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U.S. SMALL BUSINESS ADMINISTRATION

ADVISORY COMMITTEE ON  
VETERANS BUSINESS AFFAIRS

THURSDAY, June 6, 2019

9:00 A.M.

Recorded by: Jennifer Razzino

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1 P R O C E E D I N G S

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3 (Meeting called to order, 9:16 a.m.)

4 MR. STUBBLEFIELD: Okay, good morning,  
5 everyone. Welcome to our quarterly committee meeting.  
6 For those of you who do not know me, I'm Larry  
7 Stubblefield, the associate administrator in the Office  
8 of Veterans Business Development. Our chairperson  
9 emailed me late last night, and her flight has been  
10 delayed. So Liz is looking to join us -- hopefully she  
11 may be on the phone. She was going to call in for  
12 opening remarks and roll call, and she'll be here  
13 hopefully around noon today.

14 So, Liz, are you on the phone?

15 (No response.)

16 MR. STUBBLEFIELD: Okay, if not, then I guess  
17 we'll start with roll call. So I will start here to my  
18 left with Fran.

19 MS. PEREZ-WILHITE: Good morning, everyone.  
20 I'm Fran Perez-Wilhite with the North Carolina Military  
21 Business Center. It's good to be here.

22 MR. SHARPE: Joe Sharpe with the American  
23 Legion.

24 MR. LOWDER: Lynn Lowder, Veterans Business  
25 Project.

Public Meeting  
Advisory Committee on Veterans Business Affairs

6/6/2019

1 MR. CRANE: Eli Crane, Bottle Breacher.

2 MR. BENNET: Grant Bennett, PeopleFund.

3 MR. LINDNER: Gary Lindner, President and CEO,  
4 People Fund out of Austin, Texas.

5 MS. LOWHORN: Chris Lowhorn, JPMorgan Chase  
6 Military and Veteran Affairs.

7 MR. WONG: Jim Wong with Main Street Launch in  
8 California.

9 MR. O'FARRELL: Jim O'Farrell, AMSG.

10 MR. GWINNER: Sean Gwinner, Bunker Labs.

11 MR. ZACCHEA: Mike Zacchea, UConn Entrepreneur  
12 Bootcamp for Veterans.

13 MR. STUBBLEFIELD: Okay. Do we have any  
14 committee members on the phone?

15 (No response.)

16 MR. STUBBLEFIELD: Okay, I take that to be a  
17 negative reply. So the next think on our agenda, Liz  
18 was going to make a motion to approve our minutes from  
19 the last committee meeting. So I guess I'll make that  
20 motion for her. Does anybody second?

21 MR. LOWDER: Second.

22 MR. STUBBLEFIELD: Okay, all in favor of  
23 approving the minutes from the last committee meeting,  
24 say aye.

25 (Chorus of ayes.)

1 MR. STUBBLEFIELD: Anyone opposing, nay?

2 (No response.)

3 MR. STUBBLEFIELD: Okay, the ayes have it.

4 The minutes from the last committee meeting are  
5 approved.

6 Okay, so we'll just jump right on into our  
7 agenda. I'll provide the OVBD updates. There's three  
8 areas that I wanted to cover. If you have any  
9 questions -- actually four -- if you have any  
10 questions, you know, just feel free to jump in.

11 Since our last meeting, we've brought on  
12 Timothy Green, Tim Green, from the Department of Labor,  
13 joined us about three weeks ago. He's our new deputy  
14 associate administrator. I don't know how many of you  
15 know Tim, but, you know, Tim's been around for a while.  
16 He's a retired Air Force colonel, and we are very  
17 pleased and happy to have him onboard. He'll be here  
18 later today. This morning, he's covering the TAP, the  
19 Transition Assistance Program's executive committee  
20 meeting so that I could be here. And so you'll meet  
21 Tim later on today.

22 In terms of the second bullet there, the pilot  
23 -- the training pilot program, if you recall, the  
24 President donated his quarterly salary, \$100,000, to  
25 the Office of Veterans Business Development. And so

1 we're in the process right now of launching an  
2 entrepreneurial development program that we're looking  
3 to kick the program off in the September time frame, if  
4 you will. And this is going to be with an organization  
5 up in New England, the Veteran Entrepreneurial Training  
6 and Resource Network. They're outside of Boston.  
7 They've had kind of like a startup, if you will, a  
8 little bit, but this is -- they run a program that's  
9 what I would say is a step under the Emerging Leaders  
10 Program.

11 So Emerging Leaders, you've been in business  
12 for X number of years, \$300,000 in profits, if you  
13 will. With this program, we're looking for the people  
14 who have gone past Boots to Business but they're not  
15 quite to Emerging Leaders, \$100,000, you know, two  
16 employees and so forth. So we're looking to have the  
17 cohorts, and like I said, this is in the New England  
18 area is where we're going to start. And if the pilot  
19 is successful, the plan is to try to grow this and make  
20 it a national program similar to the Veterans Institute  
21 for Procurement, the VIP Program. The VIP Program  
22 started just like this as well, as a pilot. And so  
23 hopefully this will be a success.

24 Are there any questions on the pilot program?  
25 Right now, we're in the process -- we had to convert

1 the \$100,000 over into a grant and then going through,  
2 you know, Grants.gov and SAM and all like that to get  
3 the funding to veterans, so we're in the process now.  
4 So the 17th of June is the date when the funding will  
5 be approved, and then we're going to -- I'm going to go  
6 up to the Boston area on the 27th of June and just to  
7 look at things, to see how things are going, and then  
8 we're going to have a big kickoff in August, something  
9 similar to a ribbon-cutting ceremony. And then the  
10 first cohort will start in September. So that will go  
11 September to March, and then the next cohort, the  
12 second cohort, will start in March.

13 MR. O'FARRELL: Larry, Jim O'Farrell. How  
14 many veterans are in each cohort?

15 MR. STUBBLEFIELD: There's going to be  
16 something like 13 to 20 will be in each of the groups.  
17 And as we further develop the program, I'll keep the  
18 committee informed. And if you'd like to know anything  
19 in terms of the agenda -- I mean the curriculum and  
20 things of that nature, I can provide that to you as  
21 well.

22 So here's one where we would like help from  
23 the committee, and that's the Veteran Small Business  
24 Enhancement Act of 2018. And I'm sure many of you are  
25 probably aware of this law, but it allows veteran

1 business owners to receive federal surplus property,  
2 where we are now, the reason why I'm asking for help,  
3 we're developing talking points, and we can share the  
4 talking points with the committee members as well so  
5 that when business owners come up to you and ask about  
6 the program, you'll -- you know, you'll have the -- you  
7 know, the latest status as to where we are, because  
8 what the problem is, the law was passed, and business  
9 owners are hitting Congress, they're calling us,  
10 they're reaching out to district offices.

11 And everyone wants to know, you know, when can  
12 we go and pick up surplus property, but the way this  
13 works is, you know, there's a number of players  
14 involved, and we're talking about GSA, we're talking  
15 about the VA, we're talking about SBA, we're talking  
16 about the 50 states all have a property management  
17 system in place. And so we're in the process right now  
18 of going through rulemaking, establishing the policies,  
19 regulations, the agreements with the 50 states and so  
20 forth. And so this is not anything that's going to  
21 happen overnight. We're actually shooting for maybe a  
22 rollout -- an official rollout -- next June. So June  
23 2020 will allow us to go through the rulemaking process  
24 and put the, you know, regulations and things in place.

25 And I forgot to mention that OMB, you know,



1 when you talk about rules and policies and things of  
2 that nature, you get things approved through the OMB  
3 process. So we have a dedicated team here in our  
4 Government Contracting and Business Development Office  
5 that's working with GSA, the VA, and others to get the  
6 program in place.

7 So, again, where the committee can help --  
8 when we get the talking points, as folks come to you,  
9 you'll know what's going on because I've had a couple  
10 calls now from staffers wanting to know about the  
11 program, and I've told them we're going to provide the  
12 talking points to them as well because they're -- you  
13 know, and I understand, you know, the law is passed and  
14 people are ready to get the property, but you have to  
15 put things in place first. And sometimes, you know, it  
16 takes a little bit of time to do that.

17 MR. CRANE: Larry, Eli Crane here. Is the  
18 point of that to give the properties to veterans, or  
19 give the property to veteran-owned businesses at a  
20 discounted rate? Do you know?

21 MR. STUBBLEFIELD: I'm probably speaking out  
22 of line here a little bit because I know our Government  
23 Contracting and Business Development folks are working  
24 this, but it's going to be similar to how the 8(a)  
25 property works, where as long as you're in the 8(a)

1 program, I guess you have the property, it's kind of  
2 like on loan to you.

3 And I know they're talking through what the  
4 policies and things are going to be because, for  
5 example, you don't want a business to go out and  
6 acquire the property and then turn around and sell it  
7 and things of that nature. So how it's going to be  
8 accounted for is part of the ongoing discussion with  
9 GSA.

10 Okay, and then the last bullet there just  
11 talks about our VBOC conference. You know, we have 22  
12 VBOCs located around the country. We plan to bring the  
13 VBOCs into the DC area, 13 through 15 August. We're  
14 not going to have the conference here at SBA  
15 Headquarters. We have a venue now -- I'm trying to  
16 remember exactly -- what is it, it's up somewhere in  
17 kind of like the Chinatown area.

18 MR. KURTZ: Yeah, Gallery Place area.

19 MR. STUBBLEFIELD: Okay, yeah. We're going to  
20 be at a facility off of Gallery Place here, here in  
21 town. So very excited about getting the VBOCs in, and  
22 there's a few things we're going to have to train on  
23 when they come here, and one of them is a requirement  
24 that came out of our most recent IG audit that -- where  
25 Congress is saying that instead of accounting for all

1 their funding under transition assistance, the TAP  
2 program, we're going to break funding out to what's  
3 actually spent on Boots to Business and what's spent on  
4 the other things and transition assistance, if you  
5 will. So that's going to be a heavy focus of the  
6 conference when we have the VBOCs here in August.

7 MR. O'FARRELL: Jim O'Farrell. Is that  
8 conference open to ACVBA members to attend, some or  
9 all?

10 MR. STUBBLEFIELD: How would you answer that?

11 MR. KURTZ: Yeah, this is Stan Kurtz with  
12 OVBD. Yeah, just let us know. We're going to be in  
13 the Architectural Center, so very nice, modern  
14 building. So if you're planning on attending, just let  
15 us know, you know, so we can introduce the VBOCs to  
16 you, and it's a good opportunity, also, to get to meet  
17 the VBOCs in your area or that cover your area as well  
18 so we see any problems. Let us know if you're  
19 interested.

20 MR. STUBBLEFIELD: Yeah, and the sooner the  
21 better, because I know we planned for 50, and I think  
22 they put us in that area for 50, and if we need to  
23 expand the area a little bit, they do have the  
24 capability to give us a little bit more room. So if  
25 you let us know up-front, you know, we'll work with

1 that.

2 MR. O'FARRELL: Just shooting from the hip  
3 here, if there was an opportunity for several of us  
4 ACVBA members to attend a session or for you all to  
5 possibly organize a session where they could come of  
6 their own free will, show up, and talk to us about  
7 what's working and not working within the VBOCs,  
8 perhaps there's an opportunity for us to implement some  
9 recommendations in our annual report for things that  
10 might improve the VBOC, whether it's funding, whether  
11 it's the processes, whether it's collaboration. We've  
12 had discussions over the years about the -- you know,  
13 whether it's Salesforce.com or, you know, the  
14 technologies, basically people, process, technology,  
15 what are some the things that could be improved. It's  
16 not every day that we get the opportunity like that to  
17 sit with all of the VBOC leads from across the country.

18 MR. STUBBLEFIELD: No, I think that's an  
19 excellent point. And, in fact, I guess as we work  
20 through the agenda, maybe what we could do is put a  
21 committee member block in the agenda, and then, yeah, I  
22 mean, because we're all in this together, and like you  
23 said, it would be part of the report, it would go  
24 forward to Congress, the President, and folks would see  
25 it. So thank you very much for that.

1 MR. KURTZ: This is Stan Kurtz with OVBD.  
2 Just kind of -- just for your awareness, so each year,  
3 the small business committees from the House and the  
4 Senate reach out to VBOCs, various VBOCs in the field,  
5 and they do online calls with them and ask those type  
6 of questions, you know, how could we help you, what's  
7 good, you know, what needs to be improved. And then  
8 each year, one of the VBOCs goes up on the Hill and  
9 testifies. So this year, we actually had two. So  
10 Cherylynn Sagester from the Norfolk area went up and --  
11 up to the Hill and she testified, and then Darcella  
12 Cravens, she is from the Missouri area, she testified,  
13 too, and Larry was with her.

14 Last year, we had -- North Carolina VBOC also  
15 testified as well. So they're constantly engaged to  
16 small business committees for the House and the Senate.  
17 They're engaged with the VBOCs, want to know how we can  
18 help you, you know, what are the things you're running  
19 into. So we constantly give that feedback to them.

20 MR. O'FARRELL: Jim O'Farrell. Just as  
21 feedback to your feedback, Mike Phipps and I went up to  
22 the Hill a couple of years ago now and sat with several  
23 of the staffers around a conference room table. And  
24 that's what was interesting to me was they had -- it  
25 almost seemed like they had fresher, real-world

1 information than we did, which then led to us going and  
2 visiting -- several of us went and visited our, you  
3 know, local -- like, I went down to the Hampton  
4 Roads/Norfolk area, to Springfield, Virginia, and we  
5 had several others. But having them all together, and  
6 then they can actually be hearing what each other are  
7 saying, as opposed to a staffer calling out of the blue  
8 or some guy from some committee comes up to the Hill  
9 and talks to a staffer. Okay, thanks.

10 MR. STUBBLEFIELD: I was going to just say, it  
11 would just be another source of going, because we can't  
12 tell the message enough, you know, if they're talking  
13 to -- if they're testifying or if the report or we're  
14 meeting, we can't have that dialogue enough, so thank  
15 you again for that suggestion.

16 Okay, I guess I'll ask again. Liz, are you on  
17 the phone?

18 (No response.)

19 MR. STUBBLEFIELD: Okay, so Liz is not on the  
20 phone, so we're a little bit ahead of the schedule.  
21 Next up is -- now, this schedule here was kind of  
22 really put together with some things that Liz wanted to  
23 discuss and present in front of the committee. And  
24 when she gets here, I guess she'll talk a little bit  
25 more about it, but I know she was focused really on the

1 CDFIs. And so we have the pleasure today of having Mr.  
2 Jim Wong onboard with us, and I know your presentation  
3 is scheduled for 10:15, but we're a little bit ahead of  
4 the schedule, and so if you're ready, tell us a little  
5 bit about yourself and your organization, and we'll  
6 just get started.

7 MR. WONG: Thank you, Larry. I was a VBOC,  
8 albeit for only six months. I had Region 9, so I had  
9 the four western states and really got my feet wet  
10 understanding the day-to-day problems of veteran  
11 entrepreneurs. And we also handled a lot of military  
12 spouse entrepreneurs. I serve on the board of the  
13 National Veterans Transition Services.

14 In October 2014, the JCS Office of Veteran  
15 Reintegration issued a seminal guidance letter saying  
16 there are 45,000 VSOs, at that time. Today, there are  
17 50,000, so that's a pretty fast rate of growth and  
18 makes you wonder how are all these VSOs working  
19 together collaboratively. There's an old African  
20 proverb that says if you want to go fast, go alone; if  
21 you want to go far, go together. I always interpreted  
22 that to mean for persons, but I think it means even  
23 more for organizations, like who we have around the  
24 table.

25 So the seminal letter from the JCS Office of

1 Veteran Integration suggested that we need to adopt  
2 a joint public/private partnership with the private  
3 sector taking the lead. So shortly thereafter,  
4 NVTSI -- I took over the reins from Admiral Froman, a  
5 woman, two-star, and we transformed our organization,  
6 which provides a three-week reveres bootcamp. I had a  
7 lot of problems when I came out of the service the  
8 first time 50 years ago. I came back from Vietnam,  
9 didn't know I had PTSD, but struggled trying to  
10 reintegrate. The only therapy for me was going back  
11 into the Marine Corps. I became an officer, and so  
12 when I got out as an officer, I thought this would be a  
13 lot easier now I'm an officer. I had more trouble  
14 getting out as an officer than I did as an enlisted  
15 man.

16 So therein lies some of the problems we're  
17 trying to deal with. I have started 20 companies, 10  
18 of which didn't last past the fifth year, but two of  
19 them exceeded a billion in sales, so when I get in  
20 front of people and say I'm a good coach because I can  
21 tell you all the mistakes I've made, those are more  
22 valuable to you than my successes, and even my  
23 successes I was kind of dumb. I was very naive. I  
24 didn't take all the equity I should have, didn't cash  
25 in my stock option, so -- with the first company that



1 went into \$3.7 billion was sold for \$750 million, and I  
2 tell you, I got very little of it. Now I know what I  
3 know, I would have walked away with a lot more money  
4 and probably would have flown in on my own plane.

5 So those things kind of color how I think and  
6 how I work with people. We formed a collaborative, and  
7 Gary is part of that collaborative of CDFIs around the  
8 country. I think we're over a dozen already of CDFIs  
9 that will take veteran military spouse entrepreneurs  
10 and give them not only access to capital but a lot of  
11 mentoring, a lot of entrepreneurship education.

12 When I was a student at Harvard, I asked one  
13 of my professors, how come you never talk about  
14 franchising? And the answer I got was, Jim, you don't  
15 come to Harvard to learn about franchising. Come on,  
16 you're going to go do greater things. And I said,  
17 well, I have three corporals who are former Marine  
18 buddies, each of whom started a franchise, they're all  
19 billionaires. So that kind of tells you the value of  
20 the big MBA programs, things like what Mike Zacchea is  
21 doing, I mean, that's what we need because he's  
22 providing very basic education to people like us, cash  
23 flow management, how to do projections, how to befriend  
24 the banker, because all those are mistakes that are  
25 veterans, and I see them making it every day.

1           Just to put my seven slides into perspective,  
2 I'd like to tell you about three people, we're working  
3 with one. One military spouse, Michelle, she's in  
4 Silicon Valley, and her husband is a disabled veteran,  
5 so she's kind of taken the helm and started a company  
6 using augmented reality, super technology, and given  
7 that she's in Silicon Valley, people are looking at her  
8 as, okay, you're a 20X return on investment, so no  
9 problem probably gathering the right equity folks, and  
10 -- but she needs cash now. You know, it's the old Zig  
11 Ziglar saying, money is like oxygen. When you need it,  
12 you really need it. So I've kind of kept that in the  
13 back of my mind. That's what the CDFIs are there for.  
14 We don't have a minimum FICO score. You don't need to  
15 own 51 percent of your company. You only need to own  
16 20 percent. We underwrite our own loans.

17           So with that, let me just go into review some  
18 things. I believe you heard from the Treasury  
19 Department in the last meeting?

20           MR. STUBBLEFIELD: Yes. Well, I think it was  
21 two -- was it last or two meetings ago?

22           MR. WONG: Or two meetings ago? So my first  
23 slide is a review, then. The CDFI Fund was created --  
24 I think there's one more slide before this. There we  
25 go. Two things came together -- the CDFI fund created

1 by the 95th Congress, President Carter, that said we  
2 need to level the playing field so that the big banks,  
3 like JPMorgan Chase, will allow access to their capital  
4 to everyone. And the legs on the CDFI Fund actually  
5 are people -- there are over 1,000 CDFIs, and we're  
6 capping -- capitalizing on the CRA, the Community  
7 Reinvestment Act that if you join those two together  
8 and you have a powerful force, people at the big banks  
9 have to commit so much money.

10 We -- 75 percent or more of our money at Main  
11 Street Launch, we're in our 40th year, so we're one of  
12 the older CDFIs around the country. Seventy-five  
13 percent of our money comes from the global banks.  
14 JPMorgan is number one on our list, so thank you. But  
15 all the other banks are pretty much in tow. They  
16 typically will ask us, well, how much did you get from  
17 union bank or from Wells Fargo or from Bank of America,  
18 and they will match it. What's nice is that because we  
19 get grant dollars, we can underwrite the loans that we  
20 provide. The other 25 percent comes from the same  
21 people in terms of low-interest loan capital.

22 Our average interest rate is around 2 percent,  
23 so we issue the loans at prime-plus-three, so there's a  
24 pretty good gap. And so, you know, we tell people,  
25 we'll never run out of money because there are people

1 who really care about your success; therefore, keep  
2 coming to us.

3           The mission, you've heard, but the mission, if  
4 you look at it, sounds really good. It's kind of like  
5 telling you the average depth of the ocean is six  
6 inches. It doesn't tell you anything until you get to  
7 the personal level of people like Michelle and Craig,  
8 who's one of our pitch contestants next week, who is an  
9 Army vet, retired, he runs an office supply company.  
10 He gets a lot of the set-asides, so I met him in  
11 Fresno, California.

12           He said I'm using my disability payments and  
13 my pension to fund my startup. This is our first year.  
14 The state of California pays us net 45, but my  
15 suppliers require that I pay them net 30. And that  
16 seems like, okay, that's not much difference, about two  
17 weeks, until you start asking him, well, when do you  
18 actually get paid? He said, oh, when I send my office  
19 supplies to an agency, like CALTRANS or one of the  
20 major agencies, they take five days to inventory the  
21 product, and then they tell me, okay, now you can  
22 invoice us by snail mail. So it takes another five  
23 days. And then they mail the check by snail mail, so  
24 now we're up to net 60.

25           His suppliers, much more savvy, say here's our

1 routing number; pay us net 30 on day 30. So where does  
2 he get money? Predatory lenders. Those of you who've  
3 been onboard military bases, as soon as you drive out  
4 the main gate, there is the guy who says, you need  
5 money, we'll take your next paycheck, and we'll give  
6 you money now.

7           There are people -- and those -- in  
8 California, the usury law is 10 percent. These folks  
9 who say we'll give you a credit card, 0 percent for 18  
10 months, and if you ask what's my interest rate after  
11 the 18 months, it's way, way past the usury rate  
12 allows. But they get away with it because they don't  
13 have to comply with the usury rates. So predatory  
14 lenders are killing the people who start businesses,  
15 but if they have no resource, it's the old Zig Ziglar  
16 saying, when you need oxygen, you really need it.

17           So what we're trying to do is create a  
18 collaborative -- the endpoint I like to reach is with  
19 our collaborative, we're going to keep growing across  
20 the country. If you take the big states, Texas,  
21 California, the Carolinas, DC, where a lot of the  
22 veterans are, if we can just form enough strength  
23 around where the majority of the veteran entrepreneurs  
24 and military spouse entrepreneurs are, we can keep them  
25 from going to the predatory lenders and let them

1 survive beyond five years.

2 We're also petitioning CalVet and DGS, the  
3 Department of General Services in California, why don't  
4 we set up an incentive system so if people -- if you  
5 can pay in 40 days, we'll give you a 2 percent  
6 discount. If you can pay in 30 days, we'll give you a  
7 5 percent discount, because if you look at the cost of  
8 capital, and it's something that's not taught in MBA  
9 programs, if you look at the cost of capital, it's to  
10 your benefit to give a discount if you can get the cash  
11 earlier. I mean, cash is king, and for these people,  
12 it's survival.

13 So can you switch to the next slide? I'm  
14 going to go through these real fast. You heard this  
15 already. There are two systems how the CDFI works.  
16 Either you're in the census track, where you qualify  
17 for CDFI money, or you're an individual who's low to  
18 moderate income, and then there's this thing called  
19 other targeted population. Right now, African  
20 Americans, Hispanics, Hawaiian Natives, they all  
21 qualify. Well, why not at least disabled veterans?

22 I don't think that the Treasury Department --  
23 I don't know what you heard from the people who showed  
24 up last time, they haven't changed the OTP  
25 classification in over 20 years. It's unlikely that

1 they're going to change unless you give them such an  
2 issue that they can't ignore it because there's  
3 bipartisan support of what we're doing at the CDFIs and  
4 the credit unions and so forth, so it would be very  
5 hard and probably look bad for a lot of people if they  
6 say, no, we're not going to consider disabled veterans  
7 OTP. So that's what we're trying to push for.

8           With the SBA's help, we can petition the  
9 Treasury Department to give us that, even on a trial  
10 basis, to see how many startups can we promote compared  
11 with what's been happening in previous years. There  
12 was a scathing state auditor's report in California  
13 issued in February, and since I worked on the advisory  
14 council to the DVBE program, it looks really bad for us  
15 because out of the 1,600 registered DVBEs in  
16 California, 8 percent of the DVBEs, mostly the major  
17 ones, got 100 percent of the contracts. And why is  
18 that? It's because the small DVBEs don't have enough  
19 cash flow to make it big.

20           Craig, the Army retiree, could get some bigger  
21 contracts. He could get the \$100,000 office supply  
22 contract, but he can't because with the net 45, which  
23 is really net 60, and having to pay the suppliers net  
24 30, he can't handle the big jobs. His disability check  
25 and pension will only allow him to cover the small

1 jobs. So if that's true, and he's one of the lucky  
2 ones who actually gets the set-aside contracts, that  
3 means we're impeding probably a dozen more from getting  
4 into the game. So there are a lot of things that we  
5 need to fix.

6 Next slide, please. This one just shows --  
7 you know, I picked off the major states, where there  
8 are a lot of veterans. We're all over. So if you  
9 can't find a CDFI, you're not trying hard enough.

10 Next slide. This is what the census track  
11 looks like in California. So CDFIs cater to all the  
12 people who are in the red zone. And you notice around  
13 Southern California where Camp Pendleton, the Navy  
14 base, SURFPAC Fleet, they're all there, and so they can  
15 have access, but we need to be more specific because,  
16 you know, even though Main Street Launch has been  
17 around 40 years, and we have a great advisory board of  
18 military spouses, we have people of color, we have  
19 every color in the spectrum, we have to do a better job  
20 with our outreach.

21 When I was at VBOC, believe it or not, I  
22 didn't know Main Street Launch existed, so that limited  
23 my capabilities. I could have sent a lot of my  
24 candidates directly to Main Street Launch to get the  
25 low-interest loans and without the restrictions. The



1 SBA Guaranteed Loan Program at that time was Patriot  
2 Express. If you're lucky, you might get an answer in  
3 three months, but the average is about six months. And  
4 at that time, the SBA IG actually issued a report that  
5 SBA guaranteed loans typically did not apply to  
6 startups.

7 Next slide, please. One more. If you can  
8 read the little Venn diagram on the bottom left, you'll  
9 notice that 50 percent -- I mean, more than 50 percent  
10 of the borrowers fit the demographic or OTP categories.  
11 So just looking at what we've done in the last 10  
12 years, \$63.6 million we have invested in 742 companies  
13 creating or sustaining over 5,000 jobs, CDFIs are  
14 working. We just need to collaborate, and we can go  
15 much farther if we collaborate, and I think the SBA is  
16 a very powerful arm.

17 We need to educate the VBOC directors that,  
18 hey, get to know the CDFIs in your area. I think Gary  
19 knows all the folks who are in the VBOCs around him.  
20 We need -- and I've gotten to know all 22 since I was  
21 one of them in California. We need to get the word  
22 out, and I think the millenials have to be -- they're  
23 attracted by different things than -- I mean, I'm old.  
24 To get to me, a phone call, email works. But for the  
25 millenials, Instagram, Facebook, those things can get

1 their attention.

2           And so we're trying to wise up. We've been  
3 doing quarterly entrepreneurship conferences, and, in  
4 fact, I invited Mike Zacchea to come talk about the  
5 U.S. Veterans Chamber. And we've been focusing on  
6 getting all 114 community colleges in California, the  
7 Chancellor -- Chancellor Oakley is an Army vet, and  
8 we're trying to get him to take up the baton that --  
9 because community colleges cater to veterans, there are  
10 70,000 veterans enrolled in community colleges in  
11 California; there should be no reason that we can't  
12 provide asynchronous, online courseware.

13           Most of the veteran entrepreneurs that we talk  
14 to work during the day, and they were trying to start  
15 up their business at night and on weekends. When  
16 people -- and I hate to drop a dime on Stanford -- the  
17 people who come and say, I have an MBA from Stanford, I  
18 usually say, well, that's too bad, I went to Harvard,  
19 and I can say the same things about Harvard. You need  
20 to know a lot of things that are not taught by the MBA  
21 programs. They get their money from big corporations.

22           You're trying to start a little, bitty  
23 company. You need help at the community college level.  
24 It's cheap. I mean, California, I mean, it's like next  
25 to nothing to enroll. And if you can do it online,

1 have your spouse next to you when you're taking that  
2 course online so you can get two for the price of one.  
3 You know, do things that are smart for you, and see if  
4 you can survive past five years, because if you do  
5 that, you're going to be okay.

6 I also tell the people who are looking at set-  
7 asides, you know, that's the only thing that you're  
8 focusing on, then you're limiting your own chances of  
9 success. Now, go for the regular population of  
10 customers; market throughout the whole area that you  
11 focus on. Don't just depend on set-asides because that  
12 3 percent just might end someday, and then you'll be  
13 left with nothing.

14 Next slide, please. This is something that  
15 Gary can talk much better at than I. The bullet points  
16 in red are what I focus on. You know, we can give  
17 people their money within 30 days because we underwrite  
18 our own loans. If you get deployed these days and you  
19 forget to make your house payment or you forget to make  
20 your car payment, your FICO score is going to take a  
21 dive. If you do that more than two or three times,  
22 you're not going to qualify at a commercial bank for a  
23 bank loan because they have a minimum. It's around  
24 680. I know really squared-away folks who don't have  
25 680. So all of a sudden, no matter how good their

1 ideas are, they ain't going to qualify.

2 Also, insisting that the borrowers have 51  
3 percent equity in their business, usually by the time  
4 you go through the family, friends, and fools round,  
5 like I had to, you don't own 51 percent. My uncle owns  
6 some; my brothers own some; I didn't own 51 percent.  
7 So how do you deal with those people? So I think while  
8 that's okay for a lot of folks, for the people who slip  
9 through the cracks, we need to catch them. And CDFIs  
10 are a great filter. We're going to help all three of  
11 the folks that -- they're all pitching at the  
12 entrepreneurship conference coming up next weekend, and  
13 we have the big guys.

14 You know, we think that just because there's a  
15 veteran-owned business that's doing 10 million or more  
16 that they're okay. There's the guy who pitched last  
17 year who said I'm doing 12 million, but I'm banking on  
18 set-asides, and I need one and a half million in a  
19 credit line from my bank, and I don't know who my  
20 banker is.

21 So now I'm getting commercial bankers to show  
22 up at these conferences, and I'm telling them, you can  
23 make a lot of money issuing a \$1.5 million credit line  
24 to this guy. I'm convincing the equity guys to show up  
25 because Michelle's company with the high-tech augmented

1 reality, she's going to get 20X for valuation. So come  
2 to the conference and see if you can scoop one or two  
3 of these deals. We've been at it now for three years.  
4 We've got the Rosie Network providing all the  
5 entrepreneurship training, mentoring to military  
6 spouses; Veteran Launch providing the loans; NVTSI,  
7 we're, I think, the only nonprofit that's been allowed  
8 by the base commanders in Southern California to go in  
9 two years before people will take their uniforms off  
10 under the pre-sep program.

11 I don't know how many people here know the  
12 pre-separation program, mandated by law, that the  
13 commander has to provide an orientation to all the  
14 people within two years of them being released from  
15 active duty. Having been a commander, I would have  
16 fought that. I would have said, wait a minute, this  
17 person's still got two years left, I might deploy him  
18 two more times. So don't bug him about what he's going  
19 to do getting out.

20 But now they're wising up because at the DOD  
21 level, the top brass is realizing, okay, if you don't  
22 give these folks who are getting out a smooth  
23 transition, and the reintegration problems surface, the  
24 suicides go up, it's going to hurt your recruiters.  
25 When I was a Marine recruiter at one time, and I used

1 to bullshit like the best of them, and I got a lot of  
2 people in, but in those days, you know, the economy was  
3 different. Now, I think the commanders are realizing,  
4 okay, let's not create our own bad PR before the -- you  
5 know, the people get out so the recruiters don't have  
6 to backpedal all the time saying, oh, yeah, yeah,  
7 forget the suicides; eeh, that doesn't concern you.  
8 Bullshit, it concerns you.

9           And women -- mostly women -- military spouses,  
10 right now are facing 23 percent unemployment, and  
11 that's not even counting underemployment. That's a  
12 much bigger number. And nobody talks about military --  
13 about military spouse or women vet suicides. It's a  
14 major number. So let's address all of those things  
15 with systems and processes that work, and, you know,  
16 we're here to talk about trying to get the Treasury  
17 Department to reclassify disabled veterans as OTP to  
18 give them a leg up.

19           We have to continue feeding all the other  
20 services. The VBOCs need to do their job. The SBDCs,  
21 the woman business center, they all have to do their  
22 job, so I think the SBA is sort of the fulcrum. We can  
23 help people leverage so that if you don't have an  
24 answer, maybe somebody next to you, that agency, that  
25 sister agency does. Let's not be so proud. After all,

1 all of the VSOs are struggling, hand in hand. Believe  
2 it or not, only 4 percent of businesses in the U.S.  
3 have cracked a million in revenue. That also defines  
4 the VSOs. If you're not doing a million or more as a  
5 nonprofit VSO, good luck. You're not going to be able  
6 to pay your people either. And you can't work off  
7 volunteers, even though I've done a pretty good job  
8 doing that, because I'm a volunteer.

9 But the message I want to leave is that I  
10 think that the SBA, because its focus is on the small  
11 business firm startup, business expansion, we focus too  
12 much on startups. Veterans own 9 percent of all  
13 businesses in America, and that statistic comes from  
14 the SBA. Well, if you take away the old farts like me,  
15 we're disproportionate owners of small businesses  
16 because, you know, when you get into the mid '70s, like  
17 me and Lynn, we're not the startup artists, right,  
18 although he is doing it. He's starting a business.  
19 I'm starting another business in California, an "other  
20 destructive technology" business, so the dream's got to  
21 continue, but, you know, we own a large, large share of  
22 small businesses. I think our net receipts, last time  
23 I looked, was \$1.22 trillion in annual sales for the 9  
24 percent, half of a trillion dollars in payroll. It's  
25 over 500 million. So we're creating jobs. The public

1 doesn't know. Women veterans still come to me and ask  
2 for help, and I say, how come nobody knows you're a  
3 woman veteran? You don't advertise it? No, I don't  
4 like to do that. Well, it's time, because that is a  
5 good label for all of you. Take advantage of it  
6 because of all the benefits.

7 Any questions? Have I gone over my time,  
8 Larry? Almost?

9 MR. STUBBLEFIELD: No, actually, you're doing  
10 just fine. Any questions or comments for Mr. Wong?

11 MR. GWINNER: Hi, Mr. Wong. Sean Gwinner from  
12 Bunker Labs. Just looking at all this, so our space is  
13 helping startup, veteran-owned -- veteran and spouse-  
14 owned --

15 MR. WONG: Bunker Labs is coming to our  
16 conference next Friday, and I know Todd really well.

17 MR. GWINNER: Yes, yes. Actually, I was  
18 talking with Adam just a little bit ago showing him  
19 this because this covers that space that there's  
20 traditionally been a gap.

21 MR. WONG: Yeah.

22 MR. GWINNER: And one of the biggest barriers  
23 has been that FICO score. That's been said over and  
24 over.

25 MR. WONG: Absolutely.



1           MR. GWINNER: So myself and my partner  
2 utilized an SBA loan, but knowing what's involved with  
3 this, so my question is this, going through the  
4 process, what's the underwriting look like? So, for  
5 example, first a business that's already generating  
6 revenue, what's that -- what do you guys generally like  
7 to see as the threshold of revenue? And then, also,  
8 what does -- let's say they go into a franchise versus  
9 a traditional startup that they -- what's that kind of  
10 look like, if I could get a picture of that, please?

11           MR. WONG: Good question, because we get that  
12 all the time.

13           Yes.

14           MR. STUBBLEFIELD: I'm just going to ask you,  
15 make sure you speak into that so we can capture for the  
16 people that are offline.

17           MR. WONG: We actually will fund a total  
18 startup. If you come in and say here's my plan, that's  
19 all I have, we'll still fund you. Fifty percent of our  
20 borrowers are in that situation. I think, you know,  
21 people have trouble going to a commercial bank and  
22 saying, hey, I got a piece of paper, it looks really  
23 good, man. You ain't going to get funded.

24           But we will. Fifty -- look at our numbers.  
25 Fifty percent of our borrowers are startups. And over

1 50 percent are women. So I love the makerspace that  
2 Bunker Labs is doing all across the country. I noticed  
3 that the acting administrator of the SBA just issued a  
4 makerspace grant, a million dollars. I'm going for it  
5 because makerspace, that's what it's all about. Put  
6 people together who can share problems, share issues,  
7 they can solve those issues together. At the CDFI  
8 level, and Gary's been in that space for a long time,  
9 we don't do enough of that because we're limited by how  
10 many personnel, so we lean on the VBOCs, the SBDCs, and  
11 the Bunker Labs, you're helping to support the whole  
12 infrastructure.

13 I'm putting real pressure on the community  
14 colleges. Mills College, which is the first women's  
15 college west of the Rockies, the President, Beth  
16 Hillman, is an Air Force vet. So I went to her and  
17 said, you know, women veterans are not getting -- now,  
18 they are underserved, and gave her the statistics. And  
19 she said, okay, how do we host our own conference next  
20 year for women veterans, people of color, LGBTQ. Her  
21 law -- she was formerly a law professor at UC Berkeley,  
22 the Hastings School of Law.

23 She said, my practice is gender equality, so  
24 absolutely, count us in, we want to play. She's  
25 sending her business school dean to the conference.

1 All it took was a phone call or an email or an  
2 Instagram or Facebook. It's so easy. We need help.  
3 We need people to feed into the funnel, because we can  
4 take borrowers all day long. We just keep beefing up  
5 as long as JPMorgan Chase gives us more money. Right?  
6 Where's your purse? I want to see it before we...

7 And believe it or not, Union Bank just stepped  
8 up. People don't know MUFG Union Bank, that's  
9 Mitsubishi, UFC, and Bank of Tokyo. They are the fifth  
10 largest bank in the world, but if you look at who's the  
11 top four, they're all Chinese Government-owned. So, in  
12 effect, Union Bank is number one. So they asked just  
13 recently, last November, how much did JPMorgan give  
14 you. And it's disclosed -- our mean, our 990s disclose  
15 all of that, so we said more than you have given so  
16 far. And so they're stepping up, they're saying, okay,  
17 we'll give you loan capital.

18 And so those are things that -- I mean, the  
19 banks are helping us. All -- we've got the veteran  
20 person sitting next to me, the message that she's  
21 taking back to New York is this is a worthy investment  
22 for us, not only for -- as part of the CSR, corporate  
23 social responsibility -- it's just a darn good  
24 investment, because we're giving them the future  
25 clients for their commercial loans.

1 MR. LOWDER: Hey, Jim. Lynn Lowder from  
2 Veteran Business Project. Thanks for your  
3 presentation. Thanks for what you're doing, man.  
4 What's the average size of your loan?

5 MR. WONG: 120,000. We can give up to a  
6 quarter-million. So far, that seems -- for over 10  
7 years now, it's 120,000. Believe it or not, women ask  
8 for less, and they get the cash flow faster.

9 MR. LOWDER: One other question, Jim. I  
10 noticed in your pie chart, you guys have a good amount  
11 of food and beverage business. My experience has been  
12 a lot of banks shy away from that right from the get-  
13 go. How's that been working out?

14 MR. WONG: Because I was a Pizza Hut  
15 franchisee, I finally did get a franchise, and the  
16 Harvard education did not help. Maybe they can focus  
17 on that from now on. We're trying to push people into  
18 franchises. McDonald's, which is the biggest, you  
19 know, well known, they have a 10-year failure rate of  
20 .1 percent. Yeah, so they don't -- they don't fail.  
21 Pizza Hut doesn't fail. If my numbers take a turn for  
22 the south, the Pizza Hut folks would fly people all the  
23 way to Brazil where my franchise was to say, what can  
24 we do for you.

25 So food and beverage is tough. We're getting

1 people in, and being a food and beverage guy, I work  
2 for PepsiCo as well. I go in and say, okay, let's look  
3 at how you're retaining your customers. Let's talk  
4 through the nuts and bolts and let us help you. That  
5 kind of mentorship is just -- you know, we're asking  
6 for volunteers to go in to help, so -- but that's a  
7 good question. The failure rate for food service, the  
8 first year, 95 percent.

9 MR. O'FARRELL: Jim O'Farrell. Jim, could I  
10 ask this question? So looking at that slide that had  
11 the 63 million in 10 years and 742 businesses, so we're  
12 talking about approximately 6 million a year and 74  
13 businesses a year. So my question is kind of a two-  
14 part. One is what's holding you back, what's keeping  
15 you from scaling across the country? You did have  
16 another slide where you referenced the different CDFIs  
17 in the different states. You know, why couldn't that  
18 number be 630 million and 7,400 businesses? And that's  
19 question number one.

20 And question number two is what do you need  
21 from us? What can we do to help? As you may or may  
22 not be aware, the Advisory Committee on Veteran  
23 Business Affairs is an independent committee that  
24 advises the SBA, sends a report to the White House and  
25 to the Congress each year, and that report is intended

1 to drive policy decisions. So if you could write the  
2 paragraph that describes what you'd like to see in our  
3 report, what would it say?

4 So that was a two-part question. How can you  
5 scale? What do you need to help with scale? And,  
6 secondly, what do you need from us?

7 MR. WONG: The first question, the answer is  
8 if you look at -- since I only joined the board two  
9 years ago, we're seeing a hockey stick because we're  
10 adding to our staff on the Veteran Launch side.  
11 Veteran Launch is a program underneath Main Street  
12 Launch. Main Street Launch is restricted by census  
13 tracks, but Veteran Launch is allowed to work  
14 throughout the state of California. And if I have  
15 somebody who talks to me about they want to open  
16 something in San Antonio, I call Gary up and say, hey,  
17 I'm passing the baton to you. So that fabric, at least  
18 for the 12 or so CDFIs, we do pretty good hand-offs.

19 Second question, what can this committee do  
20 for us, I think we do need to get elected officials to  
21 understand that veteran-owned businesses, military  
22 spouse-owned businesses, they are doing very well.  
23 We're not asking for a handout. We're asking for  
24 recognition. We need legislation, like, if we can  
25 reclassify disabled veterans as OTP, that would go a

1 long ways -- I mean, today, probably 30 percent of the  
2 people that -- at least -- we see are disabled and  
3 would qualify. Why not recognize them?

4           You know, I live in a neighborhood that is  
5 multicolored, everything, but not everybody -- if you  
6 go to the Midwest, you know, maybe the demographics are  
7 a little bit different. We need as much help there as  
8 we do on either coast. So there are -- there's  
9 legislation that are past the House, we're waiting for  
10 Senate approval, that's looking at the transition  
11 program.

12           For those of you who went through TAP, you  
13 know it sucks. You know, I mean, it sucks. You're  
14 drinking from a fire hose from day one to day five.  
15 It's mandatory, but it's the biggest bullshit I've ever  
16 seen. I was teaching some of those, and you got to  
17 tell people, okay, all right, here are the things you  
18 really need to know, and we need to start that early.  
19 So the pre-sep program is taking advantage of that.  
20 Capstone, you know, those are the three programs. The  
21 public doesn't know that you can get to veterans -- I  
22 mean, get to military service members long before they  
23 take their uniforms off. We need public education  
24 through the pre-sep program.

25           Right now, Congressman Takano, Democrat,

1 California, took over the House Committee on Veterans  
2 Affairs. We need to get to him. We need to get to  
3 Congressman Mike Levin. These are the young bucks who  
4 are saying, wait a minute, let's question some of these  
5 policies that we've had. Let's see if we can come up  
6 with policy alternatives. This Committee I see as  
7 coming up and looking and proposing policy  
8 alternatives.

9 For ages, we've been talking about taking the  
10 GI Bill that's worth approximately \$180,000 and  
11 allowing people who are entrepreneurs to take advantage  
12 of that. I know there are mechanical problems. I was  
13 the money guy in the Marine Corps, and I used to  
14 partner with an old friend who's an Army two-start  
15 after Vietnam, and I said, I don't have the money; I  
16 need my pilots to fly; how about if I let them fly for  
17 you, you pay for the gas. And we did that in one  
18 meeting, and then we took six weeks to figure out, how  
19 do we pay each other. Let's not let the bureaucracy  
20 get in the way. Let's solve the problem.

21 I see this Committee as so powerful in  
22 opening people's eyes, especially the elected  
23 officials, that -- because we're trying to generate  
24 jobs using the GI Bill, maybe there's a better way  
25 since 25 percent or more of our exiting service members



1 say they want to be self-employed or be entrepreneurs,  
2 we're ignoring them. Maybe they don't need to go to  
3 school. Maybe they can start their business now, and  
4 with that funding, 180,000, that's quite a bit. So  
5 that's a really good question.

6 MR. STUBBLEFIELD: Okay, we have one more  
7 question, and then we'll take a break.

8 MR. GODWIN: Thank you. Good morning. Just a  
9 quick comment. My name is Jerry Godwin. I'm with the  
10 Office of Veterans Business Development. I work for  
11 Larry on his team. So before being in federal service,  
12 I was an entrepreneur, and after one of my companies,  
13 one of my exits, and then before I started another, we  
14 started a CDC here in Washington, DC, where we did  
15 microloans. We became a CDFI. This is in 2000, so a  
16 few years ago.

17 But to answer your question, Sean, what we did  
18 is we looked at nontraditional sources of credit to  
19 help the under -- we had our own capital and we  
20 underwrote our own loans basically. We looked at  
21 things like, well, have you paid your electric bill on  
22 time, that's credit. Have you paid your phone bill on  
23 time, your utilities bill? So that was a good  
24 indicator where there was no previous credit history.  
25 So that -- we used that as a tool to help us.

1           And, Lynn, we underwrote and we gave  
2 microloans, some of them as small as \$500, some of them  
3 to restaurants here on 18th Street, also landscaping  
4 companies, GCs, but we would make loan payments  
5 cyclical based on seasons. So for restaurants, we  
6 would charge them higher in the summer -- spring,  
7 summer, and fall -- because that's when their revenues  
8 were higher. In the winters, their payments would be  
9 lower. So we were able to be very creative and make it  
10 work. And then we partnered with nationally chartered  
11 banks as well.

12           MR. WONG: Well, these are all things that we  
13 can do. We don't need to change legislation. We can  
14 do it right now. Ninety percent of the people I talked  
15 to don't know what a Paydex score is. I'm like, okay.  
16 FICO is not the only score that people use -- Dun &  
17 Bradstreet. Use your Paydex score. Get a business  
18 line of credit. If you're buying supplies for your  
19 restaurant, when you go to Office Depot or when you go  
20 to Costco and they give you a loan -- I mean a credit  
21 application and where it says Social Security number,  
22 cross that out, put in your EIN, put in -- you know,  
23 because even the clerks I go to say, no, sir, I need an  
24 SSN. I'm like, no, I want a business line of credit.  
25 So little things.

1           MR. STUBBLEFIELD: Okay. I want to thank you,  
2 Mr. Wong, for your presentation here today. I want to  
3 continue the dialogue with you in terms of OTP because  
4 we are working with Treasury. And this thing about  
5 evidence-based, you know, I've been talking to  
6 Treasury, I guess, for almost a year, and we haven't  
7 moved the needle one bit. Like you said, they're very  
8 stagnant in looking forward. So if there's anything  
9 you can help me with in terms of that dialogue, I would  
10 appreciate it.

11           MR. WONG: Absolutely.

12           MR. STUBBLEFIELD: All right, so, okay, what  
13 we're going to do now is, I understand Liz is on the  
14 way. And so we're going to take a break until about  
15 10:35, and then we'll have our friends from JPMorgan  
16 Chase up next. All right, thank you all.

17           (Meeting in recess.)

18           MR. STUBBLEFIELD: Okay, before we get  
19 started, I'm going to open roll call back up for anyone  
20 who has joined us.

21           MR. PHIPPS: Michael Phipps. Thank you,  
22 Larry.

23           MR. STUBBLEFIELD: Thank you for being here.  
24 Thank you.

25           All right, we want to capture you. Make sure

1 you're on the record.

2 MS. LEWIS: Valerie Lewis.

3 (Brief discussion off microphone.)

4 MR. BROWN: Derrick Brown.

5 MR. STUBBLEFIELD: Okay, anyone online?

6 MS. LEWIS: Valerie Lewis.

7 MR. STUBBLEFIELD: Okay, thank you. And just  
8 a reminder for those of you who are online to mute your  
9 phones, please.

10 Okay, we're back on schedule, and so at this  
11 time, I'm going to turn it over to Gary Lindner, who's  
12 from the Peoplefund, President and CEO. So thank you  
13 very much for being here.

14 MR. LINDNER: Well, first of all, let me tell  
15 you that I'm not the swiftest fox in the forest. I'm  
16 really proud that I graduated in the top half of my  
17 class of 35 in Comfort, Texas, and I went to a trade  
18 school in the Rockies for, you know, the Air Force.

19 Anyway, I spent three years in combat in  
20 Southeast Asia flying B-52s; came back, started flying  
21 a lot of different jets, and did that for about 20  
22 years, interrupted by a prison sentence to the  
23 Pentagon, but I was committed to two years for bad  
24 behavior, so I got to go back and fly again.

25 Unfortunately, I kept getting promoted, and

1 for the last 10 years, I was running pretty large  
2 military installations in the Europe and the U.S.,  
3 5,000 to 50,000 and above, so that was a great  
4 experience. So transition now to what I'm doing for  
5 the last 15 years, and that's with, you know, small  
6 business lending, Jim talked about, and so I've done 15  
7 years and had the good fortune of making 7,000 loans  
8 during those 15 years to small businesses.

9 We're located in Austin, Texas. We have eight  
10 offices around the state. And we're going to talk --  
11 and what's really important to us is we have the -- all  
12 the SBA loan products, the microloan, the Community  
13 Advantage, and the 504 loans. And that really meets a  
14 lot of needs out there in the community. And then  
15 we're also fortunate with the CDFI fund, we've gotten  
16 some grants from the CDFI fund, and also \$100 million  
17 over time in the new markets tax credit project, where  
18 we're using those in severely distressed census tracts  
19 for community facilities and to create jobs in areas of  
20 great distress. So that's been a great program for us.

21 We also lend to startups. We have -- 50  
22 percent of our loans are to startups. Twenty-five  
23 percent of our loans go to veterans, and we'll talk --  
24 that's what we're going to talk about today. But we  
25 have an impressive education and training component,

1 and because of that, we have -- our default rate last  
2 year was zero-point -- losses were 0.7 percent, which  
3 is really -- we think that's really great, given, you  
4 know, the risk that we have. And we take all the risk  
5 on our loans. We don't sell our loans, and we don't do  
6 anything. We keep all the risk ourselves.

7           So we're going to talk a little bit about --  
8 we'll just go ahead. I got to keep up with the slide-  
9 clicker, okay. Okay, so, you know, really, a little  
10 bit about veterans, a lot of veterans out there. Some  
11 states have -- you know the three states that have the  
12 most right there, and like Killeen, Texas, which is  
13 around Fort Hood, one out of every three people in that  
14 city has a veteran, either active-duty or, you know,  
15 separated or retired. And like Jim mentioned earlier,  
16 you know, veterans own 9 percent of all the businesses  
17 and generate a lot of economic activity, and  
18 interestingly, even though there's 18 million veterans,  
19 there's only about less than -- well, less than half of  
20 those are still in the workforce. The others are, you  
21 know, mostly Vietnam veterans, quite frankly, about  
22 half of that total. And that's going to change over  
23 time, obviously, but that's what it is right now.

24           And, yeah, obviously, we can talk about  
25 veterans are great business owners. You know,

1 basically, twice -- you know, if you look at the per-  
2 capita, one in seven veterans owns a business and one  
3 in 14 of the U.S. citizens own them. If you look at  
4 Nike, FedEx, Chick-fil-A, and Little Caesar's, it was -  
5 - those are all created by veterans. And I always  
6 said, you know, obviously -- I said the FedEx guy had  
7 to be an Air Force pilot. It turns out it was an Army  
8 logistics officer that figured all that out and got  
9 FedEx going. So very impressive, and just -- it goes  
10 to show that veterans are big business owners.

11 We have Chris here from JPMorgan Chase, and  
12 they've been a fabulous partner. Back in 2016, we  
13 started having conversations about what can we do to  
14 help veteran lending. And in 2017, JPMorgan Chase  
15 stepped up and gave us a \$3.6 million grant to three of  
16 us over a three-year period to jumpstart the -- you  
17 know, veteran lending. And the three states,  
18 obviously, Texas, California, and North Carolina, all  
19 high veteran, you know, populations were the ones who  
20 started that.

21 And, obviously, JPMorgan Chase had some  
22 outcomes that they expected of us. In the first year,  
23 we met all or exceeded all the outcomes that, you know,  
24 we were asked to meet. So we started a Vet.loan  
25 program. That's our website. It has online training,

1 and it's a very -- it's really a great portal for all  
2 of our members. And we created a national business  
3 model that other people can subscribe to whether  
4 they're a member or not. We were asked to deploy \$12  
5 million over three years. We deployed \$12 million in  
6 the first year. So we far exceeded what the  
7 expectation was.

8 We asked -- they were asked to do a match to  
9 grant with a four-to-one leverage. We leveraged seven-  
10 to-one. So we brought a lot of other capital, you  
11 know, to match that money. And then we have a national  
12 project officer who happens to be sitting on my right.  
13 The name is Grant Bennet. So he's the one that really  
14 takes care of the whole collaborative on the day-to-day  
15 basis, and it just so happens he works at PeopleFund,  
16 but -- so he can watch it pretty closely, but he's done  
17 a great job with all the -- you know, with the  
18 collaborative members. And then we report metrics  
19 annually.

20 One of the benefits is the technical  
21 assistance curriculum that's available to anybody that  
22 might want to go to it. And the nice thing about the  
23 website, it geolocates. When somebody goes to the  
24 website, it says, oh, it looks like you're calling from  
25 Ohio. And then we're able to match them with a CDFI



1 that may or may not be a member of the collaborative.

2 So that's really a really nice feature of that.

3 And then amongst us, we implement best  
4 practice among us. We have conference calls. We've  
5 had people from the SBA talk about all the SBA  
6 programs. We've had -- most recently, we had Kirby  
7 Atwood from Bunker Labs talk to all the veteran  
8 collaborative members. So we think, you know, that's  
9 been a plus for us. We've also talked about Community  
10 Advantage. Some of those were actually newer at the  
11 business. And then a lot of information-sharing, and  
12 we're looking for capital-raising efforts for CDFIs  
13 that serve veterans.

14 And then this is something that JPMorgan  
15 virtual Service Corps. It's a bunch of volunteers put  
16 together. They gave us kind of a matrix of things we  
17 might want to consider when we look at all the  
18 veterans, CDFIs, and who we want to invite to join.

19 So the way we do that, we look for top-tier  
20 CDFIs, you know, that have proven leadership and a  
21 commitment to veterans. So we're looking at geographic  
22 coverage. We want to do state-wide lenders rather than  
23 somebody that just does a county or a region, so we're  
24 looking for CDFIs that provide the state opportunities.

25 We're looking at the number of vet -- at the

1 per-capita veteran percentages. So, you know, for  
2 example, some of the states like Montana, Idaho had the  
3 highest per-capita of veterans in the population. It  
4 just so happens the population is not very big. So  
5 it's really -- it's interesting to look at all these  
6 different -- what I call criteria or, you know,  
7 selection criteria. But ultimately it boils down to  
8 the CDFIs that we've known over the years, and we trust  
9 them and they trust us, and that's why they've joined  
10 the collaborative, quite frankly.

11 We have -- we call them an invitation, and  
12 everybody signs a memorandum or agreement. Probably  
13 the most important of it is a commitment to provide  
14 loans to veterans at the single-digit interest rate.  
15 We report metrics, and then obviously we're always  
16 trying to pursue more grant and capital, you know, for  
17 the veterans.

18 This year and next, we want to get up to --  
19 right now, we'll have 13 -- 10 new CDFIs plus the  
20 original 3. We'll have those right now almost. And  
21 then we're going to try to get to about -- up to about  
22 20 by the end of 2020, and still raising grant funds at  
23 the national level. We're in conversation with  
24 JPMorgan Chase about some additional capital that goes  
25 beyond what the original grant was and maybe some low-

1 cost loan capital. And then on top of that, we've been  
2 able to get about \$20 million for us from Bank of  
3 America at 1 percent interest rate for veterans.

4 This is where we started, California, you  
5 know, the Carolinas, Texas, and Oklahoma. And that was  
6 five states that we covered about 25 percent of the  
7 veteran population. And we always look at the number  
8 of bases that we cover. There's -- 26 percent of the  
9 bases are located in California and, you know, our  
10 footprint right there. California has actually 40  
11 military installations in it, which you might -- which  
12 is really pretty incredible. Texas has about 20.

13 And those are the ones who are in our -- with  
14 us right now. And those -- they come from Alabama,  
15 Pennsylvania, New York, New Jersey, the Carolinas,  
16 Georgia, Ohio, Wisconsin. And then we've all -- we  
17 visit each other. Some -- they've come and benchmarked  
18 with us; we go up and have some conversations with them  
19 as well.

20 And then what we're looking for, by Q3 is --  
21 this would be our coverage. The ones in yellow, we're  
22 already in discussions with. It's just a matter of  
23 going ahead with the formality to signing an MOA, but  
24 they've all made a verbal commitment that they want to  
25 join the organization.

1           And this is a little bit -- this was last  
2 year's performance of the collaborative, the three plus  
3 a couple. I think what's interesting, if you look at  
4 it, 66 percent of all the loans that went to veterans  
5 came -- were with the Community Advantage loan in terms  
6 of the dollar amount. So that's a really important  
7 program for all of us. We, ourselves, have over 220 CA  
8 loans across the board, but not just to veterans. So  
9 that's important.

10           The other thing that's important is that over  
11 50 percent of the loans go to what I would call other  
12 than the white population, so it's an ethnic -- very  
13 diverse in terms of our distribution of loans. Because  
14 right now, 75 percent of veteran force is white. But  
15 you'll look then -- about 50 percent were white, and  
16 the others go to ethnic minorities, which we think is a  
17 positive sign about what we're doing and the impact  
18 that we're having across the board.

19           And then if you look down at female loans, 9  
20 percent of the veterans are women, but 26 percent of  
21 our loans are going, you know, to the women population.  
22 So the CA program has been really helpful at reaching  
23 out to groups that otherwise have been disenfranchised.  
24 And we think this is a positive thing for the SBA but  
25 also for our -- in working with the veterans.

1           And then we just -- this is what we've done  
2 over the last six years. In our case, it's very -- it  
3 mirrors, actually what happened with the collaborative.  
4 So 65 percent of our loans go to -- of the dollars go  
5 to veterans, and then in our case, 56 percent of our  
6 loans go to other than, you know, to white veterans.

7           And then gender, same thing, 31 percent to  
8 women. And we talked about interest rates, in our  
9 case, well, you can see what our standard rate is on  
10 the left, and every veteran gets a fixed -- 5 percent  
11 fixed interest rate loan. No questions asked. Now,  
12 not all CDFIs are able to do that. We're able to do it  
13 because we've been able to secure very inexpensive  
14 money, either 0 percent or 1 percent. And that allows  
15 us to, you know, lend at 5 percent and have a little  
16 bit of a margin for, you know, overhead, losses, and  
17 what have you. So that's -- we think -- you can see  
18 what the rates are, and that's what the veterans get  
19 across the board. And that's what we've done ever  
20 since 2012.

21           SBA resources, invaluable to us. We work with  
22 all -- well, there's four districts in Texas, SBA  
23 districts. We have a close relationship with all of  
24 them and obviously the products. We've been  
25 participating in the Boots to Business program with the

1 SBA. We work -- we have two veteran business outreach  
2 centers in Texas, one up in the north of Texas and one  
3 down in the Rio Grande Valley. And we've worked  
4 obviously with SCORE, brings us folks, but this is  
5 important, are the SBDCs.

6 You know, they have quotas, too, and sometimes  
7 we refer people who aren't ready for a loan to SBDC for  
8 additional training, and when they have somebody ready  
9 for a loan, they send them to us to, you know, make the  
10 loan.

11 Okay, and from our standpoint, we think the  
12 Community Advantage program should have permanent  
13 status. I think that's a valid cry to anybody that's  
14 what I would call a high-volume CA lender, to realize  
15 how critical that particular program is to our success  
16 and actually to the success of veterans. It would be  
17 nice if we had the maximum loan amount -- right now  
18 it's 250,000, if we could go to 350,000. And there was  
19 a time when there was a 50 percent, you know, discount  
20 for veterans on the CA loans, and that was eliminated  
21 fairly recently in the last SOP, and we think that's  
22 really unfortunate, and that really -- somebody should  
23 take a really close look at that and at least give  
24 veterans some kind of a concession on the fees.

25 And then obviously Jim talked about it

1 extensively, but ultimately we're looking to try to get  
2 veterans as part of the other targeted population, the  
3 CDFI fund, and at a minimum, we'd like to see the  
4 disabled vets. I don't know what -- our data shows  
5 it's about 8 percent of all the veterans are what we  
6 call service-disabled that would, you know, fit in that  
7 criteria of 50 percent or greater on the disability.

8 So as I said, I'm pretty simpleminded, simple  
9 presentation, but I hope it's been helpful to you.

10 MR. LOWDER: Hey, Gary. Lynn Lowder from the  
11 Veteran Business Project. Question for you.

12 MR. LINDNER: Yes, sir.

13 MR. LOWDER: You and Jim, are the other CDFIs  
14 of the same point of view on getting disabled veterans  
15 into the OTP status?

16 MR. LINDNER: Yes.

17 MR. LOWDER: Okay. How do we do it, brother?  
18 How do we do that?

19 MR. LINDNER: Well, we've actually -- Chris'  
20 predecessor, who just happened to be Chris but he was a  
21 different gender.

22 (Telephone interference.)

23 MR. LINDNER: Yeah, first of all, we are  
24 actually working with what's called the Mission Lenders  
25 Working Group, and it's a lobbyist effort, yeah, and

1 you see and it's not just veterans, it's across the  
2 board with getting the permit status, but without  
3 question, no one -- everybody that we work with CDFI  
4 fund, no one would be against the target population, at  
5 least for disabled veterans.

6 It's including the entire veterans population.

7 (Brief pause for technical difficulties.)

8 MR. LINDNER: To answer your question, though,  
9 to answer your question, there is nobody who's opposed  
10 to at least disabled veterans being part of other  
11 target population. And we worked extensively with  
12 JPMorgan Chase and Chris to try to hopefully get the  
13 SBA and the CDFI Fund to have a conversation to push  
14 that, and as I said, there's -- it's intransigent in  
15 some respects, but as I said, I think there's hope that  
16 there's -- it would be nice to see the VA and the SBA  
17 to put a little bit of what I would call at least  
18 encourage them to do the right thing. And as I said,  
19 they then to be -- there's a lot of inertia. It took  
20 us three years to get our targeted population, and  
21 that's --

22 (Telephone interference.)

23 MR. PHIPPS: Gary, how do you determine --  
24 these rates are unbelievably great.

25 MR. LINDNER: Yeah.



1           MR. PHIPPS: Is there a range with these  
2 rates, or I think that's on a previous slide.

3           MR. KURTZ: People on the phone, please mute  
4 your phone.

5           People on the line, please mute your phone.

6           MR. PHIPPS: So we've seen lenders through --  
7 that have been coming in here, Jim, what four years  
8 now, and these are probably some of the best -- is  
9 there a range to these rates? Like, what's the highest  
10 rate you guys go to?

11          MR. LINDNER: Oh, hang on. Let me -- we have  
12 a new product. I'm not sure it's on there, the flash  
13 funds? Yeah, to answer your question, the rates are  
14 risk-based, so what you see on the left side, that's  
15 representative rate, and in some cases they're a little  
16 bit above. In most cases, they're below. So I'd say  
17 across the board our average interest rates are right  
18 under the 8 percent across the board, and that's, you  
19 know, excluding the veterans. The veterans, it's going  
20 to be fixed 5 percent, period.

21          And we don't do variable-rate loans. A lot of  
22 people -- for example, under Community Advantage, the  
23 guarantee portion, if you do a variable-rate loan, you  
24 can sell it on the secondary market at a premium. We  
25 will not sell a single CA loan. We retain them all.

1 And if you look -- keep them over the life of the loan,  
2 you're actually -- we're better off. So unlike a lot  
3 of CDFIs that are capital-constrained, we're fortunate  
4 not to be.

5 So for that reason, we don't sell -- we don't  
6 sell anything. And other people sell their portfolio;  
7 they sell their CA -- and what happens is, great,  
8 except your balance sheet gets totally upside down.  
9 You've got everything under management but nothing on  
10 your balance sheet. And so that's -- to us, that's a  
11 consideration because we have a strong -- the ironic  
12 thing about us, we have abundant capital, and sometimes  
13 -- and I'll use Union Bank as an example -- he was  
14 talking about Union Bank. We're in Texas, and Union  
15 Bank, we talked to them, and they said, is it okay if  
16 we lend you a million dollars at 2 percent? Yeah,  
17 that's okay.

18 I mean, so it's -- so we have 47 different  
19 funders. A lot of them are -- you know, most of them  
20 are banks for CRA purposes, and as a consequence, so  
21 our average, our weighted average cost of capital is  
22 about 2.2. percent. So that allows us to give rates to  
23 our clients at a reasonable amount and not at a  
24 predatory amount. You know, we can double our interest  
25 rates, sit back and just count the money. That's just

1 wrong from our standpoint.

2 MR. PHIPPS: So I love the statistics and the  
3 research that you have done. You know, it has not gone  
4 unnoticed. I mean, we love the data behind what you  
5 guys are doing, and we've always thought that veterans  
6 are better at repaying their loans than the rest of the  
7 population. Do you have statistics on defaults?

8 MR. LINDNER: It's -- yeah, we segregated the  
9 veterans out, and it's not statistically different, and  
10 I'll tell you the reason it's not statistically  
11 different is that we have such an -- we have a whole  
12 team dedicated to nothing but supporting our clients  
13 after they make the loan, because the startups left to  
14 their own devices will probably crash.

15 And so we give a lot of assistance. We have  
16 200 mentors -- volunteer mentors around the state. And  
17 we have a team that does all these workshops and one-  
18 on-one coaching. So every week, we have a team that  
19 looks at our entire portfolio, and if somebody's 10  
20 days behind on their loan, we contact them and say, is  
21 there something we can help you with, as opposed to pay  
22 us, or we're going to come after you. Now, do we have  
23 clients from hell? Yeah, but there's -- but it's a  
24 very, very small percentage.

25 So to answer your question, veterans do well.

1 The thing that -- and we've had -- we have a veteran  
2 that the business went under but they continued to pay  
3 because I think the veterans, more than the general  
4 population, feel like their word is their bond. And if  
5 they sign something, they're going to honor it. And so  
6 we've seen that happen -- and that happens outside in  
7 the general population, but the veterans -- I think --  
8 one thing I think, we've done a lot of extensive  
9 veteran entrepreneur training programs around the  
10 state. And one thing that I think is really  
11 interesting, and anybody that's a veteran can attest to  
12 this, that it doesn't make any difference what your  
13 gender is, what your ethnic background is. If there's  
14 a common bond, you can get together, and you don't --  
15 you consider your -- what you have in common, not  
16 what's different about you, especially if you've been  
17 in combat. You could give a rat's ass what somebody is  
18 in the next airplane, as long as they can fight.

19 MR. PHIPPS: No, that's great.

20 MR. LINDNER: Like I said, I'm not -- you  
21 know, Jim's really good at anecdotal stuff because I'm  
22 very limited in my education, so I can't speak it very  
23 well, so I hope you can appreciate that.

24 MR. O'FARRELL: The school of hard knocks.

25 MR. LOWDER: Gary, one last question. So I

1 presume the CDFI group you'd be strongly behind leading  
2 to try to get the disabled veterans into the OTP rank  
3 and you guys would stand strong on that.

4 MR. LINDNER: Oh, yeah. We'll stand very  
5 strong on that. And the nice thing is JPMorgan Chase  
6 has allowed us to be the fiscal agent, so we're -- you  
7 know, we -- obviously the money comes through us. It's  
8 easier to send it to one CDFI, and then we distribute  
9 it amongst the others, and so we're having some  
10 conversations about some significant injection of low-  
11 cost capital, and to be determined, but the fact is  
12 there's groups like -- and it really -- the important  
13 thing is it's helping veterans, but it's also helping  
14 our big banks because it shows a commitment to the  
15 veterans, and it puts them in a different light, too,  
16 to the outside population. So I'd say JPMorgan Chase  
17 more than anyone, and then Bank of America, also, has  
18 stepped up, as has Capital One and others.

19 MR. STUBBLEFIELD: Okay. You are doing some  
20 pretty amazing things. Thank you very much for being  
21 here today. I'm going to be in touch with you as well  
22 because I spoke with Jim, and we're going to partner on  
23 taking this fight to Treasury. And so I'll get with  
24 you as well.

25 MR. LINDNER: Yeah, I kind of like adversarial

1 situations.

2 (Laughter.)

3 MR. LINDNER: I shouldn't say that, but I kind  
4 of do.

5 MR. STUBBLEFIELD: I will definitely --

6 MR. LINDNER: You want to get yourself --

7 MR. STUBBLEFIELD: I will definitely get with  
8 you.

9 MR. LINDNER: But, also, you know, and I want  
10 to tell you, too, like we're meeting with Todd and  
11 Kirby Atwell in Chicago next week, and we sent them  
12 some client stories recently, and so we're going to  
13 really get together and I think there's a lot of  
14 synergy between Bunker Labs and what they do and what  
15 we do. But there's -- you know, everything's about  
16 partnerships. You know, nobody can operate  
17 independently, and we're no different than anyone else,  
18 so we make pretty good and we get good results. We  
19 make a case for money.

20 MR. O'FARRELL: Jim O'Farrell. So I got a  
21 saved round here, as we would say in the military. On  
22 your slide up there, so you have up there, Increase CA  
23 Maximum Amount to 350, and you said it's currently 250.

24 MR. LINDNER: Right.

25 MR. O'FARRELL: By increasing it to -- 100

1 grand, what would that -- what would that cost be? Did  
2 you guys study that? What would the expected cost be  
3 to the entity that would pay it?

4 MR. LINDNER: Yeah, the -- for example --  
5 well, the cost, yeah, we use our money on CA loans.  
6 It's just a government guarantee --

7 MR. O'FARRELL: Right.

8 MR. LINDNER: -- that backs -- you know, 85  
9 percent, that's 150,000 or 75 percent above that. So  
10 there's a risk, obviously.

11 MR. O'FARRELL: So it's a risk increase. So  
12 then I kind of thought that would be your answer.

13 So, Larry, do we -- can we have somebody look  
14 at that maybe for the next meeting? If the ACVBA is  
15 going to support this position, what does the  
16 anticipated risk curve look like or the anticipated  
17 increase in cost, year over year, that the Government  
18 would end up incurring.

19 MR. LINDNER: You know, in our case, we've had  
20 a couple -- 200-and-something loans, we've had about, I  
21 think, half a dozen of --

22 MR. O'FARRELL: Right.

23 MR. LINDNER: -- around that, and we had to --  
24 we did everything we could to make -- cure them.

25 MR. O'FARRELL: Right.

1           MR. LINDNER: But to the credit of the SBA,  
2 they instantly paid off the guarantee fee because we  
3 did everything that we were supposed to do.

4           MR. O'FARRELL: Right.

5           MR. LINDNER: So there's been no pushback on  
6 that, but, you know, most recently -- the most recent  
7 SOP actually made it more restrictive on some of the  
8 criteria, and it really -- so we had the mission  
9 lenders working, and we said, wait a minute, I thought  
10 this was a good program, but I think the SBA has to  
11 mitigate risk, you know, because they're using public  
12 money, and we certainly understand that.

13           MR. STUBBLEFIELD: Yeah, we'll take this as an  
14 action item, and we'll report out at the next --

15           MR. O'FARRELL: Okay, and while you're  
16 grabbing action items, so the next one would be  
17 restoring the 50 percent guarantee fee, what would that  
18 do, because for years, I and Mike Phipps, since we've  
19 been on this committee, for years that was a fee that  
20 was waived, yeah. And so --

21           MR. LINDNER: And in the last iteration, it  
22 was taken away, and the only ones that get credit now  
23 are rural.

24           MR. PHIPPS: Is that because the zero -- is  
25 that because the zero subsidy wasn't met, that the



1 loans were that the --

2 MR. LINDNER: No, it was not a zero subsidy,  
3 it was a 50 percent reduction.

4 MR. PHIPPS: So why is the fee back?

5 MR. LINDNER: Beats the hell out of me. I  
6 mean, you know, it doesn't make any sense to us.

7 MR. O'FARRELL: And what was the total amount  
8 of the fees on an annual basis? That was kind of --  
9 that's what I was wondering, too.

10 MR. STUBBLEFIELD: We'll take the slide as an  
11 action item. I will tell you that the short answer,  
12 but we need a deeper dive on it, is that the focus had  
13 gone away from this to, as Gary said, to rural. But  
14 we'll do a deeper dive and we'll present at the next  
15 meeting. I'll get the experts here.

16 Okay, any other questions or comments for our  
17 team here?

18 (No response.)

19 MR. STUBBLEFIELD: If not, thank you again for  
20 being here. We're going to transition over now to the  
21 -- our final presentation, the All Small Mentor-Protégé  
22 Program, and we have Derrick Brown here, who will lead  
23 that discussion. And by the way, for the record, we  
24 want to acknowledge that our chairperson has joined the  
25 group. Liz O'Brien is here.

1           Okay, Derrick, are you ready to go?

2           MR. BROWN: Yes, sir, I am.

3           MR. STUBBLEFIELD: All right, just a second.

4           MR. BROWN: Good morning. My name is Derrick  
5 Brown, and I'm the principal senior business analyst at  
6 the All Small Mentor-Protégé Program. And here I'm  
7 going to just explain to you briefly how we are  
8 measuring success. We look at two things. We look at  
9 outputs and outcomes or the output and outcomes. But  
10 when we look at the two -- when we look at outputs or  
11 outcomes, we have to ask ourselves two questions,  
12 especially with the outputs. Is the program growing,  
13 and are we reaching a wide variety of small businesses?

14           Okay, so to answer the first question, is the  
15 program growing, measuring this helps us gauge whether  
16 we are reaching people and whether small businesses  
17 find the program valuable. So they would not apply if  
18 they didn't know about it or find it useful. So as you  
19 can see from the chart at the top left, we are growing,  
20 all right? At the end of Quarter 2, we had 757 active  
21 agreements in place, which makes us the single-most  
22 extensive mentor-protégé program in the Federal  
23 Government. We currently have more than 825 active  
24 agreements. At the end of Quarter 2, we have received  
25 250 applications, which is an increase of more than 10

1 percent over the same time last year.

2 The second question, are we reaching a wide  
3 variety of small businesses? As you can see from the  
4 remaining three charts, we are reaching a whole cross-  
5 section of small businesses. A look at our NAICS codes  
6 demonstrates -- that's to the right, the right chart --  
7 demonstrates we are reaching a variety of industries,  
8 but although driven by construction and engineering  
9 services clearly, which is NAICS code 236220.

10 We are reaching protégés from a broad cross-  
11 section of socioeconomic categories driven by 8(a) and  
12 also SDVOB businesses or firms. 8(a) is at 52 percent;  
13 and SDVOBs are at 56 percent. Protégés from across the  
14 country are finding and using the program, so with  
15 outcomes, we have to ask the question, what difference  
16 does any of this make? So it is actually if a wide  
17 variety of businesses have accessed the program, but  
18 how is this making a difference? So we have to look at  
19 our outcomes.

20 Now, before we go to outcomes, I just want to  
21 -- the bottom chart represents the 10 district offices  
22 with the most MPAs. And right now, Washington, DC has  
23 the most MPAs at about 173 MPAs, mentor-protégé  
24 agreements. And then Baltimore is second.

25 All right, now, when we go to the outcomes

1 slide, we focus on four major data points, all right?  
2 The first data point would be the business development  
3 support; the second would be measuring independent bids  
4 won by protégés; the third would be -- or the third is  
5 measuring jobs created and subcontracted --  
6 subcontracts awarded; and our fourth is joint ventures  
7 formed or joint venture contracts.

8 So our first indicator, business development  
9 support, as the mentors deliver a wide variety of  
10 support to protégés, so we have to ask that question,  
11 are they delivering a wide variety of support to the  
12 protégés. The pie chart in the upper left corner  
13 demonstrates what we see throughout our review of  
14 applications and annual reviews. Protégés are  
15 receiving a variety of depth of business development  
16 assistance. And you can see the top is 698 request  
17 management and technical assistance, and 419 request  
18 financial assistance and so forth. But the pie chart  
19 breaks it down on who -- what they request. Trade  
20 education is the least amount.

21 Our second indicator measures independent bids  
22 won by protégés. The goal of this program is to help  
23 small businesses stand on their own in government  
24 contracting or the government contracting arena. So we  
25 measure their success in proposing and winning bids,

1 independent from their mentor. In Fiscal Year 19, the  
2 number of independent bids tripled, and protégés won 31  
3 percent of their offers. We consider that a success,  
4 if you look at that in the top right chart.

5 Now, our third indicator measures jobs created  
6 and subcontracts received or awarded -- well, received.  
7 We have to ask the questions: are companies gaining  
8 contracts, and are they adding employees and growing?  
9 So if you -- so for this chart, it helps us to  
10 understand that Fiscal Year 18 represents the outcomes  
11 of our first cohort of 300 protégés participating in  
12 the full year. Fiscal Year 19 describes the results of  
13 the two cohorts for half a year. So in other words, we  
14 expect Fiscal Year 19 numbers to double what the year-  
15 to-date shows.

16 As you can see, protégés are winning  
17 subcontracts from their mentors and -- at an increasing  
18 rate and extraordinary value.

19 MR. O'FARRELL: Jim O'Farrell. Can I  
20 interrupt you for one second? Lower left there where  
21 you have the 1,325 FTEs in FY 18 and 250 year-to-date?

22 MR. BROWN: Yes, sir.

23 MR. O'FARRELL: Why is that number -- I  
24 realize it's year-to-date, FY 19, but it seems  
25 significantly lower given the subcontracts numbers

1 below it that have increased.

2 MR. BROWN: Are you talking about between the  
3 two years?

4 MR. O'FARRELL: Yeah, 1,325 down to 250.  
5 They're selling more products instead of services? You  
6 would think the headcount would be half of 1,325 or --

7 MR. BROWN: Yeah, but in Fiscal Year -- well,  
8 we're not finished with Fiscal Year 19. And I  
9 understand -- I understand what you're getting at, but  
10 it could be the type of awards are being -- that they  
11 are receiving, where they may not have to add more  
12 employment. You know, it just depends, but I could go  
13 back and get those numbers for you.

14 MR. O'FARRELL: Right, because the dollar  
15 amount's about five times the size of the FY 18 number,  
16 so...

17 MR. BROWN: Exactly.

18 MS. O'BRIEN: We would appreciate if you could  
19 go back and get those numbers for us for the next  
20 meeting.

21 MR. BROWN: Yes, I will definitely do that for  
22 you.

23 MS. O'BRIEN: Thank you.

24 MR. BROWN: All right, and the fourth  
25 indicator --

1 MS. LEWIS: Excuse me, can you please share  
2 the slides?

3 MR. BROWN: Excuse me?

4 MS. LEWIS: We cannot see the slides online.  
5 The screen is blacked out.

6 MR. STUBBLEFIELD: Okay, we're going to work  
7 on it, but continue, Mr. Brown.

8 MR. BROWN: Okay. All right, on the fourth  
9 indicator, joint ventures formed and joint venture  
10 contracts, JVs are the unique feature of this program,  
11 and where we would expect to see protégés benefitting  
12 the most, as noted in the chart on the lower right,  
13 more than 1 billion in contracts flowed to all small  
14 mentor-protégé JVs, as reported in Fiscal Year 19, so  
15 far at an average of \$9 million per JV award.

16 As a reminder, the JVs must be owned 51  
17 percent by the protégé, so that means arguably protégés  
18 are receiving at least one half of a billion dollars in  
19 JV contracts so far in Fiscal Year 19.

20 So to sum it up, successful outcomes  
21 demonstrate that the all small mentor-protégé drives  
22 results to small businesses with an impressive return  
23 on investment.

24 MR. O'FARRELL: For a future meeting, could  
25 you break out what agencies are awarding that 1.3

1 billion so far in FY19 that shows where the -- there's  
2 the most activity? Thank you.

3 MR. BROWN: Yes, sir.

4 MR. O'FARRELL: While we have a moment of  
5 pause here, I just want to say -- Jim O'Farrell, AMSG.  
6 We recently went through this mentor-protégé program to  
7 set up a mentor-protégé, and it was one of the best  
8 experiences we've ever had in federal government work  
9 with dealing with the customer service personnel, the  
10 online portal.

11 It was outstanding. I had not seen something  
12 like this. And I can't resist the temptation, though,  
13 to compare and contrast with the VA CVE verification  
14 process. I realize they're kind of apples and  
15 tangerines, but still the way that you all treated us  
16 as human beings and with respect was top-notch, and we  
17 don't necessarily always see that in the VA's  
18 verification process. Thank you.

19 MR. BROWN: Thank you.

20 MR. STUBBLEFIELD: I just want to say thank  
21 you for the feedback, and I will definitely make sure  
22 the senior leadership hear those words, so thank you.

23 MR. PHIPPS: Do you know the average time it  
24 takes to get the mentor-protégé approved, because I  
25 think it's one of the best in government? It used to



1 be three days, or three weeks.

2 MR. BROWN: Right, right.

3 MR. PHIPPS: And that was early on in the  
4 program, but I think as the program has matured, we'll  
5 see better numbers on what that number -- on the  
6 approval process.

7 MR. BROWN: Right now, we have increased that  
8 process in time due to the influx of applications.  
9 They have been coming in tremendously. However, with  
10 that, we do have Ms. Lori, our director, Lori Gillen,  
11 we have put in detailees and people that we are  
12 training, which we have seen a significant reduction in  
13 the processing time, which I may not be able to get it  
14 back to the three days, but we are reducing -- we are  
15 reducing our time --

16 MR. PHIPPS: Is it about three weeks right  
17 now?

18 MR. BROWN: Right now, it's a little over  
19 three weeks. We're talking about a month, maybe a  
20 little over a month. It's closer -- to be quite honest  
21 with you, it's closer to maybe 50 days right now, but  
22 we are going to reduce that number. We are working  
23 toward that. But with the amount of applications  
24 coming in and, you know, the amount of people we have  
25 to work the applications, it, you know, presents a

1 challenge for us, but we can work over that challenge.

2 MR. PHIPPS: So the correct information  
3 doesn't get lost, the VA briefed yesterday at the IATF.  
4 They briefed that the average approval time to get into  
5 -- to get approved by CVE was 24 days. I don't believe  
6 it. We already know that there's an issue. I want it  
7 on the record, we have got to address those VA numbers  
8 because 50 days is still an impressive number, and we  
9 know that's not happening at the VA, even though  
10 they're briefing 24 days.

11 MR. O'FARRELL: Liz, Jim O'Farrell. Is there  
12 -- can we have them come -- I thought they were going  
13 to be here maybe for this meeting, but could we have  
14 them request that that they come back for the next  
15 meeting? There was some discussion at a prior meeting  
16 about some possibility that people -- that companies  
17 are put into the CVE verification process and then if  
18 they run into any hiccups, they're taken out of the  
19 process, and that's maybe suppressing the metrics from  
20 the verification program on the number of days it takes  
21 to get verified. And we were trying to drill into that  
22 a little bit more, but having them to answer would be  
23 helpful.

24 I do want to follow up, though, Derrick, with  
25 the other side of this. Are you doing anything -- so,

1 you know, I have this picture in my mind of, say, this  
2 GSA Schedule out for bid that they're doing an on-ramp  
3 called GSA OASIS right now. And it potentially is  
4 driving mentor-protégés to get together and submit to  
5 you. And then that passes and time goes by, and you  
6 now have all these newly minted all small mentor-  
7 protégé agreements in place with numerous companies.

8 Are you doing anything, or is it in the  
9 purview of the SBA to hold an all small mentor-protégé  
10 conference, for example, where you could bring together  
11 different federal agencies to talk about, here's how  
12 you can go to market with your all small mentor-protégé  
13 program? I know that myself, as a business owner,  
14 would really appreciate something like that, and there  
15 are probably a lot of others who are less experienced  
16 in federal contracting that would definitely appreciate  
17 something like that.

18 MR. BROWN: That's a good question, Mr.  
19 O'Farrell. To answer your question, yes, we do. And  
20 we're having a conference. It should be coming up, I  
21 believe, in October, I'm not sure. It's in the  
22 planning phase right now, but if you stay connected or  
23 email me, I can get you more information on that.

24 MR. O'FARRELL: Thank you very much.

25 MR. BROWN: Thank you.

1 MS. PEREZ-WILHITE: Do we know where that  
2 conference will be held?

3 MR. O'FARRELL: Fran, just real quick, I just  
4 had to point that out. There's a perfect example, and  
5 I hate to be sitting here as the independent advisory  
6 committee singing the praises of the SBA, but there's a  
7 quick thing where a business owner has a need, they've  
8 already anticipated it, and they're already planning  
9 for it. So, Derrick, it better happen. That's all I'm  
10 saying.

11 MR. BROWN: Sir, it's in the planning stages.

12 MR. O'FARRELL: Okay, all right.

13 MS. PEREZ-WILHITE: Do we know where that  
14 conference is going to be held?

15 MR. BROWN: I don't know who asked that  
16 question, but to answer your -- oh, yeah, Ms. Fran to  
17 answer your question, right now, it's in the planning  
18 stage. We had one last year that was held in -- I  
19 can't -- what is it, the Doubletree in Arlington, I  
20 believe it's Arlington. It was at the Doubletree of  
21 Arlington, and then it was the year before that. We  
22 had -- this will be our third annual, so stay tuned.

23 MR. STUBBLEFIELD: Okay, was that it?

24 MR. BROWN: Yes, sir.

25 MR. STUBBLEFIELD: Okay. Any more questions

1 for Derrick?

2 (No response.)

3 MR. STUBBLEFIELD: Okay, if not, we're a  
4 little bit ahead of schedule, five minutes ahead of  
5 schedule for the public comment period. I guess we can  
6 open it up to the public comment period.

7 MR. WIGGINS: All right. Good morning,  
8 everybody. My name is Matt Wiggins. I'm representing  
9 the International Franchise Association and our VetFran  
10 program. VetFran is an initiative of the International  
11 Franchise Association. It's been around about 30 years  
12 now. We aggregate about 600 different companies,  
13 franchise companies, who have offered to give anywhere  
14 from 10 to 100 percent off of their initial franchise  
15 fee to qualified veterans.

16 We're here today because of some points  
17 brought up to us by some of our franchisees who are  
18 experiencing issues with the veteran-owned small  
19 business and service-disabled veteran-owned small  
20 business certifications. We've been in touch with Ray  
21 Milano here at the SBA who recommended that I come and  
22 brief you all on these issues that they are having.

23 The main issue, of course, is that veterans  
24 who own their own franchises and apply for these  
25 certifications through the VA and the CVE program are

1 being denied simply based on the grounds that they are  
2 a franchise. I have two cases, and many more that are  
3 coming in, but I have the actual rejection letters for  
4 two, one who is a service-disabled veteran who owns a  
5 PestMaster Services franchise in the state of New York,  
6 and one who owns a CertiPro Painters franchise in the  
7 state of Pennsylvania.

8 On the topic of our Pestmaster franchisee in  
9 the state of New York, he has received the New York  
10 State service-disabled veteran-owned small business  
11 certification; however, he's been denied for the  
12 certification from the federal level. In both of the  
13 cases, the reasoning that's provided is simply because  
14 these veterans allegedly do not have control over their  
15 business, and the reasoning that's being cited here is  
16 part of the Veterans Affairs 38 CFR 74.4.

17 This is stating that control is not the same  
18 as ownership, although both may reside in the same  
19 person. The CVE regards control as including both the  
20 strategic policy-setting exercise by boards of  
21 directors and the day-to-day management and  
22 administrative business operations.

23 Now, what's crucial to understand here is that  
24 just because someone owns their own franchise, and just  
25 because the franchiser has licensed that location to

1    them, does not mean that the franchiser is at all  
2    involved in the day-to-day operation or control of this  
3    business. Franchisees are not controlled by  
4    franchisers.

5           Franchisees do receive support and the ability  
6    to license the location, and the only thing that the  
7    franchiser does is protect their own trademark by, you  
8    know, requiring that certain logos are used. So  
9    franchisees are not inherently, you know, out of  
10   control of their own business. They hire whom they  
11   want, and they fire whom they want. And at the end of  
12   the day, their bottom line is entirely their  
13   responsibility.

14           So, in that vein and in, you know, using that  
15   line of sense, there's truly no reason why these rules  
16   should be written the way that they are, preventing  
17   veteran franchisees from being able to participate and  
18   be awarded these certifications. It's anti-franchise  
19   and, you know, it is legislation and rulings that  
20   clearly are discriminating against franchise  
21   businesses. You know, it is in the interest of all of  
22   us here to promote veteran-owned businesses in all  
23   forms. And if veterans have been able to find success  
24   in this form of business ownership, there's no reason  
25   why they should not be able to be eligible for the

1 contracts -- the priority for the contracts that their  
2 peers are who do not own franchise businesses.

3 Moreover, you know --

4 MR. O'FARRELL: Jim O'Farrell. Can I just  
5 jump in with a question here?

6 MR. WIGGINS: Sure.

7 MR. O'FARRELL: So with the rest of the  
8 Federal Government, aside from the Department of  
9 Veterans Affairs, if I'm self-certifying that I'm a  
10 service-disabled, veteran-owned small business, does  
11 the SBA have any issues with franchisees, Larry, that  
12 you're aware of?

13 MR. STUBBLEFIELD: No. Not that I am aware  
14 of.

15 MR. O'FARRELL: Okay, so as long as they're  
16 self-certifying, they're okay. I mean, Liz, this is  
17 definitely something we should think about  
18 incorporating into our annual report with  
19 recommendation because this issue has come up before.  
20 Either the last meeting or two meetings ago. there was  
21 a company at Fort Bragg, I think they were a UPS  
22 franchisee or something, and they weren't allowed to  
23 bid on a contract. Maybe, Fran, you brought it up,  
24 being in North Carolina. We see this so many times.

25 And, also, just as a quick aside, I just had a



1 veteran business owner in Oklahoma call me and say that  
2 she was in the Vietnam era, she was in the Reserves,  
3 she did her active duty for training, she raised her  
4 right hand, she could have been called into active duty  
5 anytime, and the VA allowed her to be CVE-verified for  
6 six or seven years, and they just pulled her  
7 verification. They just decided willy-nilly that we've  
8 got this new rule now, we can't let anybody that was in  
9 the Reserves be CVE-verified. So a quick tangent,  
10 sorry about that.

11 So back to this. You hit a cord with me  
12 because what you're doing, what you're telling us is  
13 that the VA -- and it's limited to the VA -- but the VA  
14 is the second largest federal agency. They award, I  
15 think award approximately 23 percent of their spend  
16 annually on contracts to SDVOSB and VOSBs, so with that  
17 amount of throughput, that's a far cry from 3 percent.  
18 That's a big stake for veteran-owned businesses to go  
19 after annually. It's billions of dollars.

20 So, you know, what would you like us to do?  
21 Obviously, you'd like us to put in our recommendations  
22 that they eliminate this requirement from the VA, and  
23 that goes to having the VA come to our next meeting so  
24 we can address this with them. I would like to ask you  
25 to come back to our next meeting when we have the VA

1 rep here, and I'd also like to have you bring either on  
2 the phone, because I understand these folks are out  
3 here trying to make a living, but if somebody locally  
4 could come here and speak first-person, as a franchisee  
5 that is trying to get, you know, into the VA to do work  
6 with the VA. And by the way, that's a very  
7 commendable, laudable thing to want to be able to  
8 support the VA.

9 MR. KURTZ: Yeah, this is Stan Kurtz with  
10 OVBD.

11 MR. O'FARRELL: Go ahead, Stan.

12 MR. KURTZ: So Tom McGrath with the VA is now  
13 on the call. Tom, can you hear us?

14 MR. MCGRATH: Yes, I can.

15 MR. KURTZ: Okay, so you've heard the  
16 conversation so far?

17 MR. MCGRATH: Yes.

18 MR. O'FARRELL: Mute your computer. Turn the  
19 speaker off on your computer.

20 MR. MCGRATH: It's off.

21 MR. KURTZ: Who else have you spoken to  
22 besides our advisory board about this?

23 MR. WIGGINS: So, you know, this is something  
24 that we're just kind of getting into. This is just the  
25 tip of the iceberg. We were made of these fairly

1 recently, and when we reached out to Ray, he  
2 recommended that we come to this meeting. Our  
3 government relations team is currently working on this  
4 as well, you know, in a capacity that they actually  
5 have the ability to go and work with more of these  
6 federal agencies than we do as a nonprofit.

7           However, you know, we are aware of multiple --  
8 more cases that are coming, and we're also trying to  
9 figure out if this is an issue that has trickled down  
10 to the franchisees where to the point that people are  
11 not even applying for this certification for knowledge  
12 that they'll be rejected. So that's why we think that  
13 this is the tip of the iceberg.

14           And to a couple of your points, Mr. O'Farrell,  
15 we tried to get one of those franchisees to come here  
16 today, the one from Pennsylvania. And, unfortunately,  
17 like you said, he is running his own business and was  
18 unable to make it today, but we'll place priority on  
19 trying to make that happen for the next one of these  
20 meetings.

21           You know, I was made -- through the Pest  
22 Master conversation that we had, they connected me with  
23 someone who is with the -- I believe the VBOC in  
24 Florida, in Fort Lauderdale, who's done a bit of  
25 research on this and highlighted to me that, you know,

1 the VA ruling currently is in conflict with the current  
2 SBA standard operating procedure that says how this all  
3 should work with franchises. And he detailed that  
4 here, you know, so he says that while the SBA is  
5 supposed to be the operative authority regarding small  
6 businesses, the VA CVE is still using its own approach.

7 MR. O'FARRELL: So I do want to jump in there.  
8 So they did change the rule a year or so ago that the  
9 SBA now is the appellate -- the appealing authority for  
10 -- through OHA, I believe, for a SDVOSB entity that is  
11 rejected by the CVE. So perhaps -- it's kind of silly,  
12 but perhaps you should have -- one of the franchisees  
13 should go through the process, get rejected, so then it  
14 can be appealed to SBA.

15 MR. WIGGINS: Well, and per this rejection  
16 letter that I have as a copy from our CertaPro  
17 franchisee, his two options, according to the letter,  
18 are to either submit your intent to withdraw your  
19 application or you may otherwise, you know, request an  
20 initial denial letter of your choice. It says do not  
21 send letters of explanation, requests for additional  
22 consideration, or revised or additional business  
23 documents as part of this process. The CVE cannot  
24 accept them, nor will they be considered.

25 So they have really no option to even clarify

1 their business structure. The CVE comes back and tells  
2 them this is basically the end of the road. Your  
3 options are either exit left or exit right.

4 MR. PHIPPS: Matt, this committee --

5 MR. MCGRATH: So that's not correct. That's  
6 not entirely correct. This is Mr. McGrath. He still  
7 has the option to talk directly to -- or appeal the  
8 case to OHA, and we can get a ruling on it to clarify  
9 it if that continues to be the issue.

10 The other point is, as far as he didn't get  
11 this -- we talked to him and discussed in great detail  
12 about the issues of franchises, and it was very clear  
13 that it didn't qualify. So we encourage him to take it  
14 to OHA if he feels that he didn't get the proper ruling  
15 from us.

16 MR. WIGGINS: I think that the issue is not  
17 that he's even not necessarily receiving proper ruling;  
18 it's that this system is inherently stacked against  
19 them. You know, if from the beginning the ruling is  
20 saying from this fact sheet that, you know, the  
21 examples of provisions that CVE would find controlling  
22 in the case of a franchise, the franchisee shall  
23 participate in the system-wide marketing and  
24 advertising established by the franchiser. That's no  
25 different than if a regular business owner goes out and

1 hires a PR firm and pays for them. They're simply  
2 paying back to the franchise system who's doing their  
3 marketing.

4 MR. PHIPPS: Matt, this can go back and forth  
5 in an emotional --

6 MR. WIGGINS: Absolutely.

7 MR. PHIPPS: -- battle. What we do is try to  
8 change the legislation and make it the law that this is  
9 not going to happen again. So what we would like as a  
10 committee is your language on how the CVE language  
11 should read, and we can take that language and make  
12 recommendations based on that language, and at least it  
13 gives us a baseline because we have been involved with  
14 this battle back and forth of words. It's meaningless  
15 until we can change the legislation.

16 MR. WIGGINS: Yeah.

17 MR. PHIPPS: So you guys are in the prime  
18 position to give us that language so we can move it  
19 forward and actually have some substance of change.

20 MR. WIGGINS: Yeah, and --

21 MR. MCGRATH: SBV concurs with that. Thank  
22 you.

23 MR. LOWDER: Lynn Lowder. I was general  
24 counsel for Mailboxes, Etc. And we had 3,500  
25 franchisees worldwide. Without a doubt, some of our

1 very, very best franchisees were military veterans.  
2 They got it. You know, they knew the system, the  
3 process, and they just did a great job. You've  
4 probably got -- I assume you do have -- statistics of  
5 your franchisees across different franchisers, and you  
6 can point to those veterans, saying these guys and gals  
7 do great work, they're productive. You've got a  
8 system; it's to maximize operational efficiencies and  
9 all that. It all works -- it all works great.  
10 Franchising, a good franchise, business format  
11 franchising, is a great turn for a lot of veterans. So  
12 I'd dig deep into that information.

13 MR. PHIPPS: Yes.

14 MR. WIGGINS: I mean, the bottom line is  
15 there's about 780,000 franchise locations across this  
16 country, and 14 percent of them are veteran-owned. And  
17 from all the data that we have, veterans are  
18 consistently punching well above their weight compared  
19 to their nonveteran peers in the franchise space. So  
20 to your point, Mr. Phipps, to wrap up, you know, really  
21 what we're looking for here is just to bring this to  
22 your attention and to work with all of you in whatever  
23 way that we can, you know, however you have influence  
24 over this sphere, we would love to remain in touch with  
25 you. You know, I've read the minutes of previous

1 meetings of this committee and seen that this issue has  
2 been brought up, so I felt like it was a good time to  
3 come in and continue to make sure that this is on the  
4 forefront of your minds.

5           So I'm happy to provide each of you with one  
6 of my business cards before we leave and so we can stay  
7 in touch. And we will definitely reappear at the next  
8 meeting to continue providing information however we  
9 can to make sure that we can change this to be more  
10 friendly to all types of business owners, regardless of  
11 whether they're franchise or nonfranchise, so that we  
12 can consistently be promoting veteran-owned small  
13 businesses and ensuring that these -- you know, those  
14 who have served have the opportunity afforded to them  
15 when they return.

16           MR. O'FARRELL: In fact, in previous years, we  
17 actually had a member of the International Association  
18 of Franchisees, if I recall correctly, on the  
19 committee.

20           MR. PHIPPS: Matt, can you make sure that you  
21 get that language to Liz, because Liz is the  
22 chairperson of the committee? She's responsible for  
23 the annual report. Our annual report has the  
24 recommendations in it for changing language and for  
25 reaching -- and even -- I'm sure even the VA is



1 hamstrung to a certain part because of what their  
2 language says right now or in their direction. So Liz  
3 is your primary point of contact to get that into our  
4 report for recommendations.

5 MR. WIGGINS: Sure. And we're very dedicated  
6 to ensuring that we can solve this, among other things,  
7 and I believe that the director of our program has  
8 actually just applied to be on this committee, so, you  
9 know, in order to try and kind of make sure that we can  
10 continue our voice here. So, again, we'll be in touch,  
11 and we hope to reappear next time, and we'll make sure  
12 that we get Liz -- we'll work with our government  
13 relations department to make sure that we can get you  
14 some great language that we'd like to move forward  
15 with.

16 MS. O'BRIEN: Thanks.

17 MR. STUBBLEFIELD: I was just going to say,  
18 too, in the short term, VA, we need to make sure  
19 whatever correspondence comes out that the OHA appeal  
20 process is contained in that.

21 MR. WIGGINS: Great. Well, thank you all very  
22 much for your time, and I'll leave some business cards  
23 behind.

24 MR. STUBBLEFIELD: Thank you for appearing.  
25 Anyone else in the room for the public comment

1 period? Anyone on the phone for the public comment  
2 period?

3 (No response.)

4 MR. LOWDER: Hey, Larry, if I could, while  
5 everybody's in the room, I put a one-pager out today on  
6 behalf of what the Veteran Business Project, the  
7 501(c)(3) that I run. We really have gotten into a  
8 nice situation. Today, Stars & Stripes gave coverage,  
9 it went all across the nation, on the successful  
10 business deal that we were able to do, matching up  
11 veterans that were looking to get into business with an  
12 existing business.

13 You know, the difference between buying a good  
14 used car and a new car, the difference between trying  
15 to convince a bank to give a startup loan or a loan to  
16 a business that's already in existence. We were pulled  
17 into this. Over the last four to five years, we'd get  
18 veterans, we'd get people coming up, business owners, a  
19 lot of baby boomers, and sort of the typical scenario  
20 is Mom and Dad, they've had this business for a while,  
21 the kids are all raised up, put them through college,  
22 the kids don't want -- they're not interested in the  
23 business now. So the couple is looking to retire to  
24 Florida. They come to us and they say, maybe we could  
25 find a veteran. We always say, yes, sure, and we help

1 match them up.

2 We loosely refer to this as the apprenticeship  
3 to ownership program. We went ahead and formalized it,  
4 shifted our name from One Veteran at a Time to Veteran  
5 Business Project. This is our fifth deal. We've been  
6 able to engineer loans of 375,000, 275,000, 250,000,  
7 getting veterans into business. We want to -- we want  
8 to expand this across the country.

9 So what I'd like you all to do, if you could,  
10 if you have a way to get the word out, we'd appreciate  
11 it. We need veterans that are looking to buy a  
12 business, come onto the website, it doesn't cost them  
13 anything, and register. We need businesses that are  
14 looking to sell to veterans to do the same thing: come  
15 there and register. And what we do is we case manage  
16 each one of those situations. And we're looking to  
17 match veterans up and get them a rolling start. It's a  
18 whole different deal, slipping over into a seat and  
19 taking the con on a business that's already moving  
20 along successfully. So we do the scrutiny on both  
21 sides, so that's it. Thank you all.

22 MS. O'BRIEN: We are going to go ahead and  
23 break for lunch.

24 (Meeting in recess at 11:56 a.m.)

25



1 reservist economic injury disaster loan program.

2           Next slide. So preparedness is one of these  
3 things as, you know, many of you small business owners  
4 know, this is a hard thing for businesses to  
5 prioritize. Sometime, you know, you're so busy running  
6 your business, trying to grow your business, you know,  
7 this is one of the things that kind of is lower  
8 priority. And what we've seen in the disaster  
9 assistance field is that a lot of even homeowners, even  
10 renters, and especially businesses, it's kind of out of  
11 sight, out of mind. It's this mentality that, you  
12 know, it hasn't happened here, it's not going to happen  
13 here, or, you know, even when it comes to things like  
14 floods, there's this misperception that it's a 100-year  
15 flood, so it just happened here and it didn't affect  
16 me, so it probably won't happen again for another 100  
17 years, which is just not a great way to look at it,  
18 better things to look at.

19           It's not a matter of if it's going to happen;  
20 it's when and that you should be prepared because when  
21 something does happen, whether it's a natural disaster,  
22 you know, a man-made disaster, economic or  
23 environmental disaster, or even maybe, you know, a  
24 cyber attack nowadays is, you know, a very real threat,  
25 that it can bring your business down. You know, being

1 out of -- you know, being shut down, closed for even  
2 just a couple of days for some small businesses is  
3 enough to put them out of business because they're  
4 operating on such a small profit margin that even the  
5 slightest disruption could be devastating to that  
6 business.

7           So I won't go into this in a lot of detail and  
8 try to get us back on track a little bit, but you'll --  
9 when you look over that slide, you'll see some of the  
10 things that we usually stress when we're out there  
11 talking to the public about why it's important to  
12 prioritize preparedness.

13           Next slide. So at SBA, our disaster loan  
14 program is activated whenever there's a major  
15 presidential disaster declaration, which is the large  
16 events that you're probably, you know, familiar with.  
17 You see them on the news all the time, talking about,  
18 like, Hurricane Sandy, Hurricane Harvey, the California  
19 wildfires, the recent Midwest floods.

20           But SBA also has its own declaration-making  
21 authority. So we have a much lower threshold, where a  
22 governor can come directly to SBA and request our  
23 administrator to declare a disaster event. All they  
24 need to have is 25 or more homes or businesses -- any  
25 combination of those -- with major, uninsured damage

1 within a county or a jurisdiction. So that's a pretty  
2 easy threshold to meet, you know? All you have to have  
3 is 25 homes, let's say, that had major flooding damage  
4 that didn't have any flood insurance. Boom, right  
5 there in that one county you've met the criteria, or  
6 the same thing for a business.

7 We also offer economic injury disaster loan  
8 declarations if a governor can certify that at least  
9 five small businesses had major economic injury. And  
10 we have a worksheet that helps them complete that, and  
11 we work directly with the governor's office to do  
12 those. And so the point is, we're around the country a  
13 lot, even for events that don't quite rise to the level  
14 of these big major disaster events that you are seeing  
15 on the news all the time, but we're pretty active  
16 around the country year-round.

17 Next slide. So these are just the basic  
18 elements of creating a preparedness plan that we always  
19 stress to small businesses. Three main things we talk  
20 about when we talk about preparedness is, one, look at  
21 your vulnerabilities, you know, do an assessment of  
22 what hazards and threats could affect your business,  
23 you know, right now. If you're in a coastal state,  
24 obviously it might be something like flooding or  
25 hurricanes. If you're in the Midwest, it could be

1    tornados.  It might even be earthquakes because there  
2    are areas that have seismic activity.  And then for  
3    some types of businesses it might be cyber attacks that  
4    could be just a year-round type of threat.

5            But the second part of that is creating the  
6    plan itself.  And so these are the basic elements that  
7    we tell businesses to look at.  Have a communications  
8    plan; find ways to protect your documents, you know,  
9    keeping electronic copies of them that you can access  
10   and readily print out and provide to -- you know, so  
11   that way you can apply for programs if you need to.  
12   Look at your insurance coverage.  Make sure that you're  
13   adequately covered.  This is something even the -- you  
14   know, the best business owners that are really on top  
15   of it don't always get around to, updating their  
16   coverage amounts as the business is growing, so they  
17   want to make sure that they do that.

18           Creating a solid supply chain, making sure  
19   that you're looking at your vendors, also, because they  
20   might be vulnerable to disaster, and if one of them has  
21   a disruption, how is that going to affect your  
22   business?  Plan and look at alternative locations if  
23   that might benefit your business and help it stay in  
24   operations.

25           And then the last part is exercising that



1 plan. Don't just stop at creating it and putting it on  
2 the shelf, you know, let it gathering dust and then you  
3 go looking for it when something happens. Try and get  
4 into a routine, you know, maybe on a yearly schedule.  
5 There's all kinds of readiness and disaster  
6 preparedness campaigns that happen throughout the year.  
7 A business could find one that's relevant to them and  
8 try and stay on that schedule, and that way you create  
9 a routine and some muscle memory for your staff and for  
10 yourself, so that when something does happen, it's not  
11 a shock to everyone, they kind of know what to do.

12 Next slide. So going on to the recovery, and  
13 this is where I'll get into the different types of  
14 programs that we off.

15 Next slide. So our mission in the Office of  
16 Disaster Assistance is to provide affordable, timely,  
17 and accessible financial assistance to businesses of  
18 all sizes, private nonprofit organizations, homeowners  
19 and renters following a declared disaster. So a couple  
20 of things in that mission statement. You'll see  
21 businesses of all sizes. The disaster loan program is  
22 the only program at SBA not limited to small  
23 businesses. So in the event of a disaster, if they  
24 have physical damage, we can provide assistance, even  
25 to a large business.

1           And then also to homeowners and renters. In  
2 fact, the bulk of the assistance that we provide for  
3 disaster loans is probably to homeowners and renters,  
4 just because they're just affected in greater numbers  
5 usually.

6           And then also a declared disaster, and that's  
7 just kind of a broad term meaning not just the major  
8 presidential declarations but also the SBA agency  
9 declarations.

10           So the sequence of delivery, this is kind of  
11 where we fall out. This is a really oversimplification  
12 of the types of -- forms of assistance that are out  
13 there, but we always say that in disaster assistance,  
14 it starts and stops locally. So the most immediate  
15 forms of assistance that you're going to find are the  
16 local responders, those local charities, those  
17 churches, charitable organizations, volunteer services.  
18 They're the first ones usually on the ground providing  
19 sheltering, food, medical assistance.

20           After that, insurance is probably going to be  
21 the best form of assistance to any property owner.  
22 It's by far the best investment because even if you are  
23 able to qualify for a loan, you're going to have to pay  
24 that loan back. And then grant assistance usually is  
25 not in very high amounts, if it's available at all.

1           And the federal assistance, things like FEMA  
2     grants, which are limited to individuals, they don't  
3     have FEMA grants for businesses. There are some rare  
4     exceptions for nonprofits in the public assistance  
5     side, but otherwise, a business -- a for-profit  
6     business is not going to find a grant program from FEMA  
7     for them. So that's even more reason why it's  
8     important for them to be prepared. SBA disaster loans,  
9     and then in some cases HUD's community development  
10    block grant for disaster recovery grants.

11           Next slide. I've kind of gone over a lot of  
12    this already. This is our mission. This is, you know,  
13    what assistance we've provided in the past, and so we  
14    can go to the next slide and look at some of the  
15    historical lending.

16           So just to give you an idea of the amount of  
17    assistance we provided in recent large-scale events,  
18    Hurricanes Katrina, Rita, and Wilma in 2005 was to date  
19    our largest disaster response effort, and we provided  
20    almost \$11 billion in approved loans. After that,  
21    Hurricanes Harvey, Irma, and Maria in 2017, over 7.3  
22    billion. The 1994 Northridge Earthquake in California,  
23    4 billion. Hurricane Sandy in 2012, over 2.5 billion.  
24    And then the 2004 hurricanes, 2.2 billion.

25           So you can see the trend here. Most of these

1 are hurricanes. And it's because they affected, you  
2 know, a really wide geographic area, but it's also the  
3 type of damage that they're causing. It's a lot of  
4 flood damage and wind damage where we're seeing the  
5 property owners don't have insurance coverage for this  
6 type of hazard.

7 Next slide. So you can look at the disaster  
8 loans in three main categories and then add on to that  
9 the military reservist program. The first one is the  
10 home and personal property disaster loans. We can  
11 provide up to \$200,000 to repair or replace the primary  
12 residence after a declared disaster event. We can  
13 provide up to \$40,000 to replace personal property for  
14 a homeowner or a renter.

15 The terms can go out as far as 30 years. We  
16 typically offer either a 15- or 30-year term based on  
17 the borrower's ability to repay. So they can't just  
18 automatically select and say I want a 30-year loan. If  
19 they can afford to pay it back without taking on, you  
20 know, a financial hardship within 15 years, we'll  
21 probably offer them a 15-year term instead.

22 The interest rates are low, below 2 percent of  
23 fixed rate right now for the home loans. We do have a  
24 second rate, which we call like a market rate. We have  
25 a test that we do. It's called a Credit Elsewhere

1 test, and it doesn't mean that if they can get credit  
2 someplace else that they have to pay the higher rate.  
3 It means that we have certain criteria that we look at  
4 based on their credit, cash flow, and the ratio of  
5 their assets to the amount of damage that they had.  
6 And if they're above certain levels on those tests,  
7 then they don't really need a subsidized loan in order  
8 to recover, but they still qualify for one because they  
9 had damage in a declared event. So we're going to  
10 offer them the loan, but it's going to be at the market  
11 rate, which is actually still a pretty decent rate.

12 And collateral. So we always say we're not a  
13 collateral lender, meaning we won't decline somebody  
14 because they don't have anything to pledge as  
15 collateral or because they don't have equity in their  
16 property, but if it's available and the loan is over a  
17 certain amount, then we have to take that property as  
18 collateral to secure the loan. So for our loans, it's  
19 over \$25,000 for physical damages. So if they have  
20 some property that they can pledge as collateral, we  
21 might require them to do that.

22 Next slide. The second category of loans, so  
23 the business physical disaster loans, these can go up  
24 to \$2 million, again for businesses of all sizes,  
25 nonprofits. Terms can go out as far as 30 years. The

1 interest rate for the business loans is 4 percent.  
2 That's the low interest rate. And then for nonprofits,  
3 2.75 percent. And then, again, same thing with the  
4 collateral. \$25,000 is our unsecured loan limit.

5 Next slide. So economic injury disaster  
6 loans, these are working capital loans. Again, \$2  
7 million. Our overall limit is 2 million, so a small  
8 business could get 2 million in economic injury. They  
9 could get maybe a combination of physical damage and  
10 economic injury, so maybe like a million for each. You  
11 know, 2 million is the overall limit normally. We do  
12 have an exception for businesses that are considered  
13 major sources of employment where we can go above 2  
14 million, but those are -- that's on a case-by-case  
15 basis. Those are the rare occasion when we find a  
16 business who's that -- who's the major source of  
17 employment for that area and they need a loan larger  
18 than \$2 million. We have the authority to waive that 2  
19 million statutory limit and go above it.

20 And then -- we can go to the next slide,  
21 sorry. So the military reservist economic injury  
22 disaster loans. So this is a different -- this is  
23 different in that it has its own declaration. We make  
24 this declaration every year, once a year, and it's open  
25 year-round, the application period. But it's still --

1 it's a 2 million loan for economic injury. The term  
2 can go up to 30 years. The interest rate is 4 percent.  
3 The collateral, the statutory limit on it, is \$50,000,  
4 which is higher than on the physical damage and the  
5 other regular EIDL assistance.

6 And so I know this will probably come up.  
7 Down at the bottom, so the program, since it started  
8 back in 2002, we've approved 382 loans. I think we  
9 have a new one in there, so it might be up to 383 now,  
10 for over \$33.6 million. We can go to the next slide.

11 So here are some key things with the program  
12 that we're looking at. Essential employees is an  
13 individual, whether it's the owner or not, whose  
14 managerial or technical expertise is critical to the  
15 successful day-to-day operations of the small business.  
16 So a lot of people, when they hear the name of the  
17 program, they think it's a loan program for somebody  
18 who's in the military, and that's not necessarily the  
19 case. It's for a business who relies on an essential  
20 employee who then is called away to serve and might  
21 have a disruption in the revenue and might need a  
22 working capital loan during that period.

23 So some examples might be -- we were just  
24 talking about them -- is, you know, you might have a  
25 dental practice and maybe one of the dentists is called

1 away to serve and, you know, what happens with all of  
2 those appointments and customers, they might leave and,  
3 you know, they have to be rescheduled or postponed or  
4 they might go to another dentist altogether and that,  
5 you know, that practice is going to suffer as a result.  
6 So the business, whether that dentist is an owner or  
7 not, could apply for a military reservist EIDL loan and  
8 get working capital funds to help through that period.

9 A period of military conflict is defined for  
10 us as a period of war declared by Congress, a period of  
11 national emergency declared by the Congress or the  
12 President, or, three, a period of contingency  
13 operation. A contingency operation is designated by  
14 the Secretary of Defense as an operation in which our  
15 military may become involved in military action,  
16 operations, or hostilities, such as peacekeeping  
17 operations.

18 Substantial economic injury means that the  
19 business either has been or will be adversely impacted  
20 by the deployment of the military reservist and that  
21 the business is, one, unable to meet its financial  
22 obligations as they mature and/or, two, unable to meet  
23 -- or unable to pay its ordinary and necessary  
24 operating expenses, and/or, three, the small business  
25 is unable to market, produce, or provide a service



1 ordinarily marketed, produced, or provided. So  
2 basically it's a disruption.

3 And then, last, the filing period begins on  
4 the date the essential employee receives notice of  
5 expected call-up to active duty and ends one year from  
6 the date the essential employee is discharged or  
7 released from active duty.

8 MS. O'BRIEN: Alex, can I ask you a question  
9 before you move forward? This is Liz O'Brien. Does  
10 this cover reservists based in Puerto Rico and/or  
11 reservists that are located overseas, so hypothetically  
12 I am a military spouse that owns a small business on  
13 installation in Germany; I'm also a reservist.

14 MR. CONTRERAS: Yes.

15 MS. O'BRIEN: All covered?

16 MR. CONTRERAS: Yes, all covered.

17 Go to the next slide. So going on to the last  
18 part, mitigation -- we can go one more slide. So this  
19 is a part of the SBA program. This doesn't necessarily  
20 have to do with the military reservist program, but  
21 it's kind of a newer or, you know, an increased focus  
22 for us, is informing people about the availability of  
23 mitigation assistance through the disaster loan  
24 program.

25 So mitigation loans are to protect property

1 against future damage and include but not limited to  
2 things such as retaining walls, upgrading the roofing  
3 construction to reduce wind and water entry, elevating  
4 flood-prone structures. There's even wildfire  
5 protection or adding or constructing safe rooms or  
6 storm shelters could also be included in that.

7 Next slide. So mitigation funds are in  
8 addition to the amount that we're providing for the  
9 repair, replacement of damaged property, which really  
10 just means that we have to be providing something for  
11 the repair. But the mitigation amount can actually be  
12 more than what we're providing to do the repairs. The  
13 eligibility for mitigation cannot exceed 20 percent of  
14 the total amount of physical damage as verified by SBA.  
15 And borrowers generally have up to two years to request  
16 an increase to their loan, so we can look at a  
17 mitigation measure, you know, after we've done the  
18 initial loan approval, even after maybe we've started  
19 disbursing some of the funds.

20 But this is important that we message this  
21 because I think in the past, a lot of people look at  
22 the disaster loan program as kind of a means of last  
23 resort, right? They don't have enough insurance or  
24 other resources to do their recovery, so then, okay,  
25 then I'll do a loan. Nobody wants to take out a loan

1 after a disaster. You know, it's a fallback measure.  
2 But what some people out there don't know is that if  
3 they're mostly covered by insurance, like let's say  
4 they even have just, you know, \$1,000 that's not  
5 covered, they probably wouldn't come to the loan  
6 program to look to get, you know, something to finance  
7 that and to just tap into their savings or something.

8 But what they don't realize is they could get  
9 up to 20 percent of their total physical losses to do a  
10 mitigation measure. And so it's just a marketing  
11 thing. We haven't been marketing the program as a way  
12 to fund mitigation measures for people that are mostly  
13 covered by insurance already. So hopefully that's  
14 something that we can overcome in the near future.

15 So limits for mitigation. Home loans have an  
16 overall limit of \$200,000. Businesses still have that  
17 same overall limit of 2 million that mitigation can  
18 fall under. And, again, the mitigation, it can exceed  
19 the loan amount for the repair or replacement of  
20 physical losses. So essentially somebody would be  
21 getting more of a mitigation loan than really they are  
22 to do the repairs.

23 Next slide. So just -- I think this is -- let  
24 me just check here. Yeah, this is, I think, the last  
25 slide before we go to questions. Just to give you a

1 general overview of the process that somebody goes  
2 through when they apply for assistance or try and get  
3 an SBA loan, step one, obviously, is to apply. They  
4 can apply online, in person at any one of our disaster  
5 recovery centers that we open around the country  
6 whenever there's a declared disaster event, or they can  
7 send in the paper application forms by mail.

8           Once we get an application, one of the first  
9 things we do is an initial credit check just to make  
10 sure, you know, there aren't any, like, really major  
11 kind of deal-breaking issues on the credit, but we're  
12 pretty flexible, more flexible, I'd say, than a  
13 traditional bank when they're looking at credit.

14           The next step after that is to verify the  
15 losses. So for physical damages, we do a desktop  
16 verification. We have our own inspectors. What  
17 they'll do is they'll contact the applicant and do a  
18 phone interview. We'll use third-party, online  
19 resources to look at the property and then come up with  
20 an initial estimate of what it's going to cost to  
21 repair or replace everything back to the way it was  
22 before the event occurred.

23           And if you've ever been through a home  
24 renovation project or a remodel, you know that that  
25 initial estimate that you get from your contractor is

1 almost never what you end up paying at the end. Our  
2 loans are kind of similar to that. You know, initial  
3 estimate is our best guess with what we know at the  
4 time, but the loan is probably going to change. It  
5 could increase or it could decrease based on whatever  
6 that contractor says or is, you know, is able to do the  
7 repair work for. So a lot of times we see our loans be  
8 modified later on.

9           So we can make -- we tell people we try to  
10 make a credit decision with two to three weeks, so  
11 apply as soon as possible. In reality, whenever -- it  
12 depends on the workload, you know? If we have normal  
13 activity, we're doing it -- getting credit decisions  
14 much faster than that, if it's not a complicated case.  
15 Some business applications can be really complicated,  
16 complex structure, it might take a little bit longer,  
17 but generally it's probably closer to like a week or  
18 two weeks to get a credit decision.

19           And then once we do -- once we approve the  
20 loan, the third and final steps is to do the loan  
21 closing and then to disburse funds. So a lot of people  
22 think, okay, I've got approved and I'm going to get all  
23 of my money, which it doesn't actually happen that way.  
24 We do an initial disbursement within five days of  
25 receiving back the signed loan closing documents, and

1 then after that, we'll schedule the disbursements in  
2 increments based on getting back from the borrower  
3 contractors' estimates and receipts showing how the  
4 money's been used.

5 I think that's it, so we can go to questions.

6 MS. O'BRIEN: You said that you have flexible  
7 terms for the credit. Can you define that actually for  
8 me? What are you looking at in credit scores? What is  
9 bad, what's good? What's passable?

10 MR. CONTRERAS: So -- right. So three things  
11 we look at when we approve a loan, like general  
12 overarching things. The main one is eligibility, so it  
13 is an eligible type of loss. Is it -- are they the  
14 owner of that property? You know, is it in a declared  
15 county, that kind of thing. The second thing is  
16 satisfactory credit, is it satisfactory based on our  
17 own standards.

18 We try not to put too much like too -- define  
19 it in too much detail because we want to be flexible  
20 based on that individual borrower, okay, so we don't  
21 ever, you know, go out and say you have to have a range  
22 of this to this on your credit score, right? I'm not  
23 sure how better to explain how we look at credit.

24 MS. LARSON: Well, there's times when we pull  
25 a credit report, and they could be reporting something

1 as low as 439, 500, but when you look at it, it's  
2 someone who's living in Minot, North Dakota who only  
3 has one credit card, because they don't live off credit  
4 up around there, but they have one medical collection,  
5 and that's what's dropped their score.

6 So we don't necessarily go by credit score.  
7 We're going to look at the totality. And if they have  
8 derogatory credit, we're going to talk to them, what  
9 caused it? Because things happen in people's lives,  
10 you know, and they just went through cancer and they  
11 weren't expecting to have to apply for a loan. And so  
12 we can see that they had credit before, they had some  
13 problems, did they reestablish or what? And it's just  
14 working with them, finding out what the problems are.

15 And our basis is are we -- can we be  
16 reasonably assured that based on their history of their  
17 credit that they have all good intentions of repaying  
18 the SBA loan.

19 MS. O'BRIEN: So does that go to a committee  
20 or it's an individual person making that decision?

21 MS. LARSON: You have a rule of two, so you  
22 have a loan officer and then you'll have a supervisory  
23 loan officer. And depending on if there's certain  
24 criteria, it may have to go up higher. For instance,  
25 any loan over a million, it comes up here to

1 headquarters; we review it; and then our associate  
2 administrator is the final sign-off on our \$2 million  
3 loans or anything above a million. So it's varying,  
4 but it always has to be at least a rule of two.

5 MR. CONTRERAS: So and then the third thing is  
6 the cash flow. So eligibility, credit and then cash  
7 flow. They have to be able to afford the loan because  
8 we don't want to set them up to fail and end up, you  
9 know, defaulting on the loan.

10 MS. O'BRIEN: Thank you.

11 Anybody else?

12 (No response.)

13 MS. O'BRIEN: Thank you, Alex.

14 MR. CONTRERAS: Sure. So the last thing I  
15 would leave you guys with is you have any ideas for  
16 ways to help market the program, we have a team of  
17 public information officers in our field operation  
18 centers in Sacramento and in Atlanta that normally are  
19 out there responding to the physical disaster events,  
20 but we can certainly, you know, look at doing some  
21 efforts and outreach and things like that for this  
22 program.

23 What we need are like partnerships, right,  
24 people to help us connect with the right people in the  
25 communities on it. We're really well connected with



1 emergency managers, you know, people in that space, but  
2 this was a little bit different because it's not really  
3 tied to a disaster event the way our other programs  
4 are.

5 MS. O'BRIEN: Do you have metrics based on  
6 where you've given out the most loans across the  
7 country for this particularly program for reservists?

8 MR. CONTRERAS: Mm-hmm.

9 MS. O'BRIEN: I mean, it seems like a logical  
10 area to start targeting marketing.

11 MR. CONTRERAS: Yeah, so, we're -- yeah. Our  
12 loans, you know, we track, you know, which states,  
13 counties, you know, number of applications we receive,  
14 decisions, were they withdrawn, did we decline them,  
15 were they approved, for how much. Certainly we have  
16 that.

17 MS. O'BRIEN: Thank you.

18 MR. GREEN: I was just over at a TAP meeting,  
19 and they had ESGR, Employee Support of Guard and  
20 Reserve. Have you connected with them at all on --

21 MR. CONTRERAS: No.

22 MR. GREEN: I can connect you if you'd like.

23 MR. CONTRERAS: Okay, great.

24 MR. GREEN: They might be able to help market  
25 it, at least to the reserve.

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1 MR. CONTRERAS: Yeah.

2 MR. GREEN: Excellent.

3 MS. O'BRIEN: Thank you.

4 (Brief pause.)

5 MS. O'BRIEN: We'll wait for Larry to come  
6 back, and then we'll go ahead and review the annual  
7 report.

8 (Brief pause.)

9 MS. O'BRIEN: All right. So we're going to  
10 move forward and review -- this is Liz -- we're going  
11 to go ahead and review the annual report from 2018.  
12 Everybody should have received a copy of it. I believe  
13 it was sent out --

14 MR. PHIPPS: Are we still on the record? For  
15 the annual report review?

16 MR. STUBBLEFIELD: Do we --

17 MR. O'FARRELL: We were going to do it off the  
18 record, such that we could, so we could talk about it  
19 among the committee members.

20 MR. PHIPPS: Normally, we review it off the  
21 record because it's kind of an internal --

22 MR. STUBBLEFIELD: Okay, well, then, I guess  
23 what we could do, if it's going to be the committee  
24 reviewing the report --

25 MS. O'BRIEN: Yes.

1 MR. STUBBLEFIELD: -- so then should we close  
2 our session?

3 MR. PHIPPS: Public comment. Any more  
4 comments?

5 MS. O'BRIEN: Is there any more public  
6 comments in the room or on the telephone?

7 MR. PHIPPS: I just want to bring up the issue  
8 of the VA. We've invited the VA to be here in person.  
9 I know they've gone through some changes. I heard Tom  
10 -- Beth yesterday briefed us that Tom had moved on to  
11 another division within the SBA. I'm not sure who the  
12 person that's going to be taking over Tom is.

13 We were briefed yesterday that the CVE process  
14 takes 24 days on average. And we know from last time  
15 there were some issues with businesses kind of getting  
16 kicked out of the loop and kind of improving that  
17 number. And I think we had started digging down into  
18 the reasonings of -- there was an IT issue, and it  
19 might have been the company maybe that was running that  
20 process. We never really got answers on that.

21 And one thing Beth did say, which I think is a  
22 positive thing, after 30 days of no response, that  
23 person does get kicked out of the queue to a certain  
24 extent, and I'll let the VA correct me if I'm  
25 explaining that wrong, but if you don't respond within

1 30 days, they kind of pull back, call you, and figure  
2 out what's going on, or if you're no longer interested,  
3 they take you out of that queue. But I don't think  
4 that was the issue that we were addressing.

5 And I think the issue we were addressing,  
6 which is people intentionally somehow getting kicked  
7 out of the queue, either to improve their numbers or  
8 because there was an IT issue. And the minute we  
9 brought this up last month, we had people who had  
10 nothing to do with government contracting calling us  
11 and saying we've been going through this process for 90  
12 days, we've been going -- and our average -- we got  
13 kicked out of the queue so they restarted the clock on  
14 us.

15 And I think those are some very -- those  
16 numbers -- we have to address that, because if we got  
17 immediate response from, say, half a dozen companies  
18 with just bringing it up and socializing it internally,  
19 it's probably a much bigger issue. We don't know. I  
20 think we would like this committee to ask the VA  
21 formally to address what's going on in that process and  
22 figure -- and at least if -- report on there is an IT  
23 issue, it's a big issue. Tom had brought that up at  
24 one point.

25 Just keep us informed about it instead of

1 briefing numbers like 24 days average time to get your  
2 CVE, which we know from last time it was double or more  
3 than that. So I just would like to put that out to a  
4 request to the VA. And we're -- we know Tom left, and  
5 we would like to have somebody -- just to reiterate to  
6 the VA that it's an open invitation for somebody to be  
7 here in person because they are such a big part of this  
8 committee, and things legislatively that we can make  
9 recommendations for.

10 MR. ZACCHEA: This is Mike Zacchea. So two of  
11 the three veteran-owned businesses that we had that  
12 testified about the delays in getting -- and the trials  
13 of getting certified actually have contacted me in the  
14 last two weeks and they were both certified. One is  
15 from Virginia; one is from Wisconsin. But to your  
16 point, Mike, over a year for both of them to get  
17 certified, and the problem seems to be, and I think  
18 it's the management of the timeline, is that they  
19 stopped the clock, so they only consider -- so that 24  
20 days that they're saying is average does not include  
21 any of the time -- the time gap between when they  
22 stopped the clock and restart the clock. So the VA is  
23 saying it's 24 days, but in real time, it's over a year  
24 for these people.

25 MR. STUBBLEFIELD: Yeah, I was just going to

1 add, Tom Leney, like you said, is out, and the new  
2 person over there, her name is Ruby Harvey, and so I've  
3 reached out to Ruby, and I shared with Jim, you know,  
4 one of the things that I'm going to suggest to her, and  
5 maybe it's not too late to put this in the report, is  
6 that they should establish their own advisory  
7 committee, you know, for the CVE process.

8 And I would put a little bit more emphasis on  
9 it. It would bring it closer to home. And we may --  
10 you know, an advisory committee may be able to help put  
11 a little bit of, you know, horsepower, if you will,  
12 behind the problems of that process.

13 MR. PHIPPS: With the integration of the  
14 definitions for what a veteran-owned business is with  
15 the SBA and the VA, has there been any more discussion  
16 on certification and how that's going to look, SBA-wise  
17 versus VA? I know you guys were talking about that at  
18 one point.

19 MR. STUBBLEFIELD: Let me ask her real quick.  
20 Amy, we haven't had any more of the meetings, right?

21 MS. GARCIA: No, I mean the funding obviously  
22 is the biggest issue on that --

23 MR. PHIPPS: Right.

24 MS. GARCIA: -- just because they can't -- we  
25 can't get the VA loan, so it's a funding issue, and

1 there haven't been many -- much discussed --

2 MR. PHIPPS: And we had talked about maybe the  
3 third-party verification, because I know for women-  
4 owned businesses the SBA allows the third-party  
5 verification. Has there -- has that been in discussion  
6 and moved up to possibly allowing third-party  
7 verification?

8 MR. STUBBLEFIELD: That's -- I guess we owe  
9 you a due-out on that one. Yeah, we'll take a due-out  
10 on that one.

11 MS. GARCIA: HR1615 is the most recent bill  
12 that's alive. So HR1615, I believe -- I don't think  
13 it's 1516. I think it's 1615 is a bill that addresses  
14 that. It was introduced in March, I think.

15 MR. PHIPPS: And was that saying that --

16 MS. GARCIA: It was just the -- it's the most  
17 recent CV -- like, certification bill that was  
18 introduced.

19 MR. PHIPPS: Bill, okay.

20 MR. ZACCHEA: Mike, to your point -- this is  
21 Mike Zacchea -- so it's not just the women-owned but  
22 LGBT businesses are certified through the LGBT Chamber  
23 of Commerce. Minority businesses are certified through  
24 the National Minority Diversity --

25 UNIDENTIFIED PARTICIPANT: Supply and

1 Development Council.

2 MR. ZACCHEA: Right.

3 MR. PHIPPS: Supply and Development.

4 UNIDENTIFIED PARTICIPANT: NMSDC.

5 MR. ZACCHEA: Right, so there's already in  
6 place a model for a nongovernment, third-party  
7 certifier for all these other MBEs.

8 MR. SHARPE: Is it possible to get more  
9 information on what specifically the funding issue is  
10 for SBA for the certification program?

11 MR. STUBBLEFIELD: You're just talking about  
12 the funding issue that the committee was discussing?

13 MS. O'BRIEN: Sure. I'm sorry, I didn't hear  
14 the question.

15 MR. SHARPE: I'd like to get more detailed  
16 information on what the funding issue is for SBA to  
17 do --

18 MS. GARCIA: SBA has not appropriate any money  
19 for it, and the price tags are estimated to be pretty  
20 large.

21 MR. SHARPE: What is the price tag?

22 MS. GARCIA: Oh, I don't know what the current  
23 estimate is. I know someone from SBA testified that it  
24 would be -- I think it was about \$150 million or  
25 something like that. That seems a little high. I



1 would think VA spends upwards of -- don't quote me on  
2 this -- but I think upwards of, like, \$30 million or  
3 something, between \$20 and 30.

4 MS. PEREZ-WILHITE: I think Tom Leney said to  
5 Congress that it was 20 million, but it had to go over  
6 100 million for SBA to take it over and expand it.

7 MR. SHARPE: It would be 100 million, did you  
8 say?

9 MS. PEREZ-WILHITE: I think he said that,  
10 yeah, to Congress.

11 MR. PHIPPS: I want to see that line itemed.

12 MR. SHARPE: Is it possible to get some better  
13 numbers than that? It sounds like everyone's kind of  
14 guessing.

15 MS. PEREZ-WILHITE: It's online actually.  
16 It's online, his speech to Congress is online.

17 MR. PHIPPS: But maybe from the SBA we want to  
18 see it.

19 MR. SHARPE: Yeah.

20 MR. PHIPPS: You know, like how they -- maybe  
21 -- if there's not an estimate --

22 MR. ZACCHEA: This is Mike Zacchea again. So  
23 as it is, CVE has -- outsources the certification to  
24 two for-profit companies, and I believe each contract  
25 is \$40 million, and he has an internal operating budget

1 of 20 million. I think that's why he said -- that's  
2 how he got the \$100 million number. So CVE is not even  
3 doing the certification; they're outsourcing it to for-  
4 profit companies.

5 MR. O'FARRELL: For-profit companies that are  
6 SDVOSBs in some cases.

7 MS. GARCIA: I mean, their funding, too, comes  
8 from like a reserve or something. It's much -- it's  
9 structured differently than if we were to add a program  
10 and it would be funded and it would have to be  
11 appropriated. We'd have to have a line item for that.  
12 And their funding stream is set up much differently,  
13 and we can't get, even if they wanted to send it over,  
14 money and all, it wouldn't work out that way. We can't  
15 -- VA wouldn't be able give us their reserved money for  
16 that, so we use a special pot of money for that.

17 MR. O'FARRELL: So just so I'm on the same  
18 page again, so where it stands right now the current  
19 law was changed through, I think, the Defense  
20 Authorization Act at some point, that said that the VA  
21 will follow the SBA's process but continue to manage,  
22 and then the SBA will handle appeals of decisions.  
23 That's where we are.

24 MS. GARCIA: The appeal only.

25 MR. O'FARRELL: The appeal only, not even the

1 process. They keep doing it their own way. Okay. And  
2 that's been my experience.

3 I agree with everything you said, Mr. Phipps.  
4 We need to have someone come here, and maybe we need to  
5 send questions ahead of time, going back to Joe's  
6 question about could we get some numbers. And then the  
7 question ahead of time, we would like the SBA to at  
8 least tell us what they think the number would be.

9 And we could also ask the VA, what are you  
10 currently spending, what have you spent per year the  
11 last five years on this program, so we could also see  
12 that what I suspect is the growth.

13 MR. PHIPPS: And if there's an IT cost up-  
14 front for the program, is there any decline in that,  
15 because you're paying for all of the programming and  
16 all of that up-front. And so what's the long-term kind  
17 of projection so -- I mean, that would be great for the  
18 SBA to have to kind of do an apples-to-apples  
19 assessment.

20 MR. KURTZ: Jim, to your point -- this is Stan  
21 Kurtz, OVBD -- I think a list would be great. It would  
22 help us. We can identify the right person to address  
23 those, line item by line item, and make sure that you  
24 get all the answers that you need.

25 MR. O'FARRELL: Thanks, Stan. We'll work on

1 that in our closed session, which I think we're headed  
2 toward.

3 MS. O'BRIEN: Anything else for public record?

4 MS. PEREZ-WILHITE: I have a question before  
5 we close it. I thought Mike did a good job with last  
6 year's report. He sent it out to all of us, and I  
7 think we gave our responses, and didn't Mike send in  
8 the final draft? So why are we closing and why don't  
9 we just say yeah or nay to it?

10 MS. O'BRIEN: Well, that's not exactly  
11 accurate. I never saw it before it was submitted. I  
12 don't know that Brandon saw it or some other folks so  
13 we felt it applicable that we all have an opportunity  
14 to contribute or review, and that's why we'll have the  
15 closed-door session.

16 MR. STUBBLEFIELD: I'm going to officially  
17 close out the meeting. Okay, if there is no further  
18 committee meeting or committee business, this meeting  
19 is adjourned.

20 (Whereupon, at 2:04 p.m., the meeting was  
21 adjourned.)

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