

STRENGTHENING SBA'S 7(A) LOAN PROGRAM

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STRENGTHENING SBA'S 7(A) LOAN PROGRAM

WEDNESDAY, JANUARY 17, 2018

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Brat, Radewagen, Kelly, Blum, Comer, González-Colón, Fitzpatrick, Marshall, Curtis, Velázquez, Evans, Murphy, Lawson, Clarke, and Chu.

Chairman CHABOT. We appreciate everybody being here.

The economy is improving. Economic data is promising. Treasury numbers are moving in the right direction. The tax reform law is being implemented. Overall, the economy, as I say, is moving in the right direction. However, we continue to see that lending and borrowing remain flat for small businesses. This becomes more acute as you get down to the smaller firms across the nation. We continue to hear that financing projects for growth and expansion, which leads to job creation, are challenging.

One of the top priorities for this Committee is to study how we can create an environment for small businesses to flourish. I cannot say it enough, when small businesses grow, so does our economy. To address the gap that small businesses face when financing their projects, the SBA offers the 7(a) loan program for small businesses that have a plan in place for growth, but lack the qualifications for conventional lending such as collateral.

Recent growth in the program has led to a closer look at the SBA's oversight tools. As a result of multiple hearings, meetings, and briefings, I, along with the Ranking Member and our Senate counterparts, introduced H.R. 4743, the Small Business 7(a) Lending Oversight Reform Act of 2018. This bicameral and bipartisan legislation aims to ensure the integrity of the program while bringing stability to small businesses that truly require the services of the SBA. Specifically, H.R. 4743 strengthens the Office of Credit Risk Management, which oversees lenders at the SBA. It does so by reinforcing the office's oversight authority, increasing enforcement options, enhancing the lender review process, and cementing the SBA's use of the Lender Oversight Committee, which plays a major role in significant enforcement actions.

Beyond strengthening the oversight activities of the SBA, this bill will also require a more transparent budget process to ensure the SBA is allocating oversight dollars properly. This Committee often discusses the importance of Credit Elsewhere Tests. This is

not an understatement; this test acts as a gateway into a Federal Government guarantee.

Simply put, the 7(a) loan program cannot be used by small businesses that can receive traditional bank lending. This legislation bolsters the test by updating and clarifying the factors often used in that test.

It is important to note because of the fees associated with the program that are paid by participants, the 7(a) loan program runs on a zero cost to American taxpayers. To ensure that this remains the case and to ensure the program remains an option for credit-worthy small businesses that justly need it, strong oversight is mandatory.

I believe we are heading in the right direction. We have already begun to hear from 7(a) loan participants, and I want to share a quote from a letter of support. I would ask unanimous consent to enter the letter into the record, and this is the letter here from Huntington. And without objection, so ordered.

It is, as I mentioned, from Huntington Bank, a storied institution from my home State of Ohio. And to quote a couple of small parts, "This legislation is focused on the long-term success and sustainability of the SBA programs that serve to grow and protect small businesses." On the provisions to improve the Credit Elsewhere Test, Huntington says that the changes will "protect the program's integrity."

Do we have more work to do on this topic? Absolutely. I see this as a starting point, not the end point. For the nation's mom-and-pop shops, to those operating a franchise, to those creating the next great American product or service, we are just beginning. This hearing will provide Committee members the opportunity to hear from participants in the 7(a) loan program about how the proposed changes will ensure real growth while providing certainty to small businesses.

We appreciate the witnesses for being here this morning. We look forward to your testimony.

And I would now like to yield to the Ranking Member for her opening remarks.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

All of us are acutely aware of the vital role access to capital has in the success of our nation's 29 million small businesses. Without it they cannot stock their shelves, pay their employees, or upgrade equipment. Capital is the key to unlocking opportunities to grow and create new jobs in the local economy. A vital pathway to accessing that capital is through the 7(a) loan program, SBA's flagship lending product.

At the beginning of this Congress, our committee held a series of hearings to take the temperature of the 7(a) program by looking at how it is being used and administered. The good news is it is as successful as ever. In 2017, the program made 62,400 loans totaling \$25.4 billion, an all-time high. At the same time, defaults are at historic lows.

Conventional lending to small businesses has yet to return to its prerecession peak, however, making the 7(a) program all the more important to driving economic growth.

The 7(a) program is not without shortcomings. Both lenders and the agency have said oversight could be improved, the oversight toolbox made more robust, and transparency increased with legislative action. This committee heard you and set out to address your concerns.

The Small Business 7(a) Lender Oversight Reform Act of 2018 addresses a number of issues and makes long-overdue reforms to the program. The act glorifies the Office of Credit Risk Management and Lender Oversight Committee and outlines the key employees and duties of each. It also requires the office to internally submit a budget to ensure there is justification of the fees, salaries, and expenses used to carry out oversight functions. These reforms ensure the oversight process will have transparency and uniformity for both lenders and the SBA.

We also heard that a Credit Elsewhere Test, a bedrock of the program, was not clear enough and lacked an SBA verification component. This bill better articulates the characteristic of the Credit Elsewhere Test and bolsters verification of how it is fulfilled.

Finally, we all remember 2015 when the program ran out of authority to lend before the end of the year. This created an artificial run on the lenders to get loans approved, unfairly harmed small businesses that needed credit, and ultimately required congressional intervention. Today's bill incorporates provisions from legislation I introduced earlier this year empowering the SBA administrator to request additional lending capacity from Congress to meet unexpected demand late in a fiscal year. With improvements offered by the Chairman, this streamlined process strikes a common-sense balance between congressional oversight and ensuring SBA can keep making loans to deserving businesses that cannot get credit elsewhere.

I want to thank Chairman Chabot and his staff for working in such a collaborative manner on this legislation. I also want to thank Senator Risch and Shaheen and their staff for making this process both bipartisan and bicameral. Through debate and compromise, we arrived with a legislative product we can all be proud of. Administrator McMahon and her team and the trade organizations testifying today were also vital in crafting this bill, and we greatly appreciate your input.

With that, let me thank our witnesses for being here today to continue this discussion. I look forward to hearing today's testimony.

I yield back. Thank you, Mr. Chairman.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

And I would like to thank the Ranking Member for her leadership and her cooperation and the bipartisanship that she and her staff showed with ours in crafting this as well. We really do try to work in a bipartisan manner on this Committee, and we certainly showed that in this case.

If Committee members have opening statements prepared, I ask that they be submitted for the record.

And I would like to take just a moment to explain our timing system and the lights and that short of thing. The rules are pretty

simple. You get 5 minutes to testify, and we will have 5 minutes each to ask questions. There is a lighting system to assist you. The green light will be on for 4 minutes and the yellow light will be on for a minute to let you know it is about time to wrap up. And then the red light will come on and we would ask you to stay within those parameters if at all possible.

And I would now like to introduce our distinguished panel here this morning.

Our first witness is Ms. Cindy Blankenship. Welcome back to the Committee. Ms. Blankenship has been a frequent visitor and guest here and speaker and has done really a fine job over the years. She is the Vice Chairman and Chief Operating Officer of the Bank of the West in Grapevine, Texas, which opened in 1986, under her leadership. Ms. Blankenship has spent years as a leader in community banking in Texas and throughout the country. She has also been a past chair of the Independent Community Bankers of America and a member of the FDIC's Advisory Committee on Community Banking. Ms. Blankenship is testifying today on behalf of the Independent Community Bankers of America, and we welcome you back.

Our next witness will be Ms. Patricia Husic. Ms. Husic is the President and Chief Executive Officer of the Centric Bank in Harrisburg, Pennsylvania, which she established. Prior to her time founding Centric, Ms. Husic was an executive at a number of Pennsylvania financial institutions and is a past chair of the Pennsylvania Bankers Association. With nearly three decades of banking experience, Ms. Husic has been recognized on multiple occasions as one of the 25 Women to Watch in Banking. Ms. Husic is testifying today on behalf of the American Bankers Association, and again, we welcome you today.

And I would now like to yield to the Ranking Member for the introduction of our other two witnesses this morning.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

With more than 20 years of experience and increasing responsibility in marketing, strategic planning, management, and lending, Sonya McDonald has spent the majority of her career in the credit union industry. As the EVP/Chief Lending Officer at RBFCU, Sonya is currently responsible for a \$6 billion portfolio, including \$22 million in SBA loans. Ms. McDonald holds a bachelor's degree in journalism from the University of Texas at Austin. Welcome, and thank you for being here.

Tony Wilkinson has served as President and Chief Executive Officer of the National Association of Government Guaranteed Lenders for more than 25 years. He is responsible for overseeing the association's government relations strategy and often offers expert testimony before Congress. He works closely with SBA and the Small Business Committee to ensure the continued stability and availability of the SBA 7(a) business loan program to the nation's small businesses. Welcome, and thank you for being here.

Chairman CHABOT. Thank you very much.

And we will now hear from Ms. Blankenship. You are recognized for 5 minutes. Thank you.

**STATEMENTS OF CINDY BLANKENSHIP, VICE CHAIRMAN,
BANK OF THE WEST; PATRICIA HUSIC, PRESIDENT & CEO,
CENTRIC FINANCIAL CORPORATION ; SONYA MCDONALD,
EXECUTIVE VICE PRESIDENT AND CHIEF LENDING OFFI-
CER, RANDOLPH-BROOKS FEDERAL CREDIT UNION; TONY
WILKINSON, PRESIDENT & CEO, NATIONAL ASSOCIATION OF
GOVERNMENT GUARANTEED LENDERS**

STATEMENT OF CINDY BLANKENSHIP

Ms. BLANKENSHIP. Chairman Chabot, Ranking Member Velázquez, and members of the Subcommittee, I am Cynthia Blankenship, Vice Chairman and Corporate President of the Bank of the West in Grapevine, Texas. It is a \$450 million community bank with 105 employees in the Dallas-Fort Worth suburban area.

I am also a former Chairman of the Independent Community Bankers of America, and I am pleased to testify today on behalf of more than 5,700 community banks represented by ICBA.

A robust 7(a) program with broad community bank participation will help small businesses thrive and create jobs. We are grateful for this Committee's strong support of the 7(a) program.

Bank of the West is a 30-year partner with the Small Business Administration and a leading SBA lender in the Dallas-Fort Worth district. We currently hold in service nearly \$100 million in high-quality SBA loans with a minimal loss ratio. Historically, Bank of the West 7(a) loans have created thousands of jobs in the communities we serve and help sustain and strengthen our local economy.

Bank of the West uses the 7(a) program to supplement our lending and credit services by reaching a broader range of borrowers who would not qualify for conventional loans.

To preserve the long-term viability of the 7(a) program, ICBA supports targeted reforms such as those contained in the Small Business 7(a) Lending Oversight Reform Act, H.R. 4743, to ensure its integrity and continued safety and soundness. H.R. 4743 would codify the SBA Office of Credit Risk Management, which supervises and oversees all SBA lenders, and the Lender Oversight Committee, which reviews the office's enforcement recommendations. The bill would provide guidelines for lender reviews, codify lender appeal rights, and create greater transparency in the office's budget. These provisions strengthen the integrity of all SBA lending programs and all responsible lenders should support them.

The 7(a) program is only available to small businesses who would not otherwise qualify for a conventional loan. To safeguard the program from abuse, H.R. 4743 would codify the SBA's Credit Elsewhere Test, which requires lenders to fully substantiate and document the reasons a given applicant cannot be served with conventional credit. Stable funding of the 7(a) program is critical to the thousands of borrowers who rely on it.

As is well known to this Committee, program funding came to an abrupt halt in the summer of 2015 when it reached its authorization cap well before the end of the fiscal year. Congress was forced to pass an emergency increase to the authorization cap to restart the program.

ICBA greatly appreciates the support and responsiveness of this Committee in passing the emergency increase. Thankfully, the hia-

tus was short-lived. A longer program shutdown would have cut off the thousands of small businesses that rely on this program for payrolls, investment, and expansion.

While the 7(a) program is fully funded by user fees and no taxpayer dollars are appropriated, a program authorization level must be approved by Congress each year, and once that level is reached, no more loans can be approved. H.R. 4743 would give the administrator authority to raise the cap by up to 15 percent one time each fiscal year with the approval of the House and Senate authorizing and appropriating committees.

I have focused my remarks today on the 7(a) program. However, taking a broader perspective, I urge this Committee to support regulatory relief that would strengthen community banks and enable more small business lending in SBA programs and in conventional markets. We are grateful to the Financial Services Committee for its passage of numerous regulatory relief bills in this Congress and past Congresses. These bills were the groundwork for the Senate Banking Committee's passage of S. 2155 in December on a strong bipartisan vote. S. 2155 contains robust regulatory relief for community banks which will create more small business credit, economic growth, and jobs. We urge the House to quickly pass S. 2155 when it is sent over from the Senate in the coming weeks. We must not miss this long-awaited opportunity for community bank relief.

Thank you again for convening this hearing. I am happy to answer any questions you may have.

Chairman CHABOT. Thank you very much.

Ms. Husic, you are recognized for 5 minutes.

STATEMENT OF PATRICIA HUSIC

Ms. HUSIC. Thank you.

Chairman Chabot, Ranking Member Velázquez, and members of the Committee, I am Patricia Husic, President and CEO of Centric Bank, a community bank headquartered in Harrisburg, PA. I appreciate the opportunity to present the views of ABA on legislation that would improve the availability of SBA 7(a) loans and oversight of the program. ABA applauds your leadership, Mr. Chairman and Ranking Member Velázquez, in introducing H.R. 4743 and working with your Senate counterparts.

The SBA 7(a) loan program is very important to small businesses as it helps fill a critical gap, particularly for early-stage businesses that need access to longer-term loans. This long overdue bill will strengthen the SBA's Oversight Office and provide flexibility to the administrator to increase the program's maximum lending authority in the event it would be reached.

At Centric Bank, the 7(a) program has helped hundreds of entrepreneurs during the past 10 years start their own business, purchase an existing one, or expand a current business. At Centric Bank, we view SBA lending as a way to get a customer to yes in a safe and sound manner. Without this program, many entrepreneurs would never realize their dream.

For example, over 5 years ago, a young customer had a dream of owning his own restaurant in Harrisburg. When he finally found a business to purchase, he was unable to obtain a traditional bank loan. Through the 7(a) program, we were able to help this owner

acquire the building and business with a 10 percent down payment and appropriate repayment terms. His business is profitable, and just 9 months ago we financed a second restaurant for him using the 7(a) program. The program enabled this entrepreneur to realize his dreams and now he is the owner of two profitable and successful restaurants, employing more than 60 people.

We also assisted a U.S. Army veteran who wanted to open a gun range with education and training for the public. They also had the foresight to open their facility to police municipalities to provide access for the officers while they were off duty. The customer was unable to obtain financing through a traditional bank loan. With a longer-term loan provided through the 7(a) program, the business owners obtained the financing they needed and they were able to open their facility. They have hired 20 people, the majority of whom are veterans.

Another customer of Centric Bank was looking to expand his existing minority-owned construction company from Philadelphia into the New Jersey markets. Centric Bank closed a \$675,000 7(a) loan to buy the commercial building, provide working capital for expansion, and hire new employees. Without the SBA guarantee, we would not have been able to provide the funding due to an overall collateral shortfall. This loan has provided our customer with a foundation for sustained growth.

It is essential that small businesses that qualify for the 7(a) loan program are able to utilize the program to obtain access to the necessary capital to build and grow their businesses. In past years, this has been a challenge as the program has hit its funding limits. H.R. 4743 would grant the authority to the administrator to increase the amount for general business loans up to 115 percent of the fiscal year's limit. This important measure helps ensure that small businesses will not be affected by temporary shutdowns in the program leaving them unable to meet payroll, purchase inventory, or secure equipment and supplies. Importantly, this bill also takes steps to improve the oversight of the program to prevent fraud and increase efficiency. Clear responsibilities for the Office of Credit Risk Management, including risk analysis, providing timely findings to lenders and establishing a Lender Oversight Committee should ensure the appropriate level of accountability while maintaining checks and balances. H.R. 4743 also helps to ensure capital goes to small businesses that face financing obstacles by clarifying the factors considered in the Credit Elsewhere Test.

The 7(a) program is an example of how bank lending facilitates economic growth. This program should be vigorously supported in the future, and H.R. 4743 is an important measure to ensure the continued success of this program. In my written statement, I outline several suggestions that would improve the servicing aspects of the 7(a) program and would hope the committees will consider these in your deliberations.

Thank you. I would be happy to answer any questions.

Chairman CHABOT. Thank you very much.

Ms. McDonald, you are recognized for 5 minutes.

STATEMENT OF SONYA MCDONALD

Ms. MCDONALD. Chairman Chabot, Ranking Member Velázquez, and members of the Committee, thank you for the invitation to appear before you this morning. My name is Sonya McDonald, and I am testifying today on behalf of NAFCU.

I am the Executive Vice President and Chief Lending Officer at Randolph-Brooks Federal Credit Union. In this role, I am responsible for a \$6.6 billion portfolio that encompasses consumer, mortgage, and commercial lending. I appreciate the opportunity to share with you our thoughts on strengthening the Small Business Administration's 7(a) loan program.

RBFCU became an SBA-preferred and express lender in September 2005. We are delegated with SBA authority and are able to offer all of their products. In both 2016 and 2017, we were the number one SBA lending credit union in our 55 county districts.

SBA products allow us to leverage our lending dollars, mitigate the risk associated with the loans, and extend more credit to our community's small businesses. Our current portfolio has 210 active SBA loans with a balance of approximately 23 million.

There are many stories of small business owners looking for that loan that will allow them to either start or grow their business. While other institutions may have scaled back their small-dollar business lending, credit unions have been willing to fill that void. At RBFCU, we are pleased that we have been able to step up to help meet the demand. SBA's 7(a) loans make it easier for credit unions because the government-guaranteed portion of these loans does not count towards the arbitrary credit union member business lending cap.

In San Antonio, we have a great bagel shop, the Bagel Factory, owned by an Air Force veteran and his wife. They went to 20 different places and were denied before coming to Randolph-Brooks for an SBA loan. That business is now thriving as it enters its eighth year. This is an example of the kind of business that SBA 7(a) loans are here to help.

Last year, NAFCU renewed a memorandum of understanding with SBA to help address the challenge of getting more credit unions involved with the SBA. The MOU formalized a joint partnership that aims to increase the availability of small-dollar loans by providing more outlets for entrepreneurs to access SBA products in their neighborhoods and it makes the small-dollar loans more accessible to underserved communities, including women and minorities.

We appreciate the work SBA has done to improve their processes. We also support your legislative efforts in H.R. 4743, the Small Business 7(a) Lending Oversight Reform Act of 2018. This legislation will help credit unions by bringing more clarity to SBA's 7(a) loan program by outlining more specifics in statute. We are particularly pleased to see the Credit Elsewhere Test better defined in the bill as compared to what is included in the standard operating procedures. This will help clear up ambiguity for lenders.

One of the most important parts of the bill is the administrator's authority to increase the budget amount to 115 percent of the limit. This would be beneficial to both borrowers and lenders versus the hard cap that currently exists and helps ensure that lenders and

small businesses will not face a situation where the ability to use the 7(a) program comes into doubt due to the popularity of the program.

One area where we think the legislation could be improved would be to have better definitions for penalties. Adding clarity that requires the director to distinguish between minor compliance errors and willful or negligent violations would be helpful.

Overall, we believe this is a solid legislative package and would urge the Committee to support and advance this legislation in a timely fashion.

In conclusion, small businesses are the driving force of our economy and the key to its success. The ability for them to have access to capital is vital for job creation. While SBA's 7(a) program provides opportunities to establish struggling businesses, there continue to be ways the program can improve. The SBA has taken some steps in the last year to improve the program. Enacting the Small Business 7(a) Lending Oversight Reform Act is another step that will help. We urge you to support this legislation.

We thank you for your time and the opportunity to testify before you today on this important issue. I would welcome any questions you may have.

Chairman CHABOT. Thank you very much.

Mr. Wilkinson, you are recognized for 5 minutes.

STATEMENT OF TONY WILKINSON

Mr. WILKINSON. Thank you, Mr. Chairman, Ranking Member Velázquez, and members of the Committee. My name is Tony Wilkinson, and I am here on behalf of the National Association of Government Guaranteed Lenders, NAGGL. NAGGL is a national trade association representing banks, credit unions, nondepository lenders, and other entities that participate in the Small Business Administration's 7(a) Loan Guaranty Program. NAGGL's members are responsible for approximately 80 percent of all the SBA 7(a) loans made annually.

This Committee and its colleagues on the Senate Committee on Small Business and Entrepreneurship have been looking into the performance of the SBA 7(a) loan program and SBA's role in oversight of the program for about the last 3 years. There has been great care taken by this Committee to approach this issue with diligence, and as the CEO of the SBA's 7(a) industry's trade association for the last 30 years, I can tell you honestly that your careful approach to this matter is a rarity in the history of this program and it is incredibly appreciated. Your staff, particularly Rob Yavor for the majority and Justin Pelletier for the minority—and since they are in the audience I will give a shout out to Renee Bender on the majority and Kevin Wheeler on the minority over in the Senate—they have worked diligently to understand the very technical issues of the 7(a) program. We also very much appreciate the Committee's announced intention to continue to work with industry and the agency to perfect H.R. 4743 going into the markup process. The lending industry that NAGGL represents is grateful for this Committee and its staff's longstanding commitment and dedication to engaging the many stakeholders throughout the process, and we look forward to working with you and with SBA to en-

sure that the final legislation provides appropriate direction for SBA's lender oversight efforts.

I am pleased to testify today to discuss NAGGL's support for H.R. 4743, the Small Business 7(a) Oversight Reform Act of 2018, which will strengthen SBA's Office of Credit Risk Management and how it performs its role to oversee the 7(a) program.

One of the most important provisions to the lending community included in H.R. 4743 includes granting flexibility authority to the SBA administrator to increase the 7(a) program's authorization cap by 15 percent if the pace of lending is set to exceed that fiscal year's given cap. NAGGL first presented this flexibility language to the Office of Management and Budget and to Congress in the wake of the fiscal year 2015 7(a) lending shutdown, drawing on the same language and precedent set by the House and Senate Appropriations Committees in their treatment of various USDA loan programs. Since then, NAGGL has enjoyed the partnership of Senator Risch, Coons, and Shaheen, to name a few last Congress, who introduced a bill in the Senate to establish cap flexibility, and this Congress, Ranking Member Velázquez championed a bill in the House to move this proposal forward. And as you know, OMB included this language in the last three presidential budget proposals, so SBA has been a champion for this proposal as well.

In both fiscal year 2014 and in 2015, the SBA 7(a) program saw demand from small business borrowers reach the program's authorization cap before the end of the fiscal year, and in fiscal year 2015, the program shut down for several days. Some of you on this Committee helped see unusual measures of emergency supplemental language pass Congress and receive the President's signature to ensure the 7(a) program remained available to the country's small businesses, and industry owes you a great deal of gratitude. But those were rare instances of congressional intervention and, unfortunately, these threats of shutdown destabilized the program and altered lender behavior. The issue largely stems from the great difficulty in anticipating the exact number of borrowers who will be applying for SBA 7(a) loans 18 months in advance as we go through the budget process.

While this flexibility language should never supplant the role of Congress in setting authorization caps and still requires approval from this Committee and its colleagues in the Senate and in the Appropriations Committee, it serves as a commonsense safeguard against last-minute panic. Thank you to this Committee for embracing and now championing this concept.

H.R. 4743 also updates the Credit Elsewhere provision currently in statute, a clarification lenders have long asked for and which is critically important to the program. The cornerstone principle of the 7(a) program is that it complements but does not compete with conventional small business lending. The noncompetitive status of the program is assured by the fact that before any 7(a)-loan guaranty can be approved, the participating lender must certify that the loan could not be made without the SBA guaranty. NAGGL believes the proposed legislation will strengthen compliance with the Credit Elsewhere requirement by clarifying the types of situations which cause the SBA guaranty to be required and provide further

assistance that 7(a) loans continue to fill the existing small business credit gap.

Finally, I would like to applaud the Chairman and Ranking Member for the provision of the bill which improves the oversight review process for lenders. NAGGL has long called for full-time employees of SBA to lead each team of reviewers that conducts the oversight reviews of the program's participating lenders. When there is a full-time employee present and supervising each review, it ensures that there is a deep foundation and understanding of the incredibly complicated policies that are specific to SBA.

There is a whole host of other provisions in this bill that I would be happy to discuss. And with that, I will conclude my remarks.

Chairman CHABOT. Thank you very much.

And I will recognize myself for 5 minutes to begin the questions. And I will open with a general question. I am just going to kind of go down the line here.

On the small business lending environment in our country, we hear that small businesses and their optimism is on the rise. Is this increase in optimism being matched by a demand for small business loans that you are seeing at your particular institution? And if you could just give us the general climate. And I have got some other questions, so if you could maybe take 15 to 30 seconds or so to answer. And I will begin with you, Ms. Blankenship.

Ms. BLANKENSHIP. Well, I am in the Dallas-Fort Worth metroplex, and the North Texas economy is thriving. So it has been very encouraging to see small businesses start to be encouraged by the economy and believe that they can now take the chance to gamble and leverage. We saw many businesses just sit on liquidity for years after the crisis, so we are seeing an uptick.

Chairman CHABOT. Good. Thank you very much.

Ms. Husic?

Ms. HUSIC. We are seeing a lot of increase of SBA lending and small business lending. As a point of reference, Centric Bank, we are headquartered in the Harrisburg, PA, area. We also loan in Lancaster County where we have an office as well as an office, and we loan through the suburban Philadelphia market, as well as in the western part of New Jersey. For some statistics or a number to support that, for example, last year our organization had about a 30 percent growth in our commercial lending, of which we are 85 percent focused on small business. Last year, we originated over \$200 million in commercial lending, of which \$38 million was SBA 7(a) loans to about 46 clients. Looking at 2017, we originated about \$210 million in commercial loans. That SBA 7(a) number was in excess of \$41 million, but to more borrowers, to approximately 77 borrowers.

Chairman CHABOT. Thank you very much.

Ms. McDonald?

Ms. MCDONALD. Just like Ms. Blankenship, I am in Texas, and Texas has had a very strong economy. What we are seeing is more confidence—

Chairman CHABOT. Could you pull that mic a little bit closer there? Thank you.

Ms. MCDONALD. What we are seeing is more confidence in the economy. We are seeing more applications from our small business members.

Chairman CHABOT. Great. Thank you.

Mr. Wilkinson?

Mr. WILKINSON. While I am not a direct lender, our members are reporting robust growth. Our loan volume through the first couple of weeks of January, year-to-date this fiscal year we are up 18 percent nationwide in 7(a) lending. So, good economy.

Chairman CHABOT. Good. Glad to hear that on all counts here.

Mr. Wilkinson, I will go to the next question with you. This Committee has emphasized the importance of the Credit Elsewhere Test in the past. Can you provide a little detail on how this test works in practice? And do the changes in the bill that we are considering here today, will they further clarify and bolster this test to ensure that the correct small businesses are entering the program?

Mr. WILKINSON. I would be happy to. As has been mentioned here, the cornerstone tenet of the 7(a) program is that it does not compete with the commercial lending marketplace; that it complements it. The issue becomes how to provide better guidance to lenders to assure that the Credit Elsewhere Test continues to be appropriately met for each and every loan. And part of the issue has been for our lenders is that the current definition has not been updated for decades.

And I thought I would read to you what it currently says. It says, "For purposes of this act, the term 'credit elsewhere' means the availability of credit from non-Federal sources on reasonable terms and conditions, taking into consideration the prevailing rates and terms in the community in or near where the concern transacts business."

Well, in today's lending environment, geography really does not matter, and so there is a lot of language there that becomes confusing to our members in how to comply with that statute. So we believe the language that is in H.R. 4743 clears that up, defines what are acceptable items that need to be reviewed and would be required for the lender to document in their file.

Chairman CHABOT. Thank you very much.

Ms. Husic, I have only got about a minute left. So, as you know, this bill would require SBA to perform a portfolio risk analysis. And I want to make sure you do not think we are going too far there. I see Congress receiving this information is very important. However, from your perspective, we are not asking too much there, are we?

Ms. HUSIC. Absolutely not. When we take a look at—I think, you know, I look at our own organization. When we take a look and evaluate the loans we booked to our portfolio with each of those certain industry concentrations, we have a certain percentage of our capital that is allocated to that. You know, from there, on an annual basis, and even more so on a quarterly basis, we do evaluate that, and I think that is a good business practice. Furthermore, it is a good risk management practice to do that.

Chairman CHABOT. Thank you very much. And my time is expired.

The Ranking Member is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Wilkinson, all of you mentioned that this bill includes flexibility language for the administrator to request an increase in the authorization cap of the program to meet unexpected demand. There seems to be some confusion about how this will work in practice. So my question to you is, can you elaborate on this authority, how can it be used?

Mr. WILKINSON. I would be happy to. First, this authority is actually mirrored by the same authority appropriators have given to the Department of Agriculture's USDA loan guaranty programs in recognition that demand on any given day, week, or month can often exceed expectations and that lending is cyclical. The intention, as set out in this language, is that the authority can be used only once per year. So presumably, the agency would want to use its authority at the end or towards the end of a fiscal year to prevent programmatic shutdown if the authorization cap was going to be insufficient as that was the case in 2015.

Ms. VELAZQUEZ. So not at the end of a short-term CR, correct?

Mr. WILKINSON. Correct. So at a CR, it really becomes a function of do we have what is called anomaly language in the CR that allows SBA to spend at whatever the pace of demand might be.

Ms. VELAZQUEZ. And can you please explain how the anomaly process can work?

Mr. WILKINSON. I would be happy to. So what happens under a CR is the Office of Management and Budget takes the number of days that are provided for in the CR and divides that into the authorization cap for the year. So we get X amount of money to lend during that period of time. With an anomaly, that calculation is not necessary. We are allowed to spend up to the authorization cap at whatever pace. And just so folks understand, we hit that apportionment cap at the last CR. We actually had a program shut down for a few hours. A lot of folks do not know that we did, but we had a program shut down for a number of hours as the last CR ended and the current one started. There was a gap there for about 6 or 7 hours.

Ms. VELAZQUEZ. Thank you.

Ms. McDonald, SBA's capital access mission is to aid and assist America's small businesses, including underserved and vulnerable small businesses to obtain the capital that they need. So does SBA encourage lenders to make loans to underserved markets, such as to firms majority-owned by those who are socially and economically disadvantaged and to new businesses?

Ms. MCDONALD. Well, at Randolph-Brooks Federal Credit Union, we have about 240 SBA loans to minorities, approximately 230 to women, and 167 to veterans. So this is a huge part of our SBA lending. That is what credit unions are here for. We are here to provide those small-dollar business loans to folks who could not get it. The average SBA loan at Randolph-Brooks is less than \$90,000, and I would say more than half of our SBA loans are for less than \$75,000.

Ms. VELAZQUEZ. In your meetings with SBA officials, is there any discussion as to what is it that you are doing to increase small

business lending for underserved communities or underserved small businesses?

Ms. MCDONALD. Well, at Randolph-Brooks we serve a lot of underserved areas. We call them community charter areas and we look for opportunities to help folks. I am thinking right now of a Mexican restaurant on the south side of San Antonio. So we have lots of opportunities to do that and the SBA has gotten much better at working with us to make things easier.

Ms. VELAZQUEZ. Thank you.

Ms. Husic, you testified that increasing the time that a seller can remain on as an employee with the business will be beneficial. This is something I am also exploring as a way for the 7(a) program to help ESOP and Co-Op ownership transitions. Can you please elaborate on why extending this period is necessary and whether there are any additional safeguards that could be implemented to address concerns about a seller double-dipping after the sale of the business?

Ms. HUSIC. Absolutely. We have had certain situations where perhaps it is a first-time business owner, they are acquiring the business, and which would be helpful and we are not looking for a long-term period of time, but maybe in certain situations a 2-year period of time might be valuable. When any type of loan we are making, conventional or SBA, we are always looking to set the borrower up for success. So maybe navigating some challenging times in a business and they have not been through that before, maybe some also intricacies in with particular clients could be beneficial, I think in the end that new business owner has to have the ultimate ability to terminate that employment and to give control so there is no double-dipping going on there.

Chairman CHABOT. The gentlelady's time is expired.

The gentleman from Kansas, Mr. Marshall, Dr. Marshall, is recognized for 5 minutes.

Mr. MARSHALL. Thank you, Chairman.

My first question is going to be for Ms. Husic, and then I want to ask you other three the exact same question, so I am going to give you a chance to prepare. The second question is going to be, how are the Tax Cuts and Jobs Act going over in your community? What has it done to unleash this economy? If you can give me some examples.

My first question for Ms. Husic, I have been part of a bank board for 15 years, and over and over I saw the great things that the small business loans did. Specifically, what has this bill done to improve that process? How is it going to help your customers?

Ms. HUSIC. Well, first and foremost, the SBA, and specifically the 7(a) program is a great program, and it is an opportunity if you cannot do the loan conventionally, how do we get our client to a yes? And that is what we look to do as small businesses, 85 percent of our lending. But when you take a look at some of the processes, we have had some clients that when a number of years ago the SBA ran out of funds and we were getting ready to settle and we were waiting for the SBA approval, we are a nonpreferred lender so that we submit our applications to the SBA and wait for the approval to come back. And we were sitting there with that particular client. We could not get them over the finish line with that unnec-

essary or that wait, that you could never give them that specific timeline.

We have also had another client at that same timeframe was looking for a loan and it was to be able to support additional inventory connected with an additional contract which, again, these type of things would help that if that situation were to present itself—

Mr. MARSHALL. Does this bill make it more efficient, do you think, the process?

Ms. HUSIC. I think it will make it more efficient, but also, that if the SBA runs out of funds, they would have the ability to have that additional 15 percent to be able to extend that.

Mr. MARSHALL. Got it. Okay.

Ms. Blankenship, how are the Tax Cuts and Jobs Act impacting Texas?

Ms. BLANKENSHIP. Well, I think very positively. I think it is a bit early yet, but I think the general—

Chairman CHABOT. I am not sure if that mic is on.

Ms. BLANKENSHIP. To answer your question, the tax cut has had a positive effect on the Texas economy. On our small businesses, I see a lot of encouragement, a lot of future planning. They seem to be willing to leverage those additional dollars saved by their tax savings, which in turn helps the community. So we are very excited to see that.

Mr. MARSHALL. And you hope the 7(a) is just one more step to making those dreams come true, living this American dream?

Ms. BLANKENSHIP. Exactly.

Mr. MARSHALL. Ms. McDonald, where are you from? Remind me.

Ms. MCDONALD. San Antonio.

Mr. MARSHALL. San Antonio, another Texas gal. We are just loaded with Texas here.

Ms. MCDONALD. Another great Texas town.

Mr. MARSHALL. How is the Tax Cuts bill working down there?

Ms. MCDONALD. It is going very well. We had a record year in lending last year, particularly towards the end of the year. Typically, in November-December, lending slows down. We had record months. In fact, I got an email just right after Christmas that said we had over 1,800 loan applications in one day. And so that is pretty incredible, especially on a skeletal staff at Christmastime. But, and from the small business perspective, we are seeing an increase in those applications. And, in fact, we are hiring an additional business loan officer to keep up with the demand.

Mr. MARSHALL. So maybe this law will work an old dovetail right into those 1,500—is that what you said?

Ms. MCDONALD. Eighteen hundred loan applications.

Mr. MARSHALL. In a day.

Ms. MCDONALD. Now, these were for consumer loans.

Mr. MARSHALL. That is all right. Okay.

Mr. Wilkinson, how have your customers, your clients been impacted by this Tax Cuts bill?

Mr. WILKINSON. Well, I represent the lender, so I am not dealing directly with our small business customers, but as I mentioned, our loan volume is up 18 percent year-to-date, so something good is happening.

But I did want to respond to your earlier question, how does this bill help small businesses? And it is more from a programmatic perspective. We want this program to be a program of integrity. It is working great right now. We want it to continue to work great. We are ahead of this curve. We want to make sure SBA has the tools and resources to keep the lenders between the lines, so we are not responding to any kind of problem right now, but we are going to make sure that this program is here for the long haul for borrowers for many years to come.

Mr. MARSHALL. Okay. Ms. Husic, you have not had a question to respond to my Tax Cuts question. I thought we would get back to you. I think you have a story to tell as well.

Ms. HUSIC. For the tax cuts, we are exploring several different ways of where, not only how, do we help more small businesses. We have not finalized on any specifics of what we will do as an organization. At this point, our board is still finalizing that, but we see great opportunities within our marketplace. There are a lot of small business optimism, and more interesting, starting businesses and expanding, buying more capital outlays, those type of things.

Mr. MARSHALL. I think I would just close this, I finished up my town halls this week going to every county. Over and over the economy is improving. And people ask me why. And see if you agree with this. I think number one is we have cut back on regulations. And I think number two is that consumer confidence is incredible out there. And then lastly is this tax reform. Is there any other big picture out there that you think has added to the sudden—not necessarily sudden, but the great economy we are experiencing?

Ms. HUSIC. To your point, I believe all those things, and those reasons encompass the reason why there is small business optimism, as they are the job creators. As we are looking forward, as you mentioned, as far as some relief of regulatory burden, as community bankers, we are looking for some of that relief as well of the additional amount of regulation and burdensome that over the past 8 to 10 years community banks have really been burdened with.

Mr. MARSHALL. Sorry, I went over. I apologize, Chairman.

Chairman CHABOT. That is okay. The gentleman's time is expired.

The gentleman from Pennsylvania, Mr. Evans, who is the Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access, is recognized for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

I would like to start out starting from Ms. McDonald and go down that particular direction about what ways do you think that can improve this particular program? So I will start with Ms. McDonald and then to the right.

Ms. MCDONALD. Well, I think that this bill is a great start. It codifies the expectation. We talked about the Credit Elsewhere Test. From a credit union perspective, and we have talked about this before, but increasing the member business cap for credit unions would help. There are a lot of credit unions who do not participate in SBA lending because it does take a lot to get a program started. You would have to hire somebody, and then if you are

wildly successful, then you have to cut back, which does not do anything for member service.

Ms. HUSIC. Several other ways that the SBA 7(a) program can be enhanced, currently, the law does not allow for any type of consolidation or refinancing with a current lender so that if that business owner would like to do any of those things they cannot do it. So, for example, if they have been with our organization for several years, they need to go to another financial institution, and I think that is very challenging for that business owner because here is someone they have a relationship with, they know their business. They are forced to go elsewhere in order to do any of those items.

An opportunity, too, looking at this particular bill here is that if there is an opportunity to carve out for the portfolio lenders and suggesting of banks with assets under a billion. So, for example, with this particular piece, that if prior to this, if you were in excess of our legal lending—legal lending for a bank is 15 percent of our capital is what we can lend. With the SBA guaranty, you could back that out. That is no longer the case. So for those of us who are portfolio lenders and we want to make loans in our communities, that can be prohibitive to us.

Also, too, we talked briefly about having the seller remain on for an extended period of time. In situations we have seen it was up to a 2-year period of time to help maybe navigate through the waters of being a first-time business owner. But a new component with this is that a key employee who is not an owner can be required to guarantee the loan and the SBA can come back and require that. They are going to have all the challenges or the downside of guaranteeing a loan without having the benefits of an ownership. And I do not know many individuals who are an employee, who are not an owner, who would be willing to sign to guarantee that. So those are some of the items I would recommend.

Ms. BLANKENSHIP. I would just echo their comments. But I would like to expand on the inability to refinance your own credit. We take the risk on these small businesses when they come in and we use the SBA 7(a) program because that is what it was designed for, those small businesses that cannot get conventional credit. But our bank, our small community banks are taking that risk. And so when the business gets up and successful, if you could look at maybe some term, 3 years down the road you are successful, that is when our customers get cherry-picked out of our portfolio. And I understand the complication that the guaranteed portion many banks sell in the secondary market, so then there is an issue with that. But if it is a portfolio loan, let us take the entire risk back in-house and then that would be more dollars back into the SBA program to leverage into new small business.

Mr. EVANS. Mr. Wilkinson, could you talk about the Credit Elsewhere provision and how it helps the SBA 7(a) program?

Mr. WILKINSON. Well, again, it is the cornerstone of our program and we are optimistic that the new language provided in H.R. 4743 will clarify that for lenders so they know exactly what is expected and how the file will have to be documented in terms of how they determine that the borrower could not get credit elsewhere. So the old definition is quite old. It has not been updated for many decades and really does not fit the marketplace in which we lend

today. So we are cautiously optimistic that this language will pass and it will make our jobs a lot easier.

Mr. EVANS. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman CHABOT. Thank you very much. The gentleman yields back.

The gentleman from Utah, Mr. Curtis, is recognized for 5 minutes.

Mr. CURTIS. Thank you, Mr. Chairman and Ranking Member, for this opportunity for this critical conversation and this very important bill. I must admit, as I have listened to the testimony today, my heart has raced and my palms have grown sweaty because not too many years ago I was an owner of a small business and the trauma of going through loans and navigating this, signing your home up as collateral, I think we frequently underestimate the sacrifice our small businesses make to drive our economy and to employ people.

And as part of that experience, I know—I would like to think I know how a lot of these businesses think, and you will not be surprised that many of them find institutions difficult to navigate. They may be very good at patents. They may be very good at manufacturing. They may be very good at sales, but they are not necessarily very good at navigating.

And Ms. McDonald, if I could start with you because of your title, and then ask the others as well to answer this question, and that is, are we doing enough to market and to help businesses that are not walking through your door who need this vital program, but do not understand? And if we are not doing enough, what should we be doing?

Ms. MCDONALD. Well, my credit union career actually started in marketing, so I love the idea of marketing all the time. And we do do a good job of marketing. At Randolph-Brooks, the concern that we have is that if we put up a billboard on 281 in San Antonio that talks about the business loans that we do, we would get inundated and we would not be able to serve those members effectively. So we have to be very strategic in how we market the program because the worst thing that can happen is you get 1,800 phone calls and you are not able to service them.

But we work with our local SBDCs. We work with the SBA. We work with our members. And really, that is where our program started was not that we were going out and marketing small business loans; it was our members that came to us and said, hey, you do a great job with our personal stuff. We want you to take care of our business needs, also. And so that is how we grew into business lending was because the members were asking for it. So word of mouth does a really good job for us.

Mr. CURTIS. I do not know if any of the others want to weigh in on that. Please, yes, Ms. Husic?

Ms. HUSIC. One of the things we do at Centric Bank is we work with SCORE. SCORE is the Service Corps of Retired Executives, who are mentoring for small business. And over the year we may be doing 6 to 10 events, different seminars they may have. We are educating those who have an interest to own their small business,

to how to navigate the waters. What do they need to do to be prepared?

There are other things we do. We reach out to our local economic developments, our chambers throughout the areas and the markets that we serve in being able to be a resource if there are questions, but also to have individuals, they can come forward being prepared if that is something they are looking to explore.

Mr. CURTIS. Thank you.

I would like to take this opportunity to point out to all of us that we have more work to do. The fact that we would flood your bank if it was advertised, it points out that there are just a lot of businesses out there who need access to this who do not understand it and hopefully we can do more for them.

I think the last question that I would like to ask, and maybe I will start with you, Mr. Wilkinson, is if you are familiar with the fee enough that is associated with this to comment on how prohibitive is that for these small businesses? Clearly, we are taking them above market rate by doing this. And are you finding that we are eliminating businesses and turning them to other less traditional sources because of that fee?

Mr. WILKINSON. Okay, as with everything else in our program there is not really a very simple answer, so bear with me. But there is a sliding scale of fees charged to the small businesses that increases as the loan size increases. And you know, given our loan volume, it is easy for me to say no, they are not prohibitive because we are still seeing a strong increase in demand. On the interest rate side, we are legislatively capped at for most loans prime plus 2-3/4. So the interest rate today is—I forget what prime is. What are we, 4? So we are like 6-3/4 on our interest rate cap. So the pricing is really not pricing folks out of the market.

Mr. CURTIS. Okay. Please?

Ms. BLANKENSHIP. Well, I agree. And the thing about the pricing, while a lot of customers, you know, kind of flinch at the pricing, it does give them an alternative to credit card financing, which, you know, I think that the SBA does a great job in providing capital access rather than going through the credit card.

Mr. CURTIS. Or hard money loans.

Ms. BLANKENSHIP. Or hard money.

Mr. CURTIS. Mr. Chairman, I yield my time.

Chairman CHABOT. Thank you very much. The gentleman's time is expired.

The gentlelady from California, Ms. Chu, is recognized for 5 minutes.

Ms. CHU. Thank you.

Mr. Wilkinson, as you mentioned in your testimony, the authorization level for the 7(a) program is typically set 18 months in advance and it is hard to anticipate the level of demand that far out. Before 2014, had the 7(a) program reached the cap before the end of the year, and what do you believe has changed with lending over the past few years to cause this increase?

Mr. WILKINSON. Yes, we hit the cap a couple of times before 2014. I believe it was 2003 and 2004, if my memory serves me correctly. But today we have more lenders participating in the program than we did back then so the program is much more robust

and more dynamic. It is growing and it is tough to really gauge what our growth rate is going to be 18 months in advance, and that is why this flexibility language is so important. We try to do a good job of surveying our members and get their estimate in their budgets, what is their growth forecast for the next year. But again, 18 months in advance is a long way to try to guess where we are going to end up and what things may be happening in the economy along the way that might stimulate or cause demand to slow down. So the flexibility language in our opinion is critical so we do not bump into those caps and cause program shutdowns going forward.

Ms. CHU. And then there is the issue of oversight. As the 7(a) portfolio has grown nearly 60 percent over the past 5 years, many questions were raised about how the Office of Credit Risk Management was handling oversight of such a large portfolio.

So Mr. Wilkinson, the Small Business 7(a) Lending Oversight Reform Act would require OCRM to prepare a budget justification for Congress in order to create more transparency. How will this requirement address some of those concerns?

Mr. WILKINSON. Well, we want to make sure that the Office of Credit Risk Management has the tools and resources it needs to conduct appropriate oversight. I think that is the critical part of this program. As I mentioned before, we want to have a program of integrity. That means we keep everybody between the lines so that this program is here for the long haul. We as lenders would like to know what resources OCRM is getting. Part of those resources we are paying for so we would like to know what that might be. And then just to know that they do have the tools and the resources they need to get the job done. One of our issues with OCRM has been they will come out and they will do a review of the lender and sometimes it takes several months before that review is completed. And hopefully, with the additional resources they can provide those reports in a more timely fashion, and it is much more beneficial to the lender if they are having issues, that they find out about them today rather than a year and a half from now.

Ms. CHU. In fact, that leads to a question I have for Ms. Husic. In addition to requiring SBA employees to manage reviews, the Small Business 7(a) Reform Act also sets timelines for review reports and correspondence to be transmitted back and forth between SBA and lenders. Can you tell us why it is important for SBA to provide lenders with an audit report within 60 business days instead of 18 months as has happened in the past?

Ms. HUSIC. It is very important to receive the feedback. So, for example, if an organization is perhaps in some things, if there is a common thread, something systemic, and with the underwriting or something they are not doing, I think it is important to get that feedback, especially if you are a more robust lender or any lending at all, an importance to be able to receive that feedback to make any modifications and corrections, what you are doing at your particular organization.

Ms. CHU. Now, it is my understanding that many of the SBA lenders rely on the services of third-party agents to assist in the origination, closing, servicing, and liquidation of these loans. You

mentioned, Ms. Husic, the lack of training is a problem in the loan liquidation process. Could you please elaborate?

Ms. HUSIC. Yes. So for us at Centric Bank, we do utilize a third-party to assist us with any, if there is liquidation, et cetera. During the course of Centric, we have not had that particular issue with us. We are at a 0 percent delinquency as well as a 0 percent default rate for any type of SBA lending that we have done. But we have heard it has been a common thread within the industry as well as to ensuring the particular order that you go in to liquidate as to ensuring that you maintain and preserve the guaranty piece.

Ms. CHU. Thank you. I yield back.

Chairman CHABOT. The gentlelady yields back. Thank you.

The gentleman from Iowa, Mr. Blum, who is the Chairman of the Subcommittee on Agriculture, Energy, and Trade is recognized for 5 minutes.

Mr. BLUM. Thank you, Chairman Chabot, and thank you to our panelists for being here today. I appreciate it very much.

I would like to focus the next couple of minutes if we could on the default ratios of the SBA's 7(a) loan program versus your commercial loan portfolio as a whole. Can you compare and contrast those, the three of you that work at financial institutions, please? Ms. Blankenship?

Ms. BLANKENSHIP. I would say our SBA default ratios are very low. It is probably 1 percent or less than our total default ratios.

Mr. BLUM. What would your total commercial loan portfolio default ratio be on average?

Ms. BLANKENSHIP. Historically, well, our past dues are about 2 percent, so our charge-offs are maybe .5. So we do not have a lot of charge-off and default ratios. And particularly on our SBA, we have had great historical—we do not have zero such as Ms. Husic, but traditionally they have been very low. I think the program and its integrity—and I thank this Committee for holding this oversight because we want to preserve this program and make sure that there are not third-party players, and you can preserve this program so that we can offer—these are good customers. They just needed extended terms.

Mr. BLUM. I was Chairman of the Director's Credit Committee on a \$1.5 billion bank before this life and we would ask the question occasionally if our default ratios got too low, are we taking enough chances? Do you think you are taking enough chances? Are the collateral requirements different on an SBA loan than they are on a general commercial loan?

Ms. BLANKENSHIP. Sure.

Mr. BLUM. Are they more stringent?

Ms. BLANKENSHIP. I mean, the collateral requirements on an SBA, you have more flexibility with collateral. And as well as terms. Terms are a big deal so that you can stretch that repayment term out and allow that customer to have enough cash flow until he gets his business up and successful and running. So that is one of the biggest advantages, the reason that we cannot make a traditional or conventional credit under current regulatory guidelines in our banking environment.

Mr. BLUM. Ms. Husic?

Ms. HUSIC. For our portfolio and our non-SBA, so our delinquencies and our nonaccrual, we are at .42 percent of our lending portfolio. Very pristine.

Mr. BLUM. Very pristine.

Ms. HUSIC. And you are looking at our asset quality—

Mr. BLUM. Congrats.

Ms. HUSIC.—of our SBA loans, we have a zero percent default rate and a 0 percent delinquency. We have been doing that, it will be almost 11 years. And over the past 6 to 7 years we have been a much more robust lender in those regards. And I have to say, if I look historically through the life of Centric, especially if you look over the economic downturn, you would see loans that had gone bad during that period of time. I think especially over the past, you know, 2 to 3 years, there has been much improvement in the credit quality through financial institutions in general.

Mr. BLUM. Zero percent, that is off the charts. You need to take more risk.

Ms. HUSIC. When you see our lending numbers, we are doing really a robust amount. As I mentioned, last year we did over \$41 million with 77 loans in the SBA and total lending, over \$210 million that was improved. One of the things so important to us is setting the client up for success. And there is a lot, as I mentioned, the numbers that we approved, there is a large list of the numbers, and I would say equivalent to 25 to 30 percent that we have said no to. One of the things we do like to do is if we do say no, we give them a way and a path how do you get to a yes? And so almost some homework maybe to go back and to say these are some of the things, if you work on and improve we could perhaps help you and assist you in the future, but until some of these things have been worked upon or done or enhanced, we want to set them up for success and make it a win-win.

Mr. BLUM. Ms. McDonald?

Ms. MCDONALD. Well, just like Ms. Blankenship and Ms. Husic, we have a very low delinquency ratio, charge-off ratio. Again, not at 0 percent. We do take a little bit more risk. But it depends on what the needs of the member are, and for us it is what can we do to help the member? How can we help them either grow their business or start a new business?

Mr. BLUM. Is it higher or lower than your commercial loan portfolio in general?

Ms. MCDONALD. It is generally just a bit higher, but our commercial loan portfolio is incredibly low as well. I want to say somewhere between 1 and 1-1/2 percent.

Mr. BLUM. Would your lender banks, what would the experience be there in credit unions?

Mr. WILKINSON. Expecting that you were going to ask this question I brought the numbers. So there are two different ways to look at this, the way you as a banker would look at it, what were the charge-offs this year, and what was our loan portfolio balance at the end of the year? So at the end of fiscal year 2017, that charge-off rate was .8 for the entire 7(a) program. Now, the other way that the Office of Management and Budget looks at this is rather than as a typical banker would make a loan to a business and have that loan renew every year, so a 15-year loan would be

15 separate loans for the bank. SBA looks at this as one long 15-year loan. So they look at it as a cohort. They call it a cohort of loans, and how does that cohort of loans perform? And they then come back with all those numbers from all the cohorts that they have and they put that in the budget request.

So in the fiscal year 2018 budget request, our defaults net of recoveries over a portfolio that can span 25 years was 4.49. So you figure an average life of about 10 years, our annual charge-off rate would be somewhere just under .5.

Chairman CHABOT. The gentleman's time has expired.

Mr. BLUM. That is amazing, and I yield back. Thank you.

Chairman CHABOT. Thank you.

The gentleman from Florida, Mr. Lawson, who is the Ranking Member of the Subcommittee on Health and Technology, is recognized for 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman. And welcome to the Committee.

One other thing I read in the proposed legislation, and maybe you can respond to it is that the lending to smaller firms over 2008 to 2016 went down by about 13.7 percent, but the increase to larger firms went up by almost 46 percent. What happens in that regard?

Mr. WILKINSON. So you are talking about loan volume?

Mr. LAWSON. Right.

Mr. WILKINSON. Okay. I am going to look at loans of \$150,000 or less. Back in 2015, our numbers dropped, but our dollars moved up, so we were making fewer number, but larger dollar amounts. And then going up to the next step, 150 to 350, those numbers actually improved slightly.

Mr. LAWSON. Okay. Did anyone else want to comment?

Ms. MCDONALD. What I can tell you is that is not an issue at Randolph-Brooks. More than half of our SBA loans are less than \$75,000, so that is kind of our niche.

Mr. WILKINSON. Okay. The other thing I would add is if you look at the current fiscal year, the loans in the small categories are all up. So while through fiscal year 2017 they were flat or modest, they have begun to move up in the current fiscal year.

Mr. LAWSON. Okay. And Mr. Wilkinson, since you are talking, can you discuss the effectiveness of the oversight mechanism that SBA had put into place, including risk profiles to guarantee that the 7(a) program is effective?

Mr. WILKINSON. Yes. They developed a—they call it PARRiS, a risk protocol where they review lenders. It is a very robust system. It is still relatively new, but it looks like a really good system. We would like for them to have a few more years managing this to see how it works out, but we think it is a pretty good oversight tool.

Mr. LAWSON. And one other thing that was very intriguing is I guess in a credit union they must be doing something very significant because when you say that you do not have hardly any defaults, what are you doing during the course of the loans to put you in that position?

Ms. MCDONALD. Well, we work with our members. It is about communication. We look at our loans. Depending on the amount of the loan, we look at either a quarterly or a semiannual basis. We

go and we talk to members. We see how things are going. We make sure that that line of communication is open. We have a very good underwriting staff and we do a very good job with our loans.

Mr. LAWSON. Okay. Thank you. And Ms. McDonald, can you discuss the growth in the 7(a) lending? I believe that the data show that growth in lending has increased, so what does it do for the small-dollar loan? And you can tell me a little bit, what do you consider a small-dollar loan?

Ms. MCDONALD. Well, for us a small-dollar loan is, well, by SBA standards, less than \$350,000. For us, it is really anything less than \$100,000. And again, that is mostly what our niche is. And your question was how are we increasing it?

Mr. LAWSON. We have tremendous member loyalty, and so when you do something for a member at a \$75,000 level that maybe they were not able to get somewhere else or maybe somebody did not spend the time with them and you are able to help them, then they tell their family and they tell their friends. And that is the best kind of advertising that you can have is that word of mouth. Randolph-Brooks has been very successful in helping people with their personal finances for a very long time. And as I mentioned before, the only reason that we got into member business lending is because those same members were coming to us saying we want you to help us with our business needs.

Okay, and real quick, and anyone can respond to it, there was always some consideration that the commercial banks area felt that credit unions were doing more than they were supposed to in getting involved in business lending. Is that generally the same feeling?

Yeah, Ms. Husic?

Ms. HUSIC. We see quite a bit of that in our market area. We say, in fact, the credit unions are reaching out to do more commercial loans on their various electronic signs out in front of their numerous buildings. They do. They have signs "We do commercial loans." And there is a big push towards it.

Our goal is, yes, we want to help the small business in our community, just the piece is we would like to be able to have a level playing field in order to compete.

Mr. LAWSON. Mr. Chairman, with that, my time ran out. I yield back. I have a lot more questions I could ask.

Chairman CHABOT. All right. Thank you very much. The gentleman's time has expired.

The gentleman from Kentucky, Mr. Comer, is recognized for 5 minutes.

Mr. COMER. Thank you, Mr. Chairman. And my questions are going to be geared towards Ms.—is it Husic? Am I pronouncing that right? I appreciate the American Bankers Association. Like Congressman Marshall and Congress Blum, I served as a director of a bank, 15 years, community bank back in Kentucky. And we did not do very many SBA loans. I know other banks did, but we, for whatever reason, did not do that many. But I am curious, when a small business customer enters your bank, how does the conversation proceed all the way to a SBA loan? Is there a reason you send it to the SBA or what is the process to get that customer towards that SBA loan?

Ms. HUSIC. Sure. So at Centric Bank, we have a total of 15 commercial lenders. We do not have any individuals that are solely focusing on SBA loans. I would say out of those 15, about half of them are contributing to the bulk of our SBA loans. And again, they are doing other loans that are non-SBA as well. So, in times, and just recently, I sat down with a client, and many times a prospective client. So part of the conversation when someone says they are looking to say maybe start up a new business or acquire a business, we go through the process to ask them, you know, do you have a business plan? From there, you know, looking at the specifics with the financials, the tax returns of them personally, personal financial statement, a business plan; for the business perhaps they are acquiring, the financials to support that and their projections. First and foremost, we are always looking at can we do this loan conventionally? That is where we start.

When there are times that we are unable to get them there, we are looking at perhaps they do not have the required amount of down payment, 20 or 25 percent in, to purchase to have their own skin in the game of their own funds and needing a lesser down payment. Is it a collateral shortfall? As when they are purchasing a business there might be a more significant dollar that is associated with good will. We are not going to do an extended payment terms of, you know, past a 7- or 10-year if we are doing that conventionally. So first and foremost, we walk through those questions, can we do it conventionally? When we cannot accomplish that, we like to look at how do we get the client to a yes?

So the SBA program would be the next one we are looking at. And at times, we are looking at the SBA 504. So it is not necessarily always the 7(a). We are looking at what makes the most sense for that particular customer in front of us. In the end, we want to be able to set them up for success through that process. And at times I look at it, we are a consultative banker to them and trying to help navigate through the process, and maybe some things they do not have sufficient information coming to the table.

Mr. COMER. I am going to switch gears here. Dodd-Frank, that is something I hope that we can somehow repeal. I know the House has passed legislation to repeal it. Maybe a compromise since we cannot seem to get there in the Senate would be just to focus on community banks, try to ease up the regulatory burden that community banks face with, in my opinion, the excessive regulations and the excessive compliance that is required now because of Dodd-Frank.

My question with respect to this testimony, has Dodd-Frank had any effect on the 7(a) loan program? Are more customers having to qualify now for an SBA loan because of Dodd-Frank or less or has it affected availability and access to credit any with the SBA program?

Ms. HUSIC. Well, I look at—there is an aspect of Dodd-Frank that has not even come into place as far as being effective for banks needing to do, and that is with small business lending where the data needs to be compiled and will need to be compiled going forward if something is not done or impacted, we are to compile that similar to HMDA for the residential loans. So that is particular. That is outstanding.

You know, in general, Dodd-Frank, the addition of hiring individuals for the compliance rules to be able to oversee, so that has cost us as community banks to having that. You know, you get into qualifying mortgages. You get into a lot of noncommercial as well, but it has, the regulatory burden has been significant and onerous on community banks.

Mr. COMER. Okay. Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. The gentleman yields back.

The gentlelady from Puerto Rico, Jennifer González-Colón, is recognized for 5 minutes.

Ms. GONZALEZ-COLÓN. Thank you, Mr. Chairman. And thank you for all our witnesses today.

My first question will be to Ms. McDonald, and it will be, as part of your testimony you highlighted the importance of better definitions for penalties on page 15. What kind of errors should be defined as minor compliance errors and why?

Ms. MCDONALD. Thank you. The minor compliance errors would be if somebody put the wrong date on something, if somebody checked the box wrong. What we would like to see is there be a difference between willful malicious negligence in trying to do something on there, and another would be it is a training issue and we screwed it up and we need to understand what the penalties are because between 0 and \$250,000, that is a big number.

Ms. GONZALEZ-COLÓN. And what penalties should we apply to those areas?

Ms. MCDONALD. Oh, gosh. In most cases I would say if it is something like where you changed a date or you messed up in that, it would be better to point it out first and then have some type of a penalty after that.

Ms. GONZALEZ-COLÓN. Okay. My second question will be to Mr. Wilkinson. And it will be, you mentioned the PARRiS system on page 10 of your testimony, highlighting that it is in the final stage. Do you think the system can converge with the new regulations or be adapted?

Mr. WILKINSON. To the proposed legislation?

Ms. GONZALEZ-COLÓN. Yes.

Mr. WILKINSON. Oh, yes. I think it can. That should not be an issue at all.

Ms. GONZÁLEZ-COLÓN. So without a problem?

Mr. WILKINSON. Not in my opinion.

Ms. GONZALEZ-COLÓN. Okay.

Mr. WILKINSON. SBA may have a difference of opinion, but it should work just fine.

Ms. GONZALEZ-COLÓN. Okay. And my last question will be to Ms. Blankenship. In your testimony you mentioned the Credit Elsewhere Test. Please explain how the test operates and the average time it takes to do that and what other recommendation is required in addition to the inability to receive the conventional credit?

Ms. BLANKENSHIP. Well, I think the Credit Elsewhere Tests were encouraged by, as Mr. Wilkinson said earlier, it was fairly ambiguous before, and the last thing that we want to do is be out of compliance with the expectations of the program. So by defining the Credit Elsewhere Test criteria and making it as simple as pos-

sible, although, remember, every applicant is a custom deal more or less, and typically a lot of times we would use—what our regulators would allow as a conventional loan and if we could not get that done, and you can look at their credit scores or their lack of collateral. So it is fairly easy to know that this would not be a slam dunk credit approval process. Again, I just applaud this Committee for trying to preserve this SBA program. We have used SBA programs since we opened our bank in 1986 and it is a cornerstone of our lending. Thank you. We appreciate that.

Ms. GONZALEZ-COLON. We do support it.

What other persons or people are involved in this process besides the bank and the client?

Ms. BLANKENSHIP. The other, well, at Bank of the West, since we have had this program since 1986, we have a very dedicated and trained—this is a niche program, and it is complicated. So we actually have about six people on staff that specialize in SBA. So they work in conjunction with the lender, and so we have our credit analyst and our loan department and our underwriters that also assist that loan officer.

Ms. GONZALEZ-COLON. Yeah, but besides the client and the bank, to the Credit Elsewhere Test, is it anybody else besides the client and the bank, outside the bank and the client that is working on that or no?

Ms. BLANKENSHIP. Typically, it would just be the client coming to the bank for us.

Ms. GONZALEZ-COLON. Okay.

Ms. BLANKENSHIP. And then we would determine if it meets the criteria of the Credit Elsewhere Test.

Ms. GONZALEZ-COLON. Thank you for being here.

And with that, Ms. Chairwoman, I yield back the balance of my time.

Ms. RADEWAGEN. Thank you very much. Talofa and good morning. You know, I am really looking forward to being back home in sunny and warm American Samoa. And I want to thank the Chairman and Ranking Member for holding this hearing.

So I have got a question for all of you. From your perspective, does the length and the cumbersome nature of the SBA application process hurt a small business' ability to access capital? Ms. Blankenship?

Ms. BLANKENSHIP. Well, it is a cumbersome and lengthy process and, you know, I would be lying if I told you that our customers are often disgruntled with the amount of paperwork, but I think when we show them that it is such a viable alternative for them and they could not get this credit elsewhere, and in our case, since we have been doing this for over three decades, we have sort of perfected holding their hand and counseling them and walking them through the process. We would like to see it streamlined. We would like to see more specific definitions, but it works for us.

Ms. RADEWAGEN. Ms. Husic?

Ms. HUSIC. To the same points, it is a more complex process and I have to say of all of our small business clients that come into Centric, and I would say less than 5 percent walk in the door and say I want an SBA loan. And in fact, when that topic ends up getting brought up for a discussion point that they did not qualify for

conventional lending, you have probably about half of them saying I do not want to do a government guaranteed loan because they have said I have heard through other individuals that it is a very complex process, it is very time-consuming. And for us, we are not a preferred lender. I would say an average turnaround from application to the time we close could be 6 to 7 weeks. We have had those that have been in excess of 3 months.

So I think some of those things could be perceived by that small business client as, again, cumbersome. Again, to the point of, you know, that at the end, if that is the way that they are going to be able to realize their dream of owning their own business, we can get them to a yes by that and to show them, you know, we are there working with them as a partner to accomplish that.

Ms. RADEWAGEN. Ms. McDonald?

Ms. MCDONALD. Just like they said, there is a perception that SBA loans are very onerous; that they take a lot of time. We are a preferred lender, but there are a few times that we do have to send it through general processing and that can take up to 8 weeks. So that is somewhat frustrating, particularly for our members. As I think Ms. Blankenship said, the benefits to the member is what helps us sell the program.

Ms. RADEWAGEN. Mr. Wilkinson?

Mr. WILKINSON. Last year we did over 62,000 loans. We are on pace to do over 65,000 loans this year, so there are a lot of small businesses that do not find this too cumbersome, I think especially when they figure out that they are able to appropriately finance a long-term asset with a long-term loan that reduces their monthly payments and puts their business in a proper spot, the paperwork suddenly gets forgotten.

Ms. RADEWAGEN. Thank you. I reserve my time.

Chairman CHABOT. Thank you very much, Madam Chairman.

And we want to thank everyone for coming. If people are wondering what happened, we had a markup in Judiciary. Most members, in fact, all of us are on several committees and the Judiciary was marking up a bill and they needed my vote for it to pass, and it did, so. But I think all the members who had any questions got to ask them.

We want to thank the very distinguished panel for their excellent testimony this morning and now into this afternoon. I think you all did a very good job. It helped us to learn more about this program and how it impacts out there, especially amongst small businesses, which after all is the focus of this Committee; and also, the legislation that we are considering as well, which is both bipartisan and bicameral since the Senate is considering as well. So we want to thank you very much all for shedding light on that.

And I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered. And if there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:31 p.m., the Committee was adjourned.]

APPENDIX



Testimony of

Cynthia Blankenship

Vice Chairman and Corporate President

Bank of the West

Grapevine, Texas

On behalf of the

Independent Community Bankers of America

Before the

United States House of Representatives

Committee on Small Business

Hearing on

“Strengthening SBA’s 7(a) Loan Program”

January 17, 2018

Washington, D.C.

Chairman Chabot, Ranking Member Velazquez, and members of the subcommittee, I am Cynthia Blankenship, Vice Chairman and Corporate President of Bank of the West in Grapevine, Texas. Bank of the West is a \$450 million asset community bank serving the Dallas-Fort Worth suburban area with rural branches in Ponder and Vernon, Texas. We have 105 employees, eight full service branches, and two mortgage company locations.

I am also a former Chairman of the Independent Community Bankers of America, and I am pleased to testify today on behalf of the more than 5,700 community banks represented by ICBA at today's hearing titled "Strengthening SBA's 7(a) Loan Program." A robust and sustainable 7(a) program with broad community bank participation will help small businesses thrive and create jobs, strengthening and extending the economic recovery. We are grateful for this committee's strong support for the 7(a) program, and we are pleased to offer our support for the Small Business 7(a) Lending Oversight Reform Act (H.R. 4743), a bill I will discuss later in this testimony.

America's community banks are prolific small business lenders. We play an outsized role in funding small businesses and the jobs they create. While community banking organizations represent 17 percent of all U.S. bank assets, we make more than half of all small business loans under \$1 million. Small businesses account for over half of all U.S. employment and nearly two thirds of all employment growth.

What sets community banks apart is their first-hand knowledge of the borrower, the community, and the local economy. Community bank small business lending simply cannot be duplicated by a bank based outside the community. As noted in a study by scholars at Harvard's Kennedy School of Government: "In certain lending markets, the technologies larger institutions can deploy have not yet proven effective substitutes for the skills, knowledge, and interpersonal competencies of many traditional banks."¹ The Small Business Administration's 7(a) loan program allows community banks to leverage their unique underwriting skills to more effectively serve the small businesses in their communities.

Bank of the West's Longstanding Partnership with the SBA

Bank of the West is a 30-year partner with the Small Business Administration and has been strongly committed to helping small businesses in our communities using the flagship 7(a) program as well as the 504-loan program. We are a leading SBA lender in the Dallas-Fort Worth SBA District. We underwrite approximately \$20 million in 7(a) loans annually and currently hold and service nearly \$100 million in SBA loans in our portfolio, which represent about 20 percent of our total loans. These are high quality loans with minimal loss ratio. We use the program to provide credit to a broader range of borrowers and ensure sound underwriting.

Bank of the West uses the SBA 7(a) program to supplement our lending and credit services. We actively encourage our loan officers to consider whether we can use the program to serve small business credit applicants who would not otherwise qualify for a conventional loan.

The 7(a) program allows us to leverage our lending dollars and provide more small business credit. We also highly value the option of selling the guaranteed portion of 7(a) loans into the

¹ "The State and Fate of Community Banking," Marshall Lux and Robert Greene, Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School, February 2015.

secondary market, which provides an alternative source of liquidity should we need it. Historically, Bank of the West's 7(a) loans have created thousands of jobs in the communities we serve and helped to sustain and strengthen our local economy.

I am pleased to note that community banks received the highest lender satisfaction scores in the most recent Small Business Credit Survey, a collaboration among seven Federal Reserve Banks, which surveyed almost 3,500 small businesses in 26 states.¹ The community bank satisfaction score of 75 percent exceeded the scores of other categories of lenders by a wide margin.

The 7(a) Program Helps Community Banks Reach Additional, Credit-Worthy Borrowers

I would like to provide a couple of examples of 7(a) loans made by Bank of the West that illustrate the value of the program. Some years ago, my hair stylist, Kim, wanted to purchase the salon she worked at in Las Colinas, Texas following the death of the owner. Without the help of a loan to purchase the salon, it likely would have closed and she would have been forced into the job market. Kim was not a good candidate for conventional credit because of the low value of the collateral. However, Bank of the West was able to offer her a 7(a) loan based on historical and projected cash flow, underwriting factors which the SBA program allows. The salon thrived and Kim hired eight additional stylists. Her cash flow was so strong that she paid off the loan early.

In another SBA success story, Bank of the West helped a gentleman who ran a pet boarding business near Love Field in Dallas. He had an SBA loan from another bank but his business was in leased space. We made a loan to refinance his original SBA loan and finance the purchase of the building he occupied. Our loan saved him money on rent, improved his cash flow, and allowed him to build more equity in the business. A couple of years later we financed the expansion of his building to add more kennels, which dramatically increased his cash flow and profits.

Success stories like these and numerous others are why I'm passionate about community banking. These loans would not have been possible without the SBA.

The Small Business 7(a) Lending Oversight Reform Act (H.R. 4743)

To preserve the long-term viability of the 7(a) program, ICBA supports targeted reforms, such as those contained in H.R. 4742, to ensure its integrity and continued safety and soundness for the benefit of small business borrowers. Below I describe the most important provisions of the bill.

H.R. 4743 Would Codify Critical Program Oversight

The SBA Office of Credit Risk Management and the Lender Oversight Committee play a critical role in supervising and overseeing all SBA lenders. Section 3 of H.R. 4743 would codify the Office to guarantee its existence from administration to administration. In addition, Section 3 would ensure the Office Director is qualified for the post, provide guidelines for lender reviews, codify lender appeals rights, and create greater transparency in the Office's budget. Section 3 would also codify the Lender Oversight Committee which reviews formal enforcement recommendations from the Office of Credit Risk Management. These provisions of H.R. 4743 strengthen the integrity of all SBA guaranteed lending programs.

¹ 2015 Small Business Credit Survey: Report of Employer Firms. December 2016.

Codification of Credit Elsewhere Test

The 7(a) program is only available to small business credit applicants who would not otherwise qualify for a conventional loan. To safeguard the program from abuse, the SBA's "Credit Elsewhere Test" requires lenders to fully substantiate and document the reasons a given applicant cannot be served with conventional credit. ICBA fully supports this test as an appropriate measure to ensure responsible use of the 7(a) program. For this reason, we support its codification in Section 4 of H.R. 4743.

H.R. 4743 Would Stabilize Program Funding

Stable funding is critical to the success of the 7(a) program and the thousands of borrowers that rely on it. As is well known to this committee, program funding came to abrupt halt in the summer of 2015 when it reached its authorization cap well before the end of the fiscal year. Congress was forced to pass an emergency increase to the authorization cap to restart the program. Section 5 of H.R. 4743 would help ensure that program funding is never disrupted again.

While the 7(a) program is fully funded by user fees and no taxpayer dollars are appropriated, a program authorization level must be approved by Congress each year, and once that level is reached, no more loans can be approved. H.R. 4743 would give the Administrator authority to raise the cap by up to 15 percent one time each fiscal year with the approval of this committee, the Senate Small Business Committee, and the House and Senate appropriations committees.

ICBA greatly appreciates the support and responsiveness of this committee in passing the emergency increase in the summer of 2015. A longer program shutdown would have cut off the thousands of small businesses that rely on this program for payrolls, investment, and expansion. Small business owners often put their entire net worth at risk to make their businesses succeed. A program shutdown could be devastating for a small business that is anticipating a 7(a) loan. Unstable program funding also discourages lenders from getting into the SBA market. Lenders need to know they can rely on stable funding, and we believe that Section 5 of H.R. 4743 will provide that assurance.

Community Banks Need Regulatory Relief to Sustain and Grow Small Business Credit

I have focused my remarks up to this point on the 7(a) program and H.R. 4743. Taking a broader perspective, I urge this committee to support regulatory relief that would strengthen community banks and enable more small business lending in SBA programs and in the conventional markets. ICBA is grateful to the Financial Services Committee for its passage of numerous regulatory relief bills in this Congress and past Congresses.

These bills were the groundwork that prompted the Senate Banking Committee to pass S. 2155 in December on a strong, bipartisan vote. S. 2155 contains robust regulatory relief for community banks which will create more small business credit that will in turn create economic growth and jobs. These provisions include short form call reports to be filed in the first and third quarters of each year, deemed qualified mortgage status for mortgages held in portfolio by community banks, a lengthened exam cycle for banks with less than \$3 billion in assets, and numerous other provisions.

ICBA anticipates Senate passage of S. 2155 in the coming weeks. ICBA urges the members of this committee and the House to seize this opportunity to enact long-awaited regulatory relief for community banks by quickly taking up S. 2155 following Senate passage.

Small Business Lending Data Collection

Dodd-Frank Section 1071 requires the CFPB to implement rules for the collection and reporting of data on financial institutions' small business lending under the Equal Credit Opportunity Act. Section 1071 requires the collection and reporting of 12 pieces of data in connection with credit applications made by women- or minority-owned businesses of any size as well as all small businesses regardless of ownership, including the race, sex, and ethnicity of the principal owners of the business. Section 1071 also gives the CFPB discretion to require the reporting of any additional information that would assist the Bureau in fulfilling the purposes of the statute.

If the CFPB proceeds with implementation of this onerous data collection requirement, it will impose significant new burdens on community banks at a time when they are absorbing numerous other regulatory requirements. It will likely require the reporting of information regarding every small business loan application and will fall disproportionately upon smaller banks that lack scale and compliance resources.

Conclusion

Thank you again for convening this hearing and for your ongoing support for an SBA program that will play a critical role in strengthening our economic recovery and creating jobs. Bank of the West and many other community banks are fully committed to the future of the 7(a) program and will continue to dedicate the resources needed to make it work.

I'm happy to answer any questions you may have.

January 17, 2018

Testimony of

Patricia A. Husic

On behalf of the

American Bankers Association

before the

**House Committee on Small Business
United States House of Representatives**



January 17, 2018

Testimony of
Patricia A. Husic
On behalf of the
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Chairman Chabot, Ranking Member Velazquez, and members of the Committee, I am Patricia Husic, President and CEO of Centric Bank. Centric Bank is a community bank headquartered in Harrisburg, PA with \$555 million in total assets. I appreciate the opportunity to present the views of the American Bankers Association (ABA) on legislation that would improve the availability of SBA 7(a) loans and oversight of the program. The ABA is the voice of the nation's \$17 trillion banking industry, which is composed of small, mid-size, regional and large banks that together employ more than 2 million people, safeguard \$13 trillion in deposits and extend more than \$9.5 trillion in loans.

The Small Business Administration's (SBA) 7(a) Loan Program is very important to small businesses in my community and communities served across the nation. At my bank, as is true of my banker colleagues around the country, we are intensely focused on building and maintaining long-term relationships with our customers. We view our customers not as numbers but as individuals and business owners. The success of Centric Bank is inextricably linked to the success of the communities we serve. They are, our friends, neighbors, and the job creators in our communities.

Small businesses are an engine of growth and job creation for the U.S. economy. In order for small businesses to grow, they require safe and reliable funding. Community banks focus intensely on small business lending. According to the FDIC, community banks increased small loans to businesses (defined as less than \$1 million) at more than twice the rate of non-community banks in 2016 and account for 43 percent of all small loans to businesses.

January 17, 2018

The SBA programs are an important part of business lending for many banks. They help fill a critical gap, particularly for early stage businesses that need access to longer-term loans. The guarantee helps reduce the risk and capital required for banks and facilitates loans that might never have been made without this important level of support.

ABA applauds Chairman Chabot and Ranking Member Velazquez for their leadership in working with their Senate counterparts in introducing H.R. 4743, the Small Business 7(a) Lending Oversight Reform Act of 2018. This long overdue bill will strengthen the SBA's oversight office and provide the Administrator with flexibility to increase the program's maximum lending authority in the event it would be reached. The bill helps ensure the strength of the program into the future.

In the remainder of my statement, I will first give examples from my bank—replicated many times over by banks across the country—of how important this program can be to small business. Second, I will focus on why changes such as those in H.R. 4743 are needed and, third, suggest additional steps that should be taken to further improve the SBA programs.

I. SBA 7(a) Loans are Critical to Support Many Small Businesses

Loans to small business comprise 85 percent of our commercial lending at Centric Bank. Financing small business is the core of what we do and it is our specialty. SBA lending has always been an important product for our institution; however, during some of the earlier years we lacked the people with the required expertise to underwrite and navigate the SBA process. Over the past five to six years, we have hired individuals in our credit department with deeper experience in underwriting SBA loans as well as recruited more experienced small business lenders. SBA 7(a) lending is a core product that is crucial to finance the small business client when they are unable to obtain credit elsewhere. As we expanded in the Suburban Philadelphia area over 3 years ago, we recruited a team of experienced commercial lenders with a focus on small business and SBA lending. This team contributes approximately 55 percent of our SBA lending. As of the end of 2016, Centric Bank ranked in the Top 100 SBA 7(a) lenders in the country. At Centric Bank, we view SBA lending as a way to get a customer to a “yes” in a safe and sound manner. Without this program, many entrepreneurs would never get their dream off the ground.

At Centric Bank, the SBA 7(a) program has helped hundreds of entrepreneurs and job creators start their own business, purchase an existing business or expand a current business during the past ten years. Over five years ago, a young customer was a manager at a restaurant in the Harrisburg

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area for the past 10 years and his dream was to own his own business. When he finally found a business to purchase, he was unable to obtain a traditional bank loan. Through the SBA 7(a) program, we were able to help this business owner acquire the building and business with a 10 percent down payment, appropriate repayment terms, and we further enhanced the loan with the Federal Home Loan Bank's Banking on Business Program. His business is profitable and the owner has exceeded all financial projections. Just nine months ago, we financed a second restaurant for this same business owner using the SBA 7(a) program. As of the end of 2017, he has exceeded all projections for this new venture. The SBA 7(a) program enabled this entrepreneur to realize his dreams and now he is the owner of two profitable and successful restaurants, employing more than 60 people.

Another example of a customer that we assisted was a US Army Veteran (who was recently honorably discharged from the military), who wanted to start a business with his father and sister. Their dream was to open a gun range with education and training for the public. They also had the vision and foresight to open their facility to various police municipalities to provide access for their officers while they were off duty. The customer was unable to obtain financing through a traditional bank loan. With a longer-term loan provided through the SBA 7(a) Loan Program, the business owners obtained the financing they needed and were able to open their facility as scheduled. They have hired 20 full time equivalents to open their business and the majority of their employees are veterans.

Another customer of Centric Bank was looking to expand his existing construction company from the Philadelphia area into the New Jersey markets. During January 2016, Centric Bank approved and closed a \$675,000 SBA 7(a) loan for a minority owned construction company to purchase a commercial building, provide working capital for expansion and hiring of new employees. The commercial building is located in New Jersey, which has allowed the company to expand more rapidly into the Southern, NJ market and to increase revenues in the Southeastern, PA markets of Philadelphia and Delaware counties. Without the guarantee of the SBA 7(a) program, Centric would not have been able to provide the funding requested due to an overall collateral shortfall. The SBA 7(a) program helped us get this client to a "yes" when they were unable to obtain a traditional loan. This loan also provided a foundation for sustained and continued growth for the future.

II. H.R. 4743 Will Help to Improve the Program and Support Small Businesses

It is essential that small businesses that qualify for the 7(a) Loan Program are able to utilize the program to obtain access to the necessary capital to build and grow their businesses. In past years, this has been a challenge. For example, the 7(a) Loan Program required emergency legislation in 2015 to provide additional lending authority after the program had reached its funding limit. This legislation, if enacted, would grant authority to the Administrator to increase the amount for general business loans up to 115 percent of the fiscal year's limit. This is an important measure that gives lenders added certainty that 7(a) Loan Program funds will be available so that they can meet the needs of their customers. It also ensures that small businesses will not be affected by temporary shutdowns in the program, leaving them unable to meet payroll, purchase needed inventory, or secure necessary equipment and supplies to continue their operations and help grow their local economies.

Importantly, this bill also takes steps to improve the oversight of the program to prevent fraud and increase efficiency. The proposed legislation would enhance the Office of Credit Risk Management (OCRM) within the Small Business Administration by outlining in statute the responsibilities of the office and the requirements of its director, which includes the issuance of formal and informal enforcement actions, when necessary. Furthermore, this bill details a supervisory process that would ensure supervisory findings are provided to 7(a) lenders in a timely fashion.

The reform bill's requirement that the OCRM conduct regular 7(a) loan portfolio risk analyses and submit an annual report to Congress is commonsense risk management that would help ensure the continued viability of the 7(a) Loan Program. Similar to how we, as bankers, regularly review our loan portfolios for credit risk performance metrics—such as historical performance and concentration risks—it makes sense to formalize OCRM's role in regularly conducting such analyses. Similarly, the requirement that a Lender Oversight Committee be formed to review reports on lender oversight activities and oversee formal enforcement action recommendations from the OCRM Director should ensure the appropriate level of accountability while maintaining checks and balances.

The SBA's Credit Elsewhere Test has long been a central element of the program to ensure that 7(a) loan program capital goes to those small businesses that face obstacles in obtaining

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financing outside of the program. The proposed legislation clarifies the factors that must be considered in the Credit Elsewhere Test, helping to ensure consistent application and transparency in supervisory standards.

ABA strongly supports the efforts of the House and Senate Small Business Committees' to introduce flexibility to increase the program's maximum lending authority, if needed, and strengthen the SBA's OCRM to help ensure that small businesses that are unable to obtain traditional bank loans are able to get the capital that they need through the 7(a) Loan Program.

In my comments below, I will outline some suggestions for additional improvements to make the 7(a) program even more effective.

III. Additional Opportunities for Improving the SBA 7(a) Loan Program

Below are some examples of how the program can be improved, primarily relating to the servicing of SBA loans:

- **Enable Consolidation or Refinancing by the Same Lender to a Borrower**
SBA loans cannot be consolidated or refinanced by the same lender. In instances where the borrower is experiencing rapid growth, the bank is required to make multiple loans on the same collateral. Frequently, loans are cross collateralized, which make extending additional loans more complex. Servicing and administration of the loans is difficult for the borrower and the bank.
- **Provide a Carve-Out For Small Portfolio Lenders**
SBA guidelines no longer allow a bank to obtain a guaranty to avoid regulatory loans-to-one-borrower limitations. This is a disadvantage to small banks that are portfolio lenders and are attempting to meet the credit needs of customers in their market. A carve-out for banks that are under \$1 billion in assets engaged in portfolio lending should be considered.
- **Improve Subcontractors Role in Liquidation Process**
The use of subcontractors in the liquidation process at times resulted in confusion over the correct version of the Standard Operating Procedures (SOP) used to determine eligibility for repurchase. This caused delays in the liquidation process. We suggest

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sub-contractors receive additional training on identifying the appropriate SOP in affect when the loan was originated.

➤ **Facilitate Liquidation of Multiple Loans to a Borrower**

A loan is liquidated based on the type of loan program. When a borrower has multiple loans, liquidation can involve multiple service centers in different states. This creates a duplication of work for the bank. More importantly, borrowers have a difficult time making an “Offer in Compromise” until all claims are processed.

➤ **Seller As an Employee**

An area for consideration is to allow a seller of a business to remain as an employee for up to 2 years when selling a business. Retaining that former business owner under an employment agreement for this time period can effect a smooth transition with the business, assisting with business challenges that may occur, as well as assisting with the retention of clients. Our goal as a lender is always to set businesses up for success. We believe this component would be a source of strength for the new business owner in many cases.

Conclusion

Banks play an integral role in promoting the economic strength of the communities that they serve. The SBA 7(a) Loan Program is one example of how bank lending facilitates and promotes economic growth, and this program should be vigorously supported in the future. The positives of the program are many and the Small Business 7(a) Lending Oversight and Reform Act of 2018 is an important measure to ensure the continued success of this program. In addition to offering comments on this proposed bill, I also believe the committees should consider the aforementioned areas of improvement related to servicing aspects of the program.



Testimony of

Sonya McDonald

Executive Vice President and Chief Lending Officer

Randolph-Brooks Federal Credit Union

On behalf of

The National Association of Federally-Insured Credit Unions

“Strengthening SBA’s 7(a) Loan Program”

Before the

House Small Business Subcommittee

January 17, 2018

Introduction

Good Morning, Chairman Chabot, Ranking Member Velázquez, and Members of the Committee. My name is Sonya McDonald, and I am testifying today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU). Thank you for holding this important hearing today. I appreciate the opportunity to share with you my experience with the Small Business Administration's 7(a) Loan Program and our views regarding potential improvements to it.

As the Executive Vice President and Chief Lending Officer at Randolph-Brooks Federal Credit Union, I am responsible for a \$6.6 billion portfolio that encompasses consumer, mortgage and commercial lending, including \$23.6 million in SBA loans. The majority of my nearly 25 years of experience in marketing, strategic planning, management, and lending has been spent in the credit union industry. Prior to joining Randolph-Brooks in 2003, I was employed by Centris FCU (Nebraska) and Day Air CU (Ohio).

Randolph-Brooks Federal Credit Union (RBFCU), based in Live Oak, Texas, was originally chartered in 1952 with \$45 in deposits to serve personnel at Randolph Air Force Base. RBFCU is a full-service financial cooperative whose mission is to improve members' economic well-being and quality of life. With assets exceeding \$8.6 billion, RBFCU serves more than 710,000 members from 55 branch locations throughout Texas. Ranked among the top 20 of nearly 6,500 financial cooperatives, RBFCU is recognized for financial stability, and consistently receives the highest ratings of "Five Star" and "Superior" from respected organizations that rate financial institutions in the United States. At RBFCU, we do more than conduct business in the communities where our branches are located. We become a member of the community and share our philosophy of

“people helping people.” We provide assistance to hundreds of local charitable organizations including the Children’s Miracle Network, United Way, USO, American Red Cross, and the Fisher House Foundation.

As you may know, NAFCU is the only national organization that exclusively represents the interests of the nation’s federally-insured credit unions at the federal level. NAFCU and the entire credit union community appreciate the opportunity to participate in this discussion regarding the 7(a) loan programs under the Small Business Administration.

Background on Credit Unions

Historically, credit unions have served a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system was created, and has been recognized, as a way to promote thrift and to make financial services available to all Americans, many of whom would otherwise have limited access to financial services. Congress established credit unions as an alternative to banks and to meet a precise public need—a niche credit unions fill today for more than 110 million Americans. Every credit union is a cooperative institution organized “for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes.” (12 § USC 1752(1)). While over 80 years have passed since the *Federal Credit Union Act* (FCUA) was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

- credit unions remain totally committed to providing their members with efficient, low-cost, personal financial service; and,
- credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism. Credit unions are not banks.

The nation's nearly 5,000 federally-insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors—something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true "volunteer spirit" permeating the credit union community.

Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. As consolidation of the commercial banking sector has progressed, with the resulting depersonalization in the delivery of financial services by banks, the emphasis in consumers' minds has begun to shift not only to services provided, but also—more importantly—to quality and cost of those services. Credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

Credit unions also play an important role in the on-going recovery from the financial crisis. As widely recognized by elected officials in Washington, credit unions did not cause the financial crisis. Because they did not engage in the same risky practices as big banks, credit unions fared well during the crisis and, as a result, had the capital available to lend. Surveys of NAFCU-member credit unions have shown that many credit unions saw increased demand for mortgage loans and auto loans as other lenders were leaving the market. A number of small businesses who lost important lines of credit from other lenders turned to credit unions for the capital that they needed.

Our nation's small businesses represent 99.7 percent of all employer firms, employ nearly half of all private sector employees, pay more than 40 percent of total U.S. private-sector payroll, and have generated over 60 percent of net new jobs annually over the last decade. It is inarguable that the strength of the economy directly correlates to the health and well-being of America's small businesses. Many small business owners are members of credit unions around the country and rely on their services to help make their small businesses successful. Our nation's credit unions stand ready to help and, unlike some other institutions, have the assets to do so. Unfortunately, an antiquated and arbitrary member business lending cap prevents credit unions from doing more for America's small business community.

Artificial Member Business Lending Cap at Credit Unions Hurts Small Business

When Congress passed the *Credit Union Membership Access Act* (CUMAA) (P.L.105-219) in 1998, it put in place restrictions on the ability of credit unions to offer member business loans. Credit unions had existed for nearly 90 years without these restrictions. Congress codified the

definition of a member business loan and limited a credit union's member business lending to the lesser of either 1.75 times the actual net worth or 1.75 times the minimum net worth of a well-capitalized credit union (12.25 percent).

CUMAA also established, by definition, that business loans above \$50,000 count toward the cap. This number was not indexed and has not been adjusted for inflation in the more than 18 years since enactment, eroding the *de minimis* level. Where many vehicle loans or small lines of credit may have been initially exempt from the cap in 1998, many of those that meet the needs of small business today, are now included in the cap due to this erosion. To put this in perspective relative to inflation, what cost \$50,000 in 1998 costs \$76,000 today, using the most recent consumer price index data. That is more than a 50% rate of inflation change that is completely ignored by current law and greatly hampers a credit union's ability to meet its members' needs.

It should be noted that the government guaranteed portions of SBA loans do not count toward the member business lending cap, but the non-guaranteed portions do. This could ultimately lead to a situation where a credit union may be an excellent, or even preferred, SBA lender and ultimately have to scale back participation in SBA programs as they approach the arbitrary cap. This would likely hit SBA Express loans first, as those have lower guarantees and thus may have a bigger impact on money available below the cap.

Also, pursuant to section 203 of CUMAA, Congress mandated that the Treasury Department study the issue of credit unions and member business lending. In January 2001, the Treasury Department released the study, "Credit Union Member Business Lending" and found the following: "...credit union's business lending currently has no effect on the viability and profitability of other insured depository institutions." (p. 41). Additionally, when examining the issue of whether modifying

the arbitrary cap would help increase loans to businesses, the study found that "...relaxation of membership restrictions in the Act should serve to further increase member business lending..." (p. 41).

The 2001 Treasury study found that credit unions do not pose a threat to the viability and profitability of banks, but that in certain cases, they could be an important source of competition for banks. It is important to note that credit unions have a nominal market share of the total commercial lending universe (approximately 8% of all small business loans from insured depository institutions), and are not a threat to banks (who control nearly 92% of all small business loans from insured depository institutions) in this environment.

A 2011 study commissioned by the SBA's Office of Advocacy affirms these findings. (James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Small Business Research Summary, SBA Office of Advocacy, No. 387 (Sept. 2011)). The SBA study also indicates, importantly, that credit union business lending has increased in terms of the percentage of their assets both before and during the 2007-2010 financial crisis while banks' lending decreased. This demonstrates not only the need for lifting the MBL cap in order to meet credit union members' demand, but also that credit unions continued to meet the capital needs of their business members even during the most difficult of times. One of the findings of the study was that bank business lending was largely unaffected by changes in credit unions' business lending. Additional analysis in the study also found that credit unions' business lending can actually help offset declines in bank business lending during a recession.

We would urge the Subcommittee to support legislation to remove the arbitrary cap on credit union member business lending.

Memorandum of Understanding between SBA and NAFCU

In September of last year, the SBA and NAFCU renewed a 2015 Memorandum of Understanding (MOU) in a joint effort to improve access to small dollar loans to small businesses across the nation. The MOU was entered into with the desire of both parties to increase the number of credit unions offering SBA loan products. Credit unions, with their not-for-profit mission based focus, are positioned to fill the gaps of capital for small businesses, especially for underserved borrowers. Involving more credit unions in SBA's programs will expand accessibility of SBA products and ultimately strengthen small businesses and their communities. With greater participation in SBA's lending programs, credit unions stand to benefit from the reduction of their risk on small business loans and from increasing financing resources available to their small business members.

SBA Lending at Randolph-Brooks Federal Credit Union

RBFCU started its business program fourteen years ago, and today we have over 28,000 business checking accounts and 4,747 member business loans. We have a well-diversified member business loan portfolio of approximately \$523 million with minimal delinquencies (a delinquency ratio of 0.72%). Our commercial losses have been minimal as we have an experienced lending staff and a sincere and devoted membership. RBFCU has been an important source of capital for existing, new and growing businesses throughout the areas we serve.

At the request of our membership, and to provide more loan options for our field of membership, RBFCU became an SBA Preferred and Express Lender in September of 2005. We are delegated with SBA authority and are able to offer all SBA products including 7(a) loans, Small Loan loans, Express loans, and SBA 504 loans. In 2016 and 2017, RBFCU was the #1 SBA lending credit union in our 55 county SBA district. Given our diverse membership of over 710,000 members, we see a wide variety of SBA loan requests. From start-up franchises, to business acquisitions, to purchasing owner-occupied real estate, RBFCU has provided SBA loans for as little as \$15,000 and as much as \$3,000,000. SBA products allow us to leverage our lending dollars, mitigate the risk associated with the loans, and extend more credit to our communities' small businesses.

RBFCU currently has 210 active SBA loans in its portfolio with a balance of approximately \$23 million. Our current SBA delinquency ratio is 2.32% and our net charge off ratio is 0.54%. At RBFCU we strive to strengthen our communities by offering our members new entrepreneurial opportunities. Many of our SBA loans are for entrepreneurs wanting to start a new business and create new jobs. The SBA loan option provides eligible member borrowers with more favorable loan terms, such as lower down payment options and longer maturities.

For example, The Bagel Factory, in San Antonio is owned by an Air Force veteran and his wife. They were denied more than 20 times by various banks before finding a loan approval at RBFCU. That business is now in its 7th year and thriving. Another SBA loan was provided to a 100% disabled military veteran, for his company, AppDiction. With the help of an SBA Express Line of Credit, the business secured 8a certification and is now able to fulfill software development

contracts for the military. These success stories are a small sample of the many that have occurred since our partnership with the SBA.

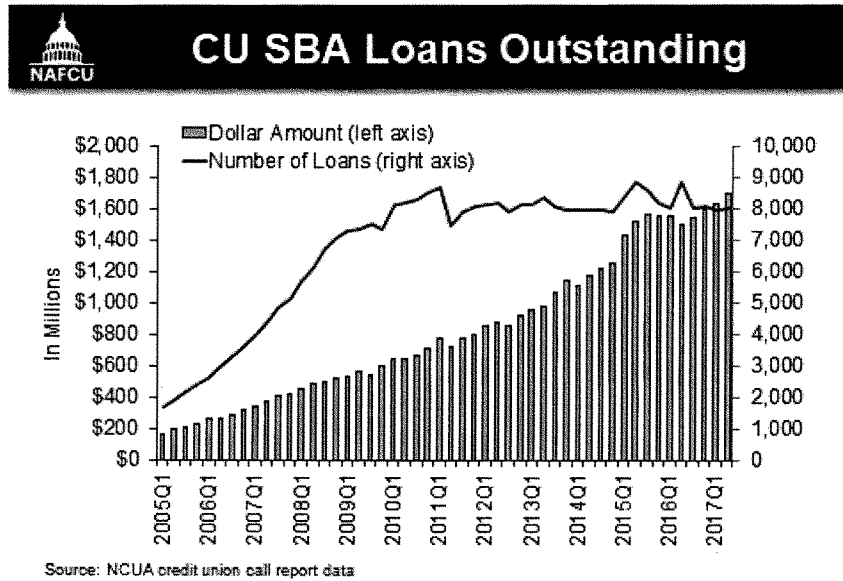
There are many more stories, like these, of small business owners looking for that loan to enable them to start or grow their business. The demand is out there. Unfortunately, in this current environment, many banks have scaled back their smaller dollar business lending that credit unions are readily able and willing to fill. At RBFCU, we are pleased that we have been able to help step up to meet the pent-up demand.

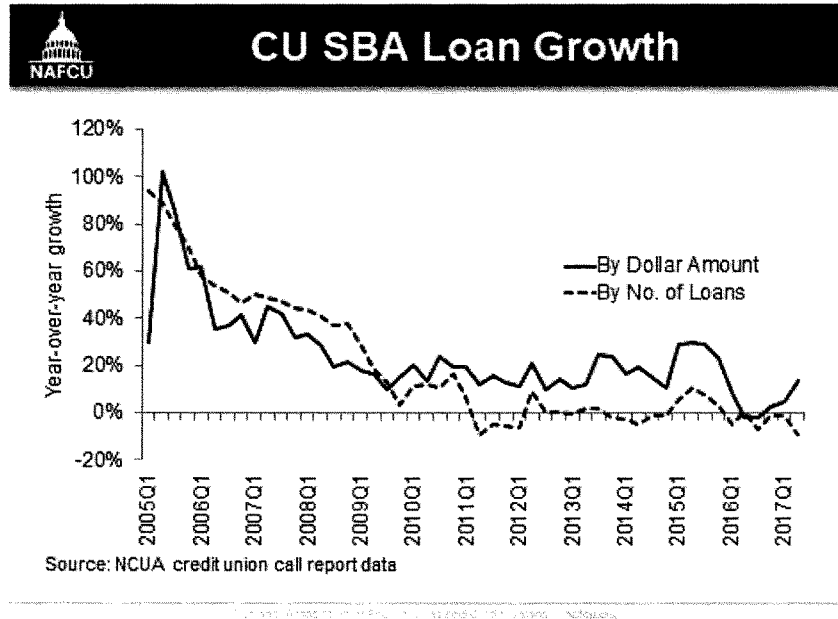
SBA and Access to Capital for Credit Union Members

As previously mentioned, small businesses are the backbone of our economy and an essential source of jobs for Americans. The Small Business Administration's loan programs serve as an important resource that helps credit unions provide small businesses with the vital capital necessary for growth and job creation – in many cases to businesses that would otherwise not be able to obtain financing. However, utilizing any SBA loan guaranty program requires meeting stringent government regulations.

Determining overall applicant eligibility to participate in an SBA program is nearly as important as determining the applicant's creditworthiness. Failing to meet certain eligibility criteria may preclude the applicant from participating in an SBA guaranteed loan program. Eligibility criteria includes among other things: size restrictions, type of business, use of proceeds, credit standards, and meeting a 'credit-elsewhere' test.

While credit union SBA loans have generally increased in both total number and dollars, the growth rate of credit union SBA lending has fallen since the recession (see charts below).

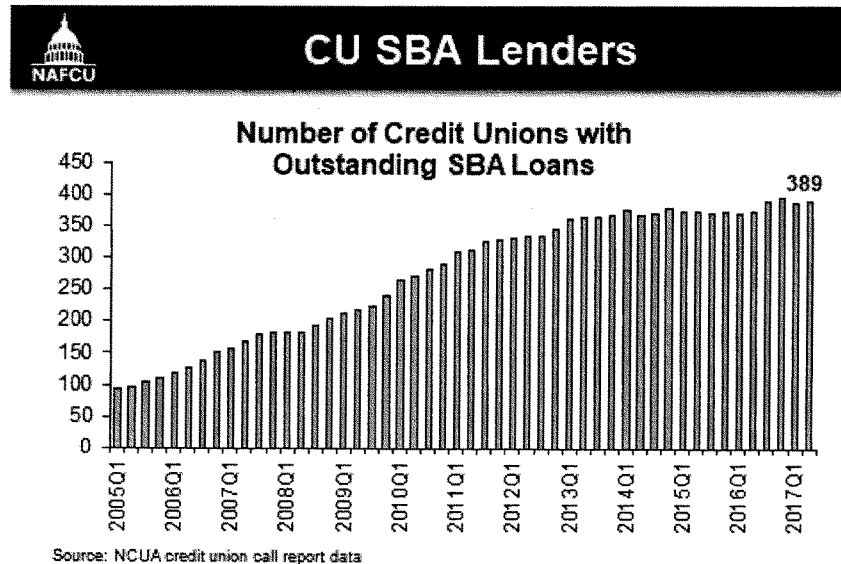




Much of the decrease in SBA lending can be associated with the overall economic downturn the nation as a whole experienced. However, some credit unions tell NAFCU that they have scaled back on the number of small loans as a response to comments from the SBA and its examinations.

Another way that Congress could help improve the 7(a) lending program would be to reintroduce the *Credit Union Small Business Lending Act*, which was first introduced by Ranking Member of the full committee, Nydia Velazquez in the 110th Congress. The bill would amend the *Federal Credit Union Act* to exclude any SBA loan (guaranteed and non-guaranteed portions) from the

meaning of "member business loan" of a credit union. These loans would thereby be exempted from the arbitrary credit union member business lending cap. As you can see from the chart below, the number of federally-insured credit unions participating in SBA programs has been steadily increasing since the SBA opened up its programs to more credit unions in 2003. We hope NAFCU's MOU with the SBA will help in this regard. Additionally, enacting legislation such as the *Credit Union Small Business Lending Act* will help this trend continue.



Compliance with any regulation requires work, but clear guidance is necessary for a credit union to know they are doing what is required of them. If RBFCU has a question regarding SBA's Standard Operating Procedures (SOP), we are able to email them directly, but the response does not always result in a definitive answer. Many times, SBA's response to a request for clarification is merely a screenshot of the page of the SOP in question. Additionally, when loans are submitted through General Processing, some of SBA's processors deviate from standard SOP requirements, although we have seen improvements since I testified on this subject last March. One recent improvement has been SBA's listing on their website of franchises eligible for SBA financing, which helps expedite the process of lending to a franchise and removed unnecessary burden from the institution to determine eligibility of a franchise.

An example of previous deviation from SOP requirements occurred when a loan request required us to place a second lien on a borrower's rental property. In order to establish value, RBFCU would normally use the tax assessed value on the home. In this case, the SBA processor insisted on using the value estimated by the real estate website Zillow.com, which of course is nowhere in the SOP manual. Issuing, improving, and adhering to guidance or published "best practices" would go a long way to helping credit unions get more involved in SBA lending programs. While the user friendliness of the SBA One software has improved since last March, there are additional ways to encourage credit unions to offer SBA loans such as shortening the length of time it takes to have a loan approved, which can take 8 weeks or longer.

If Congress and the SBA were to make it easier for credit unions to participate in these programs, small businesses throughout the nation will have greater access to capital at a time when it is

greatly needed. While we support SBA loans being permanently exempted from counting against a credit union's MBL cap, we also would support efforts to temporarily increase the guarantee on SBA loans. Our experience indicates that the recent SBA fee reductions and temporary guarantee increase helped the small businesses in our market and encourage other credit unions to get involved.

These suggested changes, which would allow credit unions to do more to help our nation's small businesses, are an important step to help our nation's continued recovery from the recent economic downturn.

H.R. 4743, the "Small Business 7(a) Lending Oversight Reform Act of 2018"

NAFCU is pleased to see the bipartisan and bicameral work on the *Small Business 7(a) Lending Oversight Reform Act of 2018*, H.R. 4743, and we thank Chairman Chabot and Ranking Member Velázquez for their leadership on this bill. This legislation provides a number of improvements that will help bring more clarity to SBA's 7(a) program including:

- Strengthening SBA's Office of Credit Risk Management by outlining in statute the responsibilities of the office and the requirements of its director;
- Enhancing SBA's lender oversight review process, including increasing the office's enforcement options;
- Requiring SBA to detail its oversight budget and perform a full risk analysis of the program on an annual basis;
- Strengthening SBA's Credit Elsewhere Test by clarifying the factors that must be considered.

We are particularly pleased to see the Credit Elsewhere Test better defined compared to what is included in the Standard Operation Procedures (SOP). This will help clear up ambiguity for lenders.

One of the most important parts of the bill is the Administrator's authority to increase the budget amount to 115% of the limit. This would be beneficial to both borrowers and lenders versus the hard cap that currently exists and help ensure that lenders and small businesses will not face a situation where the ability to use the 7(a) program comes into doubt due to the popularity of the program.

One area where we think the legislation could be improved would be to have better definitions for penalties. For example, what constitutes a small penalty versus a \$250,000 penalty? Adding clarity that requires the Director to distinguish between minor compliance errors and willful or negligent violations would be helpful. Also, will the budget to be submitted each fiscal year include estimated penalties? If so, how will the office ensure correct fees are being charged?

Overall, we believe this is a solid legislative package and would urge the Committee to support and advance this legislation in a timely fashion.

Conclusion

Small businesses are the driving force of our economy and the key to its success. The ability for them to borrow and have improved access to capital is vital for the job creation that will lift our nation out of the economic malaise in which we find ourselves today. And while the Small

Business Administration's 7(a) program provides much needed opportunities to established and fledgling businesses, there are several relatively simple steps that could propel the program to its full potential. We are hopeful that the Committee's work on H.R. 4743 will provide these improvements, and NAFCU stands ready to work with you to achieve these objectives. The small businesses and communities around the country will benefit greatly from improvements to these programs. Finally, it is our sincere hope that the SBA 7(a) lending program is successful in luring new credit unions to participate in them while also ensuring eligibility requirements and other qualifying criteria are not overly burdensome on the financial institutions that want to participate in them.

We thank you for your time and the opportunity to testify before you here today on this important issue to credit unions and our nation's economy. I would welcome any questions that you may have.



"Strengthening SBA's 7(a) Loan Program"

Testimony before the House Committee on Small Business

January 17, 2018

**Submitted by
Anthony R. Wilkinson, President and CEO
National Association of Government Guaranteed Lenders
101 Constitution Ave NW
Washington, DC 20001**

Chairman Chabot, Ranking Minority Velázquez, and members of the Committee - my name is Tony Wilkinson and I am President and Chief Executive Officer of the National Association of Government Guaranteed Lenders (NAGGL). NAGGL is a national trade association of approximately 800 banks, credit unions, non-depository lenders and other entities that participate in the Small Business Administration's 7(a) loan guarantee program — with NAGGL's lender members being responsible for approximately 80% of the total 7(a) loans made each year.

This Committee and its colleagues on the Senate Committee on Small Business and Entrepreneurship have been looking into the performance of the SBA 7(a) loan program and SBA's role in oversight of the program for the last three years. There has been great care taken by this Committee to approach this issue with diligence and as the CEO of the SBA 7(a) industry's trade association for the last thirty years, I can tell you honestly that your careful approach to this matter is a rarity in the history of this program and incredibly appreciated. Your staff, particularly Rob Yavor for the majority and Justin Pelletier for the minority, have been exceptional — they truly worked with all sides to understand the issues and unintended consequences at stake in a very technical program. We also very much appreciate the Committees' announced intention to continue to work with industry and the agency to perfect H.R. 4743 going into the markup process. The lending industry that NAGGL represents is grateful for this Committee and its staff's longstanding commitment and dedication to engaging the *many* stakeholders throughout the process, and we look forward to working with you and with SBA to assure that the final legislation provides appropriate direction for SBA's lender oversight efforts.

I am pleased to testify today to discuss NAGGL's support for H.R. 4743, a bill that will strengthen SBA's Office of Credit Risk Management (OCRM) and how it performs its role to oversee the 7(a) loan program. It is now when we are performing well and increasing our lending volume that we

should be taking a step back and taking stock of what OCRM needs in terms of resources and authority to perform its responsibilities to the best of its ability.

So what benefits will H.R. 4743 provide to the program from NAGGL's perspective?

ADMINISTRATOR FLEXIBILITY

One of the most important provisions to the lending community included in H.R. 4743 includes granting flexibility authority to the SBA Administrator to increase the 7(a) program's authorization cap by 15% if the pace of lending is set to exceed that fiscal year's given cap. The authority to increase the authorization cap can only be utilized once a year and with approval from the Committees on Small Business in the Senate and House, as well as from the Financial Services and General Government Subcommittees on the Appropriations Committees in the Senate and House. NAGGL first presented this flexibility language to OMB and the Hill in the wake of the FY2015 7(a) lending shutdown, drawing on the same language and precedent set by the House and Senate Appropriations Committees in their treatment of various USDA loan programs. Since then, NAGGL has enjoyed the partnership of Senator Coons, Senator Shaheen, and Senator Risch, to name a few last Congress who introduced a bill in the Senate to establish cap flexibility, and this Congress, Ranking Member Velázquez championed a bill in the House to move this proposal forward. And as you know, OMB included this language in the last three Presidential budget proposals, so SBA has been a champion for this proposal as well.

In both FY2014 and FY2015, the SBA 7(a) program saw demand from small business borrowers reach the program's authorization cap before the end of the fiscal year, and in FY2015 the program shutdown for several days. In both of those fiscal years, Congress was able to pass emergency supplemental language that allowed the program to be reinstated. Some of you on this Committee helped see those unusual measures through to ensure the SBA 7(a) program remained available to the country's small businesses, and industry owes you a great deal of

gratitude. But those were rare instances of Congressional intervention and these threats of shutdown destabilize the program. The issue largely stems from the great difficulty in anticipating the exact number of borrowers who will be applying for SBA 7(a) loans 18 months in advance during the budget process.

Unfortunately, these programmatic shutdown threats also alter lender behavior. Lenders continuously monitor the cap throughout any given Fiscal Year, as they must answer to both borrowers and their private-sector financial institution. There have been instances in the program's history in which lenders rush to process as many loans in their pipelines as possible, to avoid turning away a small business borrower if it is apparent that demand may come close to the cap. It is not Congressional intent to have lending pace set by lender panic, and the Administrator flexibility language solves for that potential risk in the future.

While this flexibility should never supplant the role of Congress in setting authorization caps, it will serve as a common-sense safeguard against last-minute panic. This Committee and its colleagues on the Appropriations Committee, and in the Senate, should not have to be backed against a wall every time there are more borrowers than anticipated walking through a lender's door on a given day, week, or month. Thank you to this Committee for embracing and now championing this concept — especially Chairman Chabot and Ranking Member Velázquez — and we look forward to discussing this more.

CREDIT ELSEWHERE CLARITY

H.R. 4743 also updates the credit elsewhere provision currently in statute — a clarification lenders have long asked for and which is critically important to the program. The cornerstone principal of the SBA 7(a) program is that it complements, but does not compete with conventional small business lending. The non-competitive status of the program is assured by the fact that before any SBA 7(a) loan guaranty can be approved, the participating lender must certify that the loan

could not be made without the SBA guaranty. NAGGL believes the proposed legislation will strengthen compliance with the credit elsewhere requirement by clarifying the types of situations which cause the SBA guaranty to be required. If enacted, the statute will make clear the types of eligible, creditworthy small business applicants that cannot access credit without the SBA guaranty — including newer businesses, those with less collateral, those requiring longer maturities to better match the repayment terms to the cash flow from their operations, etc. NAGGL believes that this clarification is critically important to assuring that the loans made under the program continue to fill the existing small business credit gap.

IMPROVED OVERSIGHT REVIEWS AND TIMELINESS OF PROVIDING REVIEWS

Finally, I would like to applaud the Chairman and Ranking Member for the provision of the bill which improves the oversight review process for lenders. NAGGL has long called for full-time employees (FTEs) of SBA to lead each team of reviewers that conducts the oversight reviews of the program's participating lenders. When there is a FTE present and supervising each review, it ensures that there is a deep foundation and understanding of the incredibly complicated policies that are specific to SBA lending. This is critical to ensure the highest level of oversight for the program and provides lenders assurance that the payments they make to cover the costs of their reviews go toward financing a review process that is thorough and meaningful.

Another important provision of H.R. 4743 is the new requirement that SBA send a lender's oversight review report within a reasonable amount of time. The language still gives SBA the ability to take longer if needed, but the agency must notify the lender of this extension and the reason for the delay. Lenders are expected to be responsive and prudent participants, and this new language will put an onus on the agency to be responsive in a timely manner. Why is this so critical to improving oversight? Robust oversight requires timely communication between the lender and the agency to ensure errors on the part of lenders — that can range from simple mistakes to significant issues — are caught and behavior is modified as necessary. So, if an

oversight review finds that the lender has engaged in behavior that does not fully meet SBA's requirements, it is important that the lender be informed as soon as possible so that it can take the steps necessary to improve and bring its performance into compliance.

These are some of the more important provisions to lenders in the proposed legislation, but certainly not an exhaustive account. H.R. 4743 also reinstates a critical appeal process to give lenders, especially small community banks, a method by which to elevate an appeal of a decision made by the Office of Credit Risk Management (OCRM) within the agency without having to resort to suing the agency, which is almost never a realistic option for a participating lender. The bill also codifies offices and procedures that have long been established within SBA — namely OCRM, its enforcement procedures, and the Lender Oversight Committee (LOC) — but which have either been buried in the agency's Standard Operating Procedure or simply not clear to participating lenders. And finally, NAGGL is enthusiastic to see H.R. 4743 include report requirements which will identify portfolio risks on an annual basis without naming lenders, a common-sense practice to aid participating lenders in better understanding their own portfolios and encourage prudence, as well as increase transparency. In fact, this is a long-standing historical request from NAGGL that SBA make this information public. There is also a report requirement included in the legislation that will require a budget submission from SBA to give transparency to the way in which lenders' oversight fees are utilized by SBA, an important step toward greater transparency between the lending community and the agency while giving Congress a greater sense of confidence with the agency's program management. I am happy to discuss any of the other provisions in further detail.

Given these concepts which can only go to further strengthening the program's integrity, NAGGL is supportive of H.R. 4743 and its companion bill in the Senate, S. 2283, and we look forward to

continuing to be a part of discussions going into the markup process as the agency and industry work with the Committee to perfect this language.

I'd like to also take this time to comment that the importance of this bill goes far beyond the words on the pages. All too often, and I'm sure much to your frustration, Congress and regulators find themselves having to *react* to a problem when it comes to the financial services industry. Wouldn't it be ideal if in each of those instances, Congress and industry had come together *before* a problem arose as those portfolios were performing well and as participation was growing to consider how the portfolio's soundness could be improved?

Well, here we are with the SBA 7(a) program, attempting to break that cycle. This Committee is *not* reacting to a malady that needs to be quickly repaired to prevent disaster. Instead, this Committee is coming together in a bipartisan, bicameral approach to discuss how to further improve a program that is performing well.

I know there are probably some that are asking — 'why fix something that isn't broken'? But those who are asking are not sitting in your seats and most certainly are not the individuals having to battle the appropriations cycle every year to increase the authorization cap of this program.

First, as Members of the House Small Business Committee and of Congress, the maintenance of the SBA programs and the responsibility to oversee the agency starts and stops with you. It is in my members' individual and collective interests that SBA engages in a sustained, effective lender oversight program so that 7(a) lending stands the test of time for many more years to come in order to serve many more thousands of small businesses across the country

Second, the challenge to push for a growing authorization cap year in and year out during the appropriations process all but requires a serious piece of legislation to ensure all involved — appropriators and authorizers — have peace of mind that as they increase the program cap, Congress took the appropriate steps to ensure that risk would be mitigated.

As a point of reference, the FY2014 the program's authorization cap was set at \$17.5 billion. For FY2018, should we see an omnibus appropriations bill pass, the program's authorization cap will most likely be set at the level both the House and Senate agreed upon, which is \$29 billion. That is almost a 66% increase in the authorization cap of the SBA 7(a) program in the last four years. It is entirely appropriate for this Committee and its colleagues in the Senate to make sure OCRM has the appropriate resources and processes in place to monitor this growth. We at NAGGL are fully supportive of your efforts.

It should be noted here that this growth is not a result of uncontrollable or unchecked trends in lending — in fact, the growth we've experienced over the last several years is not only a success for small businesses in every one of your districts and across the country, but also proof positive that this program is operating as a gap financing program as intended. There is a gap for small businesses in conventional bank lending in this country and the most qualified, creditworthy small business owners continue to struggle to secure financing that meets their needs. A small business seeking capital is often offered loans with terms of 30 days to three years when they really need much longer-term financing. The needs of this country's small businesses are frequently a depository mismatch for banks that are often unable to tie up capital in long-term loans. Despite the overall improvement in lending since the Great Recession, there is still a need for more financing options that provide greater stability for small businesses. The SBA 7(a) program has stepped up to the plate to fill this gap and has an average term of 16 years—in other words, the kind of long-term financing that small businesses need to survive but generally cannot find in the

conventional market. It should be no surprise that given today's conventional credit box for small businesses, a credit elsewhere program would grow and thrive. This also reaffirms the intent of Congress that this program not compete with the private sector's conventional markets or make loans to borrowers who could receive a conventional loan. As Chairman Chabot has stated in front of this Committee in the past, this program should supplement the markets, not supplant them.

The benefit of quality lender oversight is not lost on the lending industry. Since the introduction of federal credit reform, our member institutions have witnessed the impact that portfolio performance has on subsidy rates and program fees. I am pleased to report that the performance of the SBA 7(a) loan portfolio has remained sound, we continue to operate at a ZERO credit subsidy rate, and loss rates continue to be low.

But equally important as maintaining the portfolio's performance is that proper lender oversight is necessary to protect the main purpose of the SBA 7(a) program — its public policy mission to serve those small business borrowers in the community that cannot otherwise receive credit elsewhere on reasonable terms and conditions. An appropriate oversight approach must also include consideration of how well the public policy goals of the program are being met. In other words, effective oversight ensures congressional intent.

It is also important that this oversight does not swing the pendulum too far in the opposite direction to restrict lenders and borrowers from finding the program attractive — and in NAGGL's view, H.R. 4743 does **NOT** swing too far. This is an important perspective to bear in mind whenever there is a call for increased oversight to avoid duplication of existing oversight activities from other regulatory agencies, as well as a duplication of the cost already associated with those activities. It is an established fact that the bank and credit union industries already have substantial lender

oversight from the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration, the Federal Reserve Board, and various state banking regulators. NAGGL has always believed that SBA should be required to demonstrate that it is adding value to current federal and state oversight efforts, not just duplicating existing efforts and we believe that H.R. 4743 helps accomplish just that.

It is important to note that just a decade ago, the SBA's oversight efforts only applied to the largest lenders, even though its own statistics showed that inactive and active lenders with portfolios under \$1 million can still pose a significant risk to the SBA 7(a) program. And it was only recently, in December 2014, that the SBA created and implemented the PARRiS review system, a risk-based review protocol that oversees all SBA 7(a) lenders by taking into account qualitative and quantitative performance data. PARRiS stands for "Portfolio Performance," "Asset Management," "Regulatory Compliance," "Risk Management," and "Special Items." The PARRiS system is meant to better identify a lender's specific risk areas, assess the level of risk a lender poses to SBA, and make recommendations for corrective action. Lenders are scored "1" through "5" as part of a data-driven lender-profile assessment. Lenders are also subject to multiple levels of scrutiny and reviews, from analytical and virtual to full reviews at a lender's location.

By most regulatory practice standards, the PARRiS system is in its infantile stage after about three years off the ground. As an industry, we are still looking to see how this system performs and encourage you as authorizers to allow this system to develop in greater sophistication with SBA's ongoing improvements every year. We believe H.R. 4743 will help move SBA's processes even closer to these goals.

I must also stress that to understand the full picture of oversight, it is critical to know that lenders have skin in the game. SBA's guarantee is a *contingent* guarantee, which means that if a lender

fails to fully meet its responsibilities, the SBA can — and does — reduce the amount of the guarantee payment to lenders *if* the loan should default and a deficiency balance remain after the lender has exhausted the remedies available to it to collect on the unpaid balance. In the most egregious cases, the SBA will deny its liability under the guarantee. Therefore, the very nature of the guarantee relationship serves to assure that lenders comply with the various SBA program requirements while engaging in quality lending. The guarantee program is a sharing of risk and not a complete transfer of risk away from the SBA 7(a) lending community. Beyond responsibilities to SBA and the taxpayer as responsible stewards of the program, the lenders have an ongoing responsibility to their federal and state regulators, their internal regulatory oversight group, and even their shareholders to ensure that safe and sound lending practices are maintained. In part, this skin in the game is what makes the private sector such ideal partners in the SBA 7(a) program, serving as an incentive to all lenders to be prudent stewards.

As lenders, we are incredibly proud of who we serve and the role we play in your individual districts. Over the past several years, lending to nearly every underserved market — from veterans, rural communities, urban areas, women, Hispanics, and African Americans to name a few — has increased. While we can always do more to improve access to capital to these markets, we are confident that the SBA 7(a) lending industry is fulfilling the intent of Congress to serve the country's small businesses.

The numbers tell the story. In Fiscal Year 2017, financial institutions large and small provided about \$25.4 billion in approvals to about 62,430 small businesses nationwide through the SBA 7(a) program. At an estimated one job per \$35,000 lent, over 650,000 jobs were created or retained just last year thanks to the SBA 7(a) program. In addition, there are other benefits that are often hard to measure, like employment opportunities and increased tax revenue for federal

and local governments and community growth driven by small business expansion in cities, small towns and rural areas across the country.

The issues that SBA 7(a) loans solve for are the issues that every Main Street across the country is struggling with and which every Republican and Democrat wants to desperately find an answer to over the next four years — jobs, community rejuvenation, and opportunity, which is why it is so important to come together to ensure we protect this portfolio.

Chairman Chabot and Ranking Member Velázquez—I would be pleased to answer any questions.

Questions for the Record
Committee on Small Business
Hearing: Strengthening SBA's 7(a) Loan Program
January 17, 2018

Ranking Member Velázquez:

SBA's capital access mission is to aid and assist America's small businesses, including underserved and vulnerable small businesses, to obtain capital to maintain and strengthen the overall economy. Does SBA encourage lenders to make loans to under-served markets, such as to firms majority-owned by those who are socially and economically disadvantaged and to new businesses?

Husic Response:

SBA does encourage lenders to make loans to under-served markets. Without these types of loans, and the associated SBA guarantee, we would not be able to provide funding due to issues such as overall collateral shortfalls. Additionally, maintaining access the SBA 7(a) loan program ensures that capital can go to small businesses that face financing obstacles in the traditional loan process. Finally, SBA's continued promotion of the 7(a) loan program to business owners that may be socially and economically disadvantaged will allow bank lending to continue to encourage economic growth.



**NATIONAL ASSOCIATION
OF GOVERNMENT GUARANTEED LENDERS**

To: House Committee on Small Business
 From: Tony Wilkinson, President & CEO, National Association of Government Guaranteed Lenders (NAGGL)
 Re: Questions for the Record for the January 17, 2018 Hearing, "Strengthening SBA's 7(a) Loan Program"

February 13, 2018

Chairman Chabot and Ranking Member Velázquez,

Please find below my responses to the submitted questions for the record by Ranking Member Velázquez as a part of the hearing titled, "Strengthening SBA's 7(a) Loan Program," held on January 17, 2018. Should the Committee wish to have any further discussion on the below or any other matter regarding the 7(a) program, I am pleased to be of further assistance at your convenience.

Sincerely,

Anthony R. Wilkinson
 President & CEO, National Association of Government Guaranteed Lenders (NAGGL)

Ranking Member Velázquez:

1. *SBA's capital access mission is to aid and assist America's small businesses, including underserved and vulnerable small businesses, to obtain capital to maintain and strengthen the overall economy. Does SBA encourage lenders to make loans to under-served markets, such as to firms majority-owned by those who are socially and economically disadvantaged and to new businesses?*

Yes, SBA encourages lenders to make loans to under-served markets through a number of programs, incentives, and initiatives urging a focus on mission lending.

By way of programs and incentives, SBA has historically instituted fee waivers for borrowers seeking small dollar loans. For the FY18 budget, SBA has reduced the guaranty fee to zero for loans up to \$125,000. This fee is almost always passed on to borrowers so its waiver helps to increase mission lending. The SBA Express program also expedites access to smaller dollar loans, and the Community Advantage pilot program, which is available only to lenders which are not eligible for traditional 7(a) lending, provides smaller loans to borrowers who are in traditionally underserved markets. In addition, SBA previously provided special benefits to

businesses owned by eligible veterans and their spouse under Patriot Express Pilot program, with the Veterans Entrepreneurship Act of 2015 codifying and making permanent the formerly administrative guaranty fee waiver for SBA Express loans which introduced through that pilot.

SBA and NAGGL also worked closely together on a project that goes beyond lending, the NAGGL-created Business Smart Toolkit which is a product intended to focus on encouraging financial literacy among entrepreneurs by local community and faith-based organizations disseminating entrepreneurial training. SBA's Office of Entrepreneurial Development has since engaged countless partners such as the U.S. Black Chamber of Commerce, 100 Black Men of America, the U.S. Hispanic Chamber of Commerce, the National Organization of Black Elected Legislative Women, and the Urban League, among others to deliver the toolkit to their local communities.

In addition, from time to time, SBA introduces initiatives that place an emphasis on particular underserved market(s). NAGGL and its members work with the Agency on these shared goals. For example, SBA recently announced that one of its goals over the next two years will be to increase lending in certain traditionally underserved geographic markets, inner cities and rural areas. In addition, Administrator McMahon has announced goals that will focus on women-owned small businesses and NAGGL applauds her for that. NAGGL has always supported SBA's efforts to encourage lending to underserved markets, and will continue to support such initiatives.

2. *When 7(a) lenders make mission loans, are they "dinged" by the risk analysis under the Office of Credit Risk Management? Please explain what the consequences are of making loans in these categories.*

It is well understood that loans to underserved markets, or mission loans, are overwhelmingly small dollar loans. A study from the Harvard Business School titled, "State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game" states that "From a policy point of view, the current market gaps in small dollar loans disproportionately effect underserved segments of the small business population."¹ In launching its Community Advantage pilot program, SBA's announcement stated that "SBA and U.S. Department of Commerce studies have shown the importance of lower dollar loans to small business formation and growth in underserved communities."² It is also established fact for any federal regulator that small dollar loans inherently present more risk to a portfolio and any concentration of one size of loan presents greater risk than a portfolio that is more diversified in loan size.

So what consequence do these known parameters have on a SBA 7(a) lender when lenders in the 7(a) loan program make a predominance of small dollar loans? SBA's own Office of Credit Risk

¹ Harvard Business School, "State of Small Business Lending: Credit Access During the Recovery and How Technology May Change the Game." https://www.hbs.edu/faculty/Publication%20Files/15-004_09b1bfb8b-eb2a-4e63-9c4e-0374f770856f.pdf

² SBA Press Release, "SBA Lending Initiatives for Underserved Communities Launch on Feb. 15," Thursday, February 10, 2011. <https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/sba-lending-initiatives-underserved-communities-launch-feb-15>

Management (OCRM) has incorporated these guiding principles of lender oversight into its own risk rating evaluation methodology of 7(a) lenders, also known as the PARRiS system. As a general rule, small dollar loans have a lower credit score. OCRM's PARRiS methodology uses average credit scores as one of the values that determines a lender's risk rating. Therefore, when a lender makes an effort to focus on small dollar loans, the resulting overall lower credit score for that portfolio will also mean a worse risk rating from OCRM. In contrast, if a lender focuses on solely large dollar loans, and all other factors are equal, that lender will have a higher credit score average and receive a better risk rating from OCRM. So while the SBA's credit risk system does not specifically target mission loans or set out to ding lenders because they make mission loans, the reality is that mission loans are most often the smaller loans that carry lower credit scores, negatively affecting that lender's risk rating.

This raises the question of what consequence a poor risk rating from OCRM has on a lender. The answer is simple—OCRM's risk rating is of serious consequence to any participating 7(a) lender.

First, a bad rating can have a significant consequence on a lender's time, resources, and overall standing with SBA. A poor risk rating can trigger increased on-site reviews, resulting in a serious drain on resources for any institution. There are often increased off-site reviews as well, which are also increased monetary burdens on a lending institution. The reviews themselves can become more intense in length of time and in the depth of detail given a poor risk rating. If a lender's PARRiS rating declines then a lender's approved length of time in the Preferred Lending Program (PLP) can also potentially be shortened to one year or less, rather than the much preferred 2 year PLP approval authority status. And if a lender's PARRiS rating is so poor, SBA could potentially take away a lender's authority to lend at all, though this would unlikely ever be the result of a poor risk rating solely from a high concentration of small dollar loans. While NAGGL will always support a risk assessment process at SBA which is able to nimbly increase its efforts and attention on an institution that presents more risk to the program, it is important to recognize that if an institution focuses on mission lending it could potentially invite increased review burdens and negative risk evaluations.

There are also serious consequences from a poor risk rating for the institution's SBA department internally. If a lender who has focused on small dollar loans or mission loans receives a poor risk rating as a result, it is a likely consequence that the institution's management will take notice of both the time and resources it takes to respond to increased SBA reviews. As a result, the institution's management would likely assess whether its SBA department should continue a focus on small dollar loans, or perhaps, in certain situations, whether the institution's SBA department should continue to receive the same level of investment by the institution or even continue at all.

Again, it is important to note here that NAGGL will always support robust and transparent oversight. But if lenders who focus on small dollar loans as a means to fulfill the mission of the program are disproportionately affected by OCRM's risk rating, then it deserves careful thought how to encourage mission lending while also maintaining proper oversight.

3. *Does NAGGL support the implementation of a Lender Mission Rating as part of lender oversight?*

Yes, NAGGL supports the implementation of a Lender Mission Rating as a part of a holistic, robust lender oversight. NAGGL worked closely with SBA during the drafting of a SBA Policy Notice from 2016-2017 to implement a Lender Mission Rating in order to rectify the current disconnect between SBA encouraging mission loans, yet SBA's OCRM negatively assessing lenders who make a preponderance of mission loans, which were defined to include small dollar loans, rural, minority owned, woman owned, veteran owned, new business, and export loans.

The extra consideration given to lenders who met a certain benchmark of lending in these categories would be only one "credit point" for that underserved business category, which would help credit lenders in their overall PARRiS rating by a small fraction of just one category of many that go toward compiling a lender's PARRiS risk rating. In other words, this credit point would in no way cloud a lender's risk in other areas assessed by OCRM and if a lender did present real risk in their underwriting, servicing, or any other area by which PARRiS assesses lenders, it would not in any way be masked by an additional credit for making mission loans. It is critical to NAGGL that oversight be transparent so that the integrity of the 7(a) program can continue.

4. *As you know, SBA rescinded the Lender Mission Rating Policy Notice last August because it contended the data is "not sufficiently reliable and robust for the context and performance analysis that SBA intended." SBA noted that data is voluntarily reported by applicants and not validated. However, SBA breaks down lending by gender, demographics, and other categories and regularly uses the information for official purposes.*

- *Do you believe the data SBA publishes weekly under-reports or over-reports loans by gender and race?*

Reporting of demographic data related to 7(a) loans is voluntarily and in FY2017, such data was not reported on 15% of the dollars and 13% of the numbers of 7(a) loans. It also is unclear whether data on loans made to veterans, rural, or urban borrowers was fully reported. As a result, it is safe to conclude that SBA's weekly lending reports under-reports loans by race, simply because there are a significant amount of loan files marked "Unidentified" by demographic.

It is important to note that SBA's data on demographics and other identifying categories is only obtained if borrowers voluntarily chose to report it. As a result of the Equal Credit Opportunity Act of 1974, which promotes credit to all creditworthy applicants regardless of race, sex, religion, or any other characteristics, lenders are strictly regulated as to how they are able to ask for the same identifying information they are meant to ignore in credit decisions.

Note: According to SBA's own weekly lending report for 9/30/17 which reflects FY17 in its entirety, loans made by gender were 100% reported and so NAGGL has no reason to believe that loans are under-reported or over-reported by gender.³

³ https://www.sba.gov/sites/default/files/aboutsbaarticle/WebsiteReport_asof_20170930.pdf

○ *Is the quality of the data insurmountable in implementing a Lender Mission Rating?*

In NAGGL's view, the current gaps in voluntarily reported data does not make implementing a Lender Mission Rating insurmountable. The intent of the Lender Mission Rating, as drafted by SBA and released in January 2017, was to simply encourage lenders with reported data in the identified mission categories that they would receive extra consideration in the PARRiS system by focusing on mission loans. The intent was never to add any additional burden to lenders or to SBA to collect data that is not reported.

For those loans that are reported with an unidentified demographic, but are small dollar loans, lenders would still be given extra consideration under the Lender Mission Rating because small dollar loans are one of the listed mission categories in SBA's draft Policy Notice. There is absolutely no scenario in which SBA does not know the size of the loan, regardless of a lack of voluntary borrower reporting. For those loans that are reported with an unidentified demographic or other mission loan category, and are *not* small dollar loans, the lender would simply not be given extra consideration for making mission loans—in other words, exactly what currently happens. In NAGGL's opinion, the fact that the demographic data is incomplete does not harm any lender; rather, it simply helps a lender if a borrower's demographic is reported. And there are, of course, other mission categories that are always identified, such as size and gender. If anything, the Lender Mission Rating would encourage lenders to work more with borrowers to ensure they do elect to identify and report their demographic, potentially resulting in one of SBA's long-term goals that there be improved data collection of the program.

In this context it is important to note that, despite the data limitations that SBA has raised, historically the Agency has relied on publically reported data that has been voluntarily provided for purposes of tracking loans to racial and ethnic groups. Therefore, it seems appropriate to allow this same data to be used for the purpose of giving lenders credit for their efforts to support traditionally underserved markets.



January 17, 2018

The Honorable Steve Chabot
Chairman
Committee on Small Business
U.S. House of Representatives
2371 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Nydia M. Velazquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
2302 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Chabot and Ranking Member Velazquez:

On behalf of the Consumer Bankers Association (CBA), I would like to express support for H.R. 4743, the Small Business 7(a) Lending Oversight Reform Act of 2018, that would ensure qualified borrowers have access to the capital needed to grow their businesses. Of the 100 most active Small Business Administration (SBA) 7(a) lenders, CBA members make the majority of the total number of 7(a) loans.¹ Our members operate in all 50 states, serve more than 150 million Americans, and collectively hold two-thirds of the country's total depository assets.

The 7(a) Loan Program is a vital source of capital for thousands of small businesses unable to secure financing through traditional lending. The demand for these loans has grown substantially, with the dollar amount of gross loans approved nearly doubling since 2012. CBA appreciates the need for enhanced Congressional oversight of these important SBA programs to provide continued collaboration with private sector financial institutions who together meet the lending needs of America's small businesses.

CBA applauds the inclusion of the provision authorizing the SBA Administrator to increase the 7(a) Loan Program's maximum lending authority during periods of high demand. The certainty of available capital for the 7(a) loan program helps assure lenders they will be able to meet borrower demand for their small business customers.

H.R. 4743 would strengthen the Office of Credit Risk Management (OCRM) within the SBA by establishing a more effective supervision of 7(a) lenders. CBA is encouraged by the provisions which revise the 7(a) lender review process, specifically those requiring an OCRM employee to supervise a review and for the results to be made available to a lender in a timely manner. The bill provides needed clarity for the factors considered in the SBA's Credit Elsewhere Test. In addition, CBA applauds the inclusion of language that will allow lenders the option to appeal enforcement actions to the SBA directly. It is our hope that these changes will help promote a stronger partnership between lenders and the SBA.

CBA supports the establishment, in statute, of the Lender Oversight Committee within the SBA to oversee the program and the actions of the OCRM Director, and for permitting individuals outside of the agency to serve on the committee in an advisory capacity. Additionally, by

¹ Office of Capital Access, "100 most active SBA 7(a) lenders," *Small Business Administration*, December 31, 2017, <https://www.sba.gov/article/2017/oct/01/100-most-active-sba-7a-lenders>

requiring the OCRM Director to perform and submit to Congress an annual risk analysis of the program, this bill will help provide greater insight into the performance and administration of the program.

We greatly appreciate this thoughtful approach to ensuring the continued success of the SBA 7(a) Loan Program and look forward to working with members of the Committee and Congress to see its passage.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard Hunt".

Richard Hunt
President and CEO
Consumer Bankers Association



115TH CONGRESS
2D SESSION

H. R. 4743

To amend the Small Business Act to strengthen the Office of Credit Risk Management within the Small Business Administration, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 9, 2018

Mr. CHABOT (for himself and Ms. VELÁZQUEZ) introduced the following bill;
which was referred to the Committee on Small Business

A BILL

To amend the Small Business Act to strengthen the Office of Credit Risk Management within the Small Business Administration, and for other purposes.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Small Business 7(a)
5 Lending Oversight Reform Act of 2018”.

6 **SEC. 2. DEFINITIONS.**

7 In this Act, the terms “Administration” and “Admin-
8 istrator” mean the Small Business Administration and the
9 Administrator thereof, respectively.

1 **SEC. 3. CODIFICATION OF THE OFFICE OF CREDIT RISK**
2 **MANAGEMENT AND THE LENDER OVERSIGHT**
3 **COMMITTEE.**

4 (a) IN GENERAL.—The Small Business Act (15
5 U.S.C. 631 et seq.) is amended—

6 (1) by redesignating section 47 as section 49;
7 and

8 (2) by inserting after section 46 the following
9 new sections:

10 **“SEC. 47. OFFICE OF CREDIT RISK MANAGEMENT.**

11 “(a) ESTABLISHMENT.—There is established within
12 the Administration the Office of Credit Risk Management
13 (in this section referred to as the ‘Office’).

14 “(b) DUTIES.—The Office shall be responsible for su-
15 pervising—

16 “(1) any lender making loans under section
17 7(a) (in this section referred to as a ‘7(a) lender’);

18 “(2) any participant in a lending program of
19 the Office of Capital Access of the Administration;
20 and

21 “(3) any small business lending company or a
22 non-Federally regulated lender without regard to the
23 requirements of section 23.

24 “(c) DIRECTOR.—

25 “(1) IN GENERAL.—The Office shall be headed
26 by the Director of the Office of Credit Risk Manage-

1 ment (in this section referred to as the ‘Director’),
2 who shall be a career appointee in the Senior Execu-
3 tive Service (as defined in section 3132 of title 5,
4 United States Code).

5 “(2) DUTIES.—The Director shall be respon-
6 sible for oversight of the lenders and participants de-
7 scribed in subsection (b), including by conducting
8 periodic reviews of the compliance and performance
9 of such lenders and participants.

10 “(d) SUPERVISION DUTIES FOR 7(a) LENDERS.—

11 “(1) REVIEWS.—With respect to 7(a) lenders,
12 an employee of the Office shall—

13 “(A) be present for and supervise any such
14 review that is conducted by a contractor of the
15 Office on the premise of the 7(a) lender; and

16 “(B) supervise any such review that is not
17 conducted on the premise of the 7(a) lender.

18 “(2) REVIEW REPORT TIMELINE.—Notwith-
19 standing any other requirements of the Office or the
20 Administrator, the Administrator shall develop and
21 implement a review report timeline which shall—

22 “(A) require the Administrator to—

23 “(i) deliver a written report of the re-
24 view to the 7(a) lender not later than 60

1 business days after the date on which the
2 review is conducted; or

3 “(ii) if the Administrator expects to
4 submit the report after the end of the 60-
5 day period described in clause (i), notify
6 the 7(a) lender of the expected date of sub-
7 mission of the report and the reason for
8 the delay; and

9 “(B) if a response by the 7(a) lender is re-
10 quested in a report submitted under subpara-
11 graph (A), require the 7(a) lender to submit re-
12 sponses to the Administrator not later than 45
13 business days after the date on which the 7(a)
14 lender receives the report.

15 “(e) ENFORCEMENT AUTHORITY AGAINST 7(a)
16 LENDERS.—

17 “(1) INFORMAL ENFORCEMENT AUTHORITY.—

18 The Director may take an informal enforcement ac-
19 tion against a 7(a) lender if the Director finds that
20 the 7(a) lender has violated a requirement under
21 section 7(a) or any requirement in a Standard Oper-
22 ating Procedures Manual or Policy Notice related to
23 a program or function of the Office of Capital Ac-
24 cess.

25 “(2) FORMAL ENFORCEMENT AUTHORITY.—

1 “(A) IN GENERAL.—With the approval of
2 the Lender Oversight Committee established
3 under section 48, the Director may take a for-
4 mal enforcement action against any 7(a) lender
5 if the Director finds that the 7(a) lender has
6 violated—

7 “(i) a requirement under section 7(a),
8 including a requirement relating to credit
9 elsewhere, or any regulation implementing
10 such section; or

11 “(ii) any requirement described in a
12 Standard Operating Procedures Manual or
13 Policy Notice, related to a program or
14 function of the Office of Capital Access.

15 “(B) ENFORCEMENT ACTIONS.—An en-
16 forcement action imposed on a 7(a) lender by
17 the Director under subparagraph (A) shall be
18 based on the severity or frequency of the viola-
19 tion and may include assessing a civil monetary
20 penalty against the 7(a) lender in an amount
21 that is not greater than \$250,000.

22 “(3) APPEAL BY LENDER.—A 7(a) lender may
23 appeal an enforcement action imposed by the Direc-
24 tor described in paragraph (2) to the Office of Hear-

1 ings and Appeals established under section 5(i) or to
2 an appropriate district court of the United States.

3 “(f) REGULATIONS.—Not later than 1 year after the
4 date of the enactment of this section, the Administrator
5 shall issue regulations, after opportunity for notice and
6 comment, to carry out subsection (e).

7 “(g) SERVICING AND LIQUIDATION RESPONSIBIL-
8 ITIES.—During any period during which a 7(a) lender is
9 suspended or otherwise prohibited from making loans
10 under section 7(a), the 7(a) lender shall remain obligated
11 to maintain all servicing and liquidation activities dele-
12 gated to the lender by the Administrator, unless otherwise
13 specified by the Director.

14 “(h) PORTFOLIO RISK ANALYSIS OF 7(a) LOANS.—

15 “(1) IN GENERAL.—The Director shall annually
16 conduct a risk analysis of the portfolio of the Ad-
17 ministration with respect to all loans guaranteed
18 under section 7(a).

19 “(2) REPORT TO CONGRESS.—On December 1,
20 2018, and every December 1 thereafter, the Director
21 shall submit to Congress a report containing the re-
22 sults of each portfolio risk analysis conducted under
23 paragraph (1) during the fiscal year preceding the
24 submission of the report, which shall include—

1 “(A) an analysis of the overall program
2 risk of loans guaranteed under section 7(a);

3 “(B) an analysis of the program risk, set
4 forth separately by industry concentration;

5 “(C) without identifying individual 7(a)
6 lenders by name, a consolidated analysis of the
7 risk created by the individual 7(a) lenders re-
8 sponsible for not less than 1 percent of the
9 gross loan approvals set forth separately for the
10 year covered by the report by—

11 “(i) the dollar value of the loans made
12 by such 7(a) lenders; and

13 “(ii) the number of loans made by
14 such 7(a) lenders;

15 “(D) steps taken by the Administrator to
16 mitigate the risks identified in subparagraphs
17 (A), (B), and (C);

18 “(E) the number of 7(a) lenders, the num-
19 ber of loans made, and the gross and net dollar
20 amount of loans made;

21 “(F) the number and dollar amount of
22 total defaults, the number and dollar amount of
23 total repurchases, and the percentage and dol-
24 lar amount of recoveries;

1 “(G) the number and type of enforcement
2 actions recommended by the Director;

3 “(H) the number and type of enforcement
4 actions approved by the Lender Oversight Com-
5 mittee established under section 48;

6 “(I) the number and type of enforcement
7 actions disapproved by the Lender Oversight
8 Committee; and

9 “(J) the number and dollar amount of civil
10 monetary penalties assessed.

11 “(i) BUDGET SUBMISSION AND JUSTIFICATION.—
12 The Director shall annually provide, in writing, a fiscal
13 year budget submission for the Office and a justification
14 for such submission to the Administrator. Such submis-
15 sion and justification shall—

16 “(1) include salaries and expenses of the Office
17 and the charge for the lender oversight fees;

18 “(2) be submitted at or about the time of the
19 budget submission by the President under section
20 1105(a) of title 31; and

21 “(3) be maintained in an indexed form and
22 made available for public review for a period of not
23 less than 5 years beginning on the date of submis-
24 sion and justification.

1 **“SEC. 48. LENDER OVERSIGHT COMMITTEE.**

2 “(a) ESTABLISHMENT.—There is established within
3 the Administration the Lender Oversight Committee (in
4 this section referred to as the ‘Committee’).

5 “(b) MEMBERSHIP.—The Committee shall consist of
6 11 members selected by the Administrator, of which—

7 “(1) 3 members shall be voting members, 2 of
8 whom shall be career appointees in the Senior Exec-
9 utive Service (as defined in section 3132 of title 5,
10 United States Code); and

11 “(2) 8 members shall be nonvoting members
12 who shall serve in an advisory capacity on the Com-
13 mittee.

14 “(c) DUTIES.—The Committee shall—

15 “(1) review reports on lender oversight activi-
16 ties;

17 “(2) review formal enforcement action rec-
18 ommendations of the Director of the Office of Credit
19 Risk Management with respect to any lender making
20 loans under section 7(a) and any participant in a
21 lending program of the Office of Capital Access of
22 the Administration;

23 “(3) in carrying out paragraph (2) with respect
24 to formal enforcement actions taken under sub-
25 section (d) or (e) of section 23, vote to recommend

1 or not recommend action to the Administrator or a
2 designee of the Administrator;

3 “(4) in carrying out paragraph (2) with respect
4 to any formal enforcement action not specified under
5 subsection (d) or (e) of section 23, vote to approve,
6 disapprove, or modify the action;

7 “(5) review, in an advisory capacity, any lender
8 oversight, portfolio risk management, or program in-
9 tegrity matters brought by the Director; and

10 “(6) take such other actions and perform such
11 other functions as may be delegated to the Com-
12 mittee by the Administrator.

13 “(d) MEETINGS.—

14 “(1) IN GENERAL.—The Committee shall meet
15 as necessary, but not less frequently than on a quar-
16 terly basis.

17 “(2) REPORTS.—The Committee shall submit
18 to the Administrator a report detailing each meeting
19 of the Committee, including if the Committee does
20 or does not vote to recommend a formal enforcement
21 action of the Director of the Office of Credit Risk
22 Management with respect to a lender.”.

23 (b) TRANSFER OF FUNCTIONS.—

24 (1) OFFICE OF CREDIT RISK MANAGEMENT.—

25 All functions of the Office of Credit Risk Manage-

1 ment of the Small Business Administration, includ-
2 ing the personnel, assets, and obligation of the Of-
3 fice of Credit Risk Management, as in existence on
4 the day before the date of the enactment of this Act,
5 shall be transferred to the Office of Credit Risk
6 Management established under section 47 of the
7 Small Business Act, as added by subsection (a).

8 (2) LENDER OVERSIGHT COMMITTEE.—All
9 functions of the Lender Oversight Committee of the
10 Small Business Administration, including the per-
11 sonnel, assets, and obligations of the Lender Over-
12 sight Committee, as in existence on the day before
13 the date of the enactment of this Act, shall be trans-
14 ferred to the Lender Oversight Committee estab-
15 lished under section 48 of the Small Business Act,
16 as added by subsection (a).

17 (c) DEEMING OF NAME.—

18 (1) OFFICE OF CREDIT RISK MANAGEMENT.—
19 Any reference in a law, regulation, guidance, docu-
20 ment, paper, or other record of the United States to
21 the Office of Credit Risk Management of the Small
22 Business Administration shall be deemed a reference
23 to the Office of Credit Risk Management, estab-
24 lished under section 47 of the Small Business Act,
25 as added by subsection (a).

1 (2) LENDER OVERSIGHT COMMITTEE.—Any ref-
2 erence in a law, regulation, guidance, document,
3 paper, or other record of the United States to the
4 Lender Oversight Committee of the Small Business
5 Administration shall be deemed a reference to the
6 Lender Oversight Committee, established under sec-
7 tion 48 of the Small Business Act, as added by sub-
8 section (a).

9 (d) TECHNICAL AMENDMENT.—Section 3(r)(2) of
10 the Small Business Act (15 U.S.C. 632(r)(2)) is amended
11 by striking “regulated SBA lender” each place it appears
12 in heading and text and inserting “regulated lender”.

13 **SEC. 4. DEFINITION OF CREDIT ELSEWHERE.**

14 (a) IN GENERAL.—The Small Business Act (15
15 U.S.C. 631 et seq.) is amended—

16 (1) by striking section 3(h) (15 U.S.C. 632(h))
17 and inserting the following:

18 “(h) The term ‘credit elsewhere’ means—

19 “(1) for the purposes of this Act (except as
20 used in section 7(b)), the availability of credit on
21 reasonable terms and conditions to the individual
22 loan applicant from non-Federal, non-State, or non-
23 local government sources, considering factors associ-
24 ated with conventional lending practices, including—

1 “(A) the business industry in which the
2 loan applicant operates;

3 “(B) whether the loan applicant is an en-
4 terprise that has been in operation for a period
5 of not more than 2 years;

6 “(C) the adequacy of the collateral avail-
7 able to secure the requested loan;

8 “(D) the loan term necessary to reasonably
9 assure the ability of the loan applicant to repay
10 the debt from the actual or projected cash flow
11 of the business; and

12 “(E) any other factor relating to the par-
13 ticular credit application, as documented in de-
14 tail by the lender, that cannot be overcome ex-
15 cept through obtaining a Federal loan guar-
16 antee under prudent lending standards; and

17 “(2) for the purposes of section 7(b), the avail-
18 ability of credit on reasonable terms and conditions
19 from non-Federal sources taking into consideration
20 the prevailing rates and terms in the community in
21 or near where the applicant small business concern
22 transacts business, or the applicant homeowner re-
23 sides, for similar purposes and periods of time.”;
24 and

1 (2) in section 7(a)(1)(A)(i) (15 U.S.C.
2 636(a)(1)(A)(i)), by inserting “The Administrator
3 has the authority to direct, and conduct oversight
4 for, the methods by which lenders determine whether
5 a borrower is able to obtain credit elsewhere.” before
6 “No financial assistance”.

7 (b) TECHNICAL AMENDMENT.—Section 18(b) of the
8 Small Business Act (15 U.S.C. 647(b)) is amended to read
9 as follows:

10 “(b) As used in this Act, the term ‘agricultural enter-
11 prises’ means those small business concerns engaged in
12 the production of food and fiber, ranching, and raising of
13 livestock, aquaculture, and all other farming and agricul-
14 tural-related industries.”.

15 **SEC. 5. AUTHORITY FOR ADMINISTRATOR TO INCREASE**
16 **AMOUNT FOR GENERAL BUSINESS LOANS.**

17 Section 20 of the Small Business Act (15 U.S.C. 631
18 note) is amended—

19 (1) by redesignating subsection (j) as sub-
20 section (f); and

21 (2) by adding at the end the following new sub-
22 section:

23 “(g) **AUTHORITY TO INCREASE AMOUNT OF GEN-**
24 **ERAL BUSINESS LOANS.—**

1 “(1) IN GENERAL.—With respect to fiscal year
2 2018 and each fiscal year thereafter, if the Adminis-
3 trator determines that the amount of commitments
4 by the Administrator for general business loans au-
5 thorized under section 7(a) for a fiscal year could
6 exceed the limit on the total amount of commitments
7 the Administrator may make for those loans under
8 this Act, an appropriations Act, or any other provi-
9 sion of law, the Administrator may make commit-
10 ments for those loans for that fiscal year in an ag-
11 gregate amount equal to not more than 115 percent
12 of that limit.

13 “(2) APPROVAL REQUIRED BEFORE EXER-
14 CISING AUTHORITY.—

15 “(A) IN GENERAL.—Not later than 30
16 days before the date on which the Adminis-
17 trator intends to exercise the authority under
18 paragraph (1), the Administrator shall submit
19 notice of intent to exercise the authority to—

20 “(i) the Committee on Small Business
21 and Entrepreneurship and the Sub-
22 committee on Financial Services and Gen-
23 eral Government of the Committee on Ap-
24 propriations of the Senate; and

1 “(ii) the Committee on Small Busi-
2 ness and the Subcommittee on Financial
3 Services and General Government of the
4 Committee on Appropriations of the House
5 of Representatives.

6 “(B) APPROVAL.—The Administrator may
7 not exercise the authority under paragraph (1)
8 unless such exercise of authority has been ap-
9 proved, in writing, by the Committee on Appro-
10 priations and the Committee on Small Business
11 and Entrepreneurship of the Senate and the
12 Committee on Appropriations and the Com-
13 mittee on Small Business of the House of Rep-
14 resentatives.

15 “(3) LIMITATION.—The Administrator shall not
16 exercise the authority under paragraph (1) more
17 than once during any fiscal year.”.

18 **SEC. 6. DISCLOSURE OF WAIVERS.**

19 (a) IN GENERAL.—If the Administrator exercises
20 statutory or regulatory authority to waive a regulation re-
21 lated to a program or function of the Office of Capital
22 Access of the Administration—

23 (1) the waiver shall be in writing and shall
24 specify the grounds for approving the waiver; and

1 (2) the Administrator shall notify the public of
2 all waivers of regulations approved by the Adminis-
3 tration, which notice shall—

4 (A) be published in the Federal Register
5 not less than annually;

6 (B) cover the period beginning on the date
7 after the last day covered by the previous no-
8 tice;

9 (C) describe the nature of the requirement
10 that has been waived and specify the regulation
11 involved;

12 (D) include a brief description of the
13 grounds for approval of the waiver; and

14 (E) state how more information about the
15 waiver and a copy of the request and the ap-
16 proval may be obtained.

17 (b) NO NEW WAIVER AUTHORITY.—Nothing in sub-
18 section (a) shall be construed as creating new authority
19 for the Administrator to waive regulations of the Adminis-
20 tration.

21 (c) GAO STUDY ON STANDARD OPERATING PROCE-
22 DURES MANUAL OR POLICY NOTICE WAIVER PROCESS.—
23 Not later than 1 year after the date of the enactment of
24 this Act, the Comptroller General of the United States
25 shall submit to the Committee on Small Business and En-

1 entrepreneurship of the Senate and the Committee on Small
2 Business of the House of Representatives a report evalu-
3 ating—

4 (1) the methods and specific processes used by
5 the Small Business Administration to waive require-
6 ments in Standard Operating Procedures Manual or
7 Policy Notices relating to loans made under section
8 7(a) of the Small Business Act (15 U.S.C. 636(a));
9 and

10 (2) the number of such waivers granted during
11 the period of 5 fiscal years preceding the date of the
12 enactment of this Act.

○



Stephen D. Steinour
Chairman, President and Chief Executive Officer
Steve.Steinour@huntington.com

HUNTINGTON BANCSHARES INCORPORATED
41 South High Street | HC1004 | Columbus, Ohio 43267
614-480-3327 OFFICE | 614-480-5485 FAX

January 12, 2018

The Honorable Steve Chabot
Chairman
U.S. House Committee on Small Business
2371 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Chabot:

Thank you for your leadership in crafting H.R. 4743, the *Small Business 7(a) Lending Oversight Reform Act of 2018*. I write today in support of this legislation and to recognize the deliberate, inclusive, bipartisan process you and the Committee have employed in drafting this bill. We appreciate the focus of the Small Business Administration and the Administrator in working with the lender community and the House and Senate Small Business Committees to ensure the program mission and performance remain strong, stable, available for small business growth, and enjoy the continued confidence of participants and the Congress.

Huntington applauds you for your leadership and focus on the role small businesses play in driving economic growth and job creation. The 7(a) program is a foundational component of the toolkit to support small business growth and entrepreneurship, and your bill represents the most significant modernization of the Small Business Administration (SBA) statute in more than two decades.

As you know, Huntington has been serving our local communities since 1866. Today, we sit headquartered on the same corner of Broad and High Street in Columbus, Ohio, steadfast in our purpose to support generations of Midwest families to live better lives and empowering businesses to make our neighborhoods stronger. We have grown over time to \$102 billion of assets serving our customers and communities through the dedication of nearly 16,000 employees, a network of 958 banking offices, and 1,860 ATMs across eight states.

At Huntington, we have made understanding the challenges of small businesses among our top priorities and are deeply committed to our public-private partnership with the SBA to address the primary issue of access to capital. We are proud of the fact that we have been the number one SBA lender in our Midwest footprint since 2008. We are currently the No. 2 SBA lender in the nation in number of units, with 4,065 loans provided, and the No. 3 SBA lender in the nation in total dollars, with \$794 million in loans focusing on our average loan size under \$200,000.

Huntington utilizes the SBA 504 and 7(a) programs. Factoring the SBA contingent guarantee into our risk model allows us to extend capital to finance the needs of businesses which are starting up, growing, and even recovering, when they are unable to secure conventional credit approvals. We have found that the deficiency guarantees provided by SBA fill a critical gap to leverage traditional credit markets across our Midwest footprint – particularly during economic downturns—bridging barriers that prevent business owners from finding credit elsewhere, most often for reasons of collateral shortfall, projection based operations, or where necessary cash flow repayment needs a longer amortization to stabilize the business. We are pleased to maintain a top risk rating with the SBA, including holding 95 percent of our loans in portfolio and serving 100 percent of our customers with full relationship banking support.

January 12, 2018
Page 2

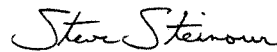
For all of these reasons, we appreciate the efforts of the Committee to increase the transparency and oversight of the SBA and to modernize the SBA statute to insure ongoing improvements, efficiency and effectiveness that will help preserve the mission of the agency. Huntington strongly supports H.R. 4743 and appreciates the bicameral, bipartisan commitment to protect the long-term strength and reach of the SBA programs that serve our customers.

This legislation is focused on the long-term success and sustainability of SBA programs that serve to grow and protect small business. In particular, we appreciate the following provisions:

- Providing longer term stability in bolstering the oversight office
- Opportunities for lenders to have input to advocate for our customers
- Narrowing and clarification of credit elsewhere definitions to protect the program's integrity
- Flexibility for the SBA Administrator to respond to economic cycles that can be uniquely challenging for small businesses.

Again, thank you on behalf of our colleagues, communities, and customers for your leadership to date. We are honored to be a partner for growth in our markets in the months and years to come, and the *Small Business 7(a) Lending Oversight Reform Act* supports those goals.

Best wishes,



Stephen D. Steinour
Chairman, President and Chief Executive Officer

SDS:KLM



January 16, 2018

The Honorable Steve Chabot
Chairman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Chabot and Ranking Member Velazquez:

On behalf of the more than 5,700 community banks represented by the Independent Community Bankers of America (ICBA), I write to offer our support for the Small Business 7(a) Lending Oversight Reform Act of 2018 (H.R. 4743) as an important step toward ensuring the integrity and continued safety and soundness of the 7(a) program for the benefit of small business borrowers.

Section 3 of H.R. 4743 would codify critical SBA lender oversight. The SBA Office of Credit Risk Management and the Lender Oversight Committee play a critical role in supervising and overseeing all SBA lenders. Codification of the Office would guarantee its existence from administration to administration. In addition, Section 3 would ensure the Office Director is qualified for the post, provide guidelines for lender reviews, codify lender appeals rights, and create greater transparency in the Office's budget. Section 3 would also codify the Lender Oversight Committee which reviews formal enforcement recommendations from the Office of Credit Risk Management. These provisions of H.R. 4743 strengthen the integrity of all SBA guaranteed lending programs.

Section 4 of H.R. 4743 would codify the SBA's "credit elsewhere test." The 7(a) program is only available to small business credit applicants who would not otherwise qualify for a conventional loan. To safeguard the program from abuse, the SBA's "Credit Elsewhere Test" requires lenders to fully substantiate and document the reasons a given applicant cannot be served with conventional credit. ICBA supports codification of this test as an appropriate measure to ensure responsible use of the 7(a) program.

Section 5 of H.R. 4743 would help ensure stable funding in the 7(a) program, which is critical to the thousands of borrowers that rely on it. While the 7(a) program is fully funded by user fees and no taxpayer dollars are appropriated, a program authorization level must be approved by Congress each year, and once that level is reached, no more loans can be approved. Section 5 of H.R. 4743 would give the Administrator authority to raise the cap by up to 15 percent one time

R. SCOTT HEITKAMP
Chairman

TIMOTHY K. ZIMMERMAN
Chairman-Elect

PRESTON L. KENNEDY
Vice Chairman

DEREK B. WILLIAMS
Treasurer

CHRISTOPHER JORDAN
Secretary

REBECA ROMERO RAINEY
Immediate Past Chairman

CAMDEN R. FINE
President and CEO

each fiscal year with the approval of this committee, the Senate Small Business Committee, and the House and Senate appropriations committees.

Thank you again for introducing H.R. 4743. We look forward to working with you to craft the final legislation.

Sincerely,

/s/

Camden R. Fine
President & CEO

The Nation's Voice for Community Banks.®

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1615 L Street NW, Suite 900, Washington, DC 20036-5623 | 800-422-8439 | FAX: 202-659-1413 | Email: info@icba.org | Website: www.icba.org



Mission Lenders Working Group

Building Success in Underserved Communities

Testimony for the Record
submitted to
The House Committee on Small Business

For the hearing:
Strengthening SBA's 7(a) Loan Program
Wednesday, January 17, 2018

Submitted by Alison Feighan on behalf of the Mission Lenders Working Group

Chairman Chabot and Ranking Member Velazquez, on behalf of the Mission Lenders Working Group (the ML Working Group) I want to thank you for convening this important hearing to discuss the 7(a) loan program and the changes proposed in the Small Business 7(a) Lending Oversight Reform Act of 2018 (HR 4743). I am particularly grateful for the opportunity to submit testimony on behalf a group of mission lenders that are participating in SBA's 7(a) Community Advantage (CA) loan guarantee pilot. As part of the 7(a) community these CA lenders can speak to how they have been able to extend the reach of SBA backed loans to underserved businesses by combining their experience as mission lenders with the power of an SBA backed loan.

The CA pilot was launched in February 2011 to meet the credit, management and technical assistance needs of small businesses in underserved markets. In 2015 a group of mission lenders participating in the CA pilot organized the ML working group as a network of practitioners to share best practices, to inform each other and the SBA on what is working and what could be improved, and to document the impact of the CA program on their ability to expand the reach of their lending in underserved communities. We appreciate the opportunity to share some of the insights and success stories we have gathered from participating CA lenders over the last two years.

First let me provide some background on the CA loan guarantee pilot. Under the CA pilot, SBA provides mission-based lenders¹ access to 7(a) loan guaranties as high as 85% for loans up to \$250,000 and the authorization to charge interest rates up to 6% above prime. Participating CA lenders are required to make at least 60% of CA loans in underserved markets² and just like

¹ CA lenders must be a SBA Certified Development Companies (CDCs), a SBA Microlenders; or a Treasury certified Community Development Financial Institutions (CDFIs).

² Under the CA pilot the SBA defines underserved markets as the following: Low-to-Moderate Income (LMI) communities; Businesses where more than 50% of the full-time workforce is low-income or reside in LMI census tracts; Empowerment Zones and Enterprise Communities; HUB Zones; Promise Zones;

conventional 7(a) lenders are eligible to apply for authorization to sell the guaranteed portions of their loans on the secondary market.

According to the CA Participant Guide, the SBA launched the CA pilot with the following goals in mind:

- To increase access to credit for small businesses in underserved markets;
- To expand points of access to SBA 7(a) loans by engaging non-traditional mission lenders with experience working in underserved markets;
- To provide management and technical assistance to small businesses as needed; and
- To manage portfolio risk by utilizing the underwriting knowledge of mission lenders with successful track records lending in underserved markets.

Since the CA was launched in 2011 the SBA has approved over 4,000 CA loans worth over \$500 million to small businesses across the country. The average CA loan size is \$129,300 as compared to the average 7(a) loan which is \$417,300. While CA lenders may lend at 6% above prime, to date the average APR on a CA loan has been 4.25% and while CA lenders are required to target at least 60% of their lending to underserved markets, more than 80% of all CA loans have been in underserved markets.

Despite the inherent risks associated with lending in underserved markets the historic charge-off rate on CA loans is 1.36%, a rate we understand is significantly lower than SBA anticipated when the pilot was launched. In FY 2017, CA Lenders approved 1,043 small business loans worth \$137,595,500, representing an increase over FY16 of 6% in loans approved and close to 12% in dollars approved. Lending under CA has grown steadily since the pilot was launched and these numbers are all reported as part of SBA's overall 7(a) lending numbers meaning CA lenders should be given credit for increases in 7(a) lending under \$250,000.

The ML Working Group is made up of nearly 30% of all active CA lenders in 2017. Combined these lenders have approved 1,381 loans worth \$180,681,974 – approximately 35% of loans made and 36% of dollars lent. We have a cross section of CA lenders represented in the ML working group including four of the top ten lenders in FY 17 in terms of loan volume and dollars as well as lenders that have significantly expanded their lending in underserved markets by making 10 to 20 CA loans annually. Having access to SBA loan guarantee authority through the CA pilot has been a game changer for the participating mission lenders and the success of the program cannot be expressed adequately by numbers alone. The true impact of the CA program is understood by hearing from the participating lenders and the business borrowers they work with.

One prime example is Access to Capital for Entrepreneurs (ACE) a CA lender based in Cleveland, Georgia. ACE is a high performing SBA microlender and was certified as a CA lender in 2015. They have successfully leveraged the CA program to increase dollars lent to African-American-owned small businesses by 63% from FY15 to FY16 and opened a satellite office in the heart of Atlanta. Since joining the CA program, ACE has made 24 loans worth over \$3.6 million. Fifty-eight percent of the dollars lent have been to African-American-owned businesses like DuLac's Bow Tie Chef Café which opened in McDonough just south of Atlanta in August 2016. The Café's owner, Gregory DuLac received a \$250,000 loan from ACE to launch the new business based on

New "start-up" businesses (firms less than two years in business); or Businesses eligible for SBA Veterans Advantage.

his vision of “taking the flavor of the south mixed with the flare of urban professional city life to create a swanky upscale southern cafe with a jazz vibe.” Despite connections to the Ms. Georgia pageant, culinary arts training from the Arts Institute of Atlanta, several years of business planning and scouting out the perfect location, Gregory was unable to obtain credit from his community bank. Very few conventional banks lend to start-up restaurateurs. Fortunately, Gregory was referred to ACE and received the maximum amount allowed under the CA Program with a ten-year term and prime plus 4.25% APR. Several months after opening his restaurant, a pipe burst causing extensive damage to the kitchen and to Bow Tie Chef’s bottom line. He discussed the situation with his loan officer at ACE and was able to secure a short-term loan modification in addition to technical assistance on more sophisticated marketing to ramp up sales and catch up on cash flow projections. Such ‘high touch’ lending coupled with technical assistance is unique to mission-based CA lenders like ACE, which complements conventional 7(a) lenders unable to serve key segments of the market critical to positive community development and transformational job growth.

Another exemplary CA program lender is Accion East, a certified CDFI and SBA Microlender which SBA authorized in 2015 to expand its target market to serve the entire East Coast of the U.S. Accion East has significantly grown its comprehensive small business development services since launching its SBA 7(a) Community Advantage loan program in 2016. It has leveraged its participation in the CA program to strengthen its financial position as an organization allowing Accion to expand the reach of their lending in underserved communities.

Last month, Accion East made a CA loan of \$120,000 to Magin Schantz, owner of a startup small business named Supermoon Art Space in Queens, New York. Located in a 1,200 square foot storefront on Onderdonk Avenue, Supermoon is a community art space, playschool, and afterschool day care center all rolled into one. Magin launched the business after studying art education at the Pratt Institute and teaching at P.S. 20 – The Clinton Hill School. She used the loan for working capital and soft costs associated with getting Supermoon’s storefront space properly remodeled and equipped to be a NYC Department of Health licensed daycare for 2 and 3-year olds. In addition, the loan is being used to hire 4 additional day care professionals to grow Supermoon Art Space into a neighborhood gem. Accion East’s Director of SBA Lending reports that Magin received the CA loan for prime plus 4.25% APR with a 9-year term and received valuable technical assistance throughout the process of launching her business.

In addition to being an excellent resource for underserved borrowers throughout the nation, the CA loan program has become an invaluable source of unrestricted program income to grow mission-based lenders who administer and manage the loans. For example, after becoming a CA program lender in 2016, Accion East’s loan portfolio grew 9% to nearly \$14 million and its net assets increased to \$7.4 million, an increase of \$1.2 million over 2015.

One final CA program lender I would like to highlight is Evergreen Business Capital serving Alaska, Idaho, Oregon, and Washington State. In 2016 Evergreen Business Capital made a \$245,888 CA loan to Scott’s Family Pharmacy Health and Nutrition in Homer, Alaska. The business opened its doors in the fall of 2016 to provide prescription services such as new prescriptions, refills and transfer services from other pharmacies as well as specialized medication packaging for easy medication adherence. They also administer immunizations and carry vitamins, supplements, pain relieving products and first aid, durable medical equipment and quality essential oils. They are dedicated to affordable health care and provide health education. Owners Nathan and Gina Scott connected with Evergreen through the South West Region Director of the Alaska

Small Business Development Center (SBDC). The CA Loan was a substantial benefit to the Scott's as it provided the funds necessary to purchase equipment and refinance business debt. It also led to the creation of 4 jobs.

As with all 7(a) lenders, members of the ML Working group have experienced the process of being certified and regulated by SBA's Office of Compliance and Risk Management (OCRM). Some have also experienced the additional scrutiny required when seeking delegated authority from SBA. A CA program lender granted delegated authority means that they are trusted with underwriting and making 7(a) loans without prior SBA approval. Overall the experience of CA program lenders working with SBA's OCRM has been exceptionally positive and they work hand in glove with SBA's Office of Economic Opportunity, which manages the CA program in the Office of Capital Access. We support the provisions in HR 4743 that would codify the OCRM and institutionalize the functions of this office. As the CA program continues to demonstrate the unique capacity of mission lenders to effectively manage risk we look forward to working with OCRM to develop systems and models that address the unique strengths of CA program lenders.

In the opinion of the ML Working Group, the Small Business 7(a) Lending Oversight Reform Act is a prudent measure that should strengthen OCRM's capacity to manage the risks and reap the rewards of a successful lending program which continues to operate without a subsidy from the federal government. We also support reinforcing the credit elsewhere test and efforts to truly ensure that 7(a) lending is going to businesses that otherwise would be unable to access conventional financing. That being said, we encourage the Committee to consider making the CA a permanent part of the 7(a) loan program thus strengthening its impact in underserved communities. As a federal agency SBA should be encouraged and whenever possible, incentivized to lend to underserved small business owners and the CA program pilot has demonstrated the ability of mission lenders with the backing of an SBA loan guarantee to do just that.

Members of the ML working group are committed to working with the SBA and the larger 7(a) lending community to build a sustainable CA loan guarantee program that continues to engage the capacity of mission lenders to finance, support and grow small businesses in underserved communities.

We have attached several additional small business success stories to illustrate the power of the CA loan guarantee. Thank you for this opportunity to provide testimony and please know we are available if you have questions or would like additional information.



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
t: 703.524.1082
nafcuhq@nafcuhq.org | nafcuhq.org

National Association of Federally-Insured Credit Unions

January 12, 2018

The Honorable Jim Risch
Chairman
Committee on Small Business
and Entrepreneurship
United States Senate
Washington, D.C. 20510

The Honorable Jeanne Shaheen
Ranking Member
Committee on Small Business
and Entrepreneurship
United States Senate
Washington, D.C. 20510

The Honorable Steve Chabot
Chairman
Small Business Committee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nydia Velázquez
Ranking Member
Small Business Committee
U.S. House of Representatives
Washington, D.C. 20515

Re: NAFCU Supports Efforts to Strengthen the Small Business 7(a) Lending Program

Dear Chairman Risch, Ranking Member Shaheen, Chairman Chabot, and Ranking Member Velázquez:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only trade association exclusively representing the federal interests of our nation's federally-insured credit unions, I write today to applaud your efforts to reform the Small Business Administration's 7(a) Lending Program. NAFCU looks forward to working with Congress to reform the program so that it works better for credit unions and their more than 110 million members.

Credit unions actively participate in the 7(a) lending program as a way for them to mitigate loan risk and maximize small-business lending within their statutory member business loan (MBL) cap. The program is critical to credit unions' ability to provide loans to small businesses and entrepreneurs in their communities. NAFCU was pleased to renew a Memorandum of Understanding with SBA Administrator Linda McMahon last September in an effort to help improve credit union access and participation in SBA lending programs.

The Small Business 7(a) Lending Oversight and Reform Act (S. 2283/H.R. 4743) would increase the Small Business Administration's (SBA) oversight authority over its 7(a) loan program and bring improvements to the program. NAFCU supports this legislative effort and stands ready to work with you to improve the 7(a) loan program and ensure that this legislation will achieve its goals while not unduly burdening credit unions in the process.

Thank you for your consideration and attention to this important matter. If we can answer any questions or provide you with additional information on any of these issues, please do not hesitate to contact myself or NAFCU's Senior Associate Director of Legislative Affairs, Chad Adams, at 703-842-2265.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brad Thaler', with a long horizontal flourish extending to the right.

Brad Thaler
Vice President of Legislative Affairs



January 16, 2018

The Honorable Steve Chabot
Chairman
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
United States House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Chabot & Ranking Member Velázquez:

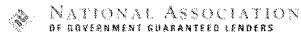
I write to express support for H.R. 4743, the "Small Business 7(a) Lending Oversight Reform Act of 2018." As you are both aware, the National Association of Government Guaranteed Lenders (NAGGL) is the national trade association that represents over 800 private-sector banks and financial partners who make 7(a) loans through the Small Business Administration's (SBA) flagship loan program to tens of thousands of small businesses every year.

As with any program that sees great success over the years, it has been and will continue to be the appropriate role of Congress, SBA, and the industry to work together to assure appropriate oversight. We thank both you and your staffs for personally approaching the industry as you've both tackled oversight questions, for taking the time to personally speak to a large array of lenders, and for being willing to work through a number of our concerns—I hope the feedback you each have received from the lending community also gives you great confidence that this is a program worth protecting on behalf of small businesses. I also look forward to the coming markup process when the industry and the Agency will have the opportunity to continue the dialogue that has been so successful in drafting legislation that serves to address the reasonable concerns of all parties.

All too often, Congress and regulators find themselves having to react to a problem when it comes to the financial services industry. The "Small Business 7(a) Lending Oversight Reform Act of 2018" attempts to break that cycle. H.R. 4743 is *not* reacting to a malady that needs to be quickly repaired to prevent disaster. Instead, this legislation is a bipartisan, bicameral approach to further improve a program that is performing well.

We believe H.R. 4743 provides the tools and resources necessary to improve lender oversight in a measurable way. NAGGL is particularly enthusiastic to see included in H.R. 4743:

- Authority for the SBA Administrator to increase the 7(a) authorization cap by 15% if the pace of lending is set to exceed that fiscal year's given cap;
- Clarity to the credit elsewhere provision currently in statute—the cornerstone principal of the SBA 7(a) program which ensures the program will never compete with conventional small business lending;
- Improvements to lenders' oversight reviews by requiring SBA full-time employees to oversee each review and require SBA provide those reviews to lenders in a timely manner;
- Reinstatement of a critical appeal process to give lenders, especially small community banks, a method by which to elevate an appeal of a decision made by the Office of Credit Risk Management (OCRM) within the agency without having to resort to suing the agency;
- Codification of offices and procedures that have long been established within SBA—namely OCRM, its enforcement procedures, and the Lender Oversight Committee (LOC)—but which have either been buried in the agency's Standard Operating Procedure or simply not clear to participating lenders;
- A report which will identify portfolio risks on an annual basis without naming lenders, to aid participating lenders in better understanding their own portfolios and encourage prudence; and
- A report which will require a budget submission from SBA to give transparency to the way in which lender's oversight fees are utilized by SBA.



This is by no means an exhaustive list of the ways in which H.R. 4743 strengthens oversight, but these are some of the key provisions in the bill which make it common-sense for NAGGL to support. The 7(a) loan program is only as strong as SBA's ability to encourage good behavior and conduct enforcement when appropriate. As we look to new levels of success in reaching tens of thousands of small businesses, I am proud to have the opportunity to join our voice with yours as you call for a closer look into how we can support SBA and how its stewardship over this critical program can be strengthened.

This is especially critical in times of growth. In Fiscal Year 2017, financial institutions large and small provided about \$25.4 billion in approvals to about 62,430 small businesses nationwide through the SBA 7(a) program. At an estimated one job per \$35,000 loaned, over 650,000 jobs were created or retained just last year thanks to the SBA 7(a) program. In addition, there are other benefits that are often hard to measure, like employment opportunities and increased tax revenue for federal and local governments and community growth driven by small business expansion in cities, small towns and rural areas across the country.

But the success of the 7(a) loan program is not just in the numbers—the 7(a) program is also a success in the way in which it operates. SBA 7(a) loans are made by private-sector lenders with their own capital based on their own financial decisions. The loans do not compete with the private sector because, by statute, the lenders that participate in the 7(a) program are only allowed to make the loans if the small business borrowers cannot obtain credit elsewhere. This important credit elsewhere aspect of the program is at the heart of what we do as 7(a) lenders, especially in a climate where loans to small businesses are often deemed the most risky by lenders and most often fall outside of the conventional credit box. What is more is that this lending program requires no appropriation dollars. In fact, the program is actually returning money to the Treasury and to local economies through job creation and tax revenue from the small businesses either created or supported through 7(a) lending, variables that are often hard to quantify and, therefore, all too often overlooked.

The recent growth in the program to meet increasing small business borrower demand should be applauded—it means tens of thousands of jobs and continued successful support of our country's small businesses. This growth also has very good reason: the conventional credit box shrunk post-Recession and has continued to evolve, moving away from the long-term financing that small businesses need. These conditions provide the perfect growing conditions for a boom in a credit elsewhere program.

However, with rapid and significant growth comes the very serious responsibility of working with our partners to ensure that SBA has the resources necessary to ensure proper oversight and that Congress has confidence that the program is being appropriately held accountable. We define success not just in the volume of loans being made by the industry, but also in the quality of loans reaching small businesses.

I stand at the ready to continue serving as a resource to both Congress and SBA as we all strive for continued oversight.

Sincerely,

A handwritten signature in black ink that reads "Anthony R. Wilkinson".

Anthony R. Wilkinson
President & CEO, National Association of Government Guaranteed Lenders (NAGGL)