H.R. 2670, Microloan Modernization Act of 2015

FLOOR SITUATION

On Monday, July 13, 2015, the House will consider H.R. 2670, *the Microloan Modernization Act of 2015*, under suspension of the rules. H.R. 2670 was introduced on June 4, 2015, by Rep. Seth Moulton (D-MA) and was referred to the Committee on Small Business, which ordered the bill reported by voice vote on June 10, 2015.

SUMMARY

H.R. 2670 amends the Small Business Act by granting microloan intermediaries increased flexibility in providing loans and technical assistance to their borrowers with the intent of increasing participation in the Microloan Program, which is overseen by the Small Business Administration (SBA). The bill also makes other technical corrections.

Specifically, the bill:

(1) Raises the total limit on outstanding loans held by microloan intermediaries from $5 million to $6 million.

(2) Allows the loan providers increased flexibility in providing technical assistance to borrowers and prospective borrowers. Under current law, loan intermediaries must use no more than 25 percent of technical assistance funds to assist prospective borrowers, using the remainder on actual borrowers—this provision is commonly referred to as the “25/75 technical assistance rule.” The bill authorizes the SBA to develop by rule a process for issuing waivers of this 25/75 allocation.

(3) Provides loan intermediaries increased flexibility in managing their loan portfolios and providing loan terms to better meet borrower’s needs.

(4) Allows borrowers to use loans as a line of credit.

(5) Requires the Government Accountability Office (GAO) to study the microloan program, examining why certain lenders have opted out of the program, and make recommendations for regulatory and legislative modifications to the program.

(6) Requires the SBA's Office of Advocacy to conduct a study on the impact of a mandatory savings requirement for borrowers from microloan intermediaries.

BACKGROUND

The Microloan Program, overseen by the SBA, is designed to provide credit for entrepreneurs that would not otherwise have any access to credit. The SBA makes loans at below market rates to designated loan intermediaries who then in turn make loans of up to $50,000 to borrowers. Borrowers then repay the intermediaries who in turn repay the SBA. Microloans can be used for working capital, inventory, supplies, furniture, fixtures, machinery, and equipment.[1] The default rate on loans made by the SBA to intermediaries is effectively zero, therefore these loan intermediaries are bearing much of the risk associated with these loans.[2]

Microloan intermediaries are distinguished from other financial institutions, as they are required to provide technical training and assistance to borrowers. Although Congress appropriates funds for a portion of technical assistance, intermediaries are required to obtain a portion of such funds from non-federal sources. H.R. 2670 provides loan intermediaries increased flexibility in how they provide technical assistance to borrowers and prospective borrowers.

According to the bill sponsor, "too often our small business leaders, and especially aspiring entrepreneurs, either try to self-finance new business ventures on personal credit cards or don't take the risk at all given the fear of failure. We need to give these business leaders the tools and resources they need to start new business and grow existing ones. Expanding access to capital is a critical part of ensuring our small businesses have the opportunity to thrive."[3]

COST

A Congressional Budget Office (CBO) cost estimate is currently unavailable.

STAFF CONTACT

For questions or further information please contact John Huston with the House Republican Policy Committee by email or at 6-5539.

[1] https://www.sba.gov/content/microloan-program
[2] See House Report 114-188 at 3.
[3] See Press Release, *"Small Business Committee Unanimously Passes Moulton Bill to Increase Access to Capital for Startups and Small Businesses,"* June 10, 2015.