



## SMALL BUSINESS ADMINISTRATION

[Docket No. SBA-2023-0011]

### 13 CFR Part 120

#### Community Advantage Pilot Program

**AGENCY:** U.S. Small Business Administration.

**ACTION:** Notification.

**SUMMARY:** The Small Business Administration (“SBA” or “Agency”) is sunsetting the Community Advantage Pilot Program effective October 31, 2023.

**DATES:** The changes identified in this document take effect October 31, 2023.

**ADDRESSES:** You may submit comments, identified by SBA docket number SBA-2023-0011, by any of the following methods:

- Federal eRulemaking Portal: <https://www.regulations.gov/>. Follow the instructions for submitting comments.

- Mail: Dianna Seaborn, Office of Financial Assistance, U.S. Small Business Administration, 409 Third Street SW, Washington, DC 20416.

- Hand Delivery/Courier: Dianna Seaborn, Office of Financial Assistance, U.S. Small Business Administration, 409 Third Street SW, Washington, DC 20416.

SBA will post all comments on <https://www.regulations.gov>.

If you wish to submit confidential business information (“CBI”) as defined in the User Notice at <https://www.regulations.gov>, please submit the information to Dianna Seaborn, Office of Financial Assistance, U.S. Small Business Administration, 409 Third Street SW, Washington, DC 20416; or send an email to [communityadvantage@sba.gov](mailto:communityadvantage@sba.gov). Highlight the information that you consider to be CBI and explain why you believe SBA should hold this information as confidential. SBA will review the information and make the final determination as to whether it will publish the information.

**FOR FURTHER INFORMATION CONTACT:** Dianna Seaborn, Office of Financial Assistance, Small Business Administration, at (202) 205-3645 or [dianna.seaborn@sba.gov](mailto:dianna.seaborn@sba.gov). The phone number above may also be reached by individuals who are deaf or hard of hearing, or who have speech disabilities, through the Federal Communications Commission's TTY-Based Telecommunications Relay Service teletype service at 711.

**SUPPLEMENTARY INFORMATION:**

1. Background

As part of its efforts to increase the number of SBA-guaranteed 7(a) loans made to small businesses in underserved markets, on February 18, 2011, SBA issued a notice and request for comments introducing the Community Advantage (CA) Pilot Program (76 FR 9626). That notice provided an overview of the CA Pilot Program requirements and, pursuant to the authority provided to SBA under 13 CFR 120.3 to suspend, modify, or waive certain regulations in establishing and testing pilot loan initiatives, SBA modified or waived as appropriate certain regulations which otherwise apply to 7(a) loans for the CA Pilot Program.

Subsequent notices made changes to the CA Pilot Program to improve the program experience for participants, improve their ability to deliver capital to underserved markets, and appropriately manage risk to the Agency. These notices were issued on the following dates: February 18, 2011 (76 FR 9626), September 12, 2011 (76 FR 56262), February 8, 2012 (77 FR 6619), November 9, 2012 (77 FR 67433), December 28, 2015 (80 FR 80872), September 12, 2018 (83 FR 46237), and March 2, 2020 (85 FR 12369). In the notice published September 12, 2018 (the "September 2018 Notice"), SBA extended the pilot program to September 30, 2022, and implemented a temporary moratorium on the acceptance of new Community Advantage Pilot Lender Participation Applications (CA Pilot Lender Applications) effective October 1, 2018,

among other changes to the CA Pilot Program. On April 29, 2022, notice 87 FR 25398 announced SBA's intention to extend the CA Pilot Program through September 30, 2024, and to remove the temporary moratorium on the acceptance of new CA Lender Applications.

After evaluating the impact of the CA Pilot Program, on April 12, 2023, SBA published the Final Rule on Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization (SBLC Rule), 88 FR 21890. In the SBLC Rule, SBA lifted the moratorium on licensing new SBLCs and created a new type of SBLC called a Community Advantage Small Business Lending Company (CA SBLC). The SBLC Rule also provided for the grandfathering of current CA Pilot Lenders to be licensed as CA SBLCs with permanent 7(a) lending authority. This means when SBA authorizes a CA SBLC license for a CA Pilot Lender, the CA Pilot Lender will no longer be making 7(a) loans in a temporary pilot program but will instead be making regular 7(a) loans under a CA SBLC license in the 7(a) program.

On May 1, 2023, SBA published Information Notice 5000-846918, Community Advantage Small Business Lending Company Conversion, to announce that effective May 12, 2023, SBA's Office of Credit Risk Management (OCRM) initiated a program to enable current CA Pilot Lenders to become CA SBLCs. This notice also communicated to Lenders that SBA intended to sunset the CA Pilot Program on September 30, 2023.

SBA issued a notice and request for comments on May 22, 2023, 88 FR 32623, SBLC Application Process, to announce that SBA's Office of Capital Access (OCA) opened the application period for new SBLC licenses from June 1, 2023, to July 31, 2023, and shared the process by which interested entities may apply. SBA also announced in this notice that the CA Pilot Program will sunset on September 30, 2023.

2. CA Pilot Program will sunset October 31, 2023

As described above, SBA has previously announced on two separate occasions that the CA Pilot Program will sunset on September 30, 2023. The purpose of this notice is to provide a third and final public notice of the CA Pilot Program's termination.

Although the previous notices announced the termination of the CA Pilot Program on September 30, 2023, the termination date has been extended and will now be October 31, 2023.

### 3. Program Evaluation

On April 1, 2022, SBA published a Notice in the *Federal Register* to, among other things, extend the term of the CA Pilot Program. In this notice, SBA stated that it will evaluate the CA Pilot Program to determine whether it should be made permanent, with evaluation criteria including, but not limited to, whether the pilot is achieving its objective(s), impact on job creation and retention, impact on business creation and/or business expansion, whether the costs (including losses) of the pilot are within an acceptable range, and portfolio performance as it relates to other 7(a) programs. SBA's program evaluation, found that the record on both job creation and retention and business creation and expansion, as discussed in this analysis, is unclear. While administrative and subsidy costs to SBA of the pilot program are unknown, indicators, such as hours spent on counseling and the riskiness of CA loans, are consistent with higher costs in both categories. Portfolio measures such as early loan problem rates, default rates, and Small Business Risk Portfolio (SBPS) Scores compare unfavorably with other 7(a) programs.

CA Pilot Program evaluation results:

- A. General Community Advantage characteristics
- B. Increased access to credit for small businesses in underserved markets
- C. How have CA Pilot Lenders provided management and technical assistance to CA Pilot Program borrowers
- D. CA Pilot Program and job creation/retention and business creation/retention.

E. Are CA Pilot Program costs in an acceptable range?

F. How does CA Pilot Program portfolio performance relate to other 7(a) programs?

A. General Community Advantage Characteristics

As Table 1 indicates, the number of CA Pilot Lenders that made loans in a fiscal year has ranged from 22 in its first full year to a high of 75 in 2018 and 2019. Unique CA Pilot Lenders in the period of the program's existence number 121. CA Pilot Lenders have made a total of 8,248 loans to businesses totaling over \$1.1 billion over the life of the program. Average loan size on an annual basis has ranged from \$124,665 in 2014 to \$176,937 in 2023, for a mean annual average of \$140,728. In percentage terms, the annual averages have ranged from 89 percent of the mean annual average in 2014 to 26 percent above that mean for the first five months of 2023.

**Table 1. CA Loans, Lenders, and Amounts**

<b>Year</b>	<b>Number of CA Loans</b>	<b>Number of CA Pilot Lenders that made a loan</b>	<b>Average Amount of CA Loans</b>	<b>Volume of CA Loans</b>
2011	15	5	142,853	2,142,800
2012	188	22	134,260	25,240,900
2013	273	34	139,926	38,199,800
2014	453	46	124,665	56,473,500
2015	828	64	125,019	103,516,100
2016	988	69	124,671	123,175,000
2017	1,043	74	131,923	137,595,500
2018	1,118	75	140,903	157,529,200
2019	947	75	141,302	133,813,400
2020	538	67	141,663	76,214,700
2021	565	64	146,609	82,834,100
2022	717	63	158,995	113,999,400
2023	575	53	176,937	101,739,000
<b>Total</b>	<b>8,248</b>			<b>1,152,473,400</b>

## B. Increased Access

The purpose of the CA Pilot Program is to promote lending by mission-oriented lenders, primarily non-profit financial intermediaries that operate in underserved markets. SBA assessed the performance of this objective by examining the number of new Lenders in the 7(a) market enabled by this pilot program and the amount of CA loans made to borrowers in underserved markets, which includes veteran-owned and women-owned businesses, loans to new businesses, and businesses in rural areas.

Over the period of CA Pilot Program, 121 unique CA Pilot Lenders have made CA loans. Of the CA loans, 30.98 percent were made to small businesses owned by women, 7.84 percent to veteran-owned small businesses, and 36.58 percent to small businesses owned by racial and ethnic minorities, with 11.00 percent of the CA loans going to small businesses with owners of undetermined ethnicity. Further, 12.25 percent of loans went to small businesses located in rural areas, with rural location defined in accordance with 13 CFR 120.10 as a political subdivision or unincorporated area in a non-metropolitan county (as defined by the Department of Agriculture), or, if in a metropolitan county, any such subdivision or area with a resident population under 20,000 which is designated by SBA as rural. For 7(a) loans other than CA loans, the numbers were 17.56 percent for small businesses owned by women, 18.10 percent for veteran-owned small businesses, 25.48 percent to small businesses owned by racial and ethnic minorities, 15.47 percent going to small businesses with owners of undetermined ethnicity, and 18.10 percent for rural small businesses. For underserved borrowers, the picture of access has been mixed. Table 2 shows numbers of loans to women-owned small businesses, veteran-owned small businesses, and minority owned small businesses. The numbers may double-count some categories, such as businesses that qualify for two or all three categories.

A measure of increased access is the geographic distribution of the number of CA loans in Table 2. Two states - California and Texas - with a combined total of just over 20 percent of the US population, account for over 40 percent of the number of CA loans made. This imbalance could indicate an uneven distribution of the lending activity, or it could indicate that there are more borrowers in the underserved category living in these two states.

**Table 2. Percentage of CA Loans by State**

<b>State</b>	<b>Percent of CA Loans</b>
California	30.80%
Texas	10.90%
Ohio	6.46%
New York	5.60%
New Jersey	4.27%
Wisconsin	4.11%
North Carolina	4.00%
Arizona	3.95%
Florida	3.04%
Georgia	2.16%
Colorado	2.15%
Michigan	1.98%
Illinois	1.65%
Indiana	1.64%
Nevada	1.19%
All others	16.11%

**Table 3. CA Loans to Borrowers in Underserved Markets**

<b>Year</b>	<b>Number of CA Loans</b>	<b>Borrower was Women-owned Small Businesses</b>	<b>Borrower was Veteran-owned Small Business</b>	<b>Borrower was Minority-owned Small Businesses</b>
2011	15	4	0	2
2012	188	43	9	32
2013	273	77	15	73
2014	453	116	21	151
2015	828	249	61	293

2016	988	317	69	324
2017	1,043	308	92	350
2018	1,118	331	110	418
2019	947	307	88	355
2020	538	153	47	190
2021	565	180	35	233
2022	717	260	58	321
2023	575	210	42	275

As shown in Table 3, the number of veteran-owned small business loans has not risen above 10 percent of the number of CA loans in any year of the pilot program.

Women-owned businesses have received between 26 percent and 36 percent of CA loans and minority-owned businesses have received a quarter of the loans since FY 2013 and over 40 percent in the post-pandemic years.

#### C. Management and Technical Assistance

Data gathered from the addendum to SBA Form 1919, “Borrower Information Form”, submitted by lenders to SBA, indicate that borrowers have requested management and technical assistance over the period of the pilot program on 2,968 unique CA loans, or 35.98 percent of the loans. The addendum did not separate SBA-provided training from that provided by CA Pilot Lenders. The most common assistance type was Financing/Capital followed by Business Plan assistance. Some loans involved multiple types of assistance and these two categories were both involved in over half of the loans.

**Table 4. CA Assistance by Type**

<b>Assistance Type</b>	<b>Loan Count</b>	<b>Percent of Loans Receiving Assistance Type</b>
Financing/Capital	1860	62.67%
Business Plan	1561	52.59%
Start-up Assistance	1122	37.80%
Cash Flow Management	960	32.35%
Business Accounting/Budget	828	27.90%
Marketing/Sales	696	23.45%
Managing Business	694	23.38%
Legal Issues	308	10.38%

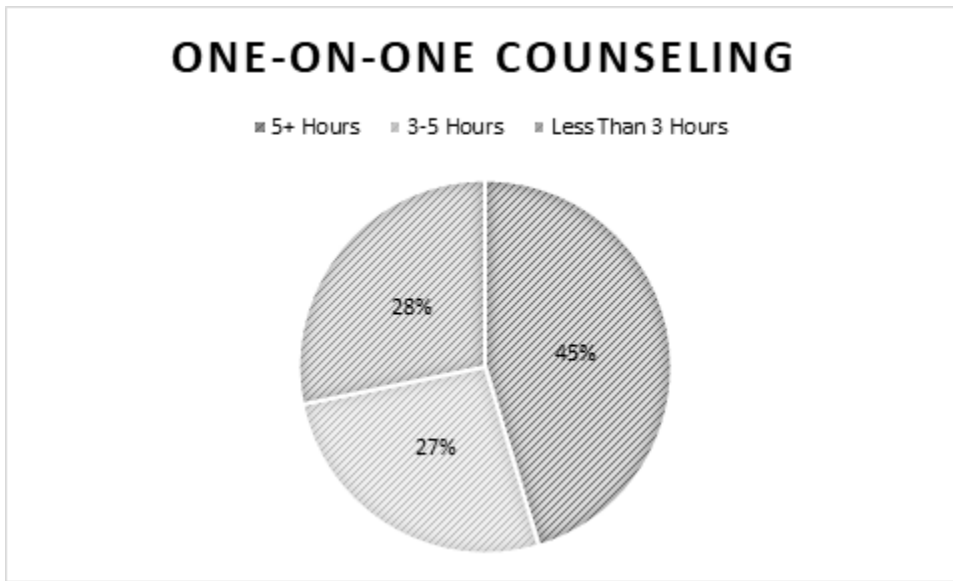
Tax Planning	277	9.33%
Customer Relations	265	8.93%
Human Resources/Employees	242	8.15%
Other	230	7.75%
Technology Computers	176	5.93%
Buy/Sell Business	165	5.56%
eCommerce	152	5.12%
Franchising	119	4.01%
Government Contracting	113	3.81%
International Trade	27	0.91%

Modes of delivery included group training, one-on-one counseling, telephone counseling, and web-based tutorials. One-on-one counseling was the most frequently employed mode, with over 80 percent of loans benefiting from this type of counseling and with over 36 percent of loans involving 5 or more hours. A borrower may have used more than one mode of delivery. Telephone Counseling was the second most common mode of delivery.

**Table 5. Modes of Delivery for Assistance to CA Borrowers**

Assistance Type	Assistance Hours	Loan Count	Percent of Loans Receiving Assistance Mode and Hours
Group Training	5+ Hours	429	15.08%
Group Training	3-5 Hours	119	4.18%
Group Training	Less Than 3 Hours	322	11.32%
<b>Total Group Training</b>		<b>870</b>	<b>30.59%</b>
One-on-one Counseling	5+ Hours	1037	36.46%
One-on-one Counseling	3-5 Hours	604	21.24%
One-on-one Counseling	Less Than 3 Hours	645	22.68%
<b>Total One-on-one Counseling</b>		<b>2286</b>	<b>80.38%</b>
Telephone Counseling	5+ Hours	649	22.82%
Telephone Counseling	3-5 Hours	529	18.60%
Telephone Counseling	Less Than 3 Hours	607	21.34%
<b>Total Telephone Counseling</b>		<b>1785</b>	<b>62.76%</b>
Web-based Tutorials	5+ Hours	340	11.95%
Web-based Tutorials	3-5 Hours	208	7.31%
Web-based Tutorials	Less Than 3 Hours	358	12.59%
<b>Total Web-based Tutorials</b>		<b>906</b>	<b>31.86%</b>

**Figure 1. One-on-one Counseling**



**D. CA Pilot Program and job creation/retention and business creation/retention.**

Jobs created plus jobs retained over the life of CA Pilot Program total 59,487. This number represents 0.81 percent of the overall 7(a) portfolio of jobs. CA lending represents 0.39 percent of total 7(a) dollars approved; therefore, CA Pilot Program appears to be performing better than average when considering the number of jobs created and retained relative to dollars in loans. However, comparison with other 7(a) loan delivery methods, which have different equity and other loan criteria and, hence, lower lending risk, as discussed below, is not insightful. In Table 6, jobs created represent 54.87 percent or most of the total jobs in the CA portfolio. For comparison, jobs created represent 33.84 percent of the SBA Express loan jobs, while jobs retained account for the remainder.

**Table 6. CA Pilot Program Jobs Created and Retained by Year**

<b>Year</b>	<b>Jobs Created</b>	<b>Jobs Retained</b>	<b>Total Jobs</b>
2011	61	122	183
2012	763	936	1,649
2013	1,015	1,085	2,100
2014	1,563	1,473	3,036

2015	3,588	3,106	6,694
2016	3,834	2,861	6,695
2017	4,298	3,632	7,930
2018	4,886	4,437	9,323
2019	3,707	2,736	6,443
2020	1,703	1,878	3,581
2021	2,068	1,334	3,402
2022	2,723	1,631	4,354
2023	2,431	1,666	4,097
<b>Total</b>	<b>32,640</b>	<b>26,897</b>	<b>59,487</b>

Over the term of CA Pilot Program’s activities, 57.78 percent of CA loans have been to new businesses, defined as in operations for 2 years or less. The percentage of CA loans going to new businesses has generally increased over the life of the program, as shown in Table 7.

**Table 7. CA Loans to New Small Businesses**

<b>Year</b>	<b>Number of CA Loans</b>	<b>Number of CA Loans to New Businesses</b>	<b>Percentage of CA Loans to New Businesses</b>
2011	15	7	46.67%
2012	188	89	47.34%
2013	273	134	49.08%
2014	453	239	52.76%
2015	828	423	51.09%
2016	988	487	49.29%
2017	1,043	580	55.61%
2018	1,118	658	58.86%
2019	947	576	60.82%
2020	538	304	56.51%
2021	565	394	69.73%
2022	717	501	69.87%
2023	575	374	65.04%
<b>Total</b>	<b>8,248</b>	<b>4,766</b>	<b>57.78%</b>

E. CA Pilot Program Costs

SBA does not disaggregate 7(a) administrative or subsidy costs. Therefore, the agency cannot determine if these costs are in an acceptable range. As the following section indicates, loans in the CA Pilot Program have characteristics that are consistent with higher administrative and subsidy costs. Specifically, the early problem loan rate for CA loans has been and remains significantly higher than for other 7(a) loans, including other small loans, and the SBPS Score for CA loans has remained in the high-risk range during the entire existence of the CA Pilot Program.

#### F. CA Pilot Program Portfolio Performance

A standard metric for loan portfolio performance is the early problem loan rate. This rate is the percentage of the gross amount of loans that have been in place for 36 months or less that have had either a deferred, delinquent (60 or more days past due), liquidated, purchased, or charged off status within 18 months of disbursement. SBA defines the threshold for higher risk loans as 4 percent or higher. For CA loans, the early problem loan rate has been above 4 percent since the first quarter of FY 2014 and has more than doubled to 8 percent in FY 2016. This increase is on pace with CA Pilot Program's expansion (see Table 1). Since FY 2016, the early problem loan rate has not dropped below 7 percent, and the average of annual early problem loan rates over the life of CA Pilot Program through the second quarter of FY 2023 is 8.28 percent. For comparison, the early problem loan rate for the entire 7(a) portfolio over the same period is 2.61 percent and for non-CA Pilot Program 7(a) loans of \$250,000 or less, the rate is 3.10 percent. SBA compared CA Pilot Program loans with non-CA Pilot Program 7(a) loans of \$250,000 or less because for the duration of the CA Pilot Program (until May 2023), the maximum loan amount for a CA Pilot Program loan was \$250,000. Default rates for CA loans have also been higher. Quarterly default rates over a five-year period from March 2013 to March 2018 average 2.07 percent for CA loans, compared to 0.76 percent for the 7(a) portfolio. The averages for non-CA Pilot Program 7(a) loans of

\$250,000 or less and non-CA Pilot Programs 7(a) loans to underserved markets of \$250,000 or less were 1.04 percent and 1.15 percent, respectively.

Another metric for comparison is the Small Business Risk Portfolio Solution (SBPS) Score, which assesses the likelihood of debt delinquency in the next 12 to 24 months. A higher measurement means lower risk of debt delinquency, with a score of below 180 defined as high risk. At the end of Q2 in FY 2023, the SBPS Score for CA loans was 170.94, well below the overall 7(a) score of 203.51 and below the score of 182.27 for non-CA Pilot Program 7(a) loans of \$250,000 or less. The SBPS Score for CA loans has never broken the 180 threshold score over the period of CA Pilot Program. In contrast, the SBPS Score for the 7(a) portfolio has not fallen below 180 for over the period of CA Pilot Program. SBPS Scores have averaged 172.62 for CA loans over the time of the pilot program, 180.2 for 7(a) loans of \$250,000 or less, and 191.09 for the 7(a) portfolio over the same period.

#### 4. General Information

Questions regarding the CA Pilot Program may be directed to the local SBA district office. The local SBA district office may be found at <http://www.sba.gov/about-offices-list/2>.

**Authority:** 15 U.S.C. 636(a)(25) and 13 CFR 120.3.

Isabella Guzman,

Administrator.

[FR Doc. 2023-22185 Filed: 10/4/2023 8:45 am; Publication Date: 10/5/2023]