

109TH CONGRESS  
1ST SESSION

# S. 416

To establish a pilot program to provide low interest loans to nonprofit, community-based lending intermediaries, to provide midsize loans to small business concerns, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

FEBRUARY 17, 2005

Mr. LEVIN introduced the following bill; which was read twice and referred to the Committee on Small Business and Entrepreneurship

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## A BILL

To establish a pilot program to provide low interest loans to nonprofit, community-based lending intermediaries, to provide midsize loans to small business concerns, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Small Business Inter-  
5 mediary Lending Pilot Program Act of 2005”.

6 **SEC. 2. FINDINGS.**

7 Congress finds the following:

1           (1) Small and emerging businesses, particularly  
2 startups and businesses that lack sufficient or con-  
3 ventional collateral, continue to face barriers access-  
4 ing midsize loans in amounts between \$35,000 and  
5 \$200,000, with affordable terms and conditions.

6           (2) Consolidation in the banking industry has  
7 resulted in a decrease in the number of small, locally  
8 controlled banks with not more than \$100,000,000  
9 in assets and has changed the method by which  
10 banks make small business credit decisions with—

11                   (A) credit scoring techniques replacing re-  
12 lationship-based lending, which often works to  
13 the disadvantage of small or startup businesses  
14 that do not conform with a bank's standardized  
15 credit formulas; and

16                   (B) less flexible terms and conditions,  
17 which are often necessary for small and emerg-  
18 ing businesses.

19           (3) In the environment described in paragraphs  
20 (1) and (2), nonprofit intermediary lenders, includ-  
21 ing community development corporations, provide fi-  
22 nancial resources that supplement the small business  
23 lending and investments of a bank by—

24                   (A) providing riskier, up front, or subordi-  
25 nated capital;

1 (B) offering flexible terms and under-  
2 writing procedures; and

3 (C) providing technical assistance to busi-  
4 nesses in order to reduce the transaction costs  
5 and risk exposure of banks.

6 (4) Several Federal programs, including the  
7 Microloan Program under section 7(m) of the Small  
8 Business Act (15 U.S.C. 636(m)) and the Inter-  
9 mediary Relending Program of the Department of  
10 Agriculture, have demonstrated the effectiveness of  
11 working through nonprofit intermediaries to address  
12 the needs of small business concerns that are unable  
13 to access capital through conventional sources.

14 (5) More than 1,000 nonprofit intermediary  
15 lenders in the United States are—

16 (A) successfully providing financial and  
17 technical assistance to small and emerging busi-  
18 nesses;

19 (B) working with banks and other lenders  
20 to leverage additional capital for their business  
21 borrowers; and

22 (C) creating employment opportunities for  
23 low income individuals through their lending  
24 and business development activities.

1 **SEC. 3. SMALL BUSINESS INTERMEDIARY LENDING PILOT**  
2 **PROGRAM.**

3 (a) IN GENERAL.—Section 7 of the Small Business  
4 Act (15 U.S.C. 636) is amended by inserting after sub-  
5 section (k) the following:

6 “(l) SMALL BUSINESS INTERMEDIARY LENDING  
7 PROGRAM.—

8 “(1) DEFINITIONS.—For purposes of this sub-  
9 section—

10 “(A) the term ‘intermediary’ means a pri-  
11 vate, nonprofit entity that seeks to borrow, or  
12 has borrowed, funds from the Administration to  
13 provide midsize loans to small business con-  
14 cerns under this subsection, including—

15 “(i) a private, nonprofit community  
16 development corporation;

17 “(ii) a consortium of private, non-  
18 profit organizations or nonprofit commu-  
19 nity development corporations;

20 “(iii) a quasi-governmental economic  
21 development entity (such as a planning  
22 and development district), other than a  
23 State, county, or municipal government;  
24 and

1                   “(iv) an agency of or nonprofit entity  
2                   established by a Native American Tribal  
3                   Government; and

4                   “(B) the term ‘midsize loan’ means a fixed  
5                   rate loan of not less than \$35,000 and not  
6                   more than \$200,000, made by an intermediary  
7                   to a startup, newly established, or growing  
8                   small business concern.

9                   “(2) ESTABLISHMENT.—There is established a  
10                  3-year small business intermediary lending pilot pro-  
11                  gram (referred to in this section as the ‘Program’),  
12                  under which the Administration may provide direct  
13                  loans to eligible intermediaries, for the purpose of  
14                  making fixed interest rate midsize loans to startup,  
15                  newly established, and growing small business con-  
16                  cerns.

17                  “(3) PURPOSES.—The purposes of the small  
18                  business intermediary lender pilot program are—

19                         “(A) to assist small business concerns in  
20                         those areas suffering from a lack of credit due  
21                         to poor economic conditions;

22                         “(B) to create employment opportunities  
23                         for low income individuals;

24                         “(C) to establish a midsize loan program  
25                         to be administered by the Administration to

1 provide loans to eligible intermediaries to enable  
2 such intermediaries to provide small scale loans,  
3 particularly loans in amounts averaging not  
4 more than \$150,000, to startup, newly estab-  
5 lished, or growing small business concerns for  
6 working capital or the acquisition of materials,  
7 supplies, or equipment;

8 “(D) to test the effectiveness of nonprofit  
9 intermediaries—

10 “(i) as a delivery system for a midsize  
11 loan program; and

12 “(ii) in addressing the credit needs of  
13 small businesses and leveraging other  
14 sources of credit; and

15 “(E) to determine the advisability and fea-  
16 sibility of implementing a midsize loan program  
17 nationwide.

18 “(4) ELIGIBILITY FOR PARTICIPATION.—An  
19 intermediary shall be eligible to receive loans under  
20 the Program if the intermediary has at least 1 year  
21 of experience making loans to startup, newly estab-  
22 lished, or growing small business concerns.

23 “(5) LOANS TO INTERMEDIARIES.—

24 “(A) APPLICATION.—Each intermediary  
25 desiring a loan under this subsection shall sub-

1           mit an application to the Administration that  
2           describes—

3                   “(i) the type of small business con-  
4                   cerns to be assisted;

5                   “(ii) the size and range of loans to be  
6                   made;

7                   “(iii) the geographic area to be served  
8                   and its economic, poverty, and unemploy-  
9                   ment characteristics;

10                  “(iv) the status of small business con-  
11                  cerns in the area to be served and an anal-  
12                  ysis of the availability of credit; and

13                  “(v) the qualifications of the applicant  
14                  to carry out this subsection.

15                  “(B) LOAN LIMITS.—Notwithstanding sub-  
16                  section (a)(3), no loan may be made to an  
17                  intermediary under this subsection if the total  
18                  amount outstanding and committed to the  
19                  intermediary from the business loan and invest-  
20                  ment fund established by this Act would, as a  
21                  result of such loan, exceed \$1,000,000 during  
22                  the participation of the intermediary in the Pro-  
23                  gram.

1           “(C) LOAN DURATION.—Loans made by  
2 the Administration under this subsection shall  
3 be for a maximum term of 20 years.

4           “(D) APPLICABLE INTEREST RATES.—  
5 Loans made by the Administration to an inter-  
6 mediary under the Program shall bear an an-  
7 nual interest rate equal to 1.00 percent.

8           “(E) FEES; COLLATERAL.—The Adminis-  
9 tration may not charge any fees or require col-  
10 lateral with respect to any loan made to an  
11 intermediary under this subsection.

12           “(F) LEVERAGE.—Any loan to a small  
13 business concern under this subsection shall not  
14 exceed 75 percent of the total cost of the  
15 project funded by such loan, with the remaining  
16 funds being leveraged from other sources, in-  
17 cluding—

18                   “(i) banks or credit unions;

19                   “(ii) community development financial  
20 institutions; and

21                   “(iii) other sources with funds avail-  
22 able to the intermediary lender.

23           “(G) DELAYED PAYMENTS.—The Adminis-  
24 tration shall not require the repayment of prin-  
25 cipal or interest on a loan made to an inter-

1           mediary under the Program during the first 2  
2           years of the loan.

3           “(6) PROGRAM FUNDING FOR MIDSIZE  
4           LOANS.—

5                   “(A) NUMBER OF PARTICIPANTS.—Under  
6           the Program, the Administration may provide  
7           loans, on a competitive basis, to not more than  
8           20 intermediaries.

9                   “(B) EQUITABLE DISTRIBUTION OF INTER-  
10           MEDIARIES.—The Administration shall select  
11           and provide funding under the Program to such  
12           intermediaries as will ensure geographic diver-  
13           sity and representation of urban and rural com-  
14           munities.

15           “(7) REPORT TO CONGRESS.—

16                   “(A) INITIAL REPORT.—Not later than 30  
17           months after the date of enactment of the  
18           Small Business Intermediary Lending Pilot  
19           Program Act of 2005, the Administration shall  
20           submit a report containing an evaluation of the  
21           effectiveness of the Program to—

22                           “(i) the Committee on Small Business  
23                           and Entrepreneurship of the Senate; and

24                           “(ii) the Committee on Small Busi-  
25                           ness of the House of Representatives.

1           “(B) ANNUAL REPORT.—Not later than 12  
2 months after the date of enactment of the  
3 Small Business Intermediary Lending Pilot  
4 Program Act of 2005, and annually thereafter,  
5 the Administration shall submit a report con-  
6 taining an evaluation of the effectiveness of the  
7 Program to the Committees described in sub-  
8 paragraph (A).

9           “(C) CONTENTS.—The reports submitted  
10 under subparagraphs (A) and (B) shall in-  
11 clude—

12                   “(i) the numbers and locations of the  
13 intermediaries receiving funds to provide  
14 midsize loans;

15                   “(ii) the amounts of each loan to an  
16 intermediary;

17                   “(iii) the numbers and amounts of  
18 midsize loans made by intermediaries to  
19 small business concerns;

20                   “(iv) the repayment history of each  
21 intermediary;

22                   “(v) a description of the loan portfolio  
23 of each intermediary, including the extent  
24 to which it provides midsize loans to small

1 business concerns in rural and economi-  
2 cally depressed areas;

3 “(vi) an estimate of the number of low  
4 income individuals who have been em-  
5 ployed as a direct result of the Program;  
6 and

7 “(vii) any recommendations for legis-  
8 lative changes that would improve the op-  
9 eration of the Program.”.

10 (b) RULEMAKING AUTHORITY.—Not later than 180  
11 days after the date of enactment of this Act, the Adminis-  
12 trator shall issue regulations to carry out the amendment  
13 made by section 7(l) of the Small Business Act, as added  
14 by subsection (a).

15 (c) AUTHORIZATION OF APPROPRIATIONS.—

16 (1) IN GENERAL.—There are authorized to be  
17 appropriated to the Small Business Administration  
18 such sums as may be necessary for each of the fiscal  
19 years 2006 through 2008 to provide \$20,000,000 in  
20 loans under section 7(l) of the Small Business Act,  
21 as added by subsection (a).

22 (2) AVAILABILITY.—Any amounts appropriated  
23 pursuant to paragraph (1) shall remain available  
24 until expended.

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