

**Statement of Bette Brand  
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**Before the  
Small Business Committee  
U.S. House of Representatives**

**Rural Entrepreneurship: Examining the Challenges and State of Rural Small  
Businesses**

**July 26, 2023**

**Introduction**

Chairman Williams, Ranking Member Velázquez, Vice Chairman Luetkemeyer and members of the Committee, thank you for allowing me to submit this written testimony. I fully intended to testify in person today as requested but was in an automobile accident recently and suffered injuries that would not allow me to travel.

My name is Bette Brand, and I am the CEO/Founder of Strategic Consulting LLC, a small business in Roanoke, Virginia that helps businesses across the country access capital to acquire or grow their company. Prior to forming Strategic Consulting LLC, I worked in Rural Development at USDA, serving first as the Administrator of Rural Business Cooperative Service and for a brief time served the additional role as the Acting Administrator of the Rural Utility Service. In February 2020, I was appointed to serve as the Deputy Under Secretary of Rural Development at USDA.

Prior to my time at USDA, I worked in the Farm Credit System for more than 35 years as a lender, managing lending teams and in executive positions. I have spent my entire career working with rural businesses, most of them small businesses.

**Background**

Early in my tenure at USDA, Secretary of Agriculture Sonny Perdue and Administrator of the Small Business Administration Linda E. McMahan signed a Memorandum of Understanding to “improving program effectiveness and increasing access to capital through enhanced collaboration and is intended to strategically align to investments to the priorities established by the Agriculture and Rural Prosperity Taskforce in order to promote stronger business and agricultural economies in rural America.”

Throughout the remainder of my time in Rural Development, my team and I worked with SBA to enhance the coordination and collaboration between the two organizations at the national level, in regions, and in individual states. The successes of our work culminated in:

- Collaboration on outreach and education activities enabled SBA to increase its loans to rural small businesses thus enabled USDA to focus its program resources on transactions SBA cannot serve (businesses that needed loans greater than \$5MM). (Unfortunately, current data of SBA's service to rural small business loans is not available publicly.)
- Collaboration on outreach and education activities to support the SBA's Small Business Investment Program (SBIP) and USDA's Rural Business Investment Program (RBIP) broadened the scope of investors into Rural Business Investment Corporations (RBIC) and increased the collaboration between Small Business Investment Corporations (SBICs) and RBICs investing in rural small businesses and enterprises.

## Challenges

To better understand the two programs and the opportunities to help rural small businesses, it is useful to know the differences between the two programs and where there is a need to work together. By understanding this, it is easy to see that there is truly little duplication of the two programs.

In general, the programs differ in the following ways:

1. **Loan size:** SBA \$5 mil. - RD \$25 mil
2. **Type of businesses:** SBA Small business only - RD any size business
3. **Location of business:** SBA in rural or urban area - RD restricted to rural area (population less than 50,000)
4. **Program Delivery System:** SBA Preferred Lender Program (approved commercial lenders) or General Program (regional SBA offices) - RD State and area offices to work directly with customer and lender.
5. **Personal Guarantee Requirements:** SBA requires personal guarantee from all applicants - RD requires only applicants with an investment of 20% or more to personally guarantee. For Cooperatives across America, the SBA requirement essentially makes the SBA program unavailable to them.
6. SBA requires a pari passu position (to include pro-rata discounting) on their loans. Pari passu is a financing arrangement that gives multiple lenders equal claim to the assets used to secure a loan as opposed to a first and second lien position. RD does not.
7. SBA requires loan proceeds to be on owner occupied properties – RD can include non-owner occupied.
8. Loan application processing times differ between SBA and RD.
9. Each program has its own set of regulations, with SOPs over 300 pages long.

The chart below details some of the program-specific differences between the programs.

Loan Attribute	USDA Business and Industry Loans	SBA (Small Business Administration Loans)	USDA Rural Energy for America Loans
Maximum Loan Size	\$25 Million	\$5 Million	\$25 million
Minimum Loan Size	No minimum	No Minimum, but commonly no less than \$30,000	No minimum
Geographic Requirements	Rural America (50,000 or less ) & US Territories	No Restricted Geographic Area	Rural America (50,000 or less ) & US Territories
Interest Rate Estimates	Based on risk	SBA Prime Rate based Rate	Based on risk
Origination Fees	1%	Not Allowed	1%
Guaranteed Portion	80%	75%	80%
Security of Guarantee	Strong	Often Negotiated	Strong
Speed of Government Processing	45-90 Days	Immediate to 2 Weeks	45-90 days
Collateral	1:1 Discounted	No Regulatory Requirement	1:1 Discounted
Equity	Between 10-25%	No Regulatory Requirement	Between 10-25%
Interest Rates	Lender Determined	Lender Determined	Lender determined
Prepayment Penalty	Negotiated	Fixed at 5/3/1	Negotiated
Repayment Terms	Maximum of 40 years (real estate secured)	Maximum of 25 Years	Maximum of 40 years (real estate secured)
Owner Occupancy	No Restrictions	Owner Required to Occupy the Property	No Restrictions

Source: Excerpt from Blue Ridge Bank as prepared from data obtained from the Rural Business Cooperative Service, USDA

Capital access and investment in rural America and demand for guaranteed loans is at an all-time high. This is evidenced by USDA Rural Developments' Business and Industry (B&I) program which has doubled its program level since 2019 but still faces a shortfall of over \$1B (\$1B in unfulfilled applications and no FY 2023 funding remaining.) This means that there is at least \$1B, and likely more, demand for capital for businesses in rural America that is not being met. Without the availability of capital for these businesses, rural communities are losing opportunities for jobs, needed services, diversity, and economic development that could secure prosperity for that community.

With the implementation of the One RD Rule in 2020 in Rural Development that streamlined the regulations for the four major guarantee programs, average loan size has grown from \$3.0 million to approximately \$6.5 million. Rural Small Businesses need SBA to step in to fill the gap for the loans \$5 million and under so that the RD B&I program can address the needs of the larger loans. Program funding for the SBA 7(a) program is significantly larger than the program funding for RD B&I Program. By working together under a MOU, this coordination between the two agencies will only become stronger and the unmet demand for capital in rural America can begin to be addressed. The ultimate benefit will be to the rural communities. There were no real reporting requirements in the original MOU, but measuring effectiveness of the collaboration and the impact on all rural businesses should be included to recognize how the communities have prospered because of the MOU.

### Opportunities for SBA and USDA

More than ever, both SBA and USDA programs are necessary to support rural small businesses. To that end and to build on the success of the original MOU, SBA and RD should expand their collaboration to educate more lenders to help them see opportunities for their customers. Because SBA is such a large program, many banks just focus on SBA only and do not do RD loans. Many of the lenders in the National Rural Lenders Association use both programs and have developed expertise and know how to structure loans for specific purposes. The SBA lines

of credit can be beneficial since lines are not eligible in RD programs. In the example below where some of the collateral may not be in an eligible rural location there is another opportunity where SBA and USDA can really help that rural small business.

Additional opportunities exist to enhance support to rural small businesses and rural entrepreneurs through SBA’s Women’s Business Centers, Small Business Development Centers, SCORE, Regional Food Business Centers, and Innovation Clusters.

Also, technical assistance, development support, and enhancements to financial programs would support cooperatives and worker/employee-owned businesses.

Below are some examples of loans that required the use of both programs to obtain the capital they needed for their business. Without BOTH programs, these projects may very well have not been able to proceed.

**Example 1.**

Live Oak Bank worked with a provider of broadband services in western North Carolina. The business provides weather data collection and internet service to over 1200 miles of service area. The loan purpose was to provide financing for the purchase of the business, and some of the assets were not in a B&I eligible rural area so an SBA 7(a) loan was used for assets in non-rural areas and the B&I funds were used for assets in the rural area. The business also needed a line of credit, which is not eligible under B&I, so an SBA Express Line of Credit was used. The loan was closed in 2021 and would not have been possible without the collaboration of SBA and USDA.

B&I loan	\$2,845,000
SBA 7 (a) loan	\$2,555,000
SBA Express Line of Credit	\$ 500,000
Borrower injection	\$ 799,711

Without this provider, most areas in western North Carolina would not have access to hi-speed internet, including municipalities, hospitals, and schools.

**Example 2.**

Madison One Lender Services worked with a vehicle rental service that owns a fleet of over 550 vehicles and trailers for lease by the film production companies in Georgia and the southwestern United States. They were seeking to refinance over 300 equipment loans secured by vehicles and trailers. B&I was able to secure the debt refinancing and SBA was able to help with additional new equipment purchases. Both loans together would exceed the limit for B&I and needed SBA to help make it happen. The loan closed in 2021.

B&I loan	\$24,650,000
SBA 7 (a) loan	\$ 4,166,600
Borrower injection	\$ 65,433

**Example 3.**

Madison One Lender Services is also working with a pallet manufacturing company in Texas. The company is looking to refinance debt obligations and create additional cash flow. This project will add approximately 140 full time jobs to this rural community. Application was submitted to SBA and USDA on 7/10/2023 and awaiting action.

B&I loan	\$ 7,015,000
SBA 7 (a) loan	\$ 2,160,000

In the examples above, both SBA and RD loan programs were needed to make the project work. Whether the amount the company needed exceeded the loan limits, needed to include both rural and urban collateral, or needed a Line of Credit that only SBA offers, there are numerous reasons for greater collaboration to help rural businesses and communities.

**Conclusion**

It is my understanding that USDA is actively engaged with SBA to update and extend the MOU. The broader objectives of collaborating so both can improve their service to rural businesses and rural entrepreneurs remain the same as the original MOU. Expanding coordinated outreach to more lenders, implementing some accountability to show impact to rural communities, further support of SBA’s Women’s Business Centers, Small Business Development Centers, Score, Regional Food Business Centers, and Innovation Clusters are all positive possible additions to the MOU to consider. Finally, much consideration should also be given to providing more collaborative technical assistance, development support and enhancements to the SBA loan programs to support cooperatives and worker/employee-owned businesses.

Thank you for allowing me the opportunity to share my thoughts (in writing) on the benefits of two great programs working together to help rural America. I am happy to respond formally to any questions as part of the hearing process.