

**STREAMLINING AND COORDINATING SUPPORT
FOR RURAL SMALL BUSINESSES**

HEARING
BEFORE THE
**COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP**
OF THE
UNITED STATES SENATE
ONE HUNDRED EIGHTEENTH CONGRESS
SECOND SESSION

SEPTEMBER 18, 2024

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ONE HUNDRED EIGHTEENTH CONGRESS

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STREAMLINING AND COORDINATING SUPPORT FOR RURAL SMALL BUSINESSES

WEDNESDAY, SEPTEMBER 18, 2024

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The committee met, pursuant to notice, at 2:47 p.m., in Room 428A, Russell Senate Office Building, Hon. Jeanne Shaheen, chairman of the committee, presiding.

Present: Senators Shaheen [presiding], Cantwell, Cardin, Booker, Hirono, Rosen, Hickenlooper, Ernst, Young, Kennedy, Hawley, and Budd.

OPENING STATEMENT OF SENATOR SHAHEEN

The CHAIRMAN. Good afternoon, everyone. I'll call the hearing to order in just a minute. I apologize for being late. We have two votes, one of which just was called and I was waiting to try and vote, which I did. So, for those of you who haven't voted yet, know that the first vote is underway. And we will interrupt at some point and take turns, Senator Ernst and I, to go do the second vote.

So, at this point, the Senate Committee on Small Business and Entrepreneurship will come to order. It's an honor to welcome you all here today to this hearing on the unique challenges that rural small business owners face and those federal efforts to help them succeed. I want to thank all of our witnesses who are here today. We will introduce you more formally in a few minutes.

But rural small businesses are the backbone of their communities. They provide jobs and essential services. There are over 4 million rural small businesses employing seven and a half million people in the U.S. according to a 2024 report from the SBAs Office of Advocacy. That's more than 56 percent of all employees in rural areas. Rural entrepreneurs start businesses at higher rates than their urban counterparts. Their firms are highly resilient and their five-year survival rates outpace that of small businesses in urban areas.

However, rural small business owners do face unique challenges. In a survey by the Small Business Majority, rural small business owners identified several key challenges hindering their growth. The challenges include limited access to capital and technical assistance, difficulty maintaining a qualified workforce, poor proximity to broadband services, and a shortage of healthcare providers in their communities.

I also frequently hear in New Hampshire about issues related to the availability of housing and childcare. Very big issues in our state. These challenges are compounded by a lack of coordination between local, state, and federal governments and relevant stakeholders.

In order to break down these barriers for rural small business owners, it will take a coordinated effort. That's why the United States Department of Agriculture, USDA, and the SBA, took a step in the right direction through the extension of a memorandum of understanding, an MOU between the agencies in 2023. The MOU increases collaboration between the two agencies to collectively address gaps in capital access, contracting opportunities, and entrepreneurial development resources for rural small business.

The MOU and Rural Partners Network demonstrate that collaboration between the federal government and local communities can better tailor solutions to the specific needs of rural areas. Through continued congressional support, we can enhance the effectiveness of these programs. By working together, we can empower rural small business owners to contribute significantly to their communities and strengthen our economy.

Again, thank you all for joining us today. I want to yield to the ranking member for her opening statement. I will submit my full statement for the record, and I will come back to introduce the witnesses in a few minutes. Senator Ernst.

[The prepared statement of Senator Shaheen follows.]

Opening Statement by Chair Jeanne Shaheen
“Coordinating and Streamlining Support for Rural Small
Businesses”
Senate Committee on Small Business and
Entrepreneurship
September 18, 2024

- **The Senate Committee on Small Business and Entrepreneurship will come to order.**
- **It is an honor to welcome you all today to a hearing on the unique challenges that rural small business owners face and federal efforts to help them succeed.**
- **I would like to thank our witnesses for joining us today. We will formally introduce you shortly.**
- **Rural small businesses are the backbone of their communities, providing jobs and essential services.**
- **There are over 4 million rural small businesses, employing 7.5 million people in the U.S., according to a 2024 report from SBA’s Office of Advocacy. That’s more than 56 percent of all employees in rural areas.**

- **Small businesses like grocery stores, health care providers or manufacturing firms are essential in rural areas. The services they provide in these communities are not easily replaced.**
- **As a result, rural America's entrepreneurial spirit has always been strong and thriving.**
- **Rural entrepreneurs start businesses at higher rates than their urban counterparts. Their firms are highly resilient and their five-year survival rates outpace that of small businesses in urban areas.**
- **However, rural small business owners face unique challenges to success.**
- **In a survey by Small Business Majority, rural small business owners identified several key challenges hindering their growth.**
- **The challenges include limited access to capital and technical assistance, difficulty maintaining a qualified workforce, poor proximity to broadband services and a shortage of health care providers in their communities.**
- **I also frequently hear about issues related to the availability of housing and childcare.**

- **These challenges are compounded by a lack of coordination between local, state and federal governments and relevant stakeholders. In order to break down these barriers for rural small business owners, it will take a coordinated effort.**
- **That's why the United States Department of Agriculture (USDA) and the SBA took a step in the right direction through the extension of a memorandum of understanding, or an MOU, between the agencies in 2023.**
- **The MOU increases collaboration between the two agencies to collectively address gaps in capital access, contracting opportunities and entrepreneurial development resources for rural small businesses.**
- **For example, as a part of the MOU, the SBA hosts "Path to Prosperity" workshops with the USDA and FDIC that connect rural small business owners with government officials, lenders and other stakeholders.**
- **For one rural small business owner in Mississippi, the workshop connected him with a lender and the local Small Business Development Center.**

- **These connections ultimately helped the business owner solidify a business plan, obtain a loan and expand his company.**
- **The workshop also helped the business owner better understand the federal contracting process so he could pursue government contracts.**
- **Without the MOU, he would not have known of the opportunities available at the different agencies.**
- **Similarly, the Rural Partners Network (RPN), a USDA initiative mentioned in the MOU, is a promising solution for rural communities struggling to navigate federal resources.**
- **In one example, RPN staff in Georgia connected a community college with the Economic Development Administration.**
- **The connection led to half a million dollars in funding for the community college's truck-driving academy to support the workforce needs of the transportation industry in the state, ultimately benefitting local businesses.**

- **The MOU and Rural Partners Network demonstrate that collaboration between the federal government and local communities can better tailor solutions to the specific needs of rural areas.**
- **Through continued Congressional support we can enhance the effectiveness of these programs.**
- **That's why I introduced the *Coordinated Support for Rural Small Businesses Act* with Senator Kennedy. This bill would elevate the SBA's Office of Rural Affairs and codify SBA and USDA efforts to coordinate support for rural small businesses.**
- **By working together, we can empower rural small business owners to contribute significantly to their communities and strengthen our economy.**
- **Again, thank you for joining us today, and I'd like to yield to the Ranking Member for her opening statement.**

[Ernst Opening]

[Your Witness Introductions]:

- **Thank you to our witnesses for joining us today. I'm looking forward to an engaging and informative discussion on rural small businesses.**

- **Ms. Cara Lank is the Senior Vice President of Stone Bank, which operates as both a USDA and SBA lender. She is also the Chair of the Government Relations Committee for the National Rural Lenders Association.**
- **Ms. Lank helps countless rural entrepreneurs start and grow their businesses. I'm looking forward to hearing her testimony and learning from her perspective as a lender.**
- **Mr. Zachary Luse is the Founder & CEO of Paragon Digital Marketing based in Keene, New Hampshire. He founded the business in 2012 and has more than two decades of experience in his field.**
- **Mr. Luse has firsthand experience navigating the complex landscape of federal programs, including those administered by the SBA and the USDA.**

[Minority Intros]

- **Thank you, Ranking Member Ernst.**
- **I'd like to turn it over to our first witness for her testimony. Ms. Lank, please go ahead.**

[Witness Testimonies]

STATEMENT OF SENATOR ERNST

Senator ERNST. Thank you very much to our chairwoman, and thanks to each of you for being with us today. We really look forward to your testimony.

Small businesses are the lifeblood of rural America, where they account for nearly 85 percent of all companies and over 50 percent of all jobs. I know rural America firsthand. I grew up on a farm in Montgomery County, Iowa, where I still live today. My parents and my neighbors ran small businesses, and I learned just how essential they were to local communities and our state's economy.

Today, we are here to discuss how the federal government can put rural small businesses on the same footing as those in our cities and urban centers. The Biden/Harris Administration has left rural small businesses on life support. Prices are up over 20 percent since President Biden and Vice-President Harris took office.

Inflation caused by the Democrats, Inflation Reduction Act, and America Rescue Plan is out of control. As if that wasn't enough, the Biden/Harris Administration has hit small businesses with more than \$1.6 trillion in regulatory costs. As I travel from river to river across Iowa, rural folks continue to tell me they think the Biden and Harris Administration just doesn't understand or doesn't care about their needs.

When my state was hit with natural disasters earlier this year, it became evident to me why they thought so. I was on the ground after each of these disasters and heard firsthand from Iowans about the difficulties they had in navigating recovery efforts. I heard from folks whose insurance couldn't cover the full repair or replacement of homes, businesses, or equipment because reckless Washington spending has made everything more expensive, even though they did the right thing and put money away in case of emergency. Hyperinflation meant it just wasn't enough.

FEMA and SBA did quickly set up recovery centers, and I want to thank them for that. But business owners were left frustrated by the two agencies' lack of coordination and competence. For example, Iowans received conflicting information about eligibility and application process in Shelby County, which was hit by tornadoes in the spring. SBA provided outdated and completely wrong information, including sending their disaster victims to a dead website. They didn't even realize they were doing so until my staff brought this to their attention. And this is absolutely unacceptable.

But even in the face of such gross incompetence, Iowans weren't deterred. The private sector and Governor Reynolds have stepped up to help rural small businesses where the federal government has failed. State programs like IowaWORKS are helping folks who have lost their job or businesses due to the disasters. Our community banks are also playing a crucial role. Many are offering loans to rural small business owners with better rates and faster approval times than their federal counterparts. I'm proud of Iowans for coming together and doing what the Biden/Harris Administration seemingly can't.

Small business owners who lose their livelihoods in a natural disaster have no time to spare. It's incredibly frustrating to repeatedly hear from those seeking SBA assistance that they thought it was

a waste of their time. So much so that many walked away and didn't complete applications.

For those who stuck it out, SBA loan processing times were incredibly slow. It becomes even more challenging when you consider the fragmentation among federal agencies. A variety of resources are available after a disaster, including loans from SBA and USDA, but there is no parity between the two agencies when issuing SBA loans to underserved and minority borrowers and urban areas.

In 2021, the Biden/Harris Administration insisted their policy to waive payments and interest accrual wouldn't cost anything. But today, when it comes to farmers in rural America, the Biden/Harris Administration insists it needs an Act of Congress and more money to extend the same terms. How does that make sense? Either the administration has been dishonest about the cost of its SBA policies, or it doesn't think rural business owners are worthy of the same benefits as their urban counterparts. Simply put, the Biden/Harris Administration, in particular the SBA, is leaving these communities behind.

SBA's lending in rural areas is abysmal at just around 15 percent in the agency's two main programs. If SBA lending to rural communities had been in line with population, there would be an extra \$1.3 billion a year available to rural entrepreneurs. But instead of channeling this much needed capital to American entrepreneurs, the Biden/Harris Administration has chosen to focus on enhancing its loan programs for favored priorities like green lending, which overwhelmingly benefits Chinese manufacturers.

That's a slap in the face to hardworking Americans who are the ones paying for these programs. The Biden/Harris team must stop picking winners and losers, and make this assistance accessible to all Americans. I look forward to hearing from our witnesses today to see how they have worked to help rural small businesses, and to understand what improvements our federal programs need.

Finally, I ask unanimous consent to enter into the record a letter Governor Reynolds and the entire Iowa Congressional delegation sent to Secretary Vilsack in July, 2024, urging parity amongst SBA and USDA's Direct Disaster Loan programs.

The CHAIRMAN. Without objection.

Senator ERNST. Thank you. And with that, I'll conclude.

The CHAIRMAN. Thank you, Senator Ernst. And again, thank you to our witnesses for being here today. Let me begin by introducing Ms. Cara Lank, who is the Senior Vice President of Stone Bank, which operates as both a USDA and SBA lender. She's also the Chair of the Government Relations Committee for the National Rural Lenders Association. Ms. Lank helps countless rural entrepreneurs start and grow their business. I'm looking forward to hearing your testimony and learning from your perspective as a lender.

Mr. Zachary Luse is the founder and CEO of Paragon Digital Marketing based in Keene, New Hampshire. He founded the business in 2012, and has more than two decades of experience in his field. Mr. Luse has firsthand experience navigating the complex landscape of federal programs, including those administered by SBA and the USDA.

So, I will now turn it over to Senator Ernst to introduce our other two witnesses.

Senator ERNST. Great. Thank you, and welcome Ms. Lank and Mr. Luse, and thank you for joining us again. And I want to introduce the rest of our witnesses who are testifying today. And I'm proud that two fellow Iowans have joined us here in Washington, DC, to share with the committee how we can empower our rural communities.

So, first is Mr. Grant Menke. Grant, it is wonderful to have you here. Grant serves as the Deputy Secretary of Agriculture for the Iowa Department of Agriculture and Land Stewardship. Previously, Mr. Menke served as vice-president of Market Development for Iowa Corn. Prior to that, Mr. Menke served as the State Director of Rural Development for the United States Department of Agriculture in Iowa. He earned a bachelor's degree from the University of Northern Iowa.

Next is Mr. Verlin, and as we know him, Gus Barker. And Gus is President and CEO of First Community Bank in Rockwell City Pomeroy, Fonda, and Newell, Iowa. He is testifying today on behalf of the Independent Community Bankers of America, where he also serves as the chairman of their agriculture and rural committee.

Mr. Barker earned a bachelor's degree from Vista University, and graduated from the Graduate School of Banking in Madison, Wisconsin. Gus, thank you so much for being here today. Thank you.

The CHAIRMAN. Thank you, Senator Ernst. Ms. Lank, would you like to begin, and we will go right down the line?

STATEMENT CARA LANK, SENIOR VICE PRESIDENT, STONE BANK, LITTLE ROCK, ARKANSAS

Ms. LANK. Chairman Shaheen, Ranking Member Ernst, and members of the committee, thank you for allowing me to participate—

The CHAIRMAN. Can you make sure that your mic is open and then it's close so that we can hear you?

Ms. LANK. That better?

The CHAIRMAN. Much better.

Ms. LANK. Thank you for allowing me to participate today. My name is Cara Lank, and I'm the Chief Credit Officer for Stone Bank, which is an \$815 million community bank based in Arkansas. We currently make SBA 7(a) loans, FSA loans, USDA loans under Business and Industry and Rural Energy for America Programs. I have unique insight to work with real businesses because I grew up in rural America.

My grandparents were farmers. My grandmother started her own small business by converting an old house into a grocery store that was in the middle of nowhere. She was very successful, and she built a larger store later. The store was surrounded by soybean and rice fields.

In addition to my role at Stone Bank, I'm the Chairman of the Government Relations Committee—sorry, for the National Rural Lenders Association. You can find more information on NRLA in my written statement.

Stone Bank has experience enclosing USDA/SBA combo loans. However, there are key differences between the two most popular programs, which are SBA 7(a) and USDA's B&I. Both programs can assist in providing capital for the same project with B&I loan guarantees of up to \$25 million and SBA loan guarantees of up to \$5 million.

While there are some synergies between the programs, challenges exist as the underwriting standards and organizational structure of the two agencies vary significantly. I could provide more lengthy details, but to keep it brief, I will note that SBA has a PLP, preferred lender program. PLP lenders are awarded the authority from their proven track record to complete the processing and ultimate final approval. And as a result, loans can move through the process very fast. SBA is also most more streamlined because they use technology in the form of their Tran system, which allows the lender to enter pertinent loan information, which checks eligibility requirements.

USDA has no PLP program and no such technology regardless of lender history and performance. USDA requires all lenders to submit an entire underwriting packet, which is individually reviewed by staff specialist and what is commonly viewed as re-underwriting the loan since the specialist is required to create their own project evaluation.

Every USDA loan requires a credit decision that goes through several levels of review and is a very manual process. This causes significant time delays and is not responsive to the speed of business. USDA projects require very patient borrowers and lenders, as most loans take from nine months to one year for processing and approval, as opposed to a 90-day turnaround for an SBA loan. USDA construction loans require extensive environmental studies, which can take months to complete, and are often very costly. SBA has very few environmental requirements.

There is also a mismatch in funding in that SBA has a \$30 billion budget, while B&I budget authority is significantly less at a current level of \$1.6 billion. NRLA has been attempting to cure this mismatch and forecasted demand for the B&I program to be 2.7 billion for Fiscal Year 2024. As of September, 2024, USDA had obligated \$1.62 billion in loans with approximately \$1.16 billion in pending requests for a total of 2.78. Currently, we are seeing similar demand for Fiscal Year 2025.

Turning to the SBA/USDA memorandum of understanding, it aims to coordinate activities among the two agencies to expand credit opportunities for rural small business. To meet this goal, the two agencies should use similar systems for loan application submission. While the criteria for loans for each program is different, the basic underwriting process for the lenders is the same. We believe this action would decrease USDA staff time, eliminate layers of approval, and significantly reduce operating costs. Separately, USDA should consider a PLP-type program.

SBA's process allows for loans to be issued throughout the U.S. and reduces individual inspection of loan applicant in eligibility. Additionally, activities that need to be expanded are sponsored webinars with SBA and USDA staff. Many USDA offices have held webinars with SBA state offices to educate lenders about the two

programs and give examples of how they can work together. This activity should be encouraged with consistent educational sessions across the country.

There is much more in my written statement, but NRLA, Stone Bank, and I thank you for the opportunity to participate today. And I'm happy to respond to any questions.

[The prepared statement of Ms. Lank follows.]



**Statement of Cara Lank
Government Relations Chair for
The National Rural Lenders Association**

**Before the
Senate Committee on Small Business and Entrepreneurship
United States Senate**

Streamlining and Coordinating Support for Rural Small Businesses

September 18, 2024

Introduction

Chairman Shaheen, Ranking Member Ernst, and members of the Committee, thank you for inviting me to testify today. My name is Cara Lank, and I am the Chief Credit Officer for Stone Bank, which is an \$815MM community bank with six branches, based in Arkansas. While we are your typical community bank, we are also atypical in that we make government-guaranteed loans. We make SBA 7a loans, Farm Service Agency (FSA) loans (mainly FSA poultry loans), and USDA B&I and REAP loans. I am involved in all three of these programs in addition to my credit role. My background in banking started 24 years ago when began working for the Arkansas State Bank Department as a Bank Examiner. This role allowed me to see and learn about all types of community banks, from small to very large.

I have unique insight to work with rural businesses in that I grew up in rural America. My grandparents were farmers, but also my grandmother started her own small business by taking an old house and converting it into a grocery store, which she later sold and built a large store literally in the middle of nowhere. It was surrounded by soybean and rice fields.

Additionally, I am the Chairman of the Government Relations Committee for the National Rural Lenders Association (NRLA).

Background

NRLA was established in 2014 and has grown from 12 original members to an organization of nearly 100 members representing hundreds of billions of dollars in lending activities. NRLA regards itself as the primary advocacy association specifically focused on ensuring and increasing the availability of capital and business opportunities for rural communities throughout the United States. Our membership includes banks, credit unions, Farm Credit system entities, and non-traditional lenders. In total our membership includes service providers to rural businesses from the

initiation of a borrower interested in a loan, to loan packers, lenders, counsel for legal and business structure purposes, construction and engineering firms, and secondary market entities.

NRLA members participate in both Small Business Administration (SBA) guaranteed loans programs as well as all USDA Rural Development guaranteed loan programs and USDA's Farm Service Agency loan guaranteed program. In total, the NRLA membership believes that guaranteed lending is often overlooked as a resource for capital infusion into businesses and communities in rural America. Despite this, these programs are critical in filling the gap that exists in the market between business creation, business development, and stagnation.

Synergies Between USDA and SBA Guaranteed Lending Programs

Many members of NRLA participate in both SBA and USDA guaranteed loan programs. My institution, Stone Bank, has experience in closing USDA/SBA combination loans. There are, however, key differences between two of the most popular loan programs, SBA's 7(a) loan program, and USDA's Rural Development Business & Industry (B&I) Loan Guarantee program.

When timing and need are complimentary, the differences between the 7(a) program and the B&I program can be used effectively to help a business. In fact, both programs can assist in providing capital needs by offering both loans for the same project. B&I loan guarantees can be up to \$25 million, and 7(a) loans can be a maximum of \$5 million. The B&I loan program has a geographic restriction that the loan must be in a rural area, which is defined as a population of 50,000 or less. A lender could make a loan using both programs if part of the project is in an ineligible, non-rural area.

Recipients of 7(a) loans are required to meet SBA size standards and the B&I loan program does not have size standards. 7(a) also requires that the business be 51 percent owner-occupied, and B&I does not have that requirement, so businesses like office and medical condos are eligible for B&I. Also, lines of credit are not eligible for B&I but are eligible under 7(a). As such, the two programs can work together to help a business where B&I could be used to finance the real estate and/or equipment and 7(a) could finance a line of credit.

In the area of business acquisitions, acquisitions are typically easier to do within the 7(a) program as it provides more favorable collateral requirements. B&I loans require either 10 or 20 percent equity and must be fully secured on a discounted basis. Businesses with goodwill can take advantage of the 7(a) program if they don't have enough collateral for the B&I program and are in a rural area.

Separate but directly related to lending are USDA and SBA secondary market activities. The secondary market supports lending, especially for borrowers who face the greatest challenges in accessing credit. SBA and USDA work very differently from an operational perspective while providing the same core benefits for the borrowers, impacted communities, and lenders. The differences in the secondary market arise largely from the evolution of the programs, the loan characteristics, and the history of the agencies. The SBA secondary market is supported by the SBA's Fiscal Transfer Agent (FTA) as well as processes and systems to serve as a centralized

clearinghouse for loan settlements and master servicing. There is room for improvement, but the overall approach is beneficial to all stakeholders.

The USDA secondary market relies on loan approvals and secondary market assignments that run through regional USDA offices and there is no centralized clearing agent like the SBA's FTA. There are some opportunities for improvements, but any changes to the USDA secondary market program must be customized and appropriate for the uniqueness of loans and borrower needs.

Challenges Navigating SBA and USDA Guaranteed Programs

While synergies exist between the SBA and USDA, there are significant differences in the programs which can make combining these loans a challenge. First, the underwriting standards and organizational structure of the two agencies vary significantly. SBA has a Preferred Lender Program, commonly referred to as PLP. PLPs are required to follow all the rules and regulations, but they are not required to submit the entire underwriting package to SBA for approval. As a result, loans move through the process much faster than non-PLP lenders. SBA's process is also more streamlined than USDA's primarily due to SBA's systems of technology that allow the lender to enter the pertinent loan information into E-Tran. E-Tran is SBA's system that checks basic eligibility requirements, and it approves or denies loans based on its criteria assessment.

USDA has no PLP program, and regardless of lender history and performance, USDA requires all lenders to submit an entire underwriting packet which is individually reviewed by staff specialists. Some view this activity as a form of re-underwriting loans and project evaluation. Unfortunately, this system places high manual workload demands on USDA staff and specialists who are also responsible for other agency program activities such as grants among other administrative responsibilities. Every USDA loan requires a credit decision that goes through reviews for approval regardless of size. On any given loan, time delays can be significant, and some delays force a borrower to forego job-producing investments as accessing capital was not responsive to the speed of business. USDA projects require patient borrowers and lenders as most loans take from nine months to a year for processing and approval as opposed to a 90-day turnaround for an SBA loan.

Another significant process difference between USDA and SBA are requirements for construction loans. USDA loans require the borrower to conduct an environmental review beyond local and state requirements. This singular process can take months to complete and is often very costly. SBA has no such requirement.

Lastly, and arguably most importantly, for FY 2025 the SBA 7(a) program has a budget of approximately \$30 billion-plus, while the proposed B&I budget authority is significantly less at \$2.2 billion under the proposed U.S. House of Representatives budget and \$1.9 billion in the U.S. Senate proposed budget. While NRLA welcomes these increases above the FY 2024 budget authority level, each year for the last three years, USDA has had to institute measures to "stretch" funding to the end of the fiscal year. Annually, stringent grading requirements have been instituted and/or revised forcing some loans to be placed on hold for not being favorably graded as high as some other projects. In October 2023, NRLA forecasted demand for credit under the B&I program to be \$2.75 billion for FY 2024. As of September 4, 2024, USDA had obligated \$1.62 billion in

loans with approximately \$1.16 billion in pending requests, a total of \$2.78 billion in demand. Only \$1.66 billion was provided in loan authority by Congress for FY 2024. Additionally, we are seeing similar demand for FY 2025.

SBA/USDA Memorandum of Understanding

In November 2023, SBA and USDA announced the renewal and second iteration of its Memorandum of Understanding (MOU) aimed at coordinating activities among the two agencies to expand credit opportunities for rural small businesses. The principles within the MOU continue to be four-fold, to (1) provide joint training, technical assistance, and mentorship opportunities for rural small business owners and entrepreneurs, (2) help agricultural producers and small businesses identify ways to export their products around the world, (3) expand collaboration between USDA's Rural Partners Network and SBA's Resource Partners Network, and (4) cross-promote programs that support rural businesses and socially disadvantaged communities.

NRLA continues to support and work with both agencies to advance mission-driven outcomes that benefit rural communities. The current MOU states as an objective the examination of "synergies to streamline and deliver programs." Such an examination must include the evaluation of currently deployed SBA technology for inputting loan materials for like or the same system operation for USDA loans. While the criteria for loans for each program are different, the basic underwriting process for lenders remains the same for entities that operate under both SBA and USDA programs. Such an activity should also be aimed at decreasing staff time and layers of approvals at USDA.

An additional examination should be conducted regarding the SBA PLP program. A USDA PLP-type program would provide for speeding lending and align with SBA posture to all for loans to be issued anywhere in the country and reduce the responsibility of the agency to primarily eligibility assessments.

Activities that are occurring, but that need to be expanded, are sponsored webinars with SBA and USDA field staff. Field staff are in local offices to assist the lender in the application process. Many USDA RD offices have held webinars with SBA State Offices to educate lenders about the two programs and give examples of how they can work together. This activity should be encouraged with consistent educational sessions across the country.

Conclusion

Federal resources to provide credit to rural businesses should be maximized within both SBA and USDA programs to provide rural businesses with the greatest chance of success. While lenders under both agencies are attempting to maximize both programs, there are operational and technological systems and efficiencies that could be shared between both agencies to assist businesses that are attempting to access capital. As expressed, delays in providing capital and mismatched availability of funds between SBA and USDA programs, due to funding shortages at USDA or the lack of SBA program awareness upend the flow of credit to rural communities. NRLA, however, is dedicated to the long-term prosperity of rural America and will continue to work toward increasing capital for its communities and businesses.

It should be noted that many NRLA member organizations reside in, are close to, or have historical ties to rural living and communities. NRLA will continue through its membership to offer credit to businesses and organizations in lower populated areas to diversify and maximize centers of profit for rural communities.

Thank you for the opportunity to provide testimony and please know that NRLA will continue to work with Congress, SBA, and USDA to provide opportunities for businesses and nonprofit organizations to grow the economic base of communities and create job and job opportunities in rural towns throughout the U.S.

I am happy to respond to any questions.

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The CHAIRMAN. Thank you very much.
Mr. Menke.

STATEMENT OF STATEMENT OF GRANT MENKE, DEPUTY SECRETARY OF AGRICULTURE, IOWA DEPARTMENT OF AGRICULTURE AND LAND STEWARDSHIP, DES MOINES, IOWA

Mr. MENKE. Well, good afternoon, Chair Shaheen, Ranking Member Ernst, and members of the committee, and thank you very much for the opportunity to testify today.

My name is Grant Menke, and I serve as the Deputy Secretary of Agriculture for the State of Iowa. I'm here today on behalf of Iowa Secretary of Agriculture, Mike Naig, who is currently on a trade mission to India with Iowa Governor, Kim Reynolds. He wishes he could be here, but I am pleased to share his perspective and that of numerous Iowans in the Ag community who have spent the last few months recovering from devastating and costly natural disasters.

Agriculture drives the economy of Iowa. It is our number one industry. Consumers near and far depend on the productivity of Iowa agriculture and our multi-generational family farms and Ag business. Businesses are proud of this fact.

Unfortunately, many family farms were devastated by a series of weather disasters earlier this year. While our historic drought of 204 consecutive weeks was busted, this growing season, unfortunately produced historic flooding and a record number of tornadoes in Iowa.

Secretary Naig spent many days on the road this spring and summer visiting farms, businesses, and communities that were hit hard. In many cases, these folks lost nearly everything. Not just farm buildings and equipment, but also their homes. Secretary Naig relayed the story of a man from a century farm in Southwest Iowa. This farm had been in his family for more than 100 years, and they lost everything in a tornado.

This farmer was clearly feeling the pressure and responsibility for his farm and the legacy it represents. He was thinking of generations past, but also of generations to come. Despite his world being turned upside down, he relayed to Secretary Naig his determination to turn the page, rebuild, and start the next chapter of his family farm story.

But as these farms have moved forward, they've encountered challenges like any small businesses with significant equipment, infrastructure, and operating costs. These farms carry property and casualty insurance. They also rely on risk management programs authorized through the Farm bill, including crop insurance. Yet, there are still significant gaps, especially during this time of persistent inflation.

That's why farmers and farm businesses have needed to turn to disaster programs offered by USDA and SBA to access the capital needed to continue operations through this disaster recovery process. Iowans have discovered several frustrating and confusing disparities between these programs, and it is our hope that this committee can begin the process of addressing these inequities.

In addition to the overall complexity of these programs, one of the most significant issues Iowans have faced is the disparity in ac-

cessibility and eligibility between USDA and SBA disaster programs. Since farmers are not eligible for SBA disaster programs, these differences have hit farm families, especially hard. For instance, SBA disaster loans typically offer more favorable terms, including higher loan limits, lower interest rates, and longer repayment terms than USDA disaster loans.

SBA disaster loans also offer deferral of the first payment and no interest accrual for the first 12 months, features that are not available with USDA disaster loans. These discrepancies place an undue burden on farmers and farm businesses who already operate on thin margins, especially during the softening Ag economy.

To address these inequities going forward, we encourage you to align the eligibility criteria, loan limits terms, and conditions for SBA and USDA disaster programs to ensure that all affected farmers and farm businesses can access the support they need. Due to gaps in the current USDA disaster programs, the State of Iowa has already taken action to give agriculture some immediate relief. The new Disaster Recovery Farm Interest Program announced by Governor Reynolds on July 11th offers farm businesses up to \$50,000 of reimbursement for one year of scheduled interest payments owed on eligible loans used to repair or replace damage on insured property.

This program essentially aims to align emergency loans with the same one-year deferred interest financing offered by SDA. Similar solution is needed at USDA to ensure that assistance is available for farmers in Iowa and other states facing similar hardships. We should all be inspired by the optimism, determination, and fortitude of the farmers and farm businesses in Iowa and around the country who have weathered these storms in natural disasters.

Family farms are key to the vitality of our rural communities and essential to making the U.S. a global Ag production powerhouse through common-sense reforms to USDA and SBA disaster programs. We can assure that impacted farms receive the help they need to recover, rebuild, and write the next chapter of their family farm's legacy, which will ultimately contribute to the greater story of U.S. agriculture. Thank you for your time, and I look forward to your questions.

[The prepared statement of Mr. Menke follows.]



Mike Naig
Secretary of Agriculture

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**Testimony of Iowa Deputy Secretary of Agriculture Grant Menke
Before the U.S. Senate Committee on Small Business and Entrepreneurship
Hearing Entitled “Streamlining and Coordinating Support for Rural Small Businesses”**

September 18, 2024

Good afternoon, Chair Shaheen, Ranking Member Ernst, and members of the Committee, and thank you for the invitation to testify today.

My name is Grant Menke, and I serve as the Deputy Secretary of Agriculture for the State of Iowa. I am here today on behalf of Iowa Secretary of Agriculture Mike Naig, who is currently on a trade mission to India with Iowa Governor Kim Reynolds. He wishes he could be here, but I am pleased to share his perspective and that of numerous Iowans in the ag community who have spent the last few months recovering from devastating and costly natural disasters.

Agriculture drives the economy of Iowa. It is our state's number one industry. Consumers near and far depend on the productivity of Iowa agriculture, and our multi-generational family farms and ag businesses are proud of this fact.

Unfortunately, many of these same family farms were devastated by a series of weather disasters earlier this year. While our historic drought of 204 consecutive weeks was finally busted, this growing season unfortunately produced historic flooding and a record number of tornadoes in Iowa.

Secretary Naig spent many days on the road this spring and summer visiting farms, businesses and communities that were hit hard. In many cases these folks lost nearly everything – not just farm buildings and equipment – but also their homes.

Secretary Naig relayed the story of a man from a century farm in southwest Iowa. This farm had been in the man’s family for more than 100 years, and they lost everything in a devastating tornado. This farmer was clearly feeling the pressure and responsibility for his farm and the legacy it represents. He was thinking of generations past, but also of generations to come. Despite his world being turned upside down, he relayed to Secretary Naig his determination to turn the page, rebuild, and start the next chapter of his family farm story.

But as these farms have moved forward, they’ve encountered challenges.

Like any small businesses with significant equipment, infrastructure and operating costs, these farms carry property and casualty insurance. They also rely on risk management programs authorized through the Farm Bill, including crop insurance. Yet, there are still significant gaps, especially during this time of persistent inflation. That’s why farmers and farm businesses have needed to turn to disaster programs offered by USDA and SBA to access the capital needed to continue operations.

Through this disaster recovery process, Iowans have discovered that there are several frustrating and confusing disparities between these programs, and it is our hope that this committee can begin the process of addressing these inequities.

In addition to the overall complexity of these federal programs, one of the most significant issues Iowans have faced is the disparity in accessibility and eligibility between USDA and SBA disaster programs. Since farmers are not eligible for SBA disaster programs, these differences have been especially difficult for farm families.

For instance, SBA disaster loans typically offer more favorable terms, including higher loan limits, lower interest rates and longer repayment terms than USDA disaster loans. SBA disaster loans also offer deferral of the first payment and no interest accrual for the first 12 months – features that are not available with USDA disaster loans. These discrepancies place an undue burden on farmers and farm businesses who already operate on thin margins, especially amid the softening ag economy.

To address these inequities going forward, we encourage you to align the eligibility criteria, loan limits, terms and conditions for SBA and USDA disaster programs to ensure that all affected farmers and farm businesses can access the support they need without unnecessary barriers.

Due to gaps in the current USDA disaster programs, the State of Iowa has already taken action to provide some immediate relief to Iowa agriculture. The new Disaster Recovery Farm Interest Program, announced by Governor Reynolds on July 11, 2024, offers farm businesses up to \$50,000 of reimbursement for one year of scheduled interest payments owed on eligible loans that farmers will use to repair or replace damage on insured property. This program essentially aims to align emergency ag loans with the same one-year deferred-interest financing offered by SBA. A similar solution is needed at USDA to ensure that assistance is available for farmers in Iowa and other states facing similar hardships.

We should all be inspired by the optimism, determination, and fortitude of the farmers and farm businesses in Iowa and around the country who have weathered these storms and natural disasters. Family farms are essential to the vitality of our rural communities and economies. They are the heart of agriculture and essential to making the U.S. a global ag production powerhouse.

Through common-sense reforms to USDA and SBA disaster programs, we can ensure that those farms affected now – and in the future – can receive the help they need to recover, rebuild, and write the next chapter of their family farm’s legacy, which will, ultimately, contribute to the greater story of U.S. agriculture.

Thank you for your time and consideration, and I welcome your questions.

Frequently Asked Questions

- **How do I apply?**

Applications for assistance may be submitted through iowagrants.gov. After creating an account and logging in, select the **Funding Opportunities** tab on the left-hand navigation. The application is listed as **Disaster Recovery Farm Interest Program**.
- **How can I check the status of my application?**

You may view the status of your application at iowagrants.gov by selecting the "Submitted Applications" tab on the left-hand navigation.
- **Am I eligible to receive assistance?**

Assistance is available to owners and/or operators of farming operations that have experienced a physical loss to livestock, livestock products, real estate, or equipment used in the production of agricultural products, for which an insurance claim has been submitted and approved.

The damaged property must be located or used in an Iowa county where a disaster has been declared. An up-to-date list can be found at disasterassistance.gov under the **List of Disasters** section.

Applicants must provide documentation that an insurance claim has been submitted and approved for the damaged property.

"Eligible Loans" are those that have been executed or amended after the earliest incident date of the disaster proclamation for the county where the damage occurred.
- **How much assistance can I receive?**

The maximum assistance available is equal to the one year of scheduled interest owed on eligible loans, up to \$50,000.
- **When will I receive my payment?**

Once assistance is approved, a reimbursement claim may be submitted when the Eligible Loan has been outstanding for at least one year from the execution or amendment date.
- **Do I have to pay the grant back?**

No.
- **Who receives the payment?**

Applicants will be reimbursed directly via ACH for interest payment(s) made on eligible loans, up to the awarded amount.
- **Do I have to pay taxes on the assistance funds?**

A 1099-G will be issued to all entities that receive an assistance payment. Any questions regarding whether the grant is taxable income, please consult your tax advisor.

The CHAIRMAN. Thank you very much.
Mr. Luse.

**STATEMENT OF ZACHARY LUSE, CEO AND FOUNDER,
PARAGON DIGITAL MARKETING, KEENE, NEW HAMPSHIRE**

Mr. LUSE. Thank you, Chairwoman Shaheen, Ranking Member Ernst, and the rest of the committee. It's an honor to share my story of entrepreneurship in rural America and my experience working with government agencies to grow my business.

I grew up in a small town of DeWitt, Iowa, where entrepreneurship was part of my life from an early age. I started my first business in the third-grade selling, building, and selling wood benches out of my dad's photography studio. In 2010, I ended up in Keene, New Hampshire, and turned my side hustle into Paragon Digital Marketing, a company that was focused on helping mid to small size businesses grow.

Starting a company that provides services over the internet came with challenges in a rural area where access to the broadband is limited. Chairwoman Shaheen, I greatly appreciate your work on this issue. Thank you. As Paragon grew, the need for a larger office space with broadband was a major challenge.

In 2018, I bought a vacant church listed on the National Historic Register. I had no idea how much work was ahead of me, but after a lot of Googling and calls and emails, I found technical assistance through my state's Community Development Finance Authority, a CDFA, to secure a low interest loan using federal dollars to finance a solar array on the roof of the building.

Additional funding for my project came from my local bank and the New Hampshire Business Finance Authority. The process of working with the various organizations and navigating their different requirements was challenging, and I doubt I would've completed this project without the assistance of the CDFA.

In 2020, we moved into our new space amid the uncertainty of a pandemic, a PPP and EIDL loans from the SBA were crucial to continued success of Paragon. The solar array now produces all the energy we need for heating and cooling our business, and it makes our business stronger and more resilient. When energy costs spike like they did a couple years ago, it didn't impact our business at all.

My entrepreneurial journey continues with a new venture. I'm opening a beer garden in the sanctuary of the old church, upstairs. For this project, I'm applying for a USDA REAP Grant that's due at the end of the month to install a geothermal heating system to replace the large oil boiler that currently heats the space.

Clean Energy New Hampshire is providing technical assistance for this USDA grant which is extremely helpful. I'm also considering a New Hampshire Department of Energy grant, but the grant is on a completely different timeline and completely different process, along with long approval times for both of the USDA and the NH Department of Energy grants.

Opening this business will definitely be delayed. Recently, I completed the New Hampshire Export Accelerator, where the New Hampshire Small Business Development Center or the SBDC brought together the U.S. Commercial Service, SBA, and New

Hampshire's Office of International Commerce. With advisors from the SBDC, I developed a plan to export Paragon Services. I've been awarded a STEP Grant and embark on my trade mission to Brazil next week.

This is a great example of bringing together resources from different agencies and helping businesses navigate them. It would've taken me a lot of time and research to connect with the people at each of these agencies and try to figure out how to utilize these services. This type of multi-agency coordination and assistance is critical for small businesses like mine. Enhanced coordination among federal programs that support small business is critical.

Additional resources for rural businesses and organizations that support us, like the SBDC's Clean Energy New Hampshire, the CDFAs would be immensely helpful. We could spend less time navigating the landscape of federal resources and more time doing what we do best, running our businesses, creating jobs, building wealth for families in our communities, and growing the American economy. The New Hampshire SBDC has been a tremendous resource to me assisting with PPP and EIDL loans, and advising on various aspects of my business. The guidance has been extremely invaluable.

In my role as the trustee of the Savings Bank of Walpole, our community bank, I've seen firsthand the impact of SBA and USDA lending programs. One that stuck with me, including two farm hands who with USDA support purchased the dairy farm that they worked on from the retiring owners. This would not have been possible without the backing of the USDA and their programs, and has changed the trajectory of their lives while keeping this dairy farm in production for years to come.

I'm curious to learn more about potential synergies between USDA and SBA. In summary, my rural business would not be where it is today without the support of federal, state, and local programs that support us. As a rural business owner, I faced unique challenges like limited access to broadband, lack of educational institutions with relevant programs in my area, fewer service providers to support my business, and more severe workforce shortages than you see in more urban areas. These programs make my business stronger and more resilient, but they often exist in silos that make it difficult to access and navigate them without help.

So, my ideas for improving coordination between federal agencies and making resources more accessible to small businesses would be more staff on the ground that serve as generalists, that connect and advise on the different programs that are available to small businesses. More programs like the New Hampshire's SBDC's Export Accelerator that bring together resources focused on solving specific problems for businesses, quicker approvals.

USDA REAP grants can take several months to get approved, and the timing and cycles of these programs don't always line up with real world business needs. Both my projects involved spaces that had sat vacant, so I didn't have any heating history. So, this disqualified me from many of the energy efficiency programs that are available. Exceptions for vacant spaces or adaptive reuses of

spaces to use energy modeling or other methods to show energy savings would be very helpful as well.

I appreciate all you do to support small businesses like mine, and thank you for the opportunity and privilege to share my story and insights today.

[The prepared statement of Mr. Luse follows.]



**Testimony of Zach Luse, CEO and Founder, Paragon Digital Marketing
U.S. Senate Committee on Small Business and Entrepreneurship
Streamlining and Coordinating Support for Rural Small Business**

September 18, 2024

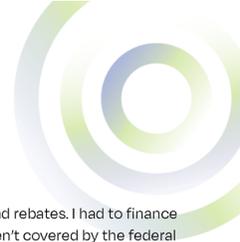
Thank you, Chairwoman Shaheen, Ranking Member Ernst, and all members of this committee. It is an honor to be here with you today to share my story of entrepreneurship in rural America and working with government agencies to start and grow my businesses.

I grew up in the small town of DeWitt, Iowa where my dad owned a photography studio. Entrepreneurship is in my blood. I started my first business in the 3rd grade building wood benches and selling them out of the front window of my dad's studio. I ended up in Keene, New Hampshire in 2010 as a trailing spouse and in 2012, I turned my side hustle into Paragon Digital Marketing. Paragon is a digital marketing agency focused on serving small to mid-size businesses across the country. We manage ad campaigns, do search engine optimization, email marketing and build websites that help our clients grow their businesses.

Starting a company that provides its services remotely over the internet came with its challenges in a rural area where, at the time, access to broadband was very limited. I attended round tables and wrote several letters on access to broadband and I greatly appreciate Chairwoman Shaheen's work on this issue. Thank you for all you've done to address this critical need!

As Paragon has grown, the need for a larger office space with suitable internet access was a major challenge in downtown Keene. In 2018, I looked at an old church that had sat vacant for nearly a decade right off Central Square in Keene with fiber internet on the poles across the street. That's where my story begins. After a lot of research into what it would cost to renovate the space and make it energy efficient, I threw caution to the wind and bought the building. It's a beautiful 13,000 square foot, red brick building, built in 1869 that is on the National Register of Historic Places. **I had no idea how much work was ahead of me but after lots of Googling, emails and conversations,** I connected with the NH Community Development Finance Authority (CDFA). I ended up utilizing a low interest loan from NH CDFA's Energy Fund that included American Recovery and Reinvestment Act (ARRA) Funds to finance a new roof and 33Kw solar array. NH CDFA offered technical assistance,





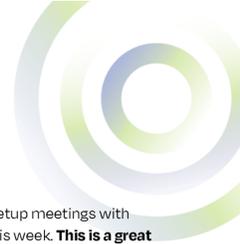
connected me with the right people and agencies to get energy audits and rebates. I had to finance parts of the project through the NH Business Finance Authority that weren't covered by the federal funds. I was also the first business in Keene to apply for community revitalization property tax incentives (RSA 79-E) to help offset the initial investment in saving this building. **I worked with so many different organizations that had different processes, different requirements and everything was in silos, it was hard to find information and navigate everything**, all while I was running a business and raising small children. Without the assistance of the state's CDFA to help navigate everything, I don't think I would have been able to complete this project on my own.

We moved into our space in June of 2020 amid a lot of uncertainty. PPP Loans and an EIDL Loan from the SBA were crucial to the continued success of Paragon. The new office has turned out better than I could have imagined, the solar produces more power than we need to heat, cool and run our business. This has made my business stronger and more resilient; I have no energy bills so when energy costs spiked a couple years ago, it didn't impact my business at all.

My story continues with my next venture, an indoor beer garden in the large sanctuary on the second floor of the church building. I'm in the process of applying for a USDA REAP Grant to offset the cost of installing a geothermal heating and cooling system. With the grant I'll be able to replace the large oil-fired steam boiler with a zero-carbon heating system. This will help in the cold winters when all the businesses profits would have been burnt up in the oil boiler trying to heat the space, reducing energy cost and making this new business more resilient while solidify the survival of this historic building for another 150 years. I'm working with Clean Energy New Hampshire for technical assistance for the USDA Grant which, again, has really helped with navigating the process. **I'll likely apply for a NH Department of Energy Grant as well, but that grant is on a completely different timeline and completely different process for applying. The long approval times for both the USDA and NH Department of Energy grants will delay the opening of this new business but I feel the benefits of this energy project are worth the delays.**

I recently completed the NH Export Accelerator program in which the NH Small Business Development Center (NH SBDC) brought together resources from the U.S. Commercial Service, NH Small Business Administration District Office and NH's Office of International Commerce. I worked with SBDC Advisors to develop an export plan to export Paragon's services to businesses and organizations in Brazil and I've just been awarded a STEP Grant to help put my plan into action. I leave





in a week for a trade mission to Brazil, the U.S. Commercial Service has setup meetings with prospective clients, and I already met virtually with the first one earlier this week. **This is a great example of NH SBDC bringing together resources and funding from different agencies, helping businesses navigate the resources and develop a plan. I didn't know many of these resources existed and it would have taken me a lot of time to research and connect with the people at each agency.**

This type of multi- agency coordination and assistance is critical for small businesses like mine. However, business resource providers like SBDC, while they're well acquainted with SBA programs and very knowledgeable about business development issues, they don't always have the staff capacity to be aware of every program that could benefit rural entrepreneurs. **Enhanced coordination and communication among federal government programs that support small business is critical. Additional resources for rural businesses, and the organizations that support us, would be hugely beneficial. With this support we will be better prepared to navigate the landscape of federal resources available to us. We'll then have time to do what we do best, run our businesses, create jobs, build wealth for families in our communities, and help grow the American economy.**

Through much of Paragon's journey I've been a proud client of the NH Small Business Development Center. I turned to the NH SBDC for support and assistance applying for PPP and EIDL loans and have continued to work with their business advisors ever since. The NH Export Accelerator opened a great opportunity for Paragon to start exporting its services. When I decided to start my second business, they paired me with an advisor that has expertise in the service industry for assistance with market research, financial projections and business planning. I've also utilized their cyber security preparedness program among other programs. My business advisors have been an incredible asset to both of my businesses and have connected me to numerous resources and opportunities over the years.

I have one final story to share from my role as a trustee of Savings Bank of Walpole, our region's community bank. We have approved some amazing opportunities for local entrepreneurs that were backed by SBA and USDA programs. A recent one that really stuck with me included two farm hands that used USDA programs and loan guarantees to purchase the dairy farm they worked on from the retiring owners. This would not have been possible with the USDA backing and I imagine it will change the trajectory of the new owners' lives while keeping the dairy farm in production for many more





years to come. I'm curious to learn more about the potential synergies between USDA and SBA lending programs that could stand to benefit rural small businesses.

In summary, my business would not be where it's today and I wouldn't be starting a second business if it weren't for the resources from Federal, State and Local programs that support rural businesses. As a small business owner in a rural area, I've faced unique challenges, including limited access to broadband, lack of educational institutions in the area with programs related to my business, a limited number of service providers in the area to support my business needs, and shortages of qualified workers that are more severe than what is seen in more populated areas. My business is stronger and more resilient because of these programs. Unfortunately, these programs exist in silos which can make it hard to find information, understand requirements and eligibility and navigate without the help of someone who has been through the process.

Some ideas I have for more coordination between federal agencies and general improvement to federal programs that could make it easier for rural businesses to connect with and utilize these resources include:

- Having **staff on-the ground that serve as generalists or advisors that have an awareness of all the programs**, how they can be utilized, can build bridges between the silos, provide technical assistance, and facilitate communication and questions with the various agencies.
- **More programs like NH SBDC's Export Accelerator that bring together resources** from various stakeholders focused on solving specific problems for rural businesses.
- I appreciate that the USDA Grants have quarterly cycles but REAP Grants can take several months to get approved right now. **The timing and cycles of some of these programs don't always line up with real world business needs.**
- Specific to energy efficiency resources, I understand why 12 months of energy usage is required so the effectiveness of the funds can be measured by actual energy saved but not all projects will have historical energy usage. In my case both my projects are spaces that had been vacant for many years, and I didn't qualify for most of the incentives because I didn't have any heating history. **Exceptions for vacant spaces or adaptive reuse of spaces to use energy modeling or other methods to show energy savings** would be very helpful.

I appreciate all that you do to support small businesses like mine. Thank you for the opportunity and privilege to share my story and insights today.



The CHAIRMAN. Thank you very much, Mr. Luse.
Mr. Barker.

**STATEMENT OF VERLIN "GUS" BARKER, PRESIDENT AND CEO,
FIRST COMMUNITY BANK, NEWELL, IOWA**

Mr. BARKER. Chair Shaheen, Ranking Member Ernst, and members of the committee. I'm Gus Barker, President and CEO of First Community Bank, headquartered in Newell, Iowa. I testify today on behalf of the Independent Community Bankers of America, where I'm Chair of the Rural America and Agriculture Committee, and a member of the board. I thank you for convening today's hearing on the critical issue of support for rural small businesses.

First Community Bank is a \$115 million asset bank, serving four rural communities in Northwest Iowa. We specialize in agriculture lending of all types, rural small businesses, and one-to-four family homes. And now in view of the recent flooding in Northwest Iowa, I want to put a special focus on community bank support for rural small businesses in the wake of natural disasters.

In times of crisis, community banks demonstrate their true value by providing critical resources, counsel, and comfort in their communities. I'm grateful for the opportunity to share the community bank perspective on this important topic. Iowans have repeatedly proven their strength and resilience in the wake of natural disasters.

As a 47-year Iowa community banker, I've lived through the great flood of 1993, one of the most destructive floods in recent memory. Like other Midwestern states, Iowa has experienced tornadoes and droughts, which have laid waste to our most precious economic resource; crops and livestock. In June of this year, severe flooding in Rock Valley caused significant damage from which that local region is still recovering.

Experience has convinced me that the best solutions are local. Community banks have always been on the front lines of disaster recovery efforts in Iowa, and I'm proud that local families, farms, and small businesses have turned to me in their time of need. Now, federal programs will never displace local community banks, which are always ready to provide vital resources promptly and without bureaucratic obstacles.

SBA direct lending and other federal disaster recovery programs have always played a critical role in the survival of disaster-stricken businesses. Unfortunately, these programs are mired in bureaucratic red tape. Disaster victims are in no position to complete that excessive paperwork.

My written statement contains an example from the historic flooding of '93, in which I helped a customer with the daunting paperwork of an SBA application. We could not have completed that application without the support of the local SBA office. Regrettably, since that time, SBA scaled back its presence in Iowa, and applications are now approved in San Francisco, a distance that makes coordination much more challenging.

Given the significant hurdles of obtaining agency relief, Iowa disaster victims often turned to their local community bank. Following the catastrophic flooding of 2008, it was clear that support from

SBA and FEMA would not be enough to support the recovery, and that it would come too slowly.

My bank joined efforts with two other local banks to promptly extend some 50 loans to impacted businesses and families, which I'm happy to report were repaid with no delinquencies. In fact, I've extended loans at a discounted rate in a number of natural disasters. Disaster lending of this type takes patience and understanding from bankers and regulators to allow for this recovery. But this is very much a core part of our mission of community service.

My written statement contains several suggestions for improved coordination among the agencies and with private lenders in disaster recovery, which I'll briefly describe for you. First, SBA is known to file liens far in excess of the loan amount to secure their mortgages. These liens tie up their collateral and prevent a community bank from helping the borrower in any way. In the future, SBA should be willing to subordinate their loans in the way that USDA has, for example.

Second, a disaster victim should have the option of packaging benefits offered by different agencies, such as a FEMA grant and an SBA loan, neither of which is adequate in itself for the rebuilding today. A victim must choose one or the other. It's too much to ask of disaster victims to learn the details of those competing programs and make an informed judgment of what to do.

Thank you again for raising the profile of a critical issue for Iowa and the nation. Community banks have a vested interest in the prosperity of their communities and are always ready to help in disaster recovery.

I'm happy to take any questions you may have.
[The prepared statement of Mr. Barker follows.]



Testimony of
Verlin “Gus” Barker

President and Chief Executive Officer
First Community Bank
Newell, Iowa

On behalf of the
Independent Community Bankers of America

Before the
United States Senate
Committee on Small Business & Entrepreneurship

Hearing on
“Streamlining and Coordinating Support for Rural Small Businesses”

September 18, 2024
Washington, D.C.

Opening

Chair Shaheen, Ranking Member Ernst, and members of the Committee, I am Gus Barker, President and CEO of First Community Bank, headquartered in Newell, Iowa. Thank you for convening today's hearing on "Streamlining and Coordinating Support for Rural Small Businesses." I testify today on behalf of the Independent Community Bankers of America where I am Chair of the Rural America and Agriculture Committee and a member of the Board.

First Community Bank is a \$115 million asset bank with 25 employees. We serve four rural communities in northwest Iowa: Newell, Pomeroy, Rockwell City, and Fonda. Founded in 1912, we are in the third generation of family ownership. First Community Bank specializes in agricultural lending of all types, rural small businesses, and one-to-four family homes.

Community banks such as mine have served rural America for decades and play a vital role in the economic prosperity of thousands of small communities, supporting small businesses, farms, and families. According to the FDIC, community banks are the only physical banking presence in one in three counties in rural America. Specializing in small business and agricultural lending, community banks are responsible for the majority of Main Street small business loans and 70 percent of bank agricultural loans.

In view of the recent flooding in northwest Iowa, I want to put a special focus on community banks' support for rural small businesses in the wake of natural disasters. In times of crisis, community banks demonstrate their irreplaceable value by providing critical resources, counsel, and comfort in their communities. I am grateful for the opportunity to share the community bank perspective on this important topic.

Prompt and Effective Disaster Recovery Is Critical to Future Prosperity

Iowans have repeatedly proven their strength and resilience in the wake of natural disasters. I credit our close-knit rural communities where neighbors are always ready to sacrifice for one another in times of crisis – a quality found not only in Iowa but in thousands of rural communities across America.

As a 47-year-Iowa community banker, I've lived through the Great Flood of 1993, one of the most destructive American river floods in recent memory. Again in 2008, flooding along the Mississippi river devastated Iowa communities. Like other midwestern states, Iowa has experienced tornadoes and droughts which have laid waste to our most precious economic resource, our crops and livestock. In June of this year, severe flooding in Rock Valley caused significant damage from which the local region is still recovering.

Experience has convinced me that the best solutions are local. Community banks have always been on the frontlines of disaster-recovery efforts in Iowa. I'm proud that local families, farms, and small businesses have turned to me in their time of need and that I have been able to provide resources, guidance, and friendship to help them survive, rebuild, and get back on their feet. Federal programs will never displace local community banks, which are always ready to provide vital resources at a moment's notice and without bureaucratic obstacles.

SBA Disaster Recovery Programs

SBA direct lending and other federal disaster-recovery programs have always played a critical role in the survival of numerous disaster-stricken businesses. Unfortunately, these programs are mired in bureaucratic hurdles which obstruct timely access to critically needed resources. Disaster victims are in no position to complete excessive paperwork to obtain the resources they desperately need.

In the historic flooding of 1993, I worked with a customer in eastern Iowa who was in dire need of SBA assistance. He sought my assistance in completing the agency's overwhelming paperwork, and I was happy to help because I wanted to ensure the recovery of his business. Without SBA funding, its survival was in doubt.

The paperwork burden was daunting. The owner's wife and I spent many hours writing histories and explanations to justify the loan, including five-year financial projections. Several revisions were required before the SBA was satisfied with the application. The business was finally able to get a loan that helped keep the business operating. That business not only survived but has now been passed onto the next generation and continues to operate.

The support of the local SBA office was critical to the success of the application and the survival of the business. When there is no local office with loan approval authority, the application process is much more difficult for the borrower. Unfortunately, the SBA removed approval authority from its Iowa office some years after the catastrophic flooding of 1993, leaving behind only informational resources. Today, SBA approval authority resides in its San Francisco office. I have found it difficult if not impossible to work with agency staff at this distance. A local bank has a better understanding of the market, established customer relationships, and a vested interest in the success of the community. The same is true of a government agency. A local presence is critical to its effectiveness.

Disaster Victims Often Seek Community Bank Solutions

Among the worst hit towns in the catastrophic flooding of 2008 was Waverly, Iowa on the Cedar River. The river crested at nearly 20 feet, inundating the town and requiring evacuation. I was with a local community bank in Waverly at that time. It was clear that support from SBA and FEMA would not be enough to support the recovery. Flood victims sought the help of their local community banks. They needed an immediate solution and were intimidated by the paperwork required by federal agencies. To support rebuilding, my bank joined efforts with two other local banks to promptly extend some 50 loans to impacted businesses and families.

Despite the inherent risk of lending to disaster victims, the loans were repaid with no delinquencies. I believe the strong performance of these loans reflects the common commitment of borrower and lender to the community. The crisis strengthened our relationship, which explains our low default rates.

This was not an isolated case. I have extended private loans in a number of natural disasters in Iowa. Interest rates are typically discounted and considered an investment in the community toward economic development. Of course, these are not grants but loans, and as prudent lenders, we file documents to try to secure them. However, we recognize that a loan to a disaster victim is under secured and risky until rebuilding is complete. Disaster lending of this type takes patience and understanding from the bankers and regulators to allow for recovery. This is very much a core part of our mission of community service.

Suggestions for Improved Coordination Among Agencies and Private Lenders

I want to share with you some specific problems that I have seen in coordination among the agencies and with private lenders in disaster recovery.

Excessive Liens

SBA is known to file liens far in excess of the loan amount to secure their mortgages. A peer Iowa banker recently told me that the SBA had filed liens of \$2 million on properties where the loans were only \$200,000. Because SBA liens are in primary position, they tie up their collateral and prevent a community bank from helping the borrower in any way. SBA refuses to subordinate its loans in the way that USDA, for example, does.

We recommend that SBA liens be limited to the value of the loan and that the SBA be willing to subordinate its liens when circumstances warrant.

Duplication of Benefits

In the wake of a disaster, both FEMA and SBA set up a local office and staff to help with assistance applications. Each agency has its own requirements and limits. Unfortunately, they don't coordinate a package of available benefits. FEMA provides grants of limited value. SBA provides low-interest rate loans that are nevertheless costly to borrowers in other ways. As noted above, an SBA loan ties up the borrower's collateral in excess of the loan value and limits the borrower's options in the future. A disaster victim cannot combine benefits and is forced to choose which program to use, though neither program provides adequate relief in itself. For example, I understand that FEMA funds allocated to Spencer, Iowa for relief from the recent flooding are only enough to cover reconstruction of half of the buildings.

I believe it is too much to ask of disaster victims to learn the details of the competing programs, keep them straight, and make an informed judgement. They come to their bank for help, though we often don't have any more information on government disaster programs than they do. We recommend that

benefits offered by different agencies be available as a package to ensure availability of adequate resources to disaster victims.

Support for the Farm Bill

Before I conclude this statement, I take the liberty of urging this Committee's support for advancing a meaningful Farm Bill in 2024 or, failing that, additional ad hoc assistance that addresses deteriorating conditions in farm country resulting from falling commodity prices. Given the enormous challenges facing production agriculture – including a farm economy that has taken a downward spiral – it is imperative Congress act before year end to strengthen farm policy and help prevent a disaster in rural America. Enactment of a new Farm Bill or an aid package that strengthens the safety net is urgent for the many producers that may face years of red ink, eroding their financial reserves and equity and making long-term business planning much more difficult.

Closing

Thank you again for raising the profile of a critical issue for Iowa and the nation. We need to ensure that disaster victims get the assistance they need on a timely basis and without needless bureaucratic hurdles. Community banks have a vested interest in the prosperity of their communities and are always ready to help with private loans or in coordination with SBA and other agencies. We appreciate the support of this Committee in streamlining and coordinating support for rural small businesses, farms, and families.

I'm happy to take your questions.

The CHAIRMAN. Thank you very much, Mr. Barker, and to each of you for your testimony, normally what we would do is I would ask questions, then I would turn to Ranking Member Ernst to ask questions. And we would go back and forth between both sides of the dais here for questions. But Senator Ernst is going to vote, so she's going to turn over her time to Mr. Budd, and I'm going to turn over my time to Ms. Rosen because she has to leave. So, Ms. Rosen, Senator Rosen.

Senator ROSEN. Thank you, Chairman Shaheen, Ranking Member Ernst, we really appreciate it. And thank you to the witnesses for being here today and for your care and for your really smart, creative, and thoughtful testimony, and really, ideas of how we can make a difference.

So, I want to talk—I'm just going to ask one question because I'm going to—I know we all are in votes. We've got a lot going on, so I'll take good use of my time. I want to talk about bridging. Bridging the digital divide. You know, Nevada, we have a deep rural frontier mountainous state. It's very hard to get there and it's really an issue for us.

So, in 2023, online sales in the U.S. reached over \$1.1 trillion, representing nearly a quarter of total retail sales. And one of the key drivers that supports this expanding all of this in the marketplace is the emergence of digital trade and e-commerce platforms that enable entrepreneurs to reach markets, right? Maybe employees, whatever, those are to work for you, even remotely. And a lot of these have been previously beyond your reach.

So, however, lack of reliable internet connectivity in rural areas can really hinder and hurt our rural business' ability to utilize any of these tools, any of the resources. Your programs now are approved in San Francisco. You need to be able to get online to do all of that. Makes it much more difficult.

A 2022 study found that nearly a fifth of rural entrepreneurs lacked broadband access, which is one of the reasons I've been working so hard to increase high speed internet access throughout rural Nevada, and I know everybody's working on it in their state.

So, Mr. Lewis, I'm going to take my one question and ask you, talk to me about the challenges of access to reliable internet connectivity. How it might be affecting you, or others, you know, rural small businesses, and how will it improve if we really give everybody, let's say, all the juice they need to be on the internet and do their jobs?

Mr. LUSE. Yes, great question. That is something I definitely struggled with my business, and as I grew and trying to find an office space that was big enough for us to grow into in our small city. I looked at all kinds of office spaces, and they either couldn't get fiber to them at the time or the cost was just astronomical. I looked at one office space in a newer industrial park, and it was \$28,000 to get fiber to that location—

Senator ROSEN. Oh my.

Mr. LUSE [continuing]. Which is just something small businesses can't afford. So that, I think it takes the government and the utilities, the communications companies, building out that infrastructure for small businesses to level that playing field curve.

Senator ROSEN. Broadband as a utility, just like electricity and water.

Mr. LUSE. Yeah. I mean, it's become that. Children need it for learning. Businesses need it for doing business. And I feel it should be treated as more of a utility these days because everyone should have equal access to broadband.

Senator ROSEN. Well, thank you. I appreciate that. I'm going to yield my remaining time because we have votes and lots going on. Thank you.

The CHAIRMAN. Thank you, Senator Rosen. Senator Budd.

Senator BUDD. I thank the chair. And what fortuitous seating. I could ask my neighbor right here. [Laughter.]

Senator BUDD. So, low seniority has its benefits, sometimes. Ms. Lank, and all of you, thank you for being here today. Could you elaborate, I picked up a few ideas from your testimony, and again, thank you for all of your testimony. But could you elaborate on the obstacles rural businesses face when seeking financing from community banks and share how banks like yours in Arkansas have helped these businesses navigate hurdles to access capital?

Ms. LANK. Many businesses struggle to get the capital that they need, especially with USDA lending, because they have—there's requirements, right? Are you buying a business? Are you expanding a business? Are you constructing a new building? So, there's limits on each one of those. So, that is a struggle that they have.

Also, if it's a startup business, it's really hard to get a community bank to take a risk on a startup business. It's just the facts. So, there's definitely some area for improvement on helping them get what they need to get things started. A lot of them will lack business plans, and a plan from A to B, and what they want to do. And as Mr. Luse referred to the SBDC, SBDC is very good at assisting people in creating their business plans and moving on from there.

Senator BUDD. Very good. Mr. Barker, anything that your bank has done that's unique to help these folks overcome access to capital problems?

Mr. BARKER. We're a similar position. It is tough to get capital for those new businesses, and we rely on that SBDC to help with those business plans. They rely on us on counsel and giving them advice. But it would sure be helpful if there were some programs available to help us with some of those inputs to get those loans approved and guaranteed.

Senator BUDD. Continue with you, Mr. Barker. Given that rural businesses sometimes face a lot of cash flow problems, whether that's a seasonal fluctuation particularly agriculture, how have your financial institutions created new products or services to help meet those needs, especially where there's fluctuations?

Mr. BARKER. I don't know if we've created new products, but if something isn't broke, you don't have to fix it. So, you know, I go back 47 years. I've been doing a lot of the same things during disasters or during cash flow crisis.

And it's patience. You have to stay with these folks, work out a plan, how are they going to fix what was broken, figure out what that was. Maybe they make changes to their plan. Maybe they go into digital marketing. We have a lot of boutique dress shops now that are selling more online than they are in the storefronts right

now. And so, I think things change. We have to adapt and we have to be ready to make any changes that we need to do for that.

Senator BUDD. Very good. Thank you. Ms. Lank, anything you want to add dealing with clients that have fluctuating businesses and how you would approach them? I guess you would put that in your modeling in your underwriting?

Ms. LANK. Correct. We do have some businesses that have seasonality to them, and that's just something that we look at when we're underwriting the loan. And we try to sit down and work with them the best we can. We'll help them problem solve whatever, you know, they're struggling with. If they're struggling with capital, there's a couple of third-party—third party's not the right word. There's some options that we have specifically with USDA, but—

Senator BUDD. Understood. Thank you. So, one of the things that has been a concern of mine and many of my colleagues for quite a while is overregulation. That's been a significant driver behind banking consolidation which has reduced the number of local community banks and limited options for small business owners, particularly in rural areas.

Over the past decade, the U.S. has seen more than a 30 percent decline in community banks driven by factors, including regulatory pressures and increased compliance costs. Policies like the Dodd-Frank Act, and to some extent, anticipation of Basel III have led to heightened capital reserve, risk management, reporting requirements, which disproportionately impact smaller banks. Many have been enforced to merge or close due to the inability to bear these costs.

So, the trend's particularly concerning in rural areas where community banks are often the lifeblood of the local economies, offering tailored loans for small businesses and agricultural ventures. With fewer small banks, rural entrepreneurs face greater challenges in accessing the capital they need.

So, how has consolidation driven by overregulation and other market forces? How has it affected the ability of rural businesses to secure loans, and what policies could help with this? Mr. Barker.

Mr. BARKER. That's a big issue right now. All these new regulations that are hitting us, hit the small banks harder than they do the big folks. I have 25 employees in four locations. I have to adhere to the same regulations that the big folks do in the metro areas of Iowa and on the East and West Coast.

It comes down to the core processor charging for more data and things like that. The things that are coming, the rules we're supposed to be gathering, 80-some points of information for our loans. And in a large metro area, you can identify all those points of interest, and nobody will know who that business is. In a town of 500 or 1,000 in Iowa, you list those points of that business, they're going to know exactly who it was and what was going on with that business. It's an invasion of privacy in our world. And we think it's way off base. And if there's any way to stop that, we would really appreciate it.

The other thing we're finding all across the United States, obviously, of course, there's a history of too big to fail. In the small bank, we tread lightly on everything to make sure we follow those

rules. An example of the blatant disregard is happening right now in the case of check fraud. It's rampant out there. The big banks are ignoring the rules and will not respond to the small banks in Iowa, Alabama.

If there's a return check that is supposed to be returned for processing, they just don't respond. They ignore it. And I've had my peers in Iowa have to hire an attorney to threaten legal action just to get them to respond for a simple transaction that should go through bookkeeping, but they don't care. It doesn't matter to them. But if we were to do that, we would have an exam that would be very criticized. That's just an example of what we find.

Senator BUDD. That's very helpful. Chair, do I have time to allow Ms. Lank to elaborate on that same question? Yeah, thank you. Any thoughts on overregulation and how it disproportionately impacts a bank like yours?

Ms. LANK. What you don't know is I used to be a bank examiner. [Laughter.]

Senator BUDD. Talk about it from both sides.

Ms. LANK. Yeah. It is tough, especially as Mr. Barker mentioned, especially when you've got a small bank, or you're in a really small town. It's hard to find talent and people that are educated in all of these regulations to be able to handle them all.

You know, from what I know, everyone does the best they can. You know, I used to go in some banks and you could tell that they did not have any idea what you were talking about, but most of them did. Most of them did. So, it's just, there's not a lot you can do. You've got to follow the rules so you muddle through the best you can.

Senator BUDD. Yeah. Understand. Thank you all for your time today and your testimony.

The CHAIRMAN. Mr. Barker. I bet if you called your senator, she could get somebody to respond to you. [Laughter.]

Senator ERNST. Happy to help.

The CHAIRMAN. So, in my introductory remarks, I referenced the MOU that SBA and USDA signed in 2023. It identified areas for potential collaboration. And as part of the MOU, the SBA, USDA, and FDIC, the alphabet soup of acronyms that we talk about here, host a joint regional economic development workshop series called Path to Prosperity.

These workshops connect rural small businesses with government officials, lenders, service providers, and other stakeholders. We did a small business committee hearing in New Hampshire last week, and it was on a different issue, but one of the things we did at the end of the hearing was to include a bunch of resource partners like those I just mentioned, the IRS, SBDCs, USDA a number of state agencies to be there to answer questions for small businesses who might have questions and not be sure how to navigate the federal apparatus.

So, I wonder if you could talk a little bit about how those kinds of workshops might help your business, Mr. Luse. And also Mr. Menke, you served as state director for USDA rural development about the time that that MOU was signed. Can you speak to some of your experience on the ground coordinating the SBA and other

agencies? And I'll ask you to go first, Mr. Luse, and then Mr. Menke.

Mr. LUSE. Yeah. I think those programs are great for raising awareness and even knowing the programs exist. Like the example of the New Hampshire Export Accelerator that the SBDC put together, I had no idea that the U.S. Commercial Service would set up meetings for you with foreign companies and vet them. I had no idea. There were STEP grants to help pay for trade missions or developing marketing materials and translations for going into foreign markets.

So, I think in that way, it really helps raise awareness for the programs and connect businesses to the people that they—actual humans instead of, like, scouring websites trying to find information about these programs.

The other thing I noticed in the Export Accelerator that was really great was there were, during some of the sessions, the commercial service, the SBA, the SBDC, and the State Trade Office, were all on those webinars. And there were times when they were, those agencies, asking each other more questions than the participants were about each other's programs. So, they were learning from each other and figuring out ways that they could work together, and how their programs could complement each other.

The CHAIRMAN. Yeah, no, I think that's a really important observation. One of the things that I enjoyed about the resource sphere was that they were not just answering and talking to the small business owners who were there, but they were talking to each other, which sometimes we don't do as well as we should across all federal, state, and local agencies. Mr. Menke.

Mr. MENKE. Well, in my time at Rural Development, we coordinated regularly with SBA, and it was a KPI. It was a directive for us to do so. We did a lot of rural small business road shows where we would meet with lenders and economic development representatives in communities all across rural Iowa to share information on those loan programs and services available from USDA, and SBA, and to help rural businesses start, grow, and expand.

And just to continue to discuss economic development ideas to grow small businesses and coordinating helped to cross-promote programs. We were required to refer a project to SBA at USDA. They were required to do the same thing. We were required to leverage a project together to have an SBA and USDA joint-funded project. So, those were things that we definitely did.

The SBDCs were great to work with as well. And I think we need to continue expanding that coordination and collaboration to the state level as well. The more fluent we are in how these programs work, the more we can be ready to give assistance to rural small businesses every day. And especially when disasters occur, we've got to be ready to do better.

The CHAIRMAN. I agree with that completely. Ms. Lank, can you talk about things that you think some of our federal agencies ought to be thinking about as we try and get out the word to those companies that you see who come into your bank to look at how they can get help?

Ms. LANK. We were talking about this earlier, and that's a struggle. How do you market that? How do people in rural America find

out what the offerings are? You know, we've had people that called us and we were talking to them about a USDA loan. They're like, "We've never heard of this before." They had no idea. So, obviously, when they get to us, we educate them the best we can. But as far as a small business owner, I mean, who are they going? Are they going to SBDCs? It's a challenge for sure. Though that I have a great answer for that, so.

The CHAIRMAN. And of course, those outreach budgets are some of the first things that get cut on federal agencies. Senator Ernst.

Senator ERNST. Yes. Thank you, Chairwoman. And we'll start with Mr. Menke, and thanks again for being here today. In your testimony, you've touched on how inflation has created that gap for those in insurance coverage leading to the reliance on USDA and the SBA programs, those that were impacted by those storms earlier this year.

The State of Iowa even had to create bridge funding for farmers to cover loan interest payments. You talked about how Governor Reynolds started this program. How has that program been received by Iowans, especially in our rural areas, and are there any other areas that the state has been able to fill in those gaps left behind by our federal programs?

Mr. MENKE. Well, the Iowa Department of Agriculture and Land Stewardship does not run that new program. But I can tell you in our conversations with Governor Reynolds, that the programs have been very well received, especially by the farming community. And again, that program offers up to \$50,000 to reimburse one year of scheduled interest owed on a disaster loan.

And this is important because what we've heard from farmers after the tornadoes and floods was frustration that that deferred interest option was not available for disaster loan assistance. We know that the applicants for this program are dispersed well among the 29 disaster counties in the State of Iowa. And we expect an uptick in the usage of those programs once more insurance claims are settled. So, I mean, there are so many farms that have been affected by this.

And I know you've been spent a lot of time in Shelby County. We had 74 properties that were severely damaged or destroyed just in that county, including 48 homes, 75 grain bins, 16 livestock confinements, and 170 barns. So, this type of assistance is very, very key. And that's why the having parity between those loans would be very important.

Two other programs that the state stood up were related to housing. One was to provide temporary housing for up to six months at no cost for eligible disaster survivors as they pursue long-term housing solutions. And the other was a disaster repair program to provide up to \$50,000 for the repair of disaster impacted homes that aren't covered out, they're outside the scope of insurance or FEMA individual assistance. So, the State of Iowa's definitely stepped up to fill some of those gaps.

Senator ERNST. Yeah. Thank you so much for that. And I spoke to a gentleman from the Iowa State Extension Service as well today, and they were talking extensively about how they can stand up just temporary housing in the meantime until they can mobilize

contractors to even get into those areas to build. That's such a struggle right now.

Mr. Barker, again, thanks for joining us. It's good to have you here. And in your testimony, you discussed how paperwork burdens and SBAs decision to move their loan approval authority to San Francisco, and California. And the coasts presents challenges for our rural areas. Can you discuss problems you faced when interacting with SBA loan offices that don't truly understand who they are serving?

Mr. BARKER. You know, this dates back a lot of years when they moved that office. I had great success with SBA as a young banker, and they were wonderful to work with. I knew the loan officers that SBA had locally and could deal with that. The minute that switched and went out West, any application that I sent out there was delayed. I didn't have the same person to talk to. I had conflicting requests of what I needed to do. And I guess it was basically a major communication snafu.

And from talking to my friends in Rock Valley, that's exactly what they're running up against in the disaster programs as well. I saw it in 2008 and the floods there. Total disconnect. There were multiple people giving multiple answers. They didn't match. And when we're out there, the bankers didn't know the disaster programs any better than the public. And we're trying to help, and we're just as lost as they are. And it did create much frustration that way.

Senator ERNST. Right. And I do know because we spoke to a number of constituents that had the SBA reps that came in, they had to come into the State of Iowa. They weren't local. They were providing bad and outdated information, which is absolutely unacceptable.

You also mentioned that community banks can oftentimes provide better loan terms and less confusion than SBA. How do you manage that?

Mr. BARKER. Well, they talk to us directly. We give them the same answer every time they come in. Our paperwork is standardized. We know exactly what they have to sign. The folks up in Rock Valley with the different people they're talking to get different requests for different forms from different people, and they don't match, and there's no rhyme or reason why they are. And then, they're doing duplications of it, and it is just a confusing mess. Again, the communication issue is a mess. We can talk one-on-one. We give them guidance and help them through the process.

Senator ERNST. Yeah. Thank you. Personal ownership and a sense of community, very important. And do we have time to—

The CHAIRMAN. Sure.

Senator ERNST. Yes. Ms. Lank, thank you for being here. And I am concerned that federal agencies are removing field staff and replacing them with more bureaucrats in Washington. It goes back to some of the issues we've heard today. And that of course is wrapped up into some of the telework policies that exist here in DC.

In your testimony, you mentioned as part of SBA and USDA's MOU, more can be done to coordinate field staff. Can you discuss

your experiences with the gaps in coordination and what can be done to better utilize federal field staff?

Ms. LANK. I believe that's one of the challenges that everyone has faced is having proper staff, having enough staff. Through Covid, it all just went crazy. One of the biggest differences, back to what Mr. Barker said, is if you're trying to find a person at SBA. You email 7(a) questions. You don't call.

USDA, you've got people you can pick up the phone. They have state offices that are staffed. You call them, you tell, like, every time we have a new loan in a state we haven't worked in, that's the first thing we do. We pick up the phone, we call them, we introduce ourselves. "Hey, this is our project. We would like to work with you all the things." And a lot of times they'll give us really good advice. Also, if we need to, we can go to national office, depending on the size of the loan with USDA.

So, the telework is a challenge. There's some people that are really good at it and some people that are really not, as you've probably seen yourself. So, I mean, it's just so interesting to me how different they're set up.

But finding a person and getting advice is kind of priceless.

Senator ERNST. Right. Absolutely, it is. And final question for Mr. Luse. Thanks again for making the trip to DC. And in your testimony, you discussed the challenges rural businesses face accessing broadband. That is a big topic here in this committee and many others. Can you elaborate on the challenges and how you've seemed to overcome those?

Mr. LUSE. Yeah, definitely. Great question. I shared a little bit more earlier about my story with just trying to find an office space for my business. It was a challenge, and we're in a small city. The office spaces I looked at either we couldn't get fiber to them or some of them, one was in a newer industrial park, was \$28,000 to get fiber to it. So, it's just not feasible for a small business to be expected to outlay that kind of capital, just to get good broadband.

So, it's crucial, and we really need it in rural areas to level the playing field with businesses in urban areas who have cheaper, easier access to those things.

Senator ERNST. But you were able to overcome that then? There are some programs that have connected your area?

Mr. LUSE. Yeah. So, the old church building I found that was sitting vacant for 10 years had fiber on the poles across the street. So, that was part of the reason that motivated me to undertake this somewhat insane project of taking a 150-year-old church and turning it into an office and a beer garden.

Senator ERNST. Well, good on you. Thanks so much. I appreciate that. Thank you, Madam Chair.

The CHAIRMAN. I'm sure we'd all enjoy coming to visit the beer garden. [Laughter.]

The CHAIRMAN. Senator Hickenlooper.

Senator HICKENLOOPER. Mr. Luse, I actually built a bunch of beer gardens just for the record. I had the first brew pub in Colorado, and then we did one in Omaha, in Des Moines and Green Bay, and all around. Some of them pretty small, maybe not exactly rural communities. You know, the challenges that small businesses face in rural areas are different than they are anywhere else. And

I think you've already, in your testimonies, you guys all turned and covered a lot of that.

But I wanted to cover a couple more things, a little more detail. CDFI is, obviously, a very valuable tool. Flexible. They provide technical assistance for people that are—you know, when I was a geologist, so when I first started wanting to start the root hub, I honestly didn't know what the word proforma meant, as how clueless I was. I had a masters in geology, but no background.

And in 2020, CDFIs originated almost \$6 billion in financing in rural areas. And I think it's a win-win. It allows the banks to meet their Community Reinvestment Act obligations, but it also is very powerful for those communities where these businesses can expand, where they get the investment and can expand.

So, Ms. Lank and Mr. Barker, are your banks partnering with CDFIs? Is that partnership as an effective and efficient way to meet the investment needs of small business in rural America? I mean, do you think that is worth all that effort we put into it, and what benefits from these partnerships do you see?

Ms. LANK. We currently do not partner with them, but that is something that is being discussed and worked through right now at our bank.

Mr. BARKER. Same with us. We don't locally have access to something like that right now, but on my Ag committee with the Independent Community Bankers, we have been discussing those topics to see how they could fit in with all the community banks in the nation.

Senator HICKENLOOPER. Right. Well, I think that they're—part of the reason I ask the question is you're the majority. You're not the minority in rural areas. And yet, I think they bring so much value, especially to the communities, and you guys are community banks, in essence. That rising tide, I think, affects everybody.

And I want to talk a little bit about AI and marketing. Mr. Luse, you could take this. The rural businesses are always looking for a way to innovate. They want to incorporate new technology, AI, you know, new-fangled software, whatever they can do to help in their efficiency of outreach to help in innovation of how to serve their customers better.

As small businesses consider adopting new technology and getting involved with AI and other tools, how should they decide when to partner with other businesses to address their challenges or when to build their own expertise in-house?

Mr. LUSE. That's a great question. I think it comes down to capacity of the business and whether you're able to build that expertise in the business. And as a digital marketing agency, clients come to us because they don't have the expertise in-house to build a high-quality website or go through all the complexity of Meta ads and Google ads without wasting their money.

So, I think it's a decision each business probably needs to make based on how comfortable they are developing those skills. It's pretty easy for a lot of AI to just try it, and not rely on it too much, and make sure there's a human checking it. But we use it in our daily work all the time. It's been built into a lot of the advertising platforms for a long time. But we use it to speed up some of the slower processes of research and things like that, doing some of the

legwork that you would spend a lot of time researching online. But we don't—I wouldn't say we rely on it. We just use it to kind of enhance what we're doing.

Senator HICKENLOOPER. Right. So, and I understand marketing, also putting the metrics on how successful your marketing is, always. There's so many variables. Very hard to do. You know, the entire time I was in business, I knew for a fact that I was wasting half the dollars I was spending on marketing. I just couldn't tell which half.

As the cliché goes, Ms. Lank, when you look at the variety of businesses, all sizes, that rely on technology that exposes their customers to some level of cyber risk. And in so many rural businesses, you know, they lack the expertise and the experience to ensure that they're protected against cyber threats.

When supporting rural small businesses, how can local banks, like your bank. Mr. Barker, you could answer this as well. How can they help businesses secure and protect their data, the data of their customers, their financial information?

Ms. LANK. If they don't have any expertise on staff, definitely hire a third party. But from our perspective, the best we can do is ask that question. Make sure they've thought through it, make sure they have a plan. You don't have a plan; you can't really do anything. So, that would be the only advice I could come up with.

Senator HICKENLOOPER. That's good advice.

Mr. BARKER. And then that's where we're at too. The education we have to keep informing them what we find and our side of the business and asking them the questions, what are they doing to protect themselves and give them examples of what we discover in our daily lives.

Mr. LUSE. I would just love to add that the—I don't know if this is at every state, but the New Hampshire's SBDC has a cybersecurity preparedness program for small businesses, and they do free assessments for small businesses and training.

Senator HICKENLOOPER. Interesting. Mr. Menke, you're the only one who hasn't answered that question. Do you want to chime in at all, as an opinion?

Mr. MENKE. Well, I really don't have anything additional to add, so thank you.

Senator HICKENLOOPER. That's okay. Great. I yield back to the chair.

The CHAIRMAN. Thank you, Senator Hickenlooper. So, in my opening remarks, I talked about the field hearing that we did last Friday in New Hampshire. It was focused on how we can help small businesses lower their energy costs. But one of the things that one of the witnesses said really struck me because he said—was talking about USDA's grant programs that are targeted to small business. And I think it's true of many other grant programs we have. He said, these are reimbursement-based grants. The work needs to be done upfront, and the federal cash comes in later. It's often difficult for our small businesses to front the cash. And that's a challenge.

So, I know, Mr. Luse, you received a REAP Grant, which operates exactly that way for your solar panels. So, can you talk about how you dealt with that piece of it? And then I'd like to ask each

of the rest of you, if you have, and you may have thoughts about this, too, but if you have any ideas for how we should be thinking about that problem that small businesses have?

Mr. LUSE. Yeah. So, for the solar panels, I received federal loan, federal low interest loan through our CDFIA.

The CHAIRMAN. So, it wasn't a REAP Grant?

Mr. LUSE. No. I'm applying for a REAP Grant for the geothermal, but I have to show proof of funds for the REAP Grant. And geothermal's expensive. Like this project might be \$300,000 or \$400,000, and I'm a small business. So, showing proof of those funds and then actually spending those funds is pretty difficult to do for a small business. I think the federal loan that I used for the solar panels had milestones where they reimbursed based on milestones of the project. Even that case, I had to go to my bank and get a line of credit to cover some of those gaps. And that was a smaller project than what I'm looking at with the REAP Grant.

So, I think it would be much easier for small businesses if they had some sort of milestones like that where they paid out a certain amount at the beginning of the project, and then when you met a certain point of the project and showed that you'd completed 50 percent of the project or something, you get a little bit more, and then you don't get it all until the project is complete.

I think some arrangement like that might still create cash flow challenges and capital challenges for the smallest businesses, but it would be easier to deal with. Like, I don't know if I went to my bank and said I need \$400,000 to cover this and to this newer technology that isn't utilized very much with geothermal heating, I'm not sure how they would collateralize that. I'm not sure that it would be something they'd be willing to take the risk on and go through all the trouble of underwriting a loan like that for a short period of time to bridge that gap.

The CHAIRMAN. So, potentially, it has the potential to be an issue for you as well?

Mr. LUSE. Yes.

The CHAIRMAN. Ms. Lank, then I'm going to ask if each of the other panelists would have any ideas for how we should think about addressing that.

Ms. LANK. Sure. Thank you very much. It's definitely a problem that needs to be fixed. We've had several projects that we've looked at who have struggled with this. Because the problem is—I mean, you know what the problem is, but for USDA loan, you've got the equity has to come in first. So, if you're not getting it until months after the deals closed—I mean, yes, it is free money, but you know, if you can't front that money, it doesn't help you be able to close your loan at all.

You know, there's a lot of people that use bridge lenders, but they can be very expensive. Someone has suggested an SBA loan, but that's not what SBA's designed to do. It's not for short-term financing. It's for long-term financing. So, I don't have a great suggestion, but it's definitely something that needs to be worked on. Thank you.

The CHAIRMAN. Thank you. Mr. Barker, do you have any thoughts about that?

Mr. BARKER. Well, that's been one of the frustrations in being small town Iowa. It just doesn't make sense for any project that we have. And so, the minute some of these requirements are known, it just stops the discussion right there. And we have to go a different direction and get it done another way.

The CHAIRMAN. And Mr. Menke?

Mr. MENKE. Just going back to Mr. Barker's principle of the best solutions are local. Sometimes utilizing our revolving loan funds within the state can be potentially options in these situations.

The CHAIRMAN. Well, thank you all. I agree. It's clearly a challenge that we've got to think about how to address if we're going to help our smallest businesses. Senator Kennedy.

Senator KENNEDY [Off mic.] [continuing]. Small businesses, rural and otherwise. Being against rural small businesses is like being against Golden Retrievers, I mean so. [Laughter.]

Senator KENNEDY. I thank you for being here. I have a couple of questions related to that in terms of how are small businesses, rural and otherwise, might be struggling? Secretary Menke, you're an expert in agriculture, obviously. Some people in Washington have argued, not particularly persuasively in my opinion, but this is America. They have the right, to their opinion. Some people in Washington have argued that food inflation has been caused by price gouging by our grocery stores. Do you believe that?

Mr. MENKE. That would not be my argument. No. Inflation has impacted everything. And we started talking about disasters. I mean, when we found farms who had their properties wiped off the face of the Earth by a tornado, and they had just maybe spent a couple of years, only in the last couple of years looked at their different insurance coverage, we found that the price of everything has gone up dramatically. So, I would not assign blame to the grocery stores.

Senator KENNEDY. Okay. Well, let me ask you a question. I don't know if you will know the answer or not, but when you go to your local grocery store and go buy a banquet, frozen fried chicken, TV dinner, what are the margins like for the grocery store? Are they making like a 100 percent profit or is it more like 2 or 3 percent because the competition is so great among grocery stores?

Mr. MENKE. I don't know exactly, but I'm guessing it's closer to the latter.

Senator KENNEDY. Okay. All right. I'll give you one person's opinion. This inflation that we have experienced was made in Washington. And I don't hate anybody. I look for grace wherever I can find it. But part of our job is to call it like we see it. And I think the Biden/Harris Administration has been an inflation machine. I've never seen anything like it. Worst bout of inflation we've had in 40 years.

Now, we're doing better, the inflation's down. But all that means is that the rates are not rising as quickly as they were. The prices are not rising as quickly as we were. So, we're having disinflation, but that doesn't help with the real problem. The real problem is these high prices are permanent just because they're not going up as quickly as they were. People are still paying the high prices. That's the difference between disinflation and deflation as you

know. How has this job-killing inflation impacted rural, small businesses? Well, maybe we start down here.

Mr. BARKER. Senator, it's a mess in Iowa what I'm familiar with. We don't have any workers that are working anymore. I used to have a job opening and get 50 applications for a position in a bank. I advertised for two months, and I got three applications. One did not respond when I requested an interview. The other two ladies are over 60 years old, and willing to work.

Senator KENNEDY. I'm stop you because I want to hear from—yeah, go ahead. But it's a problem with workers. We don't find the workers and the cost of living is extremely—

Senator KENNEDY. Mr. Luse? I wanted to give everybody a chance here. Thank you for that, sir.

Mr. LUSE. I think in my world remote work and shortage of labor really kind of blew up our labor costs. All of a sudden somebody working, doing web development in New Hampshire could work for a San Francisco wage from home and pay for cost of living in New Hampshire. So, that was a big adjustment for us during Covid and after. I think we've compensated with just having a great place to work that people want to work at. And it seems like some of that's leveled off, but it was pretty difficult to find people. And that's our biggest expense; is our people.

Senator KENNEDY. Okay. Ms. Lank.

Ms. LANK. From what I've talked to the people, I have talked to that have small businesses, everything costs so much. Like, every single thing you buy, you know, a ream of paper, pens, you know, it's just—it's also sometimes impossible. And a lot of people have—a lot of small businesses have closed. I've talked to a lot of people that own restaurants and the food costs are so high that they can barely make it. So, I'm not the inflation expert, but that's what I've seen.

Senator KENNEDY. Okay. Thank you all for being here. Thank you, Madam Chair, and Madam Vice-Chair.

The CHAIRMAN. Thank you, Senator Kennedy. Senator Ernst.

Senator ERNST. Yes. Thank you, Madam Chair. And again, thanks so much. I'm going to talk a little bit more about rules and regulations.

Mr. Menke, I'll turn to you. Recently, the Occupational Safety and Health Administration, OSHA, published a proposed heat rule, and OSHA estimates the proposed rule would affect millions of small businesses and employees. And so, I'm just concerned that's just one example of many, many rules that have been pushed out by this administration. And I don't know that the administration is properly considering small businesses when they are publishing these rules. They're not taking a look at the unique needs of small businesses.

So, I've heard about this particular rule. It's just one example. I've heard of many other examples coming from Iowans. In your current role, how has increased regulation and red tape affected the agriculture industry in Iowa?

Mr. MENKE. Well, we see it every day, and the Ag industry is already subject to plenty of regulation, and the list keeps getting longer. We've got EPAs rolling out its herbicides strategy and pesticide strategy under the Endangered Species Act. New regulations

that are going to be very costly, complex, and with very few compliance options.

We're also concerned that some of the tools that we have to be able to use are being taken off the table with the label registration for over-the-top Dicamba use unlikely to be completed for this 2025 growing season. So, new regulations and red tape need to be considered very thoughtfully and seriously as adding new layers of compliance and taking important tools off the table can become a direct time and cost burden for our producers.

One of Secretary Naig's biggest priorities is the future of agriculture and promoting careers in agriculture. And if farming becomes too costly, cumbersome, and limited due to government regulations, we run the risk of driving future farmers away from the field.

And make no mistake, that overregulation impacts the small farmers the most and the new and beginning farmers the most. So, and important to note that the cost of production continues to go up, and regulation and red tape is a part of that that will eventually make its way to the cost to the consumer. And we're seeing that now in California with Proposition 12 as cost of pork has skyrocketed due to that regulation.

So, we are blessed with the safest, most abundant food supply in the world. That's something we should never take for granted. And we don't want to put that at risk.

Senator ERNST. Yeah, certainly. Thank you for that. Iowa's home to over 89,000 small family farms, and I was blessed to grow up on one of those small family farms. And my fear is with the overregulation coming from the federal government. And I think we can all agree, we all want to be safe with our activities on the farm, but overregulation it is going to drive these smaller farms out of business. They're just not going to be able to comply with all of the standards that the federal government is laying down on them. Forces them to sell.

And I hear from federal government all the time about big Ag, and big Ag industry, and how awful it is, but that unfortunately is what this federal government is driving us to. So, I think we need to consider our small family farms as small businesses, and we need to consider the level of regulation that is heaped upon our small farms and our small businesses. So, thank you for that.

And let's see if we've got maybe some other questions. Oh, yes. Mr. Barker, I'm going to go back to you just for a final question, just very briefly. In your testimony, you stated your bank represents millions of assets and often has to navigate the same rules as larger banks. We've kind of touched on this, but again, keeping in that regulatory theme, how do those regulatory requirements disproportionately burden community banks in comparison to the larger banks? And how do you see that get passed on to consumers?

Mr. BARKER. Well, it affects us in our costs. We have similar costs to the larger banks, and so it affects our operating budget. And when it affects operating budget, it has to be passed on with higher interest rates on loans, lower interest rates on deposits, maybe fees on deposits that we don't normally want to do and

can't. So, it stretches us very thin, but eventually it could filter down to the customer.

Senator ERNST. Yeah. Oftentimes, again, just sticking with that theme, the regulation that's pushed out from the federal government, when we don't consider the size of the business or industry, right, it's very harmful and we lose more of our smaller banks, our smaller businesses, and our smaller farms.

And again, just want to thank you all so much. This has been really helpful for me, understanding the different dimensions from USDA and SBA. And thank you very much Madam Chair for convening this great panel today.

The CHAIRMAN. Well, thank you, Senator Ernst. And to all of our witnesses, thank you so much for joining with us and sharing your expertise and your experiences. I hope that you will stay in touch with either members of the committee or our staffs. If you have thoughts about your efforts as you're looking at, Mr. Luse growing your businesses, the rest of you as you're working with small businesses and thinking about what we might do that would be more effective and efficient.

Let me point out that the record will remain open for two weeks for additional questions and statements. And with that, the committee stands adjourned. Thank you all again.

[Whereupon, at 4:13 p.m., the hearing was adjourned.]



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September 17, 2024

The Honorable Jeanne Shaheen
United States Senate
Small Business and Entrepreneurship Committee
428A Russell Senate Office Building
Washington, DC 20510

The Honorable Joni Ernst
United States Senate
Small Business and Entrepreneurship Committee
428A Dirksen Senate Office Building
Washington, DC 20510

Dear Chairwoman Shaheen and Ranking Member Ernst:

On behalf of America's Defense and Veteran Credit Unions and our almost 40 million members, I am writing to provide our views and comments for the September 18, 2024, Senate Small Business and Entrepreneurship Committee hearing titled, [Streamlining and Coordinating Support for Rural Small Businesses](#). The most efficient and effective way to support the creation of small businesses in rural America is to lift the arbitrary cap on loans that credit unions can provide to member businesses to veterans and members of the armed services.

For credit unions, especially Defense Credit Unions, helping our nation's service members and veterans create opportunities for themselves and their families is a top priority. However, the arbitrary cap on business loans to members—currently set by Congress—restricts the assistance we can offer to veteran entrepreneurs.

That is why we have championed the passage of legislation spearheaded in a bi-partisan effort by Senator Mazie Hirono D-(HI) and Senator Dan Sullivan (R-AK) that would amend the Federal Credit Union Act to exclude extensions of credit made to veterans and military members from the definition of a member business loan.

A November 2018 report titled "[Financing Their Future: Veteran Entrepreneurs and Capital Access](#)," put out by the SBA and Federal Reserve Bank of New York, found that veteran business owners applied for more funding, submitted more loan applications per business, and yet were denied loans at a much higher rate than non-veteran business owners.

There is a real need for small-dollar business loans in the veteran space. Credit unions are interested and willing to serve their veteran members' needs yet are currently hampered by the current rules in place that cap their business loans to a small percentage of their total assets. Exempting veteran business loans from this cap would give veterans a better chance at securing the funding they need to grow and improve their businesses.

The current cap was imposed by Congress through the Credit Union Membership Access Act of 1998.

Thank you for the opportunity to bring these matters to your attention. Should you have any questions or desire additional information, please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,

Jason Stverak
Chief Advocacy Officer
DCUC

Serving Those Who Serve Our Country

September 18, 2024

The Honorable Jeanne Shaheen
Chair
Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Saheen,

As a veteran small business owner and a former 7(a) borrower myself, I write to express my strong support for the [Small Business Technological Advancement Act](#) (S.2330) and its vital clarification that digital tools qualify as allowable expenses under the Small Business Administration's 7(a) program.

In 2015, after extensive research and preparation, I first utilized the SBA's 7(a) loan program to support my small business, [Ravenox](#). Prior to taking out the loan, I consulted with financial advisors, read into complex SBA guidelines, and spent countless hours talking to fellow entrepreneurs to guarantee that I understood exactly how I could utilize my 7(a) loan. I knew the importance of ensuring that I followed all of the government and lender rules while also maximizing the benefits this loan could bring my business.

Despite my efforts, I still struggled to interpret the range of permissible uses for 7(a) funds, particularly regarding less traditional business tools, such as e-commerce or digital marketing or finance tools. At the time, e-commerce was a newer, but key market for my business. It was also considered to be a riskier business practice than traditional brick and mortar sales models. I knew lenders considered these practices to be "higher-risk," but was left with little to no clarification as to what that meant for my 7(a) loan. Could I use my loan to support inventory management or digital tool investments? What about inventory location space (such as an Amazon Fulfillment Center)? While these products undeniably fell under the "working capital" definition I continued to find from the SBA, the use of these intangible assets as a potential form of collateral presented a unique challenge that the traditional framework of the SBA loan had not considered.

Luckily, after several conversations, I was ultimately provided with guidance from my lender that my 7(a) loan could be used to support these tools. However, it is vital for SBA to take proactive steps to clarify these ambiguities. Small business owners and entrepreneurs, like myself, are often running every aspect of our business ourselves. We simply do not have the time

or resources to solve for this type of uncertainty, but the *Small Business Technological Advancement Act* does just that.

This simple piece of legislation makes it clear to small business owners and entrepreneurs that digital tools, like those I have used for almost a decade, are allowable uses of 7(a) loan funds. Considering that the use of digital tools has been shown to [correlate](#) with increased revenue and employment by small firms, I cannot imagine a reason to not make this simple clarification. As the committee continues to examine support for all small businesses - rural and urban - I encourage you to look at common-sense measures, like S.2330, that will provide clarity to business owners on much needed capital.

I greatly appreciate your leadership on this issue and your continued support for small businesses throughout the United States.

Sincerely,

Sean Brownlee
CEO
Ravenox



MICHELLE LUJAN GRISHAM
GOVERNOR OF NEW MEXICO
CHAIR

SPENCER COX
GOVERNOR OF UTAH
VICE CHAIR

JACK WALDORF
EXECUTIVE DIRECTOR

September 17, 2024

The Honorable Jeanne Shaheen
Chair
Committee on Small Business and
Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, DC 20510

The Honorable Joni Ernst
Ranking Member
Committee on Small Business and
Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, DC 20510

Dear Chair Shaheen and Ranking Member Ernst:

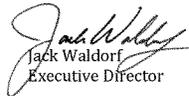
In light of the Committee's September 18, 2024, hearing, Streamlining and Coordinating Support for Rural Small Businesses, attached please find Western Governors' Association (WGA) Policy Resolution 2023-06, Rural Development.

In the resolution, Western Governors outline recommendations for fostering small business and entrepreneurship in rural areas. The Governors support efforts at the federal level to coordinate the deployment of resources, leverage funding, and create streamlined one-stop application processes for rural businesses.

I request that you include this document in the permanent record of the hearing, as it articulates Western Governors' collective and bipartisan policy on this important issue.

Thank you for your consideration of this request. Please contact me if you have any questions or require further information.

Sincerely,



Jack Waldorf
Executive Director

Attachment



Policy Resolution 2023-06 Rural Development

A. BACKGROUND

Vibrant and prosperous rural communities are essential components of western states and the nation. Rural communities in the West grow and supply food, steward natural resources, contribute disproportionately to the armed services, and are critical to state economies. These communities are often richly diverse and face varying threats and opportunities, although they do share some common challenges – including low population density, distance from urban centers, and capacity constraints – that are more pronounced than in other regions and are frequently not reflected in the design of federal programs.

The COVID-19 pandemic and the rise of virtual systems such as telework, distance learning, and telehealth have transformed migration trends and the ways in which people live, work, and learn. However, these common challenges continue to hinder the delivery of services, connectivity, and economic development across the rural West. The planning and management processes required to implement solutions and to access and deploy federal funding to address such challenges are increasingly complex, compounding disinvestment over time and increasing geographic inequities.

B. GOVERNORS' POLICY STATEMENT

1. Western Governors believe that strengthening social infrastructure in rural communities is the best strategy to ensure rural quality of life and prosperity. Congress and federal agencies should increase the proportion of rural economic development and infrastructure funding that goes toward capacity-building, particularly for U.S. Department of Agriculture (USDA) Rural Development programs, and Congress should allow agencies to negotiate the percentage of financial versus technical assistance within appropriations. Western Governors call for ample and consistent federal funding and consistent regulatory requirements across agencies for institutions, training, and technical assistance so that state and local governments, nonprofit organizations, and associations can assist communities in applying for and managing funding. Robust social infrastructure is fundamental to economic and community development and maximizes the impact of state and federal resources.
2. Criteria used to define rural and underserved communities vary at the federal level. Western Governors encourage federal agencies to be consistent in these definitions, and to consider the unique characteristics of the West and use the best data available to make program eligibility determinations.
3. Western Governors believe that many federal programs for rural development and distressed communities include unintended barriers for rural individuals and entities that need assistance most. Western Governors urge federal agencies to work with states to: thoroughly evaluate program requirements; identify barriers for rural applicants; and revise onerous requirements in a manner that recognizes the limited resources and capacity of rural applicants. In particular, Western Governors are concerned by:

- a. Scoring criteria that relate to numerical size and impact, such as the number of jobs created or the number of people served, which disadvantage small and isolated communities;
 - b. Requirements that applicants partner with other institutions like community colleges or foundations, which may not operate in the rural community seeking assistance;
 - c. Financial match or cash-on-hand requirements that rural organizations cannot meet;
 - d. Overly complicated or technical applications that deter rural customers from applying;
 - e. The use of median household income to determine program eligibility, particularly in coal, hard-rock mining, oil and gas, and power plant communities; and
 - f. Low administrative allowances that hinder communities from hiring qualified staff to cover the amount of territory and comply with federal regulatory requirements.
4. Western Governors also urge federal agencies to use state data for eligibility determinations when requested by states. States often have more up-to-date and granular data for rural communities than federal sources.
 5. Western Governors recognize and support efforts at the federal and state level to coordinate the deployment of resources, leverage funding, and create one-stop application processes for rural customers. Western Governors are interested in exploring strategies to expand those models to include more funders and further enhance coordination between agencies and between states and the federal government.
 6. Western Governors believe that changes in our economy, labor force, and technological innovations require fundamental changes and new approaches to economic development strategies. Western Governors promote and are dedicated to sharing rural development policies that focus on quality of life, the support of small businesses and entrepreneurs, and economic diversification, spurred by federal incentives for innovation. This will develop rural communities that are attractive places to live and work while protecting their rural character, natural resource-based industries, and natural areas.
 7. Western Governors are eager to work with public universities, community colleges, and the business community to expand opportunities for young people to stay in their rural communities. There is a high demand for skilled workers in rural communities and states and territories should work together on regional solutions that provide the appropriate training and skills for the jobs that are available in rural communities where possible. Western Governors are also committed to increasing employment among veterans, people with disabilities, and historically disadvantaged communities in the rural West.
 8. To address lower labor force participation in rural areas, Western Governors recommend that the federal government: invest in education and training programs that are tailored to the needs of rural communities; provide resources and support for entrepreneurs, such as

access to capital and business incubators to encourage more people to start their own businesses and create jobs in rural areas; invest in broadband infrastructure and expand access to internet services for new job opportunities and the ability to work remotely; and offer tax incentives, grants, or other financial incentives to support businesses locating in rural areas.

9. Western Governors encourage Congress to help create the conditions necessary to attract manufacturing enterprises and jobs to rural areas.
10. Rural communities in the West are envisioning transformative and systems-wide solutions to meet the unique needs of their communities. Western Governors urge Congress and federal agencies to be responsive to these successful, community-based methods and allow maximum flexibility in the use of federal economic development resources and the design of new and existing programs. Increased flexibility will also facilitate investments in quality of life and amenities in rural communities. Governors believe that metrics based solely on the absolute number of jobs created do not reflect the important economic benefits of investments in community assets that make rural communities attractive places to live, nor do they account for the relative impact of job creation in less populated rural communities or areas with high unemployment or poverty rates.
11. Western Governors support the adoption of community cooperative business models to preserve rural businesses and fill needs for child care, home care, main street businesses, housing, sustainable food supply, and other community needs. Western Governors recognize the need for substantial technical assistance and education in developing new cooperative businesses and support federal funding of such efforts.
12. The Economic Development Administration (EDA) provides adequate resources for community and economic development planning, yet funding for project implementation is limited to specific geographic areas or types of infrastructure. Western Governors request that Congress and EDA broaden the eligible use of EDA funds to support the execution of community and economic development plans, create actionable improvements, and scale ideas across communities. Western Governors are especially interested in making agricultural innovation and housing eligible for EDA programs.
13. Western Governors have developed robust policies addressing a host of sector-specific issues and the challenges of providing services and maintaining infrastructure essential to communities across the vast expanse of the rural West. These policies focus on broadband connectivity, health care, affordable housing, transportation, workforce development, agriculture, water quality, and the relationship between communities and land management. Western Governors are committed to working with Congress and federal agencies to advance these priorities and improve the efficacy of federal, state and territorial programs to support critical infrastructure in the rural West.
14. Western Governors are concerned by food security challenges in rural communities. Rural grocery store closures jeopardize livability and community health. However, we are encouraged by the efforts occurring within our states. Western Governors are interested in exploring creative and comprehensive strategies to ensure rural food security and sustainability by strengthening and diversifying local agricultural economies and developing regional approaches to rural food supply chains.

15. The Cooperative Extension System, which serves every county in western states, is an important asset for rural development. Western Governors believe that Cooperative Extension can play a more meaningful role in economic development efforts in distressed communities and support continued investment in the system, especially for upskilling, training, and funding for new positions as it responds to the changing needs of rural communities. Western Governors are committed to maximizing the efficacy of Cooperative Extension in their states.
16. Western Governors assert that access to high-quality, culturally and linguistically relevant early education and child care is critical to rural communities and encourage Congress to allocate funding for these services. Access to child care is essential to ensure positive short and long-term health, development, and educational outcomes for young children and to allow families in rural communities to pursue the economic and educational opportunities that help them achieve a more secure future.
17. An absence of congressional action has resulted in a lack of consistency in the design and implementation of the Community Development Block Grant (CDBG) Program. Western Governors encourage Congress to reauthorize CDBG and standardize the program's environmental and administrative processes.

C. GOVERNORS' MANAGEMENT DIRECTIVE

1. The Governors direct WGA staff to work with Congressional committees of jurisdiction, the Executive Branch, and other entities, where appropriate, to achieve the objectives of this resolution.
2. Furthermore, the Governors direct WGA staff to consult with the Staff Advisory Council regarding its efforts to realize the objectives of this resolution and to keep the Governors apprised of its progress in this regard.

This resolution will expire in June 2026. Western Governors enact new policy resolutions and amend existing resolutions on a semiannual basis. Please consult <http://www.westgov.org/resolutions> for the most current copy of a resolution and a list of all current WGA policy resolutions.



Kim Reynolds
GOVERNOR

OFFICE OF THE GOVERNOR

Adam Gregg
LT. GOVERNOR

July 23, 2024

The Honorable Tom Vilsack
Secretary of Agriculture
United States Department of Agriculture
1400 Independence Ave., S.W.
Washington, D.C. 20250

Dear Secretary Vilsack,

Given the evolving challenges faced by farmers and ranchers in Iowa and across the nation, it is crucial that they have access to every available tool to help them rebuild after natural disasters. This year alone, Iowans have endured two tornado events and, most recently, devastating floods, resulting in multiple presidential disaster declarations.¹ In these critical times, state and federal partners must collaborate and utilize all resources to support communities in their disaster recovery efforts.

Therefore, we urge the United States Department of Agriculture (USDA) to utilize their existing statutory authorities to adjust their disaster programs to provide farmers, ranchers, and producers with the flexibility they need after a natural disaster to recover and rebuild.

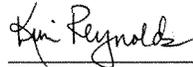
The Small Business Administration's (SBA) disaster assistance programs offer vital, flexible support in difficult times to small businesses. We understand that these programs are limited to non-agricultural small businesses, with USDA providing access to complementary programs, such as the Emergency Loan Program, that are intended and specifically designed to assist agricultural producers like farmers and ranchers. While USDA and SBA coordinate to ensure these programs effectively reach rural small businesses, we continue to hear from disaster victims that the terms available to borrowers within the USDA programs are less favorable compared to those at SBA, which offer a greater amount of flexibility with interest, balance, and payment terms. Similar to our request today, the SBA provided much of this flexibility in 2022 and 2023 by utilizing administrative authorities.^{2,3}

As Iowans begin to recover from the many disasters that have impacted them, the historical and continued lack of fairness in what rural communities are offered by USDA is having a meaningful and substantial impact. Consideration should be given to these communities, which are integral to feeding America and the world, by granting them the same or similar terms through USDA as those that are

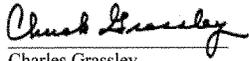
provided to less rural areas through SBA. USDA can do this through its existing statutory authorities, which provide it with the ability to make "all loans repayable at such times as the Secretary may determine,"¹⁴ and broad authority to set interest rates at a level "prescribed by the Secretary, but not in excess of 8 percent per annum."¹⁵ We encourage you to utilize these existing authorities to defer payment on disaster loans for a full year¹⁶ and reduce interest rates to zero during that deferment. This would provide much-needed parity to farmers as they rebuild their agricultural operations.

Again, we urge you to prioritize program flexibility and the allocation of resources toward expanding and enhancing disaster assistance programs to meet the needs of Iowa farmers and ranchers. These programs are crucial in providing essential support to communities working to recover and rebuild after disasters.

Sincerely,



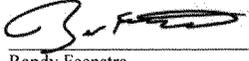
Kim Reynolds
Governor of Iowa



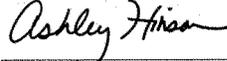
Charles Grassley
United States Senator



Joni K. Ernst
United States Senator



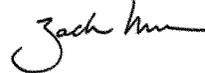
Randy Feenstra
Member of Congress



Ashley Hinson
Member of Congress



Mariannette Miller-Meeks, M.D.
Member of Congress



Zach Nunn
Member of Congress

¹ Iowa; Major Disaster and Related Determinations, 89 Fed. Reg. 50620, (June 14, 2024), *available at* <https://www.govinfo.gov/content/pkg/FR-2024-06-14/pdf/2024-13080.pdf>; *see* SBA, Presidential Declaration of a Major Disaster for the State of Iowa, 89 Fed. Reg. 47192, (May 31, 2024), *available at* <https://www.govinfo.gov/content/pkg/FR-2024-05-31/pdf/2024-11948.pdf>; *see* FEMA, Iowa Severe Storms, Flooding, Straight-line Winds, and Tornadoes, DR-4796-IA, *available at* <https://www.fema.gov/disaster/4796>; *see* SBA, Presidential Declaration Amendment of a Major Disaster for the State of Iowa, 89 Fed. Reg. 54121, (June 28, 2024), *available at* <https://www.govinfo.gov/content/pkg/FR-2024-06-28/pdf/2024-14235.pdf>.

² Disaster Assistance Loan Program Changes to Maximum Loan Amounts and Miscellaneous Updates, 88 Fed. Reg. 39335, (June 6, 2023), *available at*

<https://www.federalregister.gov/documents/2023/06/16/2023-12779/disaster-assistance-loan-program-changes-to-maximum-loan-amounts-and-miscellaneous-updates>.

³ Disaster Assistance Loan Program Changes to Maximum Loan Amounts and Miscellaneous Updates, 88 Fed. Reg. 39335, (June 6, 2023), *available at* <https://www.federalregister.gov/documents/2023/06/16/2023-12779/disaster-assistance-loan-program-changes-to-maximum-loan-amounts-and-miscellaneous-updates>.

⁴ 7 U.S.C. 1964(d)

⁵ 7 U.S.C. 1964(b)(1)

⁶ Press Release, SBA, *U.S. Small Business Administration to Offer Disaster Loans with No Interest and No Payments for First Year*, (Dec. 7, 2022), *available at* <https://www.sba.gov/article/2022/dec/05/us-small-business-administration-offer-disaster-loans-no-interest-no-payments-first-year>.