a) lending (2007-2009) and the estimated \$12.6 billion gap in conventional lending in the same period (double the drop in 2007-2008 lending).
- There were 10,186 fewer SBA 7(a) loans done between 2007 and 2009. There were 502,481 fewer conventional small business loans done between 2007 and 2008. It is likely that every one of these businesses needs technical assistance.
- The California Association for Micro Enterprise Opportunity estimates that its members could expand their technical assistance and business training offerings by fivefold over a two to three year period. They estimate they could serve 100,000 clients for roughly \$1,500 each or a total of \$150 million. Of these clients, roughly half would start a business and are expected to hire at least one other person.
- California's 35 Small Business Development Centers trained or counseled 57,293 potential business owners in the last year. It is highly likely that their required state match will not be available this year as California's public sector is in economic crisis. This program cannot continue without a \$12 million match.
- Equity infusions can also play an important role when a small company needs to get off the ground without the burden (on cash flows, etc.) of debt. Equity plays an even more crucial role when a company has been in business, has steady revenue, and needs to undertake the next stage of growth.

The undersigned organizations ask that the U.S. Congress ensure the life and vitality of American neighborhoods, small businesses and jobs by supporting this Main Street Stimulus plan. We request an opportunity to meet with your Committee and work toward a rapid solution to this segment of the economic crisis.

Sincerely,

Alan Fisher  
Executive Director

CRC Member Co-Signers

Cynthia Amador, CHARO CDC, Los Angeles  
Julie Abrams, Womens Initiative, San Francisco  
Marsha Bailey, Women's Economic Ventures, Santa Barbara  
Michael Banner, Los Angeles LDC, Los Angeles  
Roberto Barragan, Valley Economic Development Center, Los Angeles  
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Nancy Swift, Jefferson Economic Development Institute, Mt. Shasta  
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Claudia Viek, California Association for Micro-Enterprise Opportunity, San Francisco  
Robert Villareal, CDC Small Business Finance, San Diego  
Eric Weaver, Opportunity Fund, San Jose  
Clarence Williams, California Capital, Sacramento

cc: Hon. Sam Graves, US House of Representatives  
Hon. Spencer Bachus, US House of Representatives  
Hon. Richard Shelby, US Senate  
Hon. Olympia Snowe, US Senate  
Hon. Nancy Pelosi, U.S. House of Representatives  
Hon. Dianne Feinstein, U.S. Senate  
Hon. Barbara Boxer, U.S. Senate  
Hon. Maxine Waters, U.S. House of Representatives  
Hon. Zoe Lofgren, U.S. House of Representatives  
Members of California Congressional Delegation  
Timothy Geitner, Secretary of the Treasury  
Michael Barr, Assistant Secretary of the Treasury  
Ben Bernanke, Chair, Federal Reserve System  
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