

**HEARING FROM LENDERS:
MANAGING RISK FOR THE LONG-TERM
IN THE 7(a) LOAN PROGRAM**

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

—————
FEBRUARY 26, 2025
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U.S. GOVERNMENT PUBLISHING OFFICE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
ONE HUNDRED NINETEENTH CONGRESS

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CONTENTS

WITNESSES

	Page
Mr. Timothy Fitzgibbon, Senior Vice President, First National Bank, West Des Moines, IA	15
Prepared statement	17
Mr. Raymond Lanza-Weil, President, Common Capital, Springfield, MA	19
Prepared statement	21
Ms. Itzel Sims, SBA Director and Senior Vice President, First Security Bank, Little Rock, AR	26
Prepared statement	28
Ms. Mayrena Guerrero, Founder and CEO, Colorful Resilience, West Spring- field, MA	36
Prepared statement	39

COMMITTEE INSERTS

Ernst, Senator Joni & Williams, Roger, U.S. Representative Letter dated April 24, 2024	2
Ernst, Senator Joni Letter dated January 21, 2025	6

ADDITIONAL STATEMENTS FOR THE RECORD

America's Credit Unions Letter dated February 26, 2025	56
Ernst, Senator Joni Statement	59
National Association of Government Guaranteed Lenders Letter dated February 26, 2025	60

**HEARING FROM LENDERS:
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WEDNESDAY, FEBRUARY 26, 2025

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

The committee met, pursuant to notice, at 2:30 p.m., in Room 428A, Russell Senate Office Building, Hon. Joni Ernst, chairwoman of the committee, presiding.

Present: Senators Ernst [presiding], Hawley, Justice, Husted, Markey, Shaheen, Booker, Hirono, Rosen, and Hickenlooper.

OPENING STATEMENT OF SENATOR ERNST

The CHAIR. I call the Committee on Small Business and Entrepreneurship to order. Nearly two years ago, we met to discuss the reckless new rules the Small Business administration implemented for the 7(a) loan program. They removed time-tested underwriting standards that mitigated the risk of default for American taxpayers who guarantee these loans.

These new rules also opened the door to foreseeable fraud by enabling a potentially unlimited number of unregulated, non-depository institutions to become permanently licensed SBA lenders, as small business lending companies, or SBLCs. The last administration's 7(a) rules were the most drastic changes to the program in decades, which is why members on a bipartisan basis voiced their concerns. Unfortunately, those concerns fell on deaf ears.

I aggressively sought to understand how the SBA was selecting and approving these new SBLCs to participate in 7(a). The types of lenders the SBA was looking to license, fintechs, were responsible for facilitating widespread financial fraud and improper payments in the Paycheck Protection Program. I ask unanimous consent to enter into the record an April 24th, 2024, letter that I sent with House Small Business Committee Chairman Williams, to the SBA requesting information on the SBLC selection process.

Without objection, so ordered.

[The information referred to follows:]

Congress of the United States
Washington, DC 20515

April 24, 2024

The Honorable Isabella Casillas Guzman
Administrator
U.S. Small Business Administration
409 3rd Street S.W.
Washington, D.C. 20416

We write regarding the Small Business Administration's (SBA) award of a Small Business Lending Company (SBLC) license to Funding Circle.

Last year, the SBA announced it would be lifting a 40-year moratorium on licensing new SBLCs to participate in the 7(a) loan program, stating its intent to immediately license three new SBLC lenders. Members in both the House and Senate expressed concerns over this expansion, citing doubts about the SBA's capacity to serve as the primary regulator for additional SBLCs. Now, only a few months after the licenses were announced, reports indicate that Funding Circle, one of the non-depository financial institutions selected to receive an SBLC license, has been granted final approval of the license.¹ The license has been granted despite public statements by its CEO that it does not plan to invest the intensive capital required to participate in the 7(a) loan program, and instead announced its U.S.-based operations would be sold to mitigate losses.² These statements from Funding Circle point to a fundamental failure in the SBA's vetting of applicants for the SBLC licenses, and further reinforce the bipartisan concerns raised by members last year about the SBA's lack of oversight capacity.

As you know, an SBLC license provides a lender with the ability to obtain government guarantees when underwriting small business loans. This allows lenders to underwrite a higher volume of loans to small businesses than would otherwise be possible due to risk. Since either American taxpayers or borrower fees foot the bill for any loan losses, an SBLC award process requires careful vetting and exhaustive scrutiny.

When you testified to the House Committee on Small Business on March 23, 2023, you said, "*I know that the SBA has a rigorous application process for the SBLC program...*" According to SBA's own regulations, an SBA Supervised Lender applicant must submit a written plan containing information about the organization as well as its current and proposed lending activities.³ Capital adequacy is required to be demonstrated in this plan. However, in its most recent earning calls, the CEO of Funding Circle stated that 7(a) lending "... would require a significant amount of capital. I mean you saw the losses in the U.S. this last year were \$33 million. Going forward, we would have to [further fund and capitalize Funding Circle US]... and we don't believe it's the best use of our capital to invest in those loans in the U.S."⁴ It is

¹ John Reosti, *SBA forges ahead with Funding Circle license despite pushback*, AMERICAN BANKER (April 4, 2024), <https://www.americanbanker.com/news/sba-forges-ahead-with-funding-circle-license-despite-pushback>

² *Id.*

³ 13 CFR § 120.470 (2024).

⁴ Funding Circle Full Year Results, Audio Webcast Transcript (Mar. 7, 2024), https://fch-12917-s3.s3.eu-west-2.amazonaws.com/live/4717/0982/2261/Funding_Circle_-_Transcript_20240307.pdf

irresponsible for the SBA to have issued a new SBLC license to Funding Circle at a time when their own CEO was announcing its departure from the U.S. market as a result of its net operating losses, and publicly questioned the financial viability of its U.S. business.

Notably, the questions about Funding Circle's financial viability were apparent during the SBLC license application period, when Funding Circle's half-year performance report showed a \$16.6 million net operating loss on June 30, 2023.⁵ Clearly, these issues are not new. The business has been compounding losses for years - reporting a pre-tax loss of \$33.2 million in 2023 and \$12.9 million in 2022.⁶ It is deeply concerning that the SBA is doubling down on awarding an SBLC license to a company that has been, and continues to be, in such a weak financial position. If the company has been unable to properly manage its balance sheet in the past, it should not have been granted the privilege to make government-guaranteed loans.

It is unconscionable that the SBA issued an SBLC license to a non-depository financial institution looking to grow its way into profitability on the back of the American taxpayer, especially to a company that held a central role in lobbying to lift the SBLC moratorium. The news that Funding Circle is now considering offers to sell its U.S.-based operations only raises further questions about how forthcoming it was in its application to the SBA. Granting Funding Circle an SBLC license now would set a troubling precedent on setting a monetary value for this government-backed license and its potential use in enticing buyers.

To that end, we request that the SBA provide a briefing to the Committees of jurisdiction in both the House and Senate, and for the SBA to immediately revoke Funding Circle's SBLC license. We also ask that you provide the Committees of jurisdiction in both the House and Senate the following:

1. Funding Circle's complete written application to become an SBLC licensee, including all attachments.
2. How many instances an entity had been approved for an SBLC license that demonstrated a net operating loss in its financial statements at the time of application.
3. Any documentation supplied by Funding Circle as part of its application regarding its plans to sell the SBLC license.
4. Any communications between Funding Circle and the SBA after the company's CEO stated on a March 23rd earnings call that they will not provide sufficient capital to get the U.S. operations fully functioning within the 7(a) program.
5. The date upon which Funding Circle's application was given the initial award for the SBLC license and the date at which point the complete application was submitted to SBA, including a copy of the signed SBA Form 750.
6. The ranking and names of all other SBLC applicants that did not receive an SBLC license in the most recent application process.

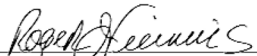
⁵ News Release, Funding Circle, Half Year 2023 Results (Sep. 7, 2023).

⁶ Kathryn Gaw, *Funding Circle to offload US business after losses widen*, ALTERNATIVE CREDIT INVESTOR (Mar. 7, 2024).

7. The voting records of all votes taken in the most recent application process by the five SBA personnel identified in SBA's Rule titled, "Small Business Lending Company Application Process" (88 FR 32623) who make final determinations on SBLC applications.

Until our concerns are alleviated and we are confident that the SBLC license will not put the integrity of SBA's flagship lending program at risk, the Administration should not allow Funding Circle to enter the 7(a) program.

Sincerely,



Roger Williams
Chairman
House Committee on Small Business



Joni K. Ernst
Ranking Member
Senate Committee on Small Business
And Entrepreneurship

The CHAIR. Two years later, we still have little insight. Even the recent SBA Inspector General's report on the subject was woefully inadequate. The IG report stated the SBA followed its own procedures, but they failed to evaluate whether those procedures were adequate. The IG didn't bother to investigate whether there was collusion between SBA officials and one of the largest applicants for a lending license, Funding Circle U.S., nor did the report answer why the SBA and the IG concluded the cash position of Funding Circle U.S. was sufficient despite the fact that it was losing millions.

The Biden SBA's dangerous loosening of the underwriting and eligibility rules weren't the only efforts to undermine the financial soundness of the 7(a) loan program.

A year before the rule, the agency started to cut the fees charged to borrowers and lenders—fees meant to protect the taxpayer from having to subsidize bad loans. For three years straight, the SBA cut these fees, inexplicably allowing loans of up to \$1 million to be made without the borrower or lender having to pay for the guarantees the American taxpayer provided.

As I said in a letter to President Trump on January 21st, the looming 7(a) fee increases are entirely due to the previous administration's incompetent management of the program, which has harmed taxpayers and the small businesses saddled with debt they can't manage, while irresponsible lenders get paid no matter what. I ask unanimous consent to enter this letter into the record.

Without objection, so ordered.

[The information referred to follows:]

JONI ERNST, IOWA, CHAIR
 EDWARD J. MARKEY, MASSACHUSETTS, RANKING MEMBER

JAMES E. RISCH, IDAHO	MARIA CANTWELL, WASHINGTON
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MARSHA BLACKBURN, TENNESSEE	

United States Senate
 COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
 WASHINGTON, DC 20510-6350
 TELEPHONE: (202) 224-5175

January 21, 2025

The President
 The White House
 1600 Pennsylvania Avenue, NW
 Washington, D.C. 20500

Dear Mr. President,

The prior Administration put small businesses last and caused small business confidence to hit its lowest point in more than 11 years.¹ Since your election, this confidence has soared to a six-year high as our nation's job creators look forward to once again having a partner in the Oval Office.² As Chair of the U.S. Senate Committee on Small Business and Entrepreneurship, it is my responsibility to ensure that small businesses both in the great state of Iowa and across America thrive and to oversee the programs and services offered by the U.S. Small Business Administration (SBA).³ Unfortunately, you are inheriting an agency with mounting taxpayer losses and gross political mismanagement. The Biden Administration treated the SBA like a blank check and removed critical safeguards used to ensure taxpayer investments are protected. Their unsustainable changes to all SBA programs left disaster funding empty in the fall of 2024 and many of the programs are showing critical indicators that they will need funding to offset losses.

For several years in a row, the Government Accountability Office (GAO) was unable to issue a financial audit of the SBA because the agency could not provide enough support for their loans receivable and loan guarantees.⁴ The SBA is on a path of insolvency with numerous unnecessary and duplicative programs. I am ready and willing to work with you and your SBA Administrator-nominee Kelly Loeffler to right-size the SBA and restore prudent decision making at the agency. However, as we start on this path, I must alert you to the following landmines that await you, caused entirely by the careless acts of the Biden Administration.

SBA Mismanagement of Lending Programs is Leading to Rapid Deterioration and Depleted Funds

The 7(a) loan program utilizes private sector banks to make loans to small businesses with the guarantee that, if those loans default, the SBA will purchase a portion of the defaulted loan from the bank. Over the last year, the 7(a) program has seen a dramatic increase in negative statuses for its loans.⁵ Defaults,

¹ Jeff Cox, *Small business optimism hits 11-year low as inflation fears won't go away*, CNBC, (Apr. 9, 2024), available at <https://www.cnbc.com/2024/04/09/small-business-optimism-hits-11-year-low-as-inflation-fears-wont-go-away.html>.

² Press Release, NFIB, *New NFIB Survey: Small Business Optimism Surges Again, Reaches Six-year High* (Jan. 14, 2025), available at <https://www.nfib.com/news-article/new-nfib-survey-small-business-optimism-surges-again-reaches-six-year-high-6/>.

³ Senate Rule XXV 1(l).

⁴ GAO, GAO-25-107421, FINANCIAL AUDIT: FY 2024 AND FY 2023 CONSOLIDATED FINANCIAL STATEMENTS OF THE U.S. GOVERNMENT (Jan. 16, 2025), available at <https://www.gao.gov/products/gao-25-107421>.

⁵ SBA, FY24 ANNUAL 7(A) RISK ANALYSIS REPORT 16, (Dec. 2, 2024), (on file with Comm.).

early defaults (loans that default in the first 36 months of their term), and delinquencies are all at the worst they have been since March 2020, when shutdowns were in effect but pandemic relief had not yet been passed by Congress.⁶ While SBA has claimed that interest rates were the primary driver of this deterioration, the rate at which these negative outcomes are increasing in frequency is also outpacing equivalent measures in the private sector, indicating that this is likely driven in large part by SBA policy, rather than market-wide factors. Chief among the culprits are the Biden Administration's rulemakings in 2023 that relaxed underwriting criteria for 7(a) and 504 loans and expanded the participation of non-bank lenders that lack a state or federal-level prudential regulator.⁷ SBA needs an audit of its early defaults in the 7(a) program to determine if there are specific, reckless lenders jeopardizing the safety and soundness of the program. SBA's senior leadership, beginning with Administrator Guzman and extending throughout the ranks, exerted improper and undue political influence in selecting new lenders, which resulted in irresponsible administrative actions that must be reviewed.

Further, purchases of 7(a) loans from private lenders by SBA are also at the highest level since the pandemic, with \$1.6 billion in purchases in fiscal year (FY) 24. These elevated purchase levels have caused the 7(a) program's net cash flow (fee revenue minus purchase costs) to be negative for the first time in 13 years, driven by the dramatically lower fee revenue from borrowers, who do not pay any fees on loans of \$1 million or less, and reduced fees levied on lenders for guarantees.⁸ Statutorily, the program is required to operate at zero cost to the taxpayer where losses are offset by these fees. The Biden Administration cut fees for borrowers every year from FY22 to FY24 and completely eliminated the guarantee fee charged to lenders for loans under \$1 million, while reducing the fee for loans above \$1,000,000.⁹ The new SBA team must review the program's cash flow to make sure the program is still on track to remain at zero cost to the taxpayer.

SBA Must Prioritize COVID Program Servicing and Potential for Increased Defaults

Despite mandates to recover fraud, the SBA continues to charge off billions of dollars' worth of COVID Economic Injury Disaster Loans (EIDL), with \$18.6 billion in COVID EIDLs charged off in FY24 alone and over \$70 billion charged off cumulatively.¹⁰ The agency has claimed they do not have the capacity to continue servicing the COVID EIDL portfolio, which is why in 2023 they attempted to forgo

⁶ *Id.*

⁷ Affiliation and Lending Criteria for the SBA Business Loan Programs, 88 Fed. Reg. 21074, (Apr. 10, 2023) (to be codified at 13 C.F.R. pt 120 and 121), available at <https://www.federalregister.gov/documents/2023/04/10/2023-07173/affiliation-and-lending-criteria-for-the-sba-business-loan-programs>; Small Business Lending Company (SBLC) Moratorium Recission and Removal of the Requirement for a Loan Authorization, 88 Fed. Reg. 21890, (Apr. 12, 2023) (to be codified at 13 C.F.R. pt. 120), available at <https://www.federalregister.gov/documents/2023/04/12/2023-07181/small-business-lending-company-sblc-moratorium-recission-and-removal-of-the-requirement-for-a-loan>.

⁸ SBA, SBA INFORMATION NOTICE 5000-858936, 7(A) FEES EFFECTIVE OCTOBER 1, 2024, (July 23, 2024), available at <https://www.sba.gov/sites/default/files/2024-07/Information%20Notice%205000-858936%207a%20Fees%20for%20FY%202025%20%28FINAL%29.pdf>.

⁹ SBA, SBA INFORMATION NOTICE 5000-20048, 7(A) FEES EFFECTIVE OCTOBER 1, 2020, (Sept. 22, 2020), available at https://www.sba.gov/sites/default/files/2020-09/SBA%20Information%20Notice%205000-20048_7%28a%29%20Fees%20Effective%20October%201%2C%202020-508.pdf; SBA, SBA INFORMATION NOTICE 5000-848801, 7(A) FEES EFFECTIVE OCTOBER 1, 2023, (Aug. 29, 2023), available at <https://www.sba.gov/sites/default/files/2023-08/7%28a%29%20Fees%20Notice%20FY%2024%205000-848801.pdf>.

¹⁰ SBA, *Small Business Administration loan program performance*, (Nov. 19, 2024), available at <https://www.sba.gov/document/report-small-business-administration-loan-program-performance> (see SBA loan performance reports, specifically table 5); please note loans are "charged off" if SBA determines no additional principal and interest from the borrower will be recovered by the agency.

collections on all Paycheck Protection Program (PPP) and COVID EIDLs under \$100,000, over \$72 billion in loans, before reversing course later that year due to pressure from this Committee. Likely due to political considerations, the agency has also evaded its duty to refer these loans to collections, instead letting small business owners repeatedly enter the Hardship Accommodation Program (HAP), a “relief” program that allowed the Biden-Harris Administration to say the COVID EIDLs were current and avoid the need to refer the borrowers to collections even as borrowers drown in accruing interest.¹¹ Due to the timing and term length of small business participation in the HAP, your Administration will inherit the challenge of what SBA must do with these loans, with defaults likely to increase as small business owners come out of the HAP and begin making their full payments. This is yet another example of gross negligence by SBA’s political leadership creating burdens that will likely be blamed on your Administration.

Gross Policy Mismanagement Led to Disaster Program Shortfall

As you start your Presidency, the news is filled with grim outlooks on California wildfires and other natural disasters occurring throughout our nation. Unfortunately, SBA’s role in this space is both vitally important and has gone horribly wrong. In 2023 and 2024, the SBA made multiple unilateral administrative changes to the disaster loan program.¹² These changes include moving the Office of Disaster Assistance into SBA’s Office of Capital Access under the new title of the Office of Disaster Recovery and Resilience,¹³ SBA raising the maximum loan amount for all its disaster loans,¹⁴ deferring principal and interest payments for one year,¹⁵ and increasing the unsecured loan limit of some of its disaster loans.¹⁶ SBA acknowledged these changes would impact the disaster loan subsidy rate, but made no apparent changes to the distribution of loans or modeling of when the disaster loan account would be depleted; therefore, the changes contributed to the shortfall.¹⁷ This led to the unacceptable situation where on October 15, 2024, the SBA announced that “it has exhausted funds for its disaster loan program.”¹⁸ On December 21, 2024, under the American Relief Act, 2025, (Pub. L. 118-158) the SBA disaster subsidy loan account received \$2.249 billion, \$50 million of which is required to go to SBA’s Office of Inspector General (OIG). It also allowed for \$613 million of the total request to be transferred to the SBA disaster administrative account. However, this measure did not include any transparency or accountability standards to ensure this situation never occurs again. The prior Administration failed to put disaster survivors first and work with Congress. I am confident your

¹¹ Andy Medici, *An SBA Covid loan hardship program tops \$36B – and hope is dimming to get current*, THE BUS. JOURNALS (Oct. 8, 2024), available at <https://www.bizjournals.com/bizjournals/news/2024/10/08/sba-covid-eidl-loan-hap-hardship-forgiveness.html>.

¹² Disaster Assistance Loan Program Changes to Maximum Loan Amounts and Miscellaneous Updates, 88 Fed. Reg. 39335, (June 6, 2023) [hereinafter SBA Disaster Change 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>; see also Disaster Assistance Loan Program Changes to Unsecured Loan Amounts and Credit Elsewhere Criteria, 89 Fed. Reg. 59826, (July 24, 2024) [hereinafter SBA Disaster Change 2024], available at <https://www.govinfo.gov/content/pkg/FR-2024-07-24/pdf/2024-16207.pdf>.

¹³ Press Release, SBA, *Administrator Guzman Transforms SBA’s Disaster Enterprise to Strengthen Support for Disaster-Impact Communities*, (Feb. 2023), available at <https://www.sba.gov/article/2023/feb/01/administrator-guzman-transforms-sbas-disaster-enterprise-strengthen-support-disaster-impacted>.

¹⁴ SBA Disaster Change 2023, *supra* note 12.

¹⁵ *Id.*

¹⁶ SBA Disaster Change 2024, *supra* note 12.

¹⁷ *Id.*; Email from Staff, SBA to Staff, Senate Small Business Committee (Oct. 10, 2024), (on file with Comm.).

¹⁸ Press Release, SBA, *SBA Exhausts Funds for New Disaster Loans*, (Oct. 15, 2024), available at <https://www.sba.gov/article/2024/10/15/sba-exhausts-funds-new-disaster-loans>.

Administration will carefully examine the rules and decisions that led to this outcome and remedy it for the American people while aiding disaster survivors.

SBA Rulemaking Risks Catastrophe in the SBIC Program

The Small Business Investment Company (SBIC) program provides licenses to private equity and venture capital funds so they can borrow low-cost, government-guaranteed loans (matched with private capital) to invest in United States small businesses. It traditionally pays for itself through interest payments and fees paid by licensees. The Biden Administration’s 2023 SBIC rule created new accrual debenture licenses, which do not require any payments before the debenture’s 10-year maturity date to facilitate long-term—and inherently riskier—equity stake investments.¹⁹ While the SBIC program has remained zero-subsidy since 1999, this relies on the low-risk terms of conventional SBIC licenses that historically dominate the program and pay interest semi-annually. In contrast, the investment strategy driven by new licensees increases the risk of loss to taxpayers. With more than ten accrual licenses awarded so far in FY24 and FY25, each eligible for up to \$175 million in SBA leverage, a substantial amount of taxpayer funds are at risk under a potentially hazardous SBIC investment strategy.²⁰ The Biden Administration failed to heed lessons learned from the disastrous SBIC participating securities initiative of the 1990s, which similarly prioritized equity investments and resulted in a projected \$2.7 billion-dollar loss forcing SBA to wind down the program.²¹ The new SBA management team needs to immediately pose a moratorium on accrual licenses, audit the portfolio, and establish true performance metrics for the funds that are not paying semi-annual interest payments.

Diversity, Equity, and Inclusion (DEI) Preferences Distract from Technological Excellence in the SBIR-STTR Program

Under the Biden Administration, the multi-agency SBIR-STTR program—overseen by the SBA—has shifted its priority from awarding innovators based on technical merit to a focus on identity politics. Through Executive Order (EO) 13985 and EO 14091, President Biden required federal agencies to prioritize a “comprehensive approach to advancing equity for all”²² throughout contracting and grant programs resulting in DEI-focused “equity-action plans”²³ taking root across the federal government.²⁴

¹⁹ Small Business Investment Company Investment Diversification and Growth, 88 Fed. Reg. 45982, (July 18, 2023), available at <https://www.federalregister.gov/documents/2023/07/18/2023-13981/small-business-investment-company-investment-diversification-and-growth>.

²⁰ *Id.*; Email from Staff, Legislative Affairs, Department of Defense to Staff, S. Comm. on Small Business and Entrepreneurship, (Oct 31, 2024, 3:51 EST) (on file with Comm.); SBA, SMALL BUSINESS INVESTMENT COMPANY (SBIC) PROGRAM OVERVIEW REPORT FOR FISCAL YEAR 2024, (Jan. 8, 2025), available at <https://www.sba.gov/document/report-small-business-investment-company-sbic-program-overview-report>; Small Business Administration Office of Innovation and Investment Briefing to S. Comm. on Small Business and Entrepreneurship staff, (Jan. 13, 2025).

²¹ ROBERT J DILGER, CONG. RSCH. SERV., (R41456), SBA SMALL BUSINESS INVESTMENT COMPANY PROGRAM, (June 15, 2021), available at <https://crsreports.congress.gov/product/pdf/R/R41456/91>.

²² Exec. Order No. 13985, 86 Fed. Reg. 7009, (Jan. 20, 2021), available at <https://www.federalregister.gov/documents/2021/01/25/2021-01753/advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government>.

²³ Exec. Order No. 14091, 88 Fed. Reg. 10825, (Feb. 16, 2023), available at <https://www.federalregister.gov/documents/2023/02/22/2023-03779/further-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal>.

²⁴ Exec. Order No. 13985, 86 Fed. Reg. 7009, (Jan. 20, 2021), available at <https://www.federalregister.gov/documents/2021/01/25/2021-01753/advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government>; Exec. Order No. 14091, 88 Fed. Reg. 10825, (Feb. 16, 2023), available at <https://www.federalregister.gov/documents/2023/02/22/2023-03779/further-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal>.

Following this, several agencies including the Department of Energy and National Institutes of Health established SBIR-STTR diversity supplemental awards based on the identity of the researchers or key personnel of small businesses receiving an award.²⁵ Agencies have also begun requiring a diversity statement as part of the application—for example, a portion of the Department of Energy’s SBIR-STTR application review is based on an applicant’s ability to “promote inclusive and equitable research.”²⁶ Allocating resources to small businesses based on the diversity of its key personnel or its racial equity-oriented goals, rather than the quality of a technology and its innovation potential, takes away from a merit-based approach that is necessary for the SBIR-STTR program to meet its full potential. As SBIR-STTR needs to be reauthorized this year, these prior efforts have no place in moving our nation’s innovators forward.

SBA Information Technology (IT) and Certification Platform Leads to Major Cyber Vulnerabilities

Over several Administrations, SBA’s IT has remained a significant management challenge. In July 2024, I wrote a letter with House Small Business Committee Chairman Williams to SBA regarding its poorly timed plans to upgrade its online small business contracting certification portal.²⁷ In November 2024, the Government Accountability Office (GAO) issued a report examining the SBA’s new Unified Certification Platform (UCP) and determined that the SBA urgently needs to address outstanding risks.²⁸ GAO identified critical management gaps, finding that the agency did not have an acceptable risk mitigation plan and failed to fully identify, document, and manage risks including cybersecurity risks.²⁹ The SBA’s failures leave the UCP vulnerable to successful cyberattacks on a platform intended to collect personal data, including financial information, from American small business owners. The GAO also found the SBA’s UCP was not entirely unified, undercutting the whole point of this IT investment.³⁰ Finally, the GAO found the SBA’s cost estimate to be unreliable, indefensible, and rooted in one project manager’s past experience rather than on objective data or documentation.³¹ Further, SBA used its IT Working Capital Fund to support certain IT projects while other portions of SBA lacked basic IT capacity. Over the past three years, SBA FITRA implementation score has been a C.³² The SBA OIG found that the SBA had ineffective information security during this period.³³ The new

²⁵ U.S. DEP’T OF ENERGY, OFF. OF SCI., *DOE Phase II Diversity Supplements*, (Jan. 14, 2025), available at <https://science.osti.gov/sbir/Awardee-Resources>.

U.S. DEP’T OF HEALTH & HUM. SERV., NAT. INST. OF HEAL., *Small Business Diversity Supplement Application Guidance*, (Jan. 14, 2025), available at <https://seed.nih.gov/small-business-funding/find-funding/supplemental-funding-to-diversify-the-entrepreneurial-workforce/application-components>.

²⁶ U.S. DEP’T OF ENERGY, OFF. OF SBIR/STTR PROG., *PIER Plan*, (Jan. 14, 2025), available at <https://pamsexternalhelp.science.energy.gov/pages/viewpage.action?pageId=105513098>.

²⁷ Letter from Joni Ernst, Ranking Member, S. Comm. on Small Business and Entrepreneurship, and Roger Williams, Chair, H. Comm. on Small Business, to Isabel Casillas Guzman, Administrator, SBA, (July 11, 2024), available at <https://fedscoop.com/wp-content/uploads/sites/5/2024/07/7.11.24-SSBC-HSBC-Joint-Letter-on-SBA-Contracting-System-Pause.pdf>.

²⁸ GAO, GAO-25-106963, *IT MODERNIZATION: SBA URGENTLY NEEDS TO ADDRESS RISKS ON NEWLY DEPLOYED SYSTEM* 16 (Nov. 2024), available at <https://www.gao.gov/assets/gao-25-106963.pdf>.

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

³² MERITALK, *SBA - FITARA Dashboard*, available at <https://fitara.meritalk.com/view/sba>.

³³ SBA OIG, REPORT 24-07, *FISCAL YEAR 2023 FEDERAL INFORMATION SECURITY MODERNIZATION ACT*, (Mar. 7, 2024), available at <https://www.sba.gov/sites/default/files/2024-03/SBA%20OIG%20Report%2024-07.pdf>; see also Letter from Joni K. Ernst, Chair, S. Comm. on Small Business and Entrepreneurship, to Isabella Guzman, Administrator, SBA, (May 9, 2024), available at https://www.ernst.senate.gov/imo/media/doc/capital_it_fund_letter.pdf.

Administration needs to seek a strong Chief Information Officer and expeditiously work to protect small businesses' personal information.

As we work to support our nation's more than 34 million small business, I urge your Administration to take a holistic look at improvements and efficiencies we can make at the SBA.³⁴ I look forward to working with you and SBA Administrator-nominee Loeffler on fixing these pressing issues and putting the SBA back on a path to success and providing relevant services to meet the needs of America's entrepreneurs.

Sincerely,



Joni K. Ernst
Chair

³⁴ Press Release, SBA Office of Advocacy, *New Advocacy Report Shows Small business Total Reaches 34.8 million, Accounting for 2.6 million net new jobs in Latest Year Data*, (Nov. 19, 2024), available at <https://advocacy.sba.gov/2024/11/19/new-advocacy-report-shows-small-business-total-reaches-34-8-million-accounting-for-2-6-million-net-new-jobs-in-latest-year-of-data/#:~:text=The%20United%20States%20contains%2034.8,followed%20by%20Texas%20and%20Florida/>.

The CHAIR. We are seeing the impacts of these rule changes with the 12-month default rate more than doubling to roughly 3.2 percent since these rules went into effect, and defaults on loans less than 18 months old nearly tripling to almost one and a half percent over that same period. While the Biden Harris SBA tried to blame this on rising interest rates, defaults on SBA loans have been increasing faster than those in the private sector, which is evidence of poor policy decisions.

It should come as no surprise that for the first time in 12 years . . . [emphasis] 12 years, the 7(a) program lost money. This negative cash flow must be immediately addressed by reversing the misguided decisions of the past administration. This program was designed to operate with zero subsidy and I worry we are on the cusp of forcing taxpayers to foot the bill, something we should avoid at all costs.

I want to commend Administrator Loeffler for her recognition of these problems in her day one memo released this week, and her willingness to hit the ground running. It is clear that the solvency of the SBA's lending programs is a major priority for the Administrator, who is committed to doing what's necessary to ensure their zero-subsidy status is secure.

Today's hearing provides an opportunity for us to speak with SBA participants to understand their concerns about the 7(a) program's financial stability. It also allows the committee to gather concrete suggestions on ways to reduce the risk faced by taxpayers while ensuring the program continues to be a resource for entrepreneurs who need assistance accessing capital.

I'd like to thank our witnesses for being here today, and I look forward to your testimony. I now recognize Ranking Member Markey for his opening statement.

STATEMENT OF SENATOR MARKEY

Senator MARKEY. Thank you, Madam Chair, very much and thank you for hosting this hearing to discuss the government's role in connecting entrepreneurs with the funding which they need. Access to capital is always a top concern for small business owners.

For 70 years, the small business administration's flagship lending program, the 7(a) program, has provided government-backed loans to small business owners who are not eligible for a conventional loan. Without government backing, traditional banks would only lend to the biggest, safest businesses in town while deeming loans to the smallest as too risky.

Innovative ideas that benefit communities across the United States would never have come to realization. Ideas that start in a garage would be thrown away before they can ever get off the ground. This is especially true for underserved communities, entrepreneurs of color, and women who have an even harder time historically getting funding as a result of historic discrimination. It wasn't until 1974 that a woman was able to get a loan at a bank without a male relative signature.

Unfortunately, as we all know, discrimination still exists today. Black owned businesses are more likely to be denied loans or received less money than other borrowers.

In fact, according to the Fed's small business credit survey, in 2023, only 32 percent of black small business owners with employees received the funding they applied for, compared to 54 percent of white small business owners. This is why SBA's lending programs are so critical. They fill gaps. They level the playing field. In particular SBA's program, the Community Advantage program which is a subset of 7(a), utilizes community centered nonprofit and mission-based lenders.

The program makes small dollar loans with a focus on reaching underserved small business owners. While the program does not define underserved by race, gender metrics, it reaches certain populations better than the traditional 7(a) program. For example, in fiscal year 2024, the Community Advantage program made 53 percent of its loans to startups, and 43 percent to entrepreneurs of color. The traditional 7(a) program in comparison made only 32 percent of its loans to both groups.

SBA has a responsibility to address the inefficiencies in private lending to support true competition. It is the government's responsibility to make sure that there is capital for all entrepreneurs regardless of their background. The Biden administration understood this. They doubled the amount of small dollar loans, maintained a healthy 7(a) loan program, and ensured a 99 percent repayment rate, a 99 percent repayment rate.

My witness here today from Massachusetts, Ms. Guerrero, is a clear example of an entrepreneur who just wanted to serve her community, but struggled to get the funding to do so. She was unable to receive funding from her community bank, who is also an SBA lender, and she did not have generational wealth to rely upon.

That's where Common Capital, a Massachusetts-based lender and SBA's Community Advantage program stepped in. So, thank you Ms. Guerrero for taking the time to share your experience with the committee. Your story is just one example of why SBA programs like the Community Advantage program is so important. And I look forward to hearing from our witnesses about their experiences with SBA's lending programs.

And I also want to acknowledge the committee's efforts last Congress to codify the Community Advantage program. And I'm hoping that we can work together, Madam Chair, on a bipartisan basis, not only to maintain the integrity of SBA lending programs, but also to ensure that they serve small business owners from all backgrounds across our country. Thank you, Madam Chair.

The CHAIR. Thank you very much, Ranking Member Markey. And now I want to extend a warm welcome to all of our witnesses. Thank you for joining us today. I want to introduce the two witnesses who are testifying today on behalf of the majority. I am thankful that these two accomplished community bankers made the trip to Washington DC, to share their expertise and insight into the SBA's 7(a) loan program with this committee.

And so, we'll start with my Iowan first, and thank you. It's Mr. Timothy Fitzgibbon, who is the Senior Vice President at First National Bank from West Des Moines, Iowa. Mr. Fitzgibbon started and built the SBA lending business at First National Bank, where he has worked since 2017. Previously, Mr. Fitzgibbon was the sen-

ior vice president at the National Council of Higher Education Resources for 12 years.

And prior to that, he was the director of the Guaranteed Student Loan Program at the Iowa College Student Aid Commission for more than 14 years. Mr. Fitzgibbon holds a bachelor's degree from the best university, Iowa State University.

And next is Ms. Itzel Sims, and she is the director of SBA lending at First Security Bank, headquartered in Searcy, Arkansas. Ms. Sims has a 24-year background in SBA lending and previously worked at Simmons Bank and Regions Bank. Ms. Sims obtained a Bachelor of Business Administration from the University of Texas at Dallas. Thank you, again. And I now recognize Ranking Member Markey to introduce his witnesses.

Senator MARKEY. Thank you, Madam Chair. And I'm pleased to introduce our two witnesses who have a business relationship and can explain how it works for all small businesses. And I would like to add, though, I'm kind of shocked that Mr. Fitzgibbon did not go to the finest Jesuit College in Iowa, Loras. [Laughter.]

Senator MARKEY. I think that Fitzgibbon, somehow, I don't know how much they welcomed you home when you didn't go to the Jesuit school. Mr. Raymond Lanza-Weil is the president of Common Capital, which is a nonprofit community development financial institution located in Springfield, Massachusetts. Common Capital provides SBA micro loans and community advantage loans, as well as technical assistance to small businesses in Western Massachusetts.

Mr. Lanza-Weil's work provides entrepreneurs from underserved communities with financing to start and grow their business ventures. His team works with borrowers in a holistic manner to ensure the success of these small businesses.

Ms. Mayrena Guerrero is a mental health counselor, and the owner and founder of Colorful Resilience, a business that provides mental health services to all, but especially to people of color, the LGBTQ community, and immigrants. She has operated Colorful Resilience for three years. And as a result of her entrepreneurial spirit the community advantage loan, she now runs a thriving small business with 15 employees, and has provided vital mental health services to over 3,000 clients.

So, it's a perfect example in Springfield of these two institutions being able to work together to make sure that we have a thriving small business. I thank you Madam Chair for welcoming these witnesses.

The CHAIR. Yes. Again, thank you to all of our witnesses for being here and thank you Ranking Member Markey. Briefly, I'd like to take a moment to explain our lighting system there in front of you, the little boxes. There are three lights in front of you. Green means go. Yellow means you're running out of time, and red means to go ahead and quickly wrap up your remarks.

I ask unanimous consent that the witness's full statements be included in the record. Without objection, so ordered. As your written testimony has been made part of the record, the committee asks that you limit your oral remarks to five minutes. And with that, Mr. Fitzgibbon, you are recognized now for five minutes for your testimony.

**STATEMENT OF MR. TIMOTHY FITZGIBBON, SENIOR VICE
PRESIDENT, FIRST NATIONAL BANK, WEST DES MOINES, IOWA**

Mr. FITZGIBBON. Chair Ernst, Ranking Member Markey and distinguished members of the committee, thank you for the opportunity to appear before you today to discuss managing risk in the SBA 7(a) loan program.

My name is Tim Fitzgibbon, I'm a senior vice-president with First National Bank, a \$1.1 billion community bank based in Ames, Iowa, and founded in 1903. I'm testifying today on behalf of the Iowa Bankers Association and First National Bank. My responsibilities include managing two specialty loan programs-SBA and student loan refinance, and I'm also a licensed investment advisor.

I'm here today to share my viewpoint, not just as an SBA lender, but also a 40-year participant in government backed loan programs, including home mortgages and student loans where I've spent a good part of my career, helping borrowers manage their debt, improve their credit, and avoid default.

Risk in any loan program is primarily managed through sound underwriting policies. Prudent underwriting ensures equitable treatment for all applicants and is intended to be a good predictor of a borrower's future success. In short, good underwriting protects the consumer along with the lender, and in the case of the government backed SBA program, the taxpayer as well.

In 2023, new rules were written for the SBA program with the admirable goals of streamlining the application process and increasing access to funding for small business owners, particularly those in underserved communities. Major underwriting changes included removing the applicant's personal financial resources from the "credit elsewhere" test, waiving equity injections, reducing insurance requirements, and permitting lenders to "do as you do" in underwriting SBA loans.

Reducing underwriting criteria to increase loan access is not a new idea in federally backed loan programs, but it has not always proved wise. A similar approach was used in the 1990s to increase home ownership through lowered credit standards for private market and FHA loans, which contributed significantly to the subprime mortgage crisis of 2008.

A more recent example continues today with the Federal Parent PLUS Student Loan Program. Already low underwriting standards were further diluted in the early 2010s, to allow more families to access the Parent PLUS program, which has resulted in countless older Americans becoming buried in debt they cannot afford. Originating government-backed loans for borrowers who can never repay them is predatory in nature. It is imperative that the SBA closely monitor the impact of its reduced underwriting standards on the borrowers it serves.

To that end, early indicators suggests that there are already signs of credit stress for SBA loans made under the new rules. For example, according to a recent risk assessment by the SBA, "The Small Business Administration's Flagship 7(a) program lost hundreds of millions of dollars in 2024 as agency fee reductions combined with an increase in loan defaults to result in negative cash flow". Similar analysis done by third party service providers, show loans made under the new rules are defaulting at a much faster

and higher rate than loans made in other years, particularly those originated by non-bank lenders.

I'd like to end my statement with a cautionary observation based on testimony provided just last year by Administrator Guzman in hearings before this committee, where she suggested the SBA should restart its direct government lending program. I urge committee members to study the current condition of the Federal Direct student loan program before considering such a move.

History has shown that direct government lending can lead to expensive loan modifications and even debt forgiveness to mask non-performing loans. Loan forgiveness does not manage debt, it simply passes the cost onto the taxpayer.

Iowa banks are committed to providing access to SBA financing to our small business communities. While we applaud efforts to streamline SBA loan processing and expand in a safe and sensible manner, the number of small businesses the SBA program can assist, we urge Congress and the small business administration to restore prudent underwriting standards and ensure proper oversight for all of its lending partners.

I look forward to your questions, and I thank you again for the honor of participating in this hearing. And Senator Markey, I'm proud to tell you that my daughter's a Loras graduate. [Laughter.]
[The prepared statement of Mr. Fitzgibbon follows.]

**Timothy M. Fitzgibbon, Senior Vice President, First National Bank
U.S. Senate Committee on Small Business and Entrepreneurship
Hearing on Managing Risk for the Long-Term in the 7(a) Loan Program
February 26, 2025**

Chair Ernst, Ranking Member Markey, and distinguished members of the committee, thank you for the opportunity to appear before you today to discuss managing risk in the SBA 7(a) Loan Program.

My name is Tim Fitzgibbon, and I am a senior vice president with First National Bank, a \$1.1 billion dollar community bank based in Ames, Iowa, and founded in 1903. My responsibilities include managing two specialty loan programs – SBA and student loan refinance – and I am also a licensed investment advisor.

I am here today to share my viewpoint not just as an SBA lender, but also a 40-year participant in government-backed loan programs, including home mortgages and student loans, where I have spent a good part of my career helping borrowers manage their debt, improve their credit, and avoid default.

Risk in any loan program is primarily managed through sound underwriting policies. Prudent underwriting ensures equitable treatment for all applicants and is intended to be a good predictor of a borrower's future success. In short, good underwriting protects the consumer along with the lender, and in the case of the government backed SBA program, the taxpayer as well.

In 2023, new rules were written for the SBA program with the admirable goals of streamlining the application process and increasing access to funding for more small business owners, particularly those in underserved communities.

Major underwriting changes included removing the applicant's personal financial resources from the "credit elsewhere test," waiving equity injections, reducing insurance requirements, and permitting lenders to "do as you do" when underwriting SBA loans.

Reducing underwriting criteria to increase loan access is not a new idea in federally backed loan programs, but it has not always proved wise. A similar approach was used in the 1990's to increase homeownership through lowered credit standards for private market and FHA loans, which contributed significantly to the subprime mortgage crisis of 2008.

A more recent example continues today with the Federal Parent PLUS student loan program. Already low underwriting standards were further diluted in the early 2010's to allow more families to access the Parent PLUS program, which has resulted in countless older Americans becoming buried in debt they cannot afford. Originating government-backed loans for borrowers who can never repay them is predatory in nature.

It is imperative that the SBA closely monitor the impact of its reduced underwriting standards on the borrowers it serves.

To that end, early indicators suggest there are already signs of credit stress for SBA loans made under the new rules. For example, according to a recent risk assessment by the SBA, "The Small Business Administration's flagship 7(a) program lost hundreds of millions of dollars in 2024 as agency fee

reductions combined with an increase in loan defaults to result in negative cash flow.”¹ Similar analysis done by third party service providers show loans made under the new rules are defaulting at a much faster and higher rate than loans made in other years, particularly those originated by non-bank lenders.

I would like to end my statement with a cautionary observation, based on testimony provided just last year by Administrator Guzman in hearings before this committee where she suggested the SBA should restart its direct government lending program. I urge committee members to study the current condition of the federal direct student loan program before considering such a move. History has shown that direct government lending can lead to expensive loan modifications, and even debt forgiveness, to mask non-performing loans. Loan forgiveness does not manage debt, it simply passes the costs on to the taxpayer.

Iowa banks are committed to providing access to SBA financing to our small business communities. While we applaud efforts to streamline SBA loan processing and expand in a safe and sensible manner the number of small businesses the SBA program can assist, we urge Congress and the Small Business Administration to restore prudent underwriting standards and ensure proper oversight of all its lending partners.

I look forward to your questions, and I thank you again for the honor of participating in this hearing.

¹ SBA's flagship small-business lending program is in the red. Here's how it could hit business. The Business Journals. Feb. 11, 2025

CHAIR. Thank you, Mr. Fitzgibbon. Now we will recognize Mr. Lanza-Weil, and you are recognized, sir, for five minutes of your testimony.

**STATEMENT OF MR. RAYMOND LANZA-WEIL, PRESIDENT,
COMMON CAPITAL, SPRINGFIELD, MASSACHUSETTS**

Mr. LANZA-WEIL. Thank you and good afternoon, Chair Ernst, Ranking Member Markey, and distinguished members of the committee. I appreciate the opportunity to speak with you today.

I am Raymond Lanza-Weil, recovering banker and president of Common Capital, a 35-year-old nonprofit CDFI loan fund based in Springfield, Massachusetts. Common Capital makes loans to small businesses that can't get the financing they need from conventional lenders, such as banks and credit unions. We make loans up to \$300,000 and we provide no-cost business education, and training to our borrowers; Our business assistance program is primarily funded by annual grants from the SBAs microloan program.

Common Capital serves a four-county region with 820,000 residents. Our annual operating budget is just shy of \$2 million. Even though we're a small organization serving only a fraction of the state's geography and population, Common capital is the leading SBA Microlender and SBA Community Advantage lender in the Commonwealth of Massachusetts.

Since our founding in 1990, we've made over 900 loans totaling more than \$35 million to small businesses in western Massachusetts. All sorts of loans, not just SBA loans, loans that have helped create or retain 2200 jobs. At the end of 2024, Common Capital's loan portfolio totaled \$9.4 million, a little smaller than First National Bank's. 54 percent of our loan receivable were SBA Micro Loans or Community Advantage Loans. And by itself, the CA loans, the Community Advantage Loans, make up 34 percent of our portfolio.

Common Capital's lending is high impact and that includes our CA loans. 87 percent of our CA portfolio dollars is loaned to businesses owned by people with low to moderate income or located in LMI census tracts. 73 percent is loan to startup businesses, 47 percent to woman owned businesses and 17 percent to veteran owned businesses.

Common Capital was one of the original Community Advantage lenders. Since making our first CA loan in 2012, we've made 41 CA loans totaling \$5.3 million with only one loss. The Community Advantage program helps us fulfill our mission of creating economic opportunities for people with low to moderate income by increasing access to capital for the small businesses they own.

For example, here's a story about one of CA loans. Alan had worked in construction in rural western Massachusetts for over 35 years, when in 2018, he had an entrepreneurial seizure and decided to open his own timber frame construction business. After three successful years, significant supply chain issues and higher prices on construction materials resulted in losses on a large fixed price contract. But demand for Alan's craftsmanship continued to grow, so the business sought financing for new equipment and working capital from their bank, which was unable to help them due to their recent losses, Alan turned to Common Capital.

The path to Yes, was challenging because the business' assets available as collateral were well short of our underwriting requirements. Common Capital was able to offset the shortfall with an 85 percent Community Advantage guarantee. And today, this rural business has retained its six employees, hired new ones, and is thriving.

As you know, and as this story illustrates, regulated, financial institutions can't help every business that applies for a loan and nor should they. Banks necessarily say "no" to some applicants in order to protect their depositors and shareholders and to contribute to the safety and soundness of our financial system.

Yet, banks and credit unions are our primary source of referrals. We don't compete with banks; we support and augment their customer relationships. Referring banks keep their customers as depositors and continue to provide other banking services to these businesses. When we provide a loan to a bank's customer, it's a win-win-win.

Before I conclude, I want to tell you another story. Celeste and Jessica had a combined 30 years of experience working as nurses in and around Springfield when in 2021 they recognized the growing need for home healthcare in their urban communities. They responded by starting their own home healthcare agency. Celeste and Jessica could not obtain financing from a bank due to being a start-up and a lack of sufficient collateral.

Once again, common capital turned to the SBAs Community Advantage Program to overcome these challenges and help two entrepreneurs start a business that is providing essential healthcare services and creating jobs.

Senators, as I wrap up, I want to tell you that too many small businesses and business owners that hear "no" from a bank successfully search online for easy money. It's available, it's expensive, and it's harmful to our business community. To combat this, CDFIs like Common Capital and other community loan funds try to fill the gap. With our help, these small unbankable businesses are creating jobs, generating economic activity, and paying taxes.

These small businesses continue to be bank customers and if they do well enough, they'll become bank borrowers as well. We accomplish this work with support of the SBA. Our continued success and the success of the small business community in western Massachusetts depends upon the availability of SBA microloans and the CA program.

I urge you to continue supporting the Community Advantage Program, to expand it so that more mission-focused lenders like Common Capital can increase access to capital, for low to moderate income and low wealth entrepreneurs. Thank you.

[The prepared statement of Mr. Lanza-Weil follows.]



Testimony of
Raymond Lanza-Weil, President
Common Capital, Inc.

Submitted to
U.S. Senate Committee on Small Business & Entrepreneurship
February 26, 2025
“Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan
Program”

Good afternoon, Chair Ernst, Ranking Member Markey, and distinguished members of the Committee. Thank you for the opportunity to speak with you today.

I am Raymond Lanza-Weil, president of Common Capital, a 35-year-old CDFI loan fund based in Springfield, Massachusetts. Common Capital makes loans to small businesses that can't get some or all of the financing they need from conventional lenders, such as banks and credit unions. We make loans up to \$300,000 and provide no-cost business assistance, education, and training to our borrowers; our Business Assistance program is primarily funded by annual grants from the SBA's Microloan program.

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Since our founding in 1990, we've made over 900 loans totaling more than \$35 million to small businesses in Western Massachusetts—loans that have helped create or retain 2200 jobs.

At the end of 2024, Common Capital's loan portfolio totaled \$9.4 million and 54% of our loans receivable were SBA Microloans or Community Advantage (“CA”) loans. By itself, Community Advantage loans make up 34% of our portfolio.

Common Capital's lending is high impact, and that includes our CA loans. Eighty-seven percent of our CA portfolio dollars is loaned to business owned by people with low-to-moderate income (“LMI”) or located in LMI census tracts. Seventy-three percent is loaned to startup businesses; 47% to woman owned businesses; and 17% to Veteran-owned businesses.

Common Capital was one of the original Community Advantage lenders. Since making our first CA loan in 2012, we've made 41 CA loans totaling \$5.3 million, with only one loss.

Needless to say, Common Capital is a strong supporter of the SBA and the Community Advantage program. It helps us fulfill our mission of creating economic opportunities for people with low-to-moderate income by increasing access to capital for the small businesses they own.

For example, here's a story about one of our CA loans.

Alan had worked in construction in rural Western Massachusetts for over 35 years when, in 2018, he had an entrepreneurial seizure and decided to open his own timber frame construction business. After three successful years, significant supply chain issues and higher prices on construction materials resulted in losses on a large, fixed price contract. But demand for Alan's craftsmanship continued to grow, so the business sought financing for new equipment and working capital from their bank, which was unable to help them due to the company's recent losses. Alan turned to Common Capital. The path to "yes" was challenging because the business's assets available as collateral were well short of our underwriting requirements. Common Capital was able to offset this shortfall with an 85% SBA Community Advantage guaranty and today this rural business has retained its six employees, hired new ones, and is thriving.

As you know, and as this story illustrates, regulated financial institutions can't help every business that applies for a loan- nor should they. Banks necessarily say "no" to some applicants in order to protect their depositors and shareholders, and to contribute to the safety and soundness of our financial system.

Yet, banks and credit unions are our primary source of referrals. We don't compete with banks; we support and augment their customer relationships. Referring banks keep their customers as depositors and continue to provide other banking services to these businesses. When we provide a loan to a bank's customer, it's a win-win-win.

Before I conclude, I want to tell you another story.

Celeste and Jessica had a combined 30 years of experience working as nurses in and around Springfield when, in 2021, they recognized the growing need for home health care in their urban communities; they responded by starting their own home health care agency. Celeste and Jessica's business could not bill to Medicare or other insurance companies until they provided pro bono services to a specified number of clients. This requirement creates a daunting financial challenge. Celeste and Jessica could not obtain financing from a bank due to being a startup and a lack of sufficient collateral for a sizable working capital loan. Once again, Common Capital turned to the SBA's Community Advantage program to overcome these challenges and help two entrepreneurs start a business that is providing essential healthcare services and creating jobs.

Senators, too many small business owners that hear "no" from a bank successfully search online for easy money- it's available, it's expensive, and it's harmful to our business community. To

combat this, CDFIs and other community loan funds try to fill the gap. With our help, these small unbankable businesses are creating jobs, generating economic activity, and paying taxes. These small businesses continue to be bank customers and, if they do well enough, will become bank borrowers, too.

We accomplish this work with the support of the SBA. Our continued success, and the success of the small business community in Western Massachusetts, depends upon the availability of SBA Microloans and the SBA CA program. I urge you to continue supporting the Community Advantage program, and to expand it so that more mission-focused lenders like Common Capital can increase access to capital for low-to-moderate income and low-wealth entrepreneurs.

[End of oral testimony. Written testimony continues below.]

Common Capital is a small CDFI. Our market area is the four counties of Western Massachusetts, which is anchored by Springfield, Massachusetts. Our four-county region has a population of about 820,000 people, which is about 12% of the Commonwealth's total population of 7 million.

Common Capital's annual operating budget is just shy of \$2 million. Our team had 5 or fewer staff members for many years and has grown to 9 people over the last 5 years.

Since our founding in 1990, we've made over 900 loans totaling more than \$35 million to small businesses in Western Massachusetts. Since our inception, Common Capital's average loan size has been \$39,000. These loans helped create or retain 2200 jobs.

About a third of that activity has occurred during the 6 years that I've led Common Capital, during which time we've made \$11.9 million in loans, which helped create or retain nearly 700 jobs. Our average loan size during this period has grown to about \$48,000 and our charge offs have been less than 5% of our portfolio. And we provided 19,000 hours of business assistance, education, and training to small business owners over the last 6 years. This additional service sets us apart from conventional lenders, helps us identify and address risk in our portfolio, and is integral to our impact in the community. Importantly, the SBA is a primary funding source for our Business Assistance Program.

As of December 31st, 2024, our loan portfolio had 127 borrowers with \$9.4 million in loans outstanding. Fifty-four percent of our portfolio (as measured by dollars) are SBA microloans or Community Advantage loans.

Common Capital was one of the original Community Advantage lenders. Since making our first CA loan in 2012, we've made 41 CA loans totaling \$5.3 million. Our CA portfolio currently has 31 loans totaling \$3.2 million and we've had only one loss.

Our CA portfolio is concentrated in Retail, Healthcare, Manufacturing, Transportation, Construction, and Restaurants. Our borrowers are local, main street, mom and pop businesses,

including an Italian bakery and coffee shop; microbreweries; hair salons; an auto repair business; restaurants; sports facilities; physical and mental health care providers; truckers; bus transportation for students; and retailers.

All of Common Capital's lending is high-impact and that includes our Community Advantage loans:

As of December 31, 2024					
Total Portfolio (216 loans)	\$ 9,369,365		CA Portfolio (30 loans)	\$ 3,247,226	
LMI	\$ 6,824,777	73%	LMI	\$ 2,834,448	87%
Start up	\$ 5,102,840	54%	Start up	\$ 2,376,419	73%
BIPOC	\$ 3,949,497	42%	BIPOC	\$ 1,929,725	59%
Women	\$ 4,273,885	46%	Women	\$ 1,536,103	47%
Opportunity Zone	\$ 2,095,527	22%	Opportunity Zone	\$ 936,204	29%
Veterans	\$ 914,866	18%	Veterans	\$ 542,008	17%

As you know, regulated financial institutions can't help every business that applies for a loan—nor should they. Banks necessarily say “no” to some applicants in order to protect their depositors, their shareholders, and to contribute to the safety and soundness of our financial system.

And when banks say “no,” it creates a financing gap that community loan funds like Common Capital try to fill. We don't say “yes” to everyone, but we are able to take and manage more risk than banks can. Another important feature of CDFI loan funds is that we can be more patient with our borrowers than banks can be, which is a key factor in our ability to help businesses form, grow, create jobs, and succeed.

Banks and credit unions are important partners for Common Capital: They are our primary source of referrals. We don't compete with banks; we support and augment their customer relationships. Since loan funds are non-depository financial institutions, banks that refer loan applicants to us keep their customers as depositors and continue to provide other banking services to these businesses. If we can provide a loan to a bank's customer, then it's a win-win-win.

How is our lending different from a bank? Of course, we consider the 5 Cs of credit: Character, Capacity, Capital, Collateral, and Conditions. Our primary criterion is Capacity—namely, the applicant's ability to repay the loan. But in contrast with banks, we often rely on projected revenues and profits in our decision making. Second, we focus on Character, but unlike banks, we do not rely on credit scores. Instead, we carefully evaluate the underlying payment behavior, while also spending a lot of time getting to know the person in front of us. We lend to people, not paper.

Finally, Collateral is not a material consideration for us when we make a loan under \$50,000; many of our microloans are functionally unsecured. For larger loans—in our case, above \$50,000

and up to our \$300,000 loan limit—we are more flexible than banks on Loan to Value and Collateral Coverage calculations. We're flexible, but there are still a lot of businesses we can't help because they don't have enough collateral for even our more relaxed criteria, unless we obtain some sort of credit enhancement. And that's where the Community Advantage program comes in. We primarily use CA guarantees to offset our collateral risk.

Most of these businesses would not have been able to form or grow without the help of Common Capital or another CDFI loan fund. With our help, these small unbankable businesses are creating jobs, generating economic activity, and paying taxes. These small businesses continue to be bank customers and, if they do well enough, will become bank borrowers, too.

Banks and credit unions are essential to the business community, but they can't help everyone. Too many small business owners that hear "no" from a bank successfully search online for easy money- it's available, it's expensive, and it's harmful to our business community. To combat this, CDFIs and other community loan funds try to fill the gap.

Common Capital has been successful in doing so and we could not have done it without the support of the SBA. Our continued success and impact, and the success of the small business community in Western Massachusetts, depends upon the availability of SBA Microloans and the SBA CA program I urge you to continue supporting the Community Advantage program, and to expand it so that more mission-focused lenders like Common Capital can increase access to capital for low-to-moderate income and low-wealth entrepreneurs.

The CHAIR. Thank you, Mr. Lanza-Weil, and we will move next to Ms. Sims. And you are now recognized for five minutes of testimony.

STATEMENT OF MS. ITZEL SIMS, SBA DIRECTOR, AND SENIOR VICE PRESIDENT, FIRST SECURITY BANK, LITTLE ROCK, AR

Ms. SIMS. Chair Ernst, Ranking Member Markey, and members of the committee. Thank you for the opportunity to testify at today's hearing. My name is Itzel Sims, and I am the director of SBA lending for First Security Bank, which is headquartered in Searcy, Arkansas. I'm testifying today on behalf of American Bankers Association, Arkansas Bankers Association, and First Security Bank.

Small businesses are the backbone of American economy. The SBA 7(a) program helps small businesses that might not otherwise have access to capital obtain loans so they can grow and create jobs. In my 26th year of making loans to small businesses, I'm very proud of the work we do at First Security Bank, to assist businesses across Arkansas with 7(a) and other small business loans. First Security is a privately held community bank with a 1.5 billion in total capital, 8.13 billion in assets and 1,000 employees throughout Arkansas.

After holding several SBA lending positions, I joined First Security Bank and started an SBA lending platform for 7(a), 504, and express loans. First Security is right now topped at top 10 SBA lender in Arkansas. This is in a very important time for 7(a) program. Two years ago, SBA lifted the moratorium on the number of non-bank lenders that could participate in the 7(a) program while simultaneously loosening underwriting standards for these loans.

It has experienced increased defaults since those changes, particularly in loans originated by non-bank lenders. This committee can play an important role in strengthening the program so that all lenders make 7(a) loans in a safe and sound manner, that helps small business gain access to capital.

Here are recommendations for improving the program: in 2023, SBA lifted the moratorium on the number of non-banks that can participate in the 7(a) program, granting six new non-banks to participate in the program. At the same time, the agency also loosened underwriting standards for loans of \$500,000 or less. This has contributed to rise of default rates.

Data compiled by Lumos Technologies show that 7(a) loans originated by non-bank lenders in 2023 had a default rate of 8.1 percent in 2024, which is more than double the default rate of 7(a) loans originated by banks in 2023. SBA should return to the more robust criteria for underwriting 7(a) loans that had been in place prior to 2023.

Moreover, the agency should focus on increasing the number of banks that participate in the 7(a) program instead of new non-bank entrants. SBA should also reinstate the loan authorization as a required document for 7(a) loans. It should also reinstate the requirement that 7(a) small business owners provide a 10 percent equity injection when a borrower is a startup, or when the borrower was purchasing an existing business.

To increase efficiency, SBA should reinstate the franchise directory, a valuable resource that assisted lenders with determining

the eligibility of a franchise for a 7(a) loan before it was discontinued in 2023. Although the focus today is on strengthening the 7(a) program, the small business lending landscape continues to be threatened by the CFPB's implementation of Section 1071 of Dodd-Frank. Section 1071 requires financial institutions to collect and report detailed data on each application for small business credit, including the race, sex, and ethnicity of the business owners.

The CFPB Rule expanded the 13 data points required by Congress to 81 data points for each applicant for credit. This will significantly increase the cost of credit, decrease the availability of credit, and make it harder for us to serve small business customers. Congress should repeal section 1071.

In conclusion, we strongly support the committee's goal of strengthening the 7(a) program and facilitating small business lending more broadly. We urge Congress to ensure that the SBA reinstates previous underwriting standards on 7(a) loans, not grant additional non-bank licenses without a demonstrated need and proof that the agency can effectively supervise new entrants, take the actions to improve the efficiency of the 7(a) program provided in our testimony, and repeal Section 1071 of Dodd-Frank.

This would help strengthen small business lending, and enhance the ability of banks to make critical loans that drive economic growth in our nation's communities. I really appreciate the opportunity to testify and I look forward to your questions.

[The prepared statement of Ms. Sims follows.]

Testimony of

Itzel Sims

On Behalf of

First Security Bank, Arkansas Bankers Association & American Bankers Association

Before the

Senate Committee on Small Business & Entrepreneurship

February 26, 2025

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February 26, 2025

Chair Ernst, Ranking Member Markey, and members of the Committee, thank you for the opportunity to offer testimony for today's Hearing: "Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan Program." My name is Itzel Sims, and I am Director of Small Business Administration (SBA) Lending for First Security Bank, a community bank located in Searcy, Arkansas.

Small businesses are the backbone of the American economy. The Small Business Administration's 7(a) Program helps small businesses that might not otherwise have access to capital obtain loans, so that they can grow and create jobs. Now in my 26th year making loans to small businesses, I am proud of the work that my colleagues at First Security and I do to assist businesses across Arkansas with 7(a) and other small business loans. I am very pleased to present this testimony on behalf of First Security and the American Bankers Association (ABA).¹

My work with SBA lending has spanned four institutions, giving me a broad perspective regarding the challenges and opportunities presented by the 7(a) Program. I began my career at Arkansas Capital Corporation, an Arkansas nonprofit, nonbank lender that specializes in government guaranteed lending. In 2015, Regions Bank approached me to become an SBA specialist for its Arkansas market, where I was a top producer of SBA loans. In 2019, I pursued an opening as SBA Regional Manager for Simmons Bank, a midsize bank located in Pine Bluff, Arkansas. In that role, I managed the origination and closing process across six states.

In 2021, I joined First Security, a privately-held community bank that has among the most complete and diverse product offerings of any Arkansas-based financial services holding company. With \$1.5 billion in total capital, \$8.13 billion in assets, and 1,000 employees covering locations throughout Arkansas, First Security offers solutions for the financial needs of small businesses, as well as individuals and the public sector. In my four years with First Security, I have created a new SBA lending platform for SBA 7(a), SBA Express, and SBA 504 loans. During this time, First Security has been ranked as a top-10 SBA lender in the State of Arkansas.

I am a strong proponent of SBA's loan programs because, in each of the positions I have held, I have helped small business loan applicants that had strong business plans, drive, and determination – but who could not meet underwriting requirements for commercial loans due to

¹ The American Bankers Association is the voice of the nation's \$24.2 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard \$19.1 trillion in deposits and extend \$12.6 trillion in loans.

risk, seasonality of the business, or lack of collateral. And by applying prudent underwriting, I and other SBA lenders have helped the SBA achieve its goal of a “zero subsidy rate” for its 7(a) Program in 10 out of 16 years between Fiscal Year 2007 and 2022 – i.e., the Program generated sufficient revenue through fee collections and recoveries of collateral on defaulted loans to not require an appropriation from Congress.²

Today’s hearing comes at an opportune time. Two years ago, SBA lifted the moratorium on the number of nonbank lenders that could participate in the 7(a) Program while simultaneously loosening underwriting standards for these loans. Available data indicate that the Program has experienced increased defaults since those changes went into effect, particularly in loans originated by nonbank lenders. As SBA considers reforms, this Committee can play an important role in strengthening the Program so that *all* lenders make 7(a) loans in a safe and sound manner to help small businesses gain access to needed capital to grow their business.

The American Bankers Association and I support SBA’s efforts to expand access to credit for small businesses. We offer the following recommendations to maintain the financial stability of the 7(a) Program while removing barriers to efficient and effective loan-making:

- SBA should reinstate the nine-factor lending criteria for underwriting 7(a) loans that had been in place prior to 2023.
- SBA should focus on increasing the number of regulated banks that participate in the 7(a) Program instead of seeking new nonbank entrants to the Program. SBA should not grant any new small business lending company (SBLC) licenses unless and until the agency demonstrates there is a small business lending “desert,” the new SBLC is the institution best able to serve that specific geographic or socioeconomic gap, and SBA has the resources to oversee the new SBLC.
- SBA should reinstate the Loan Authorization, which was required prior to 2023, as a required document for 7(a) loans.
- SBA should reinstate the requirement, in place until January 2024, that 7(a) small business borrowers provide a 10% equity injection when the borrower is a startup (fewer than two years of business operations) or when the borrower is purchasing an existing business.
- SBA should reinstate the franchise directory, a valuable resource that assisted 7(a) lenders with determining the eligibility of a franchisee for a 7(a) loan before it was discontinued in 2023.
- Congress should repeal section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act to ensure small businesses have access to the capital they need to thrive.

I. Promoting Safe and Sound Lending in the 7(a) Program

As mentioned above, in 2023, SBA lifted the moratorium on the number of nonbanks – called “small business lending companies” (SBLCs) – that can participate in the 7(a) Program. Participation in the 7(a) Program had long been capped at 14 non-depositories, which are supervised federally by only the SBA. Since 2023, however, SBA has granted licenses to six new

² Cong. Research Svc., Small Business Administration 7(a) Loan Guaranty Program 14 (Jun. 30, 2022), <https://crsreports.congress.gov/product/pdf/R/R41146/135> (table 3).

SBLCs to participate in the 7(a) Program,³ despite stating in 2022 that the agency had the resources to supervise only three new nonbank entrants to the Program.⁴

At the same time that SBA lifted the moratorium, the agency also loosened underwriting standards for 7(a) loans. Specifically, SBA replaced its nine-factor underwriting test with a requirement that lenders use the same underwriting that the lender uses for its “similarly-sized, non-SBA guaranteed commercial loans” or use a “business credit scoring model.”⁵ One month later, SBA through a Procedural Notice imposed stronger underwriting criteria for 7(a) loans greater than \$500,000 – i.e., criteria that are similar, but not identical, to the nine-factor test that SBA had removed – but maintained the looser criteria for loans of \$500,000 or below.⁶

The addition of six non-federally supervised SBLCs joining the 7(a) Program, coupled with the looser underwriting standard, has contributed to rising default rates. Data compiled by Lumos Technologies, a financial technology firm that advises SBA lenders, show that 7(a) loans originated by nonbank lenders in 2023 had a default rate of 8.1% in 2024 – more than double the default rate of 7(a) loans originated by banks in 2023. (See Appendix A, attached.) These data are deeply concerning and strongly suggest that SBA should return to the more robust nine-factor lending criteria for underwriting 7(a) loans that had been in place prior to 2023.

Moreover, as SBA seeks to expand lending to small businesses, the agency should focus on increasing the number of regulated banks that participate in the 7(a) Program instead of seeking new nonbank entrants to the Program. Recent research published by the FDIC indicates that community banks face regulatory hurdles that discourage them from utilizing SBA loan programs. According to the 2024 FDIC Small Business Lending Survey, roughly half of surveyed banks with less than \$10 billion in assets said they had difficulty obtaining expertise and personnel to enter or expand participation in SBA lending programs.⁷ Furthermore, 35 percent of community banks in the study said compliance with servicing guidelines limited their involvement in SBA programs, and 34 percent of surveyed community banks stated that high administrative costs limited their participation.

As a first priority, SBA should address these barriers to community banks’ participation in the 7(a) Program and other SBA lending programs. SBA should not grant any new SBLC licenses

³ In November 2023, SBA granted small business lending company (SBLC) licenses to Arkansas Capital Corp., McKinley Alaska Growth Capital, and Funding Circle US. Funding Circle US surrendered its license in June 2024 after it was bought by iBusiness Funding. In December 2024, SBA granted SBLC licenses to A10 Capital, Cooperative Business Services, Lafayette Square, and Stonehenge Capital. Therefore, since SBA lifted the moratorium, it has extended seven licenses, one of which was surrendered, for an aggregate total of six licenses extended.

⁴ Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization, 87 Fed. Reg. 66,963, 66,964 (Nov. 7, 2022), <https://www.govinfo.gov/content/pkg/FR-2022-11-07/pdf/2022-23597.pdf> (“Based on current oversight capacity, . . . SBA anticipates that it has the ability to license and supervise three new additional SBLCs.”).

⁵ Affiliation and Lending Criteria for the SBA Business Loan Program, 88 Fed. Reg. 21, 074, 21,085 (Apr. 10, 2023), <https://www.govinfo.gov/content/pkg/FR-2023-04-10/pdf/2023-07173.pdf> (codified at 13 C.F.R. § 120.150).

⁶ Sm. Bus. Admin., SBA Procedural Notice, Implementation of the Final Rule on Affiliation and Lending Criteria for the SBA Business Loan Programs (88 FR 21074, Effective May 11, 2023) and Raising of the Maximum Loan Amount for 7(a) Small Loans, Control No. 5000-846607 (May 9, 2023), https://cdn.vmaxs.com/www.naggl.org/resource/resmgr/policy/notice_2023/Notice_5000-846607_Implement.pdf.

⁷ Fed. Deposit Ins. Corp., 2024 Small Business Lending Survey 18-19 & fig. 2.12 (2024), <https://www.fdic.gov/system/files/2024-09/small-business-lending-survey-2024-full.pdf>.

unless and until the agency demonstrates there is a small business lending “desert,” SBA identifies the new SBLC as the institution best able to serve that specific geographic or socioeconomic gap, and SBA demonstrates it has the resources to oversee the new SBLC. We encourage this Committee, through SBA oversight, to determine if the agency has sufficient resources to supervise the existing 20 SBLCs and to insist that SBA demonstrate its capabilities before the agency grants any more SBLC licenses.

Two other policies that would improve the safety and soundness of 7(a) lending concern the Loan Authorization and equity injections. When SBA lifted the moratorium on the number of nonbank 7(a) lenders, the agency discontinued use of a “Loan Authorization” as a required document for 7(a) loans. Before it was discontinued, the Loan Authorization reflected SBA’s commitment to guarantee the loan if specified conditions are met. The loan term length, rate, amount, and allowable uses of loan proceeds will vary from one 7(a) loan to the next. The inclusion of a Loan Authorization in the loan file removed any uncertainty about the conditions applicable to the loan. This was particularly important in cases when the lender who made the loan left the financial institution or if a party to the loan seeks to make modifications to the loan after origination. SBA should reinstate the Loan Authorization as a required document for 7(a) loans.

SBA also should reinstate the requirement, in place until January 2024, that 7(a) small business borrowers provide a 10% equity injection when the borrower is a startup (fewer than two years of business operations) or when the borrower is purchasing an existing business. This requirement better ensures the start-up company has the ability to repay the loan. SBA should reinstate its requirement that start-up companies seeking a 7(a) loan provide a minimum injection of equity.

II. SBA Should Improve the Efficiency of the 7(a) Program by Reinstating the Franchise Directory

To be eligible for an SBA loan, a business must be “small.” To prevent larger businesses from obtaining SBA loans, SBA has rules that govern whether a franchisor and franchisee will be considered affiliated businesses, requiring employees and revenues of the affiliated entities to be aggregated to determine whether the composite business is a small business. In 2023, SBA altered its rules to no longer consider a franchise agreement when determining whether a franchisor and franchisee are affiliated. As part of that change, SBA discontinued its franchise directory – i.e., a directory of franchises that had been reviewed by SBA and found eligible to receive SBA loans. This ended a valuable resource that assisted 7(a) lenders with determining the eligibility of a franchisee for a 7(a) loan. The onus on checking affiliated business status now rests with the lender, increasing the cost of delivering needed capital to these small businesses. SBA should continue to conduct eligibility reviews of franchisees and publish, on a regular basis, the franchise directory.

III. Congress Should Repeal Section 1071’s Small Business Lending Data Collection

We deeply appreciate this Committee’s focus today on strengthening the 7(a) Program. But 7(a) loans – while an important source of financing – are only one type of loan that small businesses may receive. The broader small business lending landscape is threatened by section 1071 of the

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). We urge this Committee and the Congress to repeal section 1071.

Section 1071 of the Dodd-Frank Act requires financial institutions to collect and report to the Consumer Financial Protection Bureau (CFPB) detailed data on each application for small business credit, including the race, sex, and ethnicity of the business owners. The goal of the data collection is to enforce fair lending laws and identify opportunities for community development. We support these goals but are concerned that section 1071 and the CFPB's implementing regulation will make it harder for banks to serve small business customers. The CFPB's final 1071 rule expanded the 13 data points required by Congress to 81 data fields for each application for credit. Banks estimate that implementing the section 1071 rule will impose average upfront costs of up to \$7 million and average annual costs of up to \$2 million on each bank – costs that will raise the cost of credit and decrease its availability. Even the CFPB acknowledged that banks would have to pass on these costs to their small business customers.

Congress should repeal section 1071 and ensure that small businesses have access to the capital they need to thrive.

Conclusion

We appreciate the Committee's attention to how it can work with SBA to strengthen the 7(a) Program and to facilitate small business lending more broadly. We urge SBA to impose stronger underwriting standards on 7(a) loans, not grant additional SBLC licenses without a demonstrated need and without showing that the agency can effectively supervise new entrants, and improve the efficiency of the 7(a) Program by reinstating the franchise directory. We also ask the Committee and Congress to repeal section 1071 of the Dodd-Frank Act. With these changes, the Committee can strengthen small business lending and enhance the ability of banks to make these critical loans that drive economic growth in our nation's communities.

APPENDIX A

		Performance Year								
		2017	2018	2019	2020	2021	2022	2023	2024	
LUMOS Small Business Lending Vintage Grid	Origination Year	2017	0.7%	2.0%	2.6%	2.0%	1.2%	2.4%	2.3%	2.8%
		2018		0.4%	1.4%	1.3%	1.7%	1.5%	2.1%	3.7%
		2019			0.4%	0.8%	1.9%	1.5%	4.1%	3.3%
		2020				0.1%	0.9%	1.5%	2.7%	2.4%
		2021					0.1%	0.3%	2.3%	3.4%
		2022						0.1%	1.5%	3.8%
		2023							0.4%	2.1%
		2024								0.2%
			All Loans Credit Unions							
Annual Default Rate by Lender Classification	Origination Year	2017	0.8%	2.4%	3.3%	2.3%	2.5%	2.2%	3.6%	4.4%
		2018		1.1%	2.9%	2.3%	2.7%	2.4%	4.3%	5.4%
		2019			1.1%	1.6%	2.4%	2.6%	4.0%	5.2%
		2020				0.3%	1.0%	1.9%	3.1%	4.2%
		2021					0.2%	0.9%	2.4%	3.3%
		2022						0.3%	2.4%	4.5%
		2023							1.0%	3.9%
		2024								0.9%
			All Loans Bank Lenders							
Example: Loans Originated in 2020 by Nonbank Lenders had a 4.4% Default Rate in 2024	Origination Year	2017	1.6%	3.5%	6.7%	3.4%	2.5%	3.5%	5.6%	6.3%
		2018		2.2%	6.4%	4.3%	3.2%	4.4%	6.4%	5.1%
		2019			2.3%	2.0%	3.1%	4.9%	7.2%	7.8%
		2020				0.5%	1.2%	3.6%	6.0%	4.4%
		2021					0.4%	1.5%	4.9%	5.4%
		2022						1.0%	5.5%	9.5%
		2023							2.4%	8.1%
		2024								1.4%
			All Loans Nonbank Lenders							

The CHAIR. Thank you very much, Ms. Sims. And now, Ms. Guerrero, you are recognized for five minutes.

STATEMENT OF MS. MAYRENA GUERRERO, FOUNDER AND CEO, COLORFUL RESILIENCE, WEST SPRINGFIELD, MASSACHUSETTS

Ms. GUERRERO. Thank you. My name is Mayrena Guerrero. I'm a licensed mental health counselor and entrepreneur in Massachusetts. I am honored to be here and talk about my experience with the SBA Community Advantage Loan through Common Capital.

My business is Colorful Resilience, a mental health clinic that provides outpatient mental health services to Black Indigenous People of Color, Lesbian, Gay, Bi, Trans, and others with various sexual and gender identities, immigrants, first generation people and our allies.

What sets us apart, is that our team members represent the communities we work with. These brings about cultural competency that comes not just from education, but shared lived experiences with our clients.

I hold a Bachelor of Science degree from University of Catlica Santo Domingo in Dominican Republic, and a Master of Science in mental health counseling from Fitchburg State University in Massachusetts. Go Falcons.

After graduate school, I worked in community mental health for three years providing outpatient services. After completing the necessary hours and passing the licensing exam, I obtained my license to practice mental health counseling independently in Massachusetts.

In 2016, I established a private practice marking the beginning of my entrepreneurial journey as a solo practitioner. My practice filled up quickly as clients discovered me through the *PsychologyToday.com* providers directory. In my published profile, I discussed my therapeutic approach and comfort in working with immigrants, people of color, and members of the LGBTQ plus community like myself. I quickly noticed clients sought me out primarily because of our shared identities.

In 2020, due to the mental health crisis resulting from the pandemic and the Black Lives Matter movement, inquiries for services increased from two a day to 20. My practice was packed and I wondered where to refer individuals seeking support based on identity affinity. I realized then that there was a niche in the market that was not being addressed, and that is when the idea for Colorful Resilience was born.

If I were going to do this, it will be done right. My company will have multiple practitioners and be the work environment I always dreamed of. The humanity of the clinician will be front and center because happy and healthy clinicians, produce better therapeutic outcomes.

I will do things differently and go against the industry standard. My clinicians would receive a guaranteed bimonthly paycheck with a salary that exceed the living wage for our county, based on the MIT living wage calculator. A yearly inflation raise will be essential to prevent a pay cut and an annual productivity raise would incentivize meeting productivity goals. Both part-time and full-time

Employees will have access to health and dental care. Additionally, the company will reimburse continuing education credits as 15 CEs are required annually to maintain our licenses and now, we're in year three and in this year, we're able to offer 401k to our employees.

Burnout is a significant issue in the mental health field leading to frequent turnover and a mass exodus from the profession. I recognize that establishing reasonable and sustainable productivity expectations is crucial.

Furthermore, supporting and encouraging clinicians to attain their private practices is essential for maximizing their earnings and increasing representation from these communities in the field. In other words, my team members were not leaving Colorful Resilience because we were a lousy employer, but because they were ready to self-actualize professionally.

So, the idea was there and it was a good one, but I needed capital. So, I went to talk to my community Bank of 15 years. I sat down with a person from Commercial Lending, business plan hand, he listened to me and told me it was an excellent idea, but that they didn't fund startups. For them to lend me the 300K I needed to start my business, I would need to have assets, assets that amounted to that much, which I didn't. It was the bank who told me about Common Capital.

I went to Common Capital's website and filled out a simple form. Then with a business plan in hand I met with them. They supported my idea and told me they would work with me to secure the funds I needed to make it a reality. Common Capital helped me secure an SBA Community Advantage loan for \$250,000 and a \$50,000 microloan at a six-year term and a 7.5 interest rate.

In addition to the loans, Common Capital helped us get marketing and technical assistance help from a third party, contributing to our recruitment efforts. From the very beginning, Colorful Resilience has submitted monthly profit and loss and balanced sheet reports to Common Capital, helping keep us accountable as we go. Common Capital invested in Colorful Resilience and we continue to experience and support to this day.

On February 23rd, 2022, Colorful Resilience, LLC became a registered business entity, and in August of that year, we started seeing clients. Today, according to the Boston Business Journal, Colorful Resilience is the 27th largest LGBT owned business in the state of Massachusetts.

We're a profitable company currently employing 15 people and on track to hire three more full-time clinicians this year.

We have about 550 active clients and 3000 people have had access to care because we exist. Outpatient mental health is primary care. Clients who are adequately supported and at outpatient mental health level rarely need to access higher, more expensive levels of care like partial hospitalization, inpatient, or like a residential program. We keep the cost of mental health care down. We don't depend on government grants to function and we pay taxes.

Businesses like Colorful Resilience keep the American economy going in the right direction. The SBA Community Advantage Loan changed my life and the lives of many others. I am grateful that this program exists and was lucky to have access to it. Please con-

tinue to support organizations like Common Capital so that they can make businesses like mine possible. Thank you.
[The prepared statement of Ms. Guerrero follows.]



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February 24th, 2025.

Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan Program

Testimony

Mayrena Guerrero LMHC
Founder & CEO
Colorful Resilience LLC

My name is Mayrena Guerrero. I am a Licensed Mental Health Counselor and entrepreneur in Massachusetts. I am honored to be here to talk about my experience with the SBA Community Advantage loan through Common Capital.

My business is Colorful Resilience, a mental health clinic that provides outpatient mental health services to Black Indigenous People Of Color, Lesbian, Gay Bi Trans Queer, and others with various sexual and gender identities, immigrants, first-generation people, and our allies. What sets us apart is that our team members represent the communities we work with. This brings about cultural competency that comes not just from education but also from shared lived experiences with our clients.

I hold a Bachelor of Science degree from Universidad Católica Santo Domingo in the Dominican Republic and a Master of Science in Mental Health Counseling from Fitchburg State University in Massachusetts. After graduate school, I worked in community mental health for three years, providing outpatient services. After completing the necessary hours and passing the licensing exam, I obtained my license to practice mental health counseling independently in Massachusetts. In 2016, I established a private practice, marking the beginning of my entrepreneurial journey as a solo practitioner.

My practice filled up quickly as clients discovered me through the [PsychologyToday.com](https://www.psychologytoday.com) provider directory. In my published profile, I discussed my therapeutic approach and comfort in working with immigrants, people of color, and members of the LGBTQ+ community like myself. I quickly noticed clients sought me out primarily because of our shared identities.

In 2020, due to the mental health crisis resulting from the pandemic and the Black Lives Matter movement, inquiries for services increased from two a day to twenty. My practice was packed,

and I wondered where to refer individuals seeking support based on identity affinity. I realized then that there was a niche in the market that was not being addressed, and that is when the idea for Colorful Resilience was born.

If I were going to do this, it would be done right. My company would have multiple practitioners and be the work environment I always dreamed of. The humanity of the clinician would be front and center because happy and healthy clinicians produce better therapeutic outcomes.

I would do things differently and go against the industry standard. My clinicians would receive a guaranteed bi-monthly paycheck, with a salary that exceeds the living wage for our county, based on the MIT Living Wage Calculator. A yearly inflation raise would be essential to prevent a pay cut, and an annual productivity raise would incentivize meeting productivity goals. Both part-time and full-time employees would have access to health and dental care. Additionally, the company would reimburse continuing education credits, as 15 CEs are required annually to maintain our licenses.

Burnout is a significant issue in the mental health field, leading to frequent turnover and a mass exodus from the profession. I recognize that establishing reasonable and sustainable productivity expectations is crucial. Furthermore, supporting and encouraging clinicians to attain their private practices is essential for maximizing their earnings and increasing representation from these communities in the field. In other words, my team members were not leaving Colorful Resilience because we were a lousy employer but because they were ready to self-actualize professionally.

The idea was there, and it was a good one. But I needed capital, so I went to talk to my community bank of 15 years. I sat down with a person from commercial lending, business plan in hand. He listened to me and told me it was an excellent idea but that they didn't fund startups. For them to lend me the \$300,000 I needed to start my business, I would need to have assets that amounted to that much, which I didn't. It was the bank who told me about Common Capital.

I went to Common Capital's website and filled out a simple form. Then, with a business plan in hand, I met with them. They supported my idea and told me they would work with me to secure the funds I needed to make it a reality. Common Capital helped me secure an SBA Community Advantage loan for \$250,000 and a \$50,000 microloan at a 6-year term and a 7.5% interest rate. In addition to the loans, Common Capital helped us get marketing and technical assistance help from a third party, contributing to our recruitment efforts. From the very beginning, Colorful Resilience has submitted monthly Profit and Loss and Balance Sheet reports to Common Capital, helping keep us accountable as we go. Common Capital invested in Colorful Resilience, and we continue to experience their support to this day.

On February 23rd, 2022, Colorful Resilience LLC became a registered business entity, and in August of that year, we started seeing clients. Today, according to the Boston Business Journal,

Colorful Resilience is the 27th largest LGBT-owned business in MA. We are a profitable company, currently employing 15 people, and on track to hire three new full-time clinicians this year. We have about 550 active clients and over 3,000 people have had access to care because we exist.

Outpatient mental health is primary care. Clients who are adequately supported at an outpatient mental health level rarely need to access higher, more expensive levels of care, like partial hospitalization, inpatient hospitalization, and residential treatment centers. We keep the cost of mental health care down. We don't depend on government grants to function, and we pay taxes. Businesses like Colorful Resilience keep the American economy going in the right direction.

The SBA Community Advantage loan changed my life and the lives of many others. I am grateful that this program exists and was lucky to have access to it. Please continue to provide organizations like Common Capital with the support necessary to make businesses like mine possible.

Thank you.

The CHAIR. Thank you, Ms. Guerrero, and thank you for your work in mental health, we really do appreciate that as well. So now we will move on to the question-and-answer portion of the hearing, and I will recognize myself for five minutes for questions, and I will start with Mr. Fitzgibbon.

So, Mr. Fitzgibbon, as you know, the Biden administration significantly weakened underwriting standards in the SBA's 7(a) loan program. Since those changes were implemented, the 12-month default rate has more than doubled and the early default rate has almost tripled. How important are strong underwriting standards to the long-term stability of the 7(a) loan program?

Mr. FITZGIBBON. Thank you, Senator. I think prudent underwriting provides the foundation for long-term stability. There are other factors like guarantee fees and so on, but they're not as important as underwriting. It's truly the cornerstone of managing debt.

The CHAIR. Yes, that's good. And Ms. Sims, thank you for being here today. The previous administration allowed additional non-banks, including fintech firms to participate in the 7(a) loan program. So as a community banker, how do your underwriting processes differ from those that are non-bank lenders, such as fintech firms, and how do these differences affect the loan performance in the 7(a) loan program?

Ms. SIMS. Community bankers, we live and we dine and we use the services that business owners have. So, we see people, when we provide loans, we're not just providing loans to paper, we're providing loans to people. So, we try to find financial solutions and complement our banking needs through SBA programs, depending on how much assets they have, how much capital they need.

And so having that availability through the SBA program is imperative for us. The credit underwriting is the same for SBA lending. We still have to make sure that the loan can be repaid back, but a lot of times our entrepreneurs need education. They need to know how much debt they need to have; they need to have a budget. I like to say the saying, if you don't plan, you plan to fail.

And a lot of times these business owners need guidance from us as a community banker to be able to either say, hey, you need to start with us, or they may need to start with a Community Advantage lender just to get started. So just being there to educate the client makes us very different than fintech, which is where my concern is.

Fintech is more about a predatory approach and trying to just give money as fast as they can. And they don't really see them as human. They just see them as another source of financing and getting rates. So that's where my concern is the most, is the fact that they're taking the human approach away from community banking when you allow fintech to take over.

The CHAIR. Yeah, I do appreciate that support. Thank you. And Mr. Fitzgibbon, the SBA has had four straight quarters of negative cash flow. Over roughly that same period upfront borrower fee revenue has decreased by 13 percent while loan purchases, which occur when SBA has to buy a defaulted loan from a lender have increased by 73 percent. How concerning are these trends and what

steps need to be taken to ensure that the 7(a) program continues to operate at zero subsidy from the taxpayer?

Mr. FITZGIBBON. Well, thank you, Senator. I mean, four quarters of data is you can't draw every conclusion from four quarters of data, but it's all we have, and it is alarming for the comparison to the other vintages. So, I think looking at borrower fees is probably, and lender fees and reintroducing them is probably necessary.

I would say that the cost of inaction is high, because regardless of the cost of the taxpayer, every loan that shouldn't have been made those defaults, ruins the financial life of that small business owner. And so, you could take a wait and see approach for the year and see if things normalize, but I think there's a human cost to that, that to me seems unadvisable.

The CHAIR. Okay. Thank you. And now I would like to ask a question to all the lenders on the panel. Over the last five years, we have seen a dramatic expansion in the use of lender service providers or LSPs by SBA lenders. These LSPs assist SBA lenders by referring processing and servicing loans and are often increasing the volume of SBA lending.

Does your company utilize an LSP and could you just talk about the proper role of an LSP in assisting SBA lenders and Mr. Lanza-Weil I'll start with you first and then we'll go to the other lenders.

Mr. LANZA-WEIL. Well that's easy: No, we don't.

The CHAIR. Okay. Thank you. [Laughter.]

The CHAIR. Mr. Fitzgibbon.

Mr. FITZGIBBON. We don't use them. I think they play a helpful role if the lender that they're partnering with has good guardrails. But I think in combined with a fintech lender that it's all about churning volume, I think that they can be a part of the problem.

The CHAIR. Okay. Thank you, Ms. Sims.

Ms. SIMS. Starting an SBA department in a community bank is daunting. It's a difficult task. And so, it can be very alluring to look at an LSP. I looked at it at one time when I was starting the department, but it's really difficult to keep consistency of your culture of who you are as a bank when you outsource it to somebody else. Keeping that consistency and also keeping the culture of your bank is out of your control.

And a lot of times the customer experiences very bad customer service because they're not only dealing with us, they're also dealing with the LSP. If it's sold in the secondary market, they're not able to renegotiate their interest rates. So, they're also putting some guardrails on that. So LSPs do have a sense of purpose, don't misunderstand me, but they can also abuse that situation. So, we do have to enter that cautiously when using LSPs.

The CHAIR. Okay. Thank you, that's very helpful.

Ms. SIMS. And we do not use LSPs, by the way.

The CHAIR. Okay. Thank you very much. I appreciate that. I will turn it now to Ranking Member Markey for your questions. Thank you.

Senator MARKEY. Thank you so much. And so great news, really, really, really great news. In the United States last year. Last year, the Biden administration, 886,000 jobs directly related to 7(a) were either created or retained, great number. Another great number in Donald Trump's last year before Covid 2019, the 12-month default

rate on 7(a) program 2.75, percent last year the last year of the Biden administration, 2.76 percent default rate.

Now, we do admit that the default rate did go down to 1.32 percent at the height of COVID, but that was because of this great committee's work, passing the PPP program, passing the EIDL program, we were actually able to lower the default rate because of our actions to help those small businesses.

But it's returned to normal, Trump 2.75 percent Biden 2.76 percent. So, we'll give Trump the win there by one 10th of 1 percent. Okay. He wins in that one category, but let's just say we're back to normal in terms of the 7(a) program and we should be very, very proud of the work that all these business people are doing out there.

This SBA Community Advantage program has demonstrated success in making small dollar loans to small business owners that struggle. We see this story here in Springfield, Massachusetts. We see the lender and the recipient creating some capitalist magic that otherwise would not exist.

And these lenders don't just provide loans: they provide financial help, marketing help, technical assistance that otherwise Ms. Guerrero and people like her, all across the country creating 886,000 jobs would not otherwise have. Which is kind of this brilliant construct that we have. So, Mr. Lanza-Weil, you say in your testimony, we lent to people, not to paper. Can you explain how Common Capital's approach to making a loan to small business contrasts with a conventional lender.

Mr. LANZA-WEIL. Absolutely. We're a high touch lender. It's all about building a relationship with a borrower, with an applicant. You know, my first day on the job as a bank trainee in 1986 an old-time lender who smelled like cigar smoke, pulled me aside and said, you got to know this, know your borrower, it's the first rule of lending.

And I think sometimes in larger institutions, and certainly in fintech, which I'm not here to bash, we lose sight of that. I think Ms. Sims referenced it as well, building a relationship with an applicant, getting to know that person as a human being, getting to know them as something beyond the paper on which their credit report is printed is so important. And we invest a lot of time. It's inefficient, it's slow, it's high-touch, and it's highly effective.

Senator MARKEY. I agree with you. When I needed student loans, I was sitting next to my mother and father at the First National Bank in Malden, and Mr. Wentworth the banker, he said, Mr. and Mrs. Markey, you paid every month on the mortgage, so we trust you. So, we'll give the loan. There you go, high touch, they knew the customer.

So, Ms. Guerrero, talk about how Mr. Lanza-Weil and his operation was able to help you.

Ms. GUERRERO. Gladly. Common Capital has been just super helpful. The truth is that I really don't know how we would exist as a business if Common Capital and the SBA Community Advantage Loan program was not available to us.

I like the fact that the support that we received from them, I mean, you told me earlier there were nine people in your team. I really don't know the nine of them, but I know six of them by

name. And I know how to get a hold of them for questions or anything like that. And that is just that relationship that I don't have with my community bank.

Senator MARKEY. And so, give us one quick example, if you can, of something that they could help you to do that you would've had no capacity as a startup or small business.

Ms. GUERRERO. I mean, exist, sincerely, Senator, who would've given me the—okay, my other option to get the money to start my business would've been a predatory lender that would've given me a really high interest rate in terms that were really not conducive to profitability. So, it's as simple as that.

Senator MARKEY. And you could have found them in Springfield, Massachusetts.

Ms. GUERRERO. Oh, of course.

Senator MARKEY. The predatory lending?

Ms. GUERRERO. You can find them anywhere.

Senator MARKEY. Oh, yes. So, you are just a perfect example of a wonderful system creating 886,000 jobs that is working with the default rate equal to the Trump years. Okay. Which is just an incredible achievement. So really helps to show how America can be great in helping startups to get over that financial hump.

The CHAIR. Thank you, Ranking Member. And I do want to stress, it's the early defaults are really the issue that we're getting at today. The last three years, loan defaults are rising faster than pre COVID levels. And the program is losing money for the first time in a dozen years. So, it is something that we do need to scrutinize and we need to understand why this is occurring. So, we will go next to Senator Husted. You are recognized for five minutes of questions.

Senator HUSTED. Thank you very much. Welcome to all of you. Thanks for being here today. I have a background overseeing a small business development center. I have a background on the board of a community bank, where I was on the loan committee, and I know how much our regulators scrutinize what loans we do make and what loans we don't make.

And that this is—the community banks around the country are very close to their customers, and they know these issues quite well. But what I don't know well, I've only been a senator for four weeks. [Laughter.]

Senator HUSTED. So, I'm, I'm trying to catch up on all the things that have happened in the past, and I know Mr. Fitzgibbon and Ms. Sims, you talked about rule and fee changes that had happened under the Biden administration, and I want to understand that better, and how that impacted the 7(a) program and just what the exposure and the risk of that.

So just help educate me a little bit more about what that means, what the impact is, Mr. Fitzgibbon I'll talk, start with you.

Mr. FITZGIBBON. Thank you, Senator. So, briefly, the rule changes reduced the underwriting criteria, and over the last couple of years the guarantee fee and the lender fee were waived up to, I believe it's a million dollars, no guarantee fee to the borrower up to a million dollars, this year it's no lender fee up to \$500,000. So those are fees that support the program in a sense, it's skin in the

game for the borrower. Those have been waived for a couple of years.

The concern is that the lessened underwriting criteria has resulted in loans being made that shouldn't have been made and that's what's driving up delinquency and default rates.

Senator HUSTED. Okay. And Ms. Sims.

Ms. SIMS. So, when you get insurance, you have to pay a premium to have insurance. So, you think of the government guarantee in that sense, is that typically when you're asking for a government guarantee, it's protection on the loan for the bank.

And so I've been an SBA lender for my entire career, and I've seen the fees my entire life where, you know, SBA has provided this guarantee, this insurance to the lender, AKA, the customer gets this insurance as well, there's protection on their side, so there's benefit for the customer on that side, but typically, because we don't want this to be a burden on taxpayers, they self-fund through these fees.

And so that's, really important to understand that we don't want the fees to be inappropriate, but we also want to make sure that they're not impacting the taxpayer money.

Senator HUSTED. So, you, so summary, you think that would improve default rates and it would help sustain the program so that it's not a burden.

Ms. SIMS. So, sustainability is the key, right? We want to make sure it can be in the black. We don't want it to be in the red. So, if we see that there's problems there, we got to see, we got to re-evaluate the situation when it comes to you know, the underwriting, that's something else that I've never seen, what we call the SOP dramatically change, to "do what you do", that's the rule. And makes it very complicated to know, because I, as a community bank can operate differently than another community bank.

And having the regulations so loose, if you do what you do, also doesn't provide what I call a level playing field. And so that's important to also understand is that the SOP has changed. And now if you feel comfortable providing loans that are what I would say, not prudent, then you're allowed to do that because you are not regulated in the same way as maybe a community bank that has higher regulations.

Senator HUSTED. Great. Mr. Lanza-Weil, do you have a thought on that?

Mr. LANZA-WEIL. Thank you, Senator. I don't know much about the fees. What I do know is about underwriting standards. We're required to maintain our underwriting standards even when the rules change in the SOP, the standard operating procedures. I think what we are hearing is that there are some lenders that haven't followed their own prudent underwriting guidelines. And that's perhaps not the fault of the program, that's the fault of the lender.

So, I'd be cautious about throwing the baby out with the bath water. Our default rate hasn't changed, and among all the CDFIs I know, the default rate hasn't changed because we're very focused on making good loans in our market. It sounds as if there's a lot of lenders out there that aren't doing that. And they should have

more guidance and be more careful. And I would hate for their imprudent lending to harm our prudent lending.

Senator HUSTED. Okay. Thank you.

The CHAIR. Thank you, Senator. Senator Rosen.

Senator ROSEN. Thank you. Chair Ernst, Ranking Member Markey, and thank you all for being here and just spending, well, of course, your life working with small businesses and for your work really in the mental health space, it's so needed.

And I'm going to give a little bit of a plug here for Nevada's credit union and community banks, I know them all so well. And I will say during the COVID crisis, but all the time, like you said, they're in the neighborhood. These are their friends, their neighbors. They know people have a relationship with them. They know if maybe a family emergency happened and they can't pay something now, and they'll pay it later. And they really want to see communities thrive. So, I just know the importance of this kind of lending and that special touch that you can give it. It's very meaningful.

And so, I think we can all agree that the 7(a) program, it's a vital source of funding for our small businesses. And Nevada business have received over 700 loans totaling \$355 million just last year alone of 99 percent of businesses in Nevada, or small businesses, by the way. Although we're known for those big casinos, 99 percent are the small businesses. But it should be a shared bipartisan priority for the program, like you say, to run as efficiently as possible.

And you know, I'm really thankful for your testimony so far, but it's not surprising that loan defaults delinquencies, they're more likely in times of economic uncertainty. And small businesses may face declines in sales or subsequent cash flows, mental health, of course I think you're going to stay pretty steady there. But similarly, poor economic conditions can put a strain on lenders who may be tightening their criteria and they reduce their loan volume.

And so, we might look at looming tariffs, unreliable federal funding, economic uncertainty. It's critical we understand, again, the impact it's going to have on all of you. So, Mr. Lanza-Weil, can you discuss how the broader economic picture in this country is going to, in fact, affect maybe the borrower's loan performance and your lending activity?

Mr. LANZA-WEIL. Thank you, Senator. I think you said the word already, it's the uncertainty. The uncertainty that's existing in the marketplace today because of so much rapid and chaotic change is making it hard for us to plan. I don't know what the SBA's budget will look like next year. None of us do, obviously. I hope it's robust. But as we begin planning for our next fiscal year, we don't know how much money we can count on for an SBA grant that supports the business assistance that is so critical to supporting entrepreneurs like Mayrena.

The business education and training that we provide is focused on helping people create and understand and use their financial statements and the management of their business. Mayrena knows how to be an exquisite mental health counselor, but probably didn't know much about QuickBooks before she came to us, or how to market her business.

Senator ROSEN. She learned pretty quickly us, and then that's what we're going to ask. How's the business environment impact-

ing you and the uncertainty impacting you? You're working together, giving her the training, the resources, understanding how to be successful. How are you feeling in this moment?

Ms. GUERRERO. Well, it is true that the need for mental health services is there, but it's also true that the economic landscape is making—for example, I'm noticing that my clients, instead of booking weekly, they are booking biweekly because they can't afford the copay, or they have a hard time affording the deductible. Or like, people are losing their jobs, which means that they're losing access to healthcare. Or there could be like an executive order like freezing government funds, which affects Medicaid and Medicare, and that's 20 percent of my income. So definitely there's an impact in my business.

Senator ROSEN. Well, I want to go back to something you just mentioned. The importance of the SBA resource partners, as we see, it makes you successful. You're a great counselor, but maybe you didn't know QuickBooks when you started. And so, we have to bring that critical support and the training for our small business owners, from veterans' business outreach centers, small business development center, women business centers, and the like.

I was so proud to bring the first ever Veterans Business Outreach Center to Nevada. We have almost a quarter million veterans in Nevada, very entrepreneurial. And really provide that tailored support and that free counseling, that technical assistance so that they can do what they do. And I know I have a short time left.

Can you talk Mr. Lanza-Weil about the importance of this financial management counseling? I know all of you could really speak to this, but that's a big part of what you're helping a small business owner do, and how critical it is that we keep these resources flowing or their success and payback of the Loans.

Mr. LANZA-WEIL. Absolutely. Many of our applicants and borrowers have received services from our local small business development center network, and from our Women's Business Resource Center, which is the Center for Women in Enterprise, which serves all of New England and has had to lay off some staff already, because they are not getting the federal funds, they need on an ongoing basis to pay their staff to provide services to small businesses.

The way we mitigate risk in a community development financial institution is with hands-on business assistance and training. By making Mayrena a better business person, she's also a better mental health counselor, and a better, a more sustainable and viable business in the long term.

And at this particularly uncertain time, if the economy worsens, banks will tighten their lending as they always do. And CDFI loan funds, which are countercyclical, we'll see an increase in demand. And that increase in demand means that we'll need more help from our service partners to serve the businesses that we're able to make loans to.

Senator ROSEN. Well, thank you. I do believe small businesses are the engine of our economy in every state. Thank you for having this hearing, Madam Chair, and we need to continue to invest in the good work that you're doing. Thank you. Great.

The CHAIR. Thank you, Senator Rosen. Senator Booker, you are recognized.

Senator BOOKER. Thank you so much. I was excited to get on this committee when I got here, because I spent so much time as the mayor trying to get more access to capital for businesses in the City of Newark. And we were able to see an explosion during a recession, of new investment into our city, entrepreneurs succeeding. It was one of the best experiences that I got on this committee and it's been one of the better bipartisan committees that I've had here, and just finding ways because all of us know in our states, there's so much investment worthy people.

I remember the now Secretary of State and I working together in the midst of the pandemic when the PPP loans coming out. But we found an arbitrary rule that disbarred people who had been justice involved returning offenders.

They'd had to be out of for five years before they could qualify for a PPP loan, that was arbitrary and just dumb. And my Republican colleagues agreed, and we got it fixed under the Trump administration.

So, it's just a great environment for us to continue to try to do good work. I'm a big person who believes in entrepreneurialism and the power for communities of capitalism, the double, triple, quadruple bottom lines that we find.

And so, I just want to jump into some areas really quickly. One concern having had so much experience with Microloan programs inspired by the Grameen Bank in my community I'm really worried that we've had, you know, 15 years of mission-based lenders through the Community Advantage program that have worked closely with small businesses to help them get the capital they need, which is often small.

But in January, the SBA announced it would increase the loan maximum up to half a million dollars, which I think is going to have a really stunning impact. And right now, I'm hearing from lenders that they haven't had communication, really from the SBA on whether they can offer increased loans to small business owners. There's a lot of delay going on.

I got an extraordinary note from a small business lender in New Jersey, "Last week, we had to decline a loan request from a farmer in Mullica Hill, who sought to expand his seasonal open-air farm into a larger year-round operation. The business was doing well despite its seasonal limitations. His goal was to provide his community with high quality produce plants and specialty groceries year-round instead of in his current just five-month operation.

However, during our review, we determined that he required more than \$350,000 to complete renovations, purchase equipment, and secure the necessary working capital for successful expansion. He was concerned about the risk of undercapitalization. We had to decline the request. Given his limited collateral, securing traditional bank financing would have likely been a challenge for him. We believe the borrower needed Community Advantage 7(a) loans of at least \$450,000."

So, it's disappointing that small businesses in New Jersey are missing out on opportunities with these larger loan possibilities. And so just I'm hoping you shed some light on this, Mr. Lanza-Weil, have you been able to offer increased loan amounts in addi-

tion to the small ones that you're probably very familiar with? what would the impact be for your business folks?

Mr. LANZA-WEIL. For a long time, Senator our loan limit has been only \$300,000. So, there's not been an effect in the past for the changes in the loan limits. But we'd like to raise our loan limit internally for all sorts of loans. And we find that most of our larger loans, and a larger loan for us is a loan over \$75,000, our people coming to us with insufficient collateral.

So, if we're going to raise our loan limit, we need an increased loan limit on the Community Advantage program in order to be able to continue to help low asset and low wealth individuals.

Senator BOOKER. So, I just think there's a lot of common-sense fixes. I have some other questions I'm going to ask for the record that I don't think we'll be able to get through and the chairwoman is just rough on me. She particularly picks on New Jersey. So, I'm going to ask some questions for the record. I hope that you all will respond.

I want to thank the four of you because I know your heart and your determination, you do this work really to see communities flourish. And it means a lot to me that you would come down here and testify before the United States Senate. I know time is money, as you all know that, so it means a lot to me that you're here.

But I hope you'll be as the hearing is open, I hope that you'll be responsive to some of the other questions I have that I think can really inform this committee, which I hope continues its record of just working in a bipartisan manner to help folk out. So, thank you.

The CHAIR. Thank you. Senator Booker. My ears perked up when you said farmer?

SENATOR BOOKER. I know.

The CHAIR. I was so invested in——

Senator BOOKER. It's fourth largest industry. People don't think it is the garden state, you know.

The CHAIR. In New Jersey, folks. [Laughter.]

The CHAIR. Thank you, Senator Booker. Now we will recognize Senator Hirono for five minutes. Thank you.

Senator HIRONO. Thank you, Madam Chair. I just happen to have met with some farmers from Hawaii, and they have unique challenges because we are in the middle of the Pacific, and there are all kinds of invasive species, including axis deer. And, you know, people don't know that we have, yes—sheep and others, but be that as it may.

I think in you, Madam Chair, we have somebody who supports the that we can give from SBA, particularly to entities such as farmers and the people in rural areas. For Mr. Lanza-Weil, I just heard you say that you would want the loan limits to be raised, what is the loan limit that you are working with right now?

Mr. LANZA-WEIL. I believe it's \$350,000.

Senator HIRONO. And that you would like that raised to what? And it requires the Congress to raise that limit?

Mr. LANZA-WEIL. I don't know who requires to raise that limit. Okay. But 500,000 would be helpful to us.

Senator HIRONO. Is that because based on your own experience, that the amount of the kind of loans that people requests are more in the 500 range as opposed to the 300,000 range?

Mr. LANZA-WEIL. Senator, we see when they come to us with our \$300,000 loan limit, we see them scaling their plans and their ask to what they think they can get from us. If we had a higher loan limit, then they might reach further for the stars. And of course, everything's gotten more expensive over time. That's just the nature of money and time together, the time value of money, I think they taught us in in business school. So, our \$300,000 loan limit has become somewhat obsolete. And \$300,000 doesn't necessarily help launch many small businesses. We need to see more resources for that.

Senator HIRONO. I saw Ms. Guerrero, you are nodding your head, you would agree with loan limit issue?

Ms. GUERRERO. Definitely. I could have used \$500,000 at the beginning of my business. And the reason why I say this is because I got that \$300,000 from Common Capital, and about two years later, I needed an additional \$100,000 from another lender. So, if I would've had that money from the beginning, that would be much easier for me.

Mr. LANZA-WEIL. If I may, Senator, excuse me for interrupting. As Mayrena said, as a business grows, if they outgrow us, at least in Western Massachusetts, there's not another resource. We need to have more resource so we can help the businesses as they grow, not just as they establish.

Senator HIRONO. Oh, that certainly makes a lot of sense. Ms. Guerrero, you got your loan through the Community Advantage program, which was created frankly not too long ago, and it was started as a pilot program. Could I ask, how much was your loan from the Community Advantage program?

Ms. GUERRERO. The Advantage Program gave us \$250,000. And then I had an additional 50 grand microloan.

Senator HIRONO. So, without the Community Advantage program that you would have had a hard time getting your business off the ground?

Ms. GUERRERO. It would not have happened, Senator, because I wasn't going to fall prey of like predatory lending.

Senator HIRONO. How are you doing now?

Ms. GUERRERO. Oh, we are doing really well. We're really excited. I must say we're in conversations with Boston Impact Initiatives, which is a venture capital sort of firm that works with minority owners. And they're going to do a structured equity deal with us and just give us money so that we can have doubled the workforce that we currently have. So, we're about to grow significantly.

Senator HIRONO. Congratulations.

Ms. GUERRERO. Thank you.

Senator HIRONO. I really wish you the best. Mr. Lanza-Weil, then can you speak a little bit more about the importance of community lenders, because community lenders in a state like Hawaii, very important, but that's where your experience lies. Can you talk a little bit more about how important these kinds of lenders are in your—

Mr. LANZA-WEIL. Absolutely. I think any high touch lender is very important. I started my career at a community bank in the San Diego area. To the extent that the bankers on either side of me are community lenders who have a high touch approach, I think that's very important.

I think on the continuum of credit, we need everything from community lenders that are certified CDFIs and other community loan funds on through to community banks and credit unions. It's the know your borrower conversation, that I think perhaps you weren't in the room for yet, Senator. The first rule of lending is-know your borrower. Smaller banks, community banks and community loan funds get to know their borrowers, and that enables them to say yes more often and to manage the risk when they do say yes.

Senator HIRONO. So, for the two witnesses who are sitting to the left and right of you, are you both community lenders?

Ms. SIMS. Yes. I'm an SBA lender that works for First Security Bank, and we're community bank.

Senator HIRONO. So, you certainly would agree that community lenders like yours very important.

Mr. FITZGIBBON. Yes. Senator, we're community bank in the middle of Iowa.

Senator HIRONO. Thank you. Thank you, Madam Chair.

The CHAIR. Thank you very much. And I think we'll go ahead and wrap our hearing. Okay. I want to say thank you so much for the witnesses for being here today. This was a very productive conversation. Really appreciate your time and input to the committee today.

And I ask unanimous consent that the record of today's hearing remain open for two weeks for members to submit questions, revise and extend their records, and submit additional information into the record. Without objections, so ordered. And with that, the Committee on Small Business and Entrepreneurship—

Senator MARKEY. Can I make a closing statement? Okay. Please, you'll like it, I promise.

The CHAIR. Oh, we will allow. Proceed.

Senator MARKEY. Thank You. Just want to say that the Community Advantage Program was a pilot program and is still not law. And the Senate Small Business Committee, in its wisdom in 2023, passed out of this committee by 18 to one, the codification of the Community Advantage Program. It was blocked on the floor by Senator Paul, which is a common fate for many pieces of legislation, I might say. But we could work together once again, to try to try to pass that bill.

And I just wanted to note that even in early defaults, it was 1 percent during the Trump administration back in 2019, and it was 1 percent last year in the Biden administration. And it went down lower actually, because of PPP and—but even the early default is kind of just returning to where it was before COVID.

And the 7(a) loan program is healthy. 99 percent of loans are being repaid despite the short-term increases in the default rate. This rate is actually normalizing back to pre-pandemic levels, which is great. And I just want to go back to Mr. Wentworth at the First National Bank of Malden.

I remember sitting there, it looked a lot like you. Well, Mr. Wentworth really didn't look like you, Mr. Lanza-Weil, if you know what I mean. But the earlier generation, those old waspy bankers in New England, in that small city. And my father drove a truck for the Hood Milk company, and my mother was very mad at me for losing the full scholarship. You know, that I should have studied harder, she said, and we are sitting there, and my mother said, take out as much money as you want, Eddie, because you're going to pay it back, not your father. He's not going to take a second job.

And I was in Congress at age 30, and because I went to the school at Boston College Law School, I was elected at age 30. Those loans helped; my father's a milkman. And I was paying back the student loans for six years as a member of Congress. I was the poorest member of Congress, all I had was student debt and my car payments. I had no other assets, but he knew his lender. I mean, he knew his customer, he knew who he was loaning to. It was my mother and father, and they would make sure I paid it back.

So essentially, that's the essence of who you are. You're giving people who maybe the rest of the world can't quite see as well as they could, but because you know them and you trust them, you make them work at the same level as other businesses that maybe have those pre-existing relationships. So, I thank you so much, Madam Chair.

The CHAIR. And witnesses, stay put. We had one member sneak in before the fall of the gavel. So, Senator Hickenlooper, you are recognized for five minutes.

Senator HICKENLOOPER. Thank you, Chair and I appreciate you allowing the meeting to extend. I appreciate your indulgence. This is something I really care about, but in a previous life, seems like several lives ago, I came in as a new governor in Colorado, and we did a bottom-up economic development plan.

We went to all 64 counties, got everyone to write an economic development plan of what did they see in 50 years for their community, what should the state do to get there? And we took all those together and we made something, we called the bottom-up Economic Development Plan. And it was amazing how universal the vision was. Some was obvious, cut red tape and needless bureaucracy. Sometimes it was, get a better workforce training, stop marketing the state for skiers, but for entrepreneurs. But one thing we heard everywhere was to find ways to get better access to capital, for people trying to start small businesses.

So, Mr. Lanza-Weil, I guess I'll start with you. This Community Advantage program of expanding access to capital for underserved communities. I mean, it supports so many entrepreneurs in a variety of small businesses and helps them in accessing capital. In many cases, they wouldn't be able to find that capital anywhere, they're not from a community that has a lot of family money or friends and networks already in place.

So how has the Community Advantage program made it easier for Common Capital to reach some of these underserved communities?

Mr. LANZA-WEIL. Thank you, Senator. I recall you were in the brewery business, is that correct?

Senator HICKENLOOPER. I was a brew pub, so it was a really a restaurant, but it had a brewery inside of it.

Mr. LANZA-WEIL. When three of our 41 Community Advantage borrowers have been micro-breweries.

Senator HICKENLOOPER. Oh, get out. Really. Who knew?

Mr. LANZA-WEIL. It's true fact. Every single one of our 41 community Advantage borrowers came to us with a weakness that we could not overcome through our standard underwriting. It's almost always a lack of collateral.

We have people that have saved money for years to have their 10 percent equity injection. They've gotten the experience they need in their industry. They have a good business plan that's reasonable and achievable. They're buying assets in some cases with their loan, in the case of Mayrena, it was couches and clocks. In the case of a microbrewery, it's some hard assets that have more value, but every small business that forms it starts up needs working capital. And that doesn't act as collateral on its own.

So, we've needed the CA program to help bridge the gap when we've had a collateral deficiency. And I want to make clear Senators, that that doesn't cover the whole thing. The guarantees only 75 or 85 percent, or in one exceptional case, 90 percent. We're still taking risk in the formation of that business, as is the entrepreneur who's put everything they have into it. And if it weren't for the Community Advantage Program, we wouldn't be able to make many of those loans. Mayrena expressed already that her business wouldn't exist without it.

Senator HICKENLOOPER. Yes. I appreciate that and I salute you for all that work. I—all of you really, when I read the docket last night, it was really impressive. Mayrena, obviously the small businesses are important, not just for the entrepreneurs and not just for the employees, but for the communities they serve. In many cases, they serve a niche. And one of the wonderful things about small businesses in underserved communities, people live there. They know what the niche is, they know what the community needs. And I think that's an advantage that many businesses don't have.

You've talked about how the SBA programs helped you start your business of Colorful Resilience—love the title. We entrepreneurs spend our lives thinking of good titles, good names but I love the notion of Colorful Resilience in terms of mental health. It's a very powerful image. How would you describe the impact of your business on your community?

Ms. GUERRERO. Well, huge really, because the communities that we serve, the BIPOC, LGBT, first Generation immigrant communities, have just historically been underserved, just forever. And that gap became greater after the pandemic. And so, we all know that there's a mental health crisis. There's a lack of providers for the demand of mental health services. So, our existence and that cultural competency that comes from working with providers that have shared identities, has been huge. It's a huge impact in the community.

For example, my marketing budget is \$80; \$50 for my website, \$30 for my *Psychology Today* directory. Why? Because clients come

to me. I don't go looking for them. So that tells you the impact that it has in the community.

Senator HICKENLOOPER. Absolutely. Amazing.

Mr. LANZA-WEIL. Senator, may I add to that please?

Senator HICKENLOOPER. You have to talk to the chair because I'm out of time.

Mr. LANZA-WEIL. Madam Mayrena's business is not the only culturally competent and focused mental healthcare business that we financed. And we have, I think, a total of five mental health therapy businesses in our portfolio. But Mayrena's and one other are very much focused on people of color and others that have been traditionally underserved.

Senator HICKENLOOPER. It's a great example. I'm so glad you guys could find time to come here. And I will watch, I've been running around, but I'll watch the videos tonight to catch up. Anyway, I yield back to the chair. Thank You.

The CHAIR. Thank you. Senator Hickenlooper. Okay, we're going to try this again. Thank you very much. To our witnesses, thank you again for being here today, really productive discussion. Thank you for making it in right before the fall of the gavel.

So, at this time, I will ask unanimous consent that the record of today's hearing remain open for two weeks for members to submit questions, revise and extend their records, and submit additional information into the record. Without objection. So, ordered.

[The information referred to follows:]



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February 26, 2025

The Honorable Joni Ernst
 Chair
 Committee on Small Business
 & Entrepreneurship
 United States Senate
 Washington, DC 20510

The Honorable Ed Markey
 Ranking Member
 Committee on Small Business
 & Entrepreneurship
 United States Senate
 Washington, DC 20510

Re: Today's Hearing: "Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan Program"

Dear Chair Ernst and Ranking Member Markey:

On behalf of America's Credit Unions, I am writing ahead of today's Committee hearing entitled, "Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan Program." America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their over 142 million members nationwide. America's Credit Unions appreciates the opportunity to share the perspective of credit unions on measures impacting risk in the Small Business Administration's (SBA) 7(a) Loan Program.

Expanding Credit Union Participation in SBA Lending Programs

First, one of the best ways the SBA can manage risk is expanding and improving its work with its regulated financial institution lending partners such as credit unions. While credit unions are eager to grow their SBA loan portfolios, many report that the administrative burden makes it extremely difficult to do so. Lack of internal expertise and high costs associated with participation remain significant barriers. A 2019 survey revealed that 68 percent of non-participating credit unions identified insufficient expertise in processing, closing, and servicing SBA loans as the primary reason for their non-participation. Moreover, smaller credit unions, which often serve the most vulnerable communities, frequently lack the resources to hire specialized staff or invest in the infrastructure necessary to navigate these programs.

Even credit unions with experienced SBA lending departments see these challenges as well. They may hear the right message from SBA leadership about wanting to help community lenders and small businesses, but it does not always translate to the field. The day-to-day experience in contacting the SBA with questions about loans can often be cumbersome and frustrating. It is common for answers to questions to take days or weeks, or for credit unions to experience delays while the SBA works to verify information on borrowers.

Streamlining SBA loan processes would be a game-changer for credit unions and the small businesses they serve. For example, we commend the SBA's efforts during the pandemic to provide flexibility through initiatives like temporarily expanding size standards and increasing

February 26, 2025
Page 2 of 3

the Express Loan threshold from \$350,000 to \$500,000. These changes not only allowed credit unions to reach more borrowers but also demonstrated the potential for reducing procedural burdens without compromising program integrity. Making such changes permanent would incentivize broader credit union participation.

Additionally, providing more targeted training and technical assistance to community lenders is essential. Credit unions have expressed a strong interest in working with the SBA to enhance their operational capabilities in this space. Regular webinars, workshops, and on-demand training resources could address gaps in expertise and empower more credit unions to participate in programs like 7(a) and 504. We believe this can be done by regional offices being more proactive in reaching out to institutions in their footprint. By fostering a collaborative learning environment, the SBA can ensure that credit unions are well equipped to deliver the high-quality, mission-aligned lending that small businesses need. We would encourage the SBA to better use regional offices in such an effort to engage existing program lenders and potential lenders as well. Having the SBA regional offices more fully engaged in the day-to-day operational issues faced by lenders will ultimately help streamline inefficiencies and enable quicker access to capital for the small business members that we serve. Without a fully engaged SBA regional office, lenders are left to themselves to navigate a very challenging and often complex SBA process labyrinth.

Safeguarding SBA Programs from Risks Introduced by Fintechs

A second area for the SBA to address risk is to limit the expansion of its programs to fintech lenders. The rise of fintech lenders in SBA programs has brought both opportunities and challenges. While fintechs have demonstrated an ability to leverage technology to reach new markets, their participation in SBA initiatives has raised serious concerns about program integrity. The Paycheck Protection Program (PPP) highlighted these risks, with a December 2022 report from the Select Subcommittee on the Coronavirus Crisis revealing that fintech lenders were disproportionately associated with fraudulent loans. Among the troubling findings were instances where fintechs prioritized profits over compliance, bypassed fraud detection protocols, and failed to provide adequate oversight of their automated systems.

Credit unions, in contrast, bring a track record of prudent lending and robust compliance frameworks. Regulated by the National Credit Union Administration (NCUA), credit unions are subject to rigorous oversight that ensures adherence to safety and soundness standards. Unlike fintechs, credit unions are deeply embedded in the communities they serve, providing a level of accountability and trust that fintechs have struggled to match. By partnering with credit unions, the SBA can reduce the risks associated with fraud and ensure that taxpayer dollars are used responsibly.

To address these concerns, we urge the SBA to adopt stringent safeguards for fintech participation in its programs. This includes enhanced initial vetting, continuous monitoring, and requirements for compliance with the same regulatory standards that are applied to depository institutions. Additionally, the SBA should carefully evaluate the cumulative impact of regulatory changes. This includes the recent loosening of lending criteria and introduction of new Small

February 26, 2025
Page 3 of 3

Business Lending Company (SBLC) licenses, to ensure they do not disproportionately benefit fintechs at the expense of community-based lenders. Protecting the integrity of SBA programs is essential to maintaining public trust and ensuring their long-term success.

Opposition to Direct Lending Initiatives

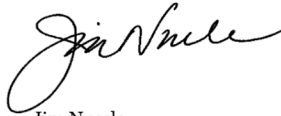
Additionally, we believe the SBA's past intent to address capital access gaps through direct lending initiatives is fundamentally misaligned with the agency's strength and mission. Direct lending by the SBA raises significant concerns about capacity, efficiency, and effectiveness. The Agency's Office of Credit Risk Management (OCRM) is already operating at maximum capacity, and expanding its responsibilities to include direct lending would strain resources further. Moreover, the SBA has historically relied on partnerships with private sector lenders to deliver its programs, and there is little evidence to suggest that a shift to direct lending would yield better outcomes.

Credit unions are ideally positioned to fulfill the SBA's mission in this regard. During the PPP, credit unions demonstrated their ability to deliver SBA funds efficiently, often stepping in where traditional lenders faltered. An average credit union loan was \$41,000, compared to \$73,000 for other lenders, underscoring their commitment to serving the smallest businesses, which was one of the stated goals of the direct lending proposal. By leveraging the expertise, infrastructure, and community focus of credit unions, the SBA can achieve its goals without overextending its operational capacity.

In conclusion, small businesses are the driving force of our economy and the key to its success. The ability for them to borrow and have improved access to capital is vital for job creation. Credit unions are ready and willing to provide the capital to help small businesses grow. Improving access for the SBA's credit union lending partners will help limit long term risk and ultimately benefit the 7(a) program. We call on Congress to ensure that credit unions have the right regulatory environment to do so.

Thank you for holding this important hearing. We look forward to continuing to work with you on this critical topic. Should you have any questions or require any additional information, please feel free to contact me or Greg Mesack, America's Credit Unions' Senior Vice President of Advocacy, at gmesack@americascreditunions.org.

Sincerely,



Jim Nussle

cc: Members of the Committee on Small Business & Entrepreneurship

Statement for Record
Chair Ernst
“Hearing From Lenders: Managing Risk For The Long-Term In The 7(A) Loan
Program”

Additionally, I would like to take the opportunity to address and clarify some of the statements made by Ranking Member Markey during the hearing. The Ranking Member attempted at multiple points to characterize the 7(a) loan program as “healthy” and returning to “normal” levels of distressed lending and revenue. Neither of these statements can accurately describe a program that is, as I mentioned in my opening statement, losing money for the first time in 12 years. Regardless of how we interpret the statistics around lending within the program, the deficit it faces due to rising purchases and declining revenue is a stark indication that the program is neither healthy nor normal. My top concern remains keeping this program at its historical operation of zero subsidy.

The Ranking Member acknowledged that defaults and early defaults rose but attempted to paint these increases as “normalizing back to pre-pandemic levels.” As detailed in my opening statement, there is little evidence that defaults and early defaults are leveling off or “normalizing” at all, with the stressed loan rate of SBA loans increasing at rates over four times that of private sector loans generally, and over 13 times that of private sector business loans.¹ In addition, SBA’s own internal figures indicate that defaults are currently at 3.19 percent and early defaults at 1.43 percent.² This is well above what was cited by the Ranking Member at the hearing and exceeds the highs seen in the first half of 2020,³ which occurred during a period that governments everywhere were shutting down the entire economy in response to the pandemic.

There are clearly issues with the 7(a) loan program that need to be addressed, both in terms of underwriting and keeping the program at zero cost to the American taxpayer. We should not accept what we see in the program today as normal or acceptable.

¹ SBA, FY 2024 7(a) Program Risk Analysis Report 16 (2024) (on file with Comm.).

² National Association of Government Guaranteed Lenders (NAGGL) Lender Portal Performance, (Dec. 31, 2024) (data on file with Comm.).

³ SBA, FY 2024 7(a) Program Risk Analysis Report 11 (2024) (on file with Comm.).



February 26, 2025

<p>The Honorable Joni Ernst Chair Committee on Small Business & Entrepreneurship United States Senate Washington, D.C. 20515</p>	<p>The Honorable Edward Markey Ranking Member Committee on Small Business & Entrepreneurship United States Senate Washington, D.C. 20515</p>
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Re: Statement for the Record, Hearing Titled: “Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan Program”

Dear Chair Ernst and Ranking Member Markey:

On behalf of the National Association of Government Guaranteed Lenders (NAGGL), I am writing to submit this statement for the record for the Committee’s February 26, 2025 hearing titled, “Hearing from Lenders: Managing Risk for the Long-Term in the 7(a) Loan Program.”

NAGGL is the only national trade association that exclusively represents the lenders and industries that implement the 7(a) Loan Program, with NAGGL’s nearly 1,000 lender members being responsible for over 94% of all 7(a) loan dollars pumped into the small business economy each year. These lenders are located across the country and range in size and type from the largest national institutions to the smallest community banks, credit unions, Community Development Financial Institutions (CDFIs), and non-profit lenders. On behalf of this broad and unique membership, NAGGL advocates for policies that both ensure the long-term integrity of the 7(a) Loan Program and allow the 7(a) lending industry to effectively meet the needs of over 70,000 small businesses each year.

Overview of 7(a) Loan Program Reach and Historical Performance

First, it is important to lay the groundwork on a simple, but powerful foundational premise: the 7(a) Loan Program is a story of great success.

The 7(a) Loan Program is SBA’s flagship lending program and the agency’s largest source of access to capital for small business borrowers across the country. A large part of the success of 7(a) lending is that **the small business borrower seeks financing directly from the private-sector lender and not from the government. Today, because of the private-sector expertise of 7(a) lenders, the program operates at zero credit subsidy to the taxpayer,** meaning that the fees generated by lenders and borrowers cover the cost of any loan losses, thus not requiring any appropriations, or taxpayer dollars.

In Fiscal Year (FY) 2024, financial institutions, large and small, provided **more than \$31 billion in loans to 70,242 small businesses nationwide through the 7(a) program**¹. And while all loan programs create jobs and community opportunity, it is the 7(a) Loan Program that is **the highest job creation program among all of SBA's lending programs. According to data submitted by 7(a) borrowers to the SBA in FY, just last Fiscal year alone, roughly 886,007 jobs were created or retained just last Fiscal Year alone thanks to 7(a) loans**, according to data submitted by 7(a) borrowers to the SBA in FY24². These numbers likely underreport job impact given that SBA does not capture the multiplier effect of a 7(a) loan that starts or supports a company into even more growth in the years following loan disbursement.

Critical for this hearing's conversation, it is also important to know that the 7(a) Loan Program's historical performance metrics over the past decade are strong. According to SBA's own data, **the average repurchase rate on defaulted loans has remained below 1% over the past 10 years, while total recovery rates on collateral remains strong**³. Putting the two statistics together, **SBA reports a historically low charge-off rate for FY 2024 of 0.56%, outperforming four of the past ten Fiscal Years**⁴. **Put simply, 99.44% of all 7(a) loans are currently being repaid**, a tremendous statistic and a tribute to the public-private partnership under which this program operates.

And keep in mind, that the 0.56% of 7(a) loans that are not repaid is a shared loss between the lender and the federal government, and not entirely on the federal government alone. This "skin in the game" programmatic structure with 7(a) lenders is unique to the 7(a) Loan Program alone, given that other SBA business loan programs' same charge-off rates report a loss that is entirely borne by the federal government and not shared by the lending entity.

Concerns About Previous SBA's Program Changes

It is because of this historically well-managed portfolio, that NAGGL has concerns about the impact that program changes made over the last approximately two and a half years may have on the ongoing health of the 7(a) loan portfolio.

On behalf of the 7(a) lending industry, NAGGL has staked out a consistent case since October 2022 to Congress, the Biden-Harris Administration, and the lending community at large regarding how the previous SBA's policy changes have the potential to harm and erode a program that has served as a great success story for decades. NAGGL has warned and tirelessly educated through comment letters during the rulemaking process with the previous SBA, a series of letters to Congress in partnership with a long roster of other financial services trades associations, testifying in hearings before both the Senate and House Small Business Committees, hosting briefings and countless meetings on Capitol Hill, and innumerable other communications to NAGGL membership across every forum.

¹ U.S. Small Business Administration 7(a) and 504 Summary Reports:

<https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>

² U.S. Small Business Administration 7(a) & 504 FOIA Database: [7\(a\) & 504 FOIA - Dataset - U.S. Small Business Administration \(SBA\) | Open Data](#)

³ U.S. Small Business Administration Loan Program Performance: <https://www.sba.gov/document/report-small-business-administration-loan-program-performance>

⁴ *Ibid.*

Specifically, NAGGL first warned of the previous SBA's misguided policies in the two main rulemakings—the *Affiliation and Lending Criteria for the SBA Business Loan Programs* (RIN 3245-AH87), and the *Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization* (RIN 3245-AH92)—which were proposed in October and November of 2022, made final in April 2023, and effective as of May 2023. **While there were a few policies included in these rules that provided some welcome streamlining to lenders, there are also many aspects of these rules that should remain concerning on many policy fronts.**

Notably, the Affiliation Rule removes from SBA's regulatory framework the consistent, well-established underwriting guidelines all 7(a) lenders have been required to follow for years and allows lenders to follow the same processes and procedures that they use for their similarly-sized non-SBA guaranteed commercial loans, a concept deemed as "do what you do" by the previous SBA. This undefined underwriting concept has proven to have consequences on underwriting quality and SBA's ability to consistently review and enforce SBA policies, as well as raise concerns regarding lender liability in relying on the SBA's guaranty given the lack of standardized guidance.

And it is in this new environment where lenders generally are now permitted to do whatever they believe is prudent that the previous SBA, through the second rulemaking known as the SBLC Rule, simultaneously lifted the existing forty-year moratorium on the licensing of additional non-federally regulated lenders, or SBLCs, to make 7(a) loans. This follows more than four decades of SBA having capped the number of SBLCs at 14 licenses because of its own concerns about the Agency's ability to serve as the primary regulator for otherwise non-federally regulated entities. In fact, as recently as January 2021 during the first Trump Administration and as part of another rulemaking, SBA indicated that increasing the number of SBLC licenses would exceed its oversight capabilities and pose unacceptable risk to the Agency⁵.

However, **while concerning, these rules largely impact aspects of the structure of the business loan programs and do not dictate the day-to-day underwriting, and therefore, performance of the loan programs. Rather, it is in the previous SBA's extensive policy changes embedded into the Standard Operating Procedures (SOPs) of the loan programs, which were proposed through the new SOP 50 10 7 in May 2023 and took effect on August 1, 2023, that truly change the face of responsible lending in the SBA's programs** (the SOP was later amended as SOP 50 10 7.1, which was effective as of November 2023 and by a number of subsequent SBA Notices)⁶. While SOPs are meant to serve as the day-to-day manual for participating lenders as a means of explaining the mechanics of carrying out the policies created in regulations, **the previous SBA took a very different tact and actually promulgated sweeping policy changes in the SOP itself that were never envisioned or addressed in the formal rulemakings mentioned above.**

Any solution to the previous Administration's policy changes must include changes to the SOP, or that solution will fail to impact meaningful change and certainly will not remedy any performance

⁵ Federal Register, "SBA Supervised Lenders Application Process," [https://www.federalregister.gov/documents/2020/12/04/2020-26307/sba-supervised-lenders-application-process#:~:text=The%20U.S.%20Small%20Business%20Administration,Small%20Business%20Act%20\(15%20U.S.C.](https://www.federalregister.gov/documents/2020/12/04/2020-26307/sba-supervised-lenders-application-process#:~:text=The%20U.S.%20Small%20Business%20Administration,Small%20Business%20Act%20(15%20U.S.C.)
⁶ U.S. Small Business Administration, SOP for Lender and Development Company Loan Programs, <https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs>

concerns with the loan programs. NAGGL has been voicing this clear and simple message since the introduction of the new SOP in May 2023.

Most concerning to NAGGL as it relates to the previous Administration’s updated SOP are the changes to minimum equity injections, minimum collateral requirements, a “score-and-go” only lending scoring model for loans of \$500,000 and under (which surpasses a loan amount that most in the financial services industry believe allows for accurate predictive scoring), and the all-encompassing “do what you do” philosophy mentioned above that was then given even wider application to all facets of 7(a) lending in the SOP. **These changes, especially taken as a whole, are collectively detrimental to underwriting standards that have been well understood for decades in commercial lending to foster prudent lending.** The policies around these particular concepts should be closely evaluated and have been part of NAGGL’s drumbeat message of concern since the SOP 50 10 7 was introduced in May 2023.

The Impact of the Policy Changes on Lending Trends

Did the policy changes have any impact to the stated goals set out by the previous Administration?

First, the previous SBA’s stated goals were to increase small dollar loans and to increase reach to underserved markets.

Small dollar loans as a percentage of overall 7(a) lending volume in FY24, the first full year under the policy changes, did not increase—in fact, that percentage is actually less than in past years.

While at first glance, the cursory takeaway is that the gross number of approvals in small dollar loans increased by 25% between FY23 and FY24 (for the purposes of this examination, we are looking at loans \$350,000 and below in order to best compare to previous years), virtually all lending in all loan sizes increased in gross volume in FY24 because the overall number of loan approvals⁷. The best question really is: “How much of the overall 7(a) lending volume is focused on small dollar loans?” In other words, are we doing more or less in small dollar loans as an overall percentage of all the loans we deliver? In FY24, we saw that 70.8% of all 7(a) loans delivered were \$350,000 or less⁸. That’s the same proportion of the same size loans that the industry delivered in FY23. And it is less than every year in the portfolio from FY12-FY19, with the range of small dollar lending ranging between 76% and 72% of loan approvals over that time⁹.

The same conclusion is true of lending to underserved markets in FY24 under the policy changes. On the whole, while there were not significant overall declines in loans to any one borrower demographic, **FY24 did not see any increase in lending to underserved markets as a percentage of all loans delivered** (both on the whole and as individual demographics)¹⁰.

⁷ U.S. Small Business Administration 7(a) and 504 Summary Reports: <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>

⁸ *Ibid.*

⁹ U.S. Small Business Administration, Weekly Lending Reports: <https://www.sba.gov/document/report-2022-weekly-lending-reports>

¹⁰ U.S. Small Business Administration 7(a) and 504 Summary Reports: <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>

Finally, we also did **not see any shift in the types of lenders reaching small businesses, another stated goal of the previous SBA.** Banks continued to provide over 88% of all 7(a) loans in FY24¹¹. SBLCs went from delivering 1.7% in FY17 to 7.6% of all 7(a) loans in FY24¹². While on the surface that feels like a shift is beginning to happen, two things need to be considered. First, this shift happened *prior* to the rule changes over the span of eight Fiscal Years. Secondly, both of the two new SBLCs licensed by SBA and engaged in active lending since the rule changes had been Non-Federally Regulated Lenders (NRFs) in the 7(a) program for decades prior to their approval as SBLCS. So, we cannot conclude that any lending volume shift is a result of the new program requirements, but rather is a reflection of this change in the lenders' classification. (Note: one of the entities that received an SBLC license in the first round of de novo license awards surrendered its license to SBA, and, to our understanding, the second round of de novo SBLC selections is not finalized yet.).

In other words, **per SBA's own data, the policy changes enacted by the last Administration were not successful in meeting the stated goals.**

Tracking the Impact of the Policy Changes on Early Indicators of Portfolio Performance

Despite the strong historical performance previously described, Early Default Rates have increased by 107% since the Biden-Harris policy changes were put into effect, according to data disclosed in the Lender Portal provided by SBA to the lenders on a quarterly basis. Specifically, data reported by SBA as of December 31, 2023 (the first full quarter that would have captured the time during which the new SOP was in effect starting August 1, 2023) shows an Early Default Rate of 0.69%, which is roughly the mean Early Default Rate for the years prior to the pandemic. In the latest quarter reported by SBA as of December 31, 2024, that same Early Default Rate is 1.43%.

Keep in mind that SBA defines early defaults as those loans that default within the first 18 months following closing and disbursement. While all data sets taken together tell a holistic story, it is important to not focus on general default rate data, such as the 12-Month Default Rate, as that includes loans from any cohort and could include loans made, for example, during pandemic years. **By honing in on the Early Default Rate, per its 18 month only lookback, we are able to say with certainty that these were not pandemic-era loans and, therefore, obtain a clean observation of how the most recent loans are performing under the new policies.**

Does inflation play a role in the performance of these recent loans? **We do not believe the performance stress observed in these recent loans can be purely attributed to inflation.**

While inflation over the past several years could certainly play a role in the health of all small businesses over that time, the high-point of rate increases was reached in July 2023—well before the new SOP 50 10 7 went into effect and well before the origination of the loans captured by the current 18-month lookback of early default rates. Yes, inflation permeated all aspects of business success, but lenders were also already stressing their portfolios and their underwriting for the highest rates when these most current loans captured by the early default rate data set were made. **Should inflationary trends have**

¹¹ U.S. Small Business Administration 7(a) and 504 Summary Reports:
<https://careports.sba.gov/views/7a504Summary/Report?%3Acmbd=yes&%3Atoobar=no>

¹² *ibid.*

created a large warning sign for SBA to not simultaneously re-write an SOP that would strip prudent underwriting? **Absolutely.** The combination of the two – higher inflation and looser lending standards – are undoubtedly a perfect storm.

However, it is the overall steep upward trend over a short period of time in early default rates of loans originated under the new policy changes that points to a statistically significant finding and now well exceeds the worst years of the COVID-19 pandemic. It is this trend that does not support the simple conclusion that these early performance indicators are solely due to the impacts of inflation.

In addition, the **expertise of thousands of lenders in the 7(a) industry with decades of lessons in what creates prudent commercial lending environments also informs that shifts in equity injection requirements and score-and-go only lending over \$350,000, to name just two of the policy changes, create these same performance stresses and do so quickly.** Understanding the standard, core principles of prudent lending cannot be disregarded in assessing these trends.

But **we also must now reconcile the current trends with the historically strong and healthy 7(a) program data** mentioned at the beginning of this statement: the average repurchase rate on defaulted loans has remained below 1% over the past 10 years, total recovery rates on collateral remains strong, and SBA reports a historically low charge-off rate for FY 2024 of 0.56%, outperforming four of the past ten Fiscal Years¹³.

It is critical that we observe the early performance indicators for what they are: a sign that the previous Administration's experiments with adjusting where certain prudent lending guardrails could be moved was not successful, as the industry had predicted. So, by restoring some of the more prudent policies, these early indicators can be reversed just as quickly as they were created.

And, here it is important to note that the fact that, at this point, it is the 7(a) Loan Program which is showcasing early performance data that is troubling does not mean that only the 7(a) Loan Program is impacted by the previous Administration's policy changes. The 7(a) Loan Program will always show data trends more quickly than other business loan programs in the SBA's portfolio because of the 7(a) program's heavy focus on small dollar working capital loans for start-ups and Main Street America, which accounts for 80% of the 7(a) portfolio¹⁴. Larger loans tied to real estate deals tend not to see similar stress until a downturn in the real estate markets or further down the default rate curve, but that does not mean that those loans are quality loans that are following prudent guidelines.

Addressing Reports of Cash Flow Changes to the 7(a) Portfolio

The final layer to the current landscape that must be addressed in tandem with the policies eroded in the SOP, and, to a lesser extent, program regulations, is the previous Administration's policy decisions to waive historic levels of fees on both lenders and borrowers for the past several years.

¹³ U.S. Small Business Administration Loan Program Performance: <https://www.sba.gov/document/report-small-business-administration-loan-program-performance>

¹⁴ U.S. Small Business Administration 7(a) and 504 Summary Reports: <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>

The Small Business Act gives the SBA discretion to provide fee waivers each Fiscal Year, first considering the borrower and then considering the lender, as long as the cost of the portfolio remains at zero subsidy after waiving or reducing those fees.

Starting in FY23, the previous SBA waived all fees for both lenders and borrowers for all loans \$500,000 and under. Then, in FY24, the previous SBA waived all fees for both lenders and borrowers for all loans \$1 million and under. For FY25 fee waivers, the previous Administration once again chose to set all fees at zero for borrowers for all loans of \$1 million and under. And for fees to lenders in FY25, loans of \$500,000 or under also had no fees, but loans over \$500,000 up to and including \$1 million only collected a minimal 0.17% fee, a slight change from FY24 (to provide context, without the fee waiver, this particular fee would have been 0.55% for the life of the loan, which would have resulted in substantial fee income to the Agency).

What is the combined result of early performance indicators and collecting virtually no fee income for the past 3 years on more than 80% of all 7(a) loans originated?

The Business Journals recently reported on data collected through a Freedom of Information Act (FOIA) request which shows that the 7(a) Loan Program is operating at a negative cash flow¹⁵. To provide some background, the subsidy rate of the 7(a) Loan Program captures the net present value of the portfolio, excluding administrative costs to the government, of one cohort of loans for the life of those loans. In contrast, the cash flow of the program is the accounting of all income (fees from lenders and borrowers, collateral recoveries) and all expenses (any accrued interest, repurchases, collateral preservation) for a specific quarter, regardless of loan cohort. Specifically, *The Business Journals* reported a loss in the fourth quarter of FY23 and that “SBA ended up with negative cash flow of about \$274 million in the first three quarters of its fiscal 2024, through June 30.”¹⁶

To be clear: if SBA started collecting fees on more than 85% of its units in the 7(a) Loan Program (loans up to and including \$1 million), which the previous SBA chose to forego for years, the program would no longer be in the red. Therefore, NAGGL strongly urges this adjustment, effective immediately.

Fee waivers are a great tool—when we can afford them. Fee waivers cannot, and should not, ever be used if they put a program into a net operating loss. In that case, which is exactly what the previous SBA chose to do, it is not only a potential disregard for the intent of the Small Business Act, which only permits such fee waivers when the cost of the portfolio remains at zero, but it is also a complete disregard of prudent program management. **Fee waivers cannot be more important than ensuring the 7(a) Loan Program remains at zero subsidy, and therefore, continues to be available at a reasonable cost for the 70,000 small businesses that rely upon it each year.** When given a choice between fee waivers and the continuation of the program, I do not believe there would be much debate by any program participant – borrower or lender.

It is also important to keep in mind that *The Business Journals* reported that the 7(a) program “historically has operated with a large [cash flow] surplus—about \$4 billion since 2013, and nearly \$1

¹⁵ The Business Journals, “SBA’s flagship small-business lending program is in the red. Here’s how it could hit businesses.”, <https://www.bizjournals.com/sanjose/bizwomen/news/latest-news/2025/02/sba-7a-small-business-lending-financials.html>

¹⁶ *Ibid.*

billion since 2021.” **This is not a program that has a track record of operating at cash flow loss because of the program itself—this is a program that is only recently seeing cash flow losses because of the policy decisions of the previous SBA that are now showing their repercussions and can easily be reversed to quickly correct these identified trends.**

The Impact to Small Business Borrowers

It is not hard to understand that when the traditional guardrails of conventional and commercial lending in the financial services sector at large are removed from a government program in an effort to increase loan volume and reach, portfolio performance will be altered. It is not the SBA that came up with the principles of requiring equity injections, appropriate levels of collateral, and the need to fully underwrite a loan where score-and-go might not be a good indicator of repayment ability. These are tried and true principles of all commercial lending. So it is no surprise to a lending industry that we are here. However, **what often gets masked by the focus on performance is the other major consequence of taking away the hallmarks of prudent lending—that is the unintended consequence that the small businesses we all intend to aid will be harmed.** This can happen in two ways.

The first way that borrowers are harmed by these changes is directly due to the dissolution of proper underwriting criteria allowing borrowers to receive loans that they cannot repay. Of course, removing guardrails like requiring minimum equity injections or collateral requirements means lenders can make more loans. And, of course, in an environment where the previous Agency has said lenders are allowed to “do less,” there are going to be some lending industry voices that say, “Now I can help more.” But if we don’t pause and truly understand what “doing more” means in this context, we will miss a critical warning flag. If lenders are no longer required to properly underwrite a loan, which is exactly what many of the SOP changes encourage, then more borrowers may receive funds—but there will also be more borrowers who get funds whose loan has not sufficiently been underwritten for assurance of repayment ability. When that happens, let’s be clear as to the result: **the borrower may be saddled with a government-backed loan that he or she cannot repay. Proper underwriting assures repayment ability, and proper repayment ability means you are actually doing right by the borrower. Making a loan to a business owner who cannot repay the loan does not do that borrower any favors – it ruins their life** as they struggle with the fallout that comes from a failed business and an unpaid debt with the federal government as the ultimate debt collector.

Secondly, borrowers are further harmed because, **if the early performance indicators that we are seeing as a result of the previous Administration’s changes eventually translate into higher estimated costs of making loans in future Fiscal Years, then costs likely will increase on all program participants, including borrowers.** The hallmark of the SBA loan programs is that they are low-cost access to capital opportunities. If the previous SBA’s policy changes bring about a higher subsidy rate in the future, **we are directly harming the borrowers by potentially pricing them out of being able to afford access to the 7(a) Loan Program.**

Closing

We appreciate the Committee's ongoing focus on the loan programs in the aftermath of the previous Administration's policy changes. NAGGL and the entire 7(a) lending industry are optimistic that in close partnership with SBA, many of these policy changes can be rolled back and the fee waivers can be discontinued. **We are excited by Administrator Loeffler's commitment to review all programs and the changes that were made by the last Administration, as stated in her testimony before this Committee last month. And we stand ready to continue to be the voice of good stewardship to aid her in that endeavor.**

There is no reason that the early indications in early performance trends cannot be immediately reversed by restoring appropriate underwriting policies, just as cash flow concerns would be immediately reversed by restoring to the Agency fee income from lenders and borrowers that has been waived for too long. With swift action, there would be no lasting impact on the otherwise healthy 7(a) loan portfolio and the overall program's success.

On behalf of the country's 7(a) lending industry, NAGGL thanks you for calling the hearing today to discuss the importance of SBA's loan programs. Tens of thousands of borrowers across the country rely on 7(a) loans to help fuel their small business success stories. The 7(a) Loan Program is evidence of not only what lenders can deliver to support Main Street America, but also what the SBA and Congress can do when they support private sector-driven programs like 7(a). We stand ready to continue our 40 years of dialogue between NAGGL and this Committee with the goal of maintaining the proud success story of the 7(a) Loan Program.

Sincerely,



Anthony R. Wilkinson
President & CEO

cc: Members of the Senate Committee on Small Business & Entrepreneurship

Appendix A:

Additional Background on the 7(a) Loan Program:

The 7(a) loan program provides loans in amounts up to \$5 million to qualified and eligible small businesses at either fixed or variable rates for terms that vary up to 25 years depending on the use of the loan proceeds. Most of the 7(a) lenders who provide these loans also make conventional loans of all types either on a national basis, or within their local communities. It is the private sector lenders that receive loan applications from the small businesses and determine that the loans are eligible and

creditworthy for submission for SBA's guaranty, **meaning that the program entirely relies upon the vast network of private-sector, largely federally-regulated lenders to make this program possible.** It is also **the lenders that provides the capital to the small businesses directly, making this truly a bottom-up job creation tool.** SBA's involvement is limited to that of a guarantor, only stepping in to share with the lender any ultimate loss on the loan.

Applicants for 7(a) loans are only eligible if they are otherwise unable to secure the requested long-term financing on reasonable terms through nongovernmental sources, a requirement known as the "credit elsewhere test." This critical element **ensures that 7(a) loans are never displacing the loans that the private-sector should and does provide, but rather, are complementing the conventional markets—an incredibly important factor when evaluating the need and validity of any government program.** The 7(a) program's successful historical performance metrics show that these otherwise financially healthy borrowers fall into a gap in the lending market as a result of the highly-regulated, conventional small business lending environment which often deems small businesses, especially start-ups and new businesses, to be the riskiest type of borrowers.

As a result, the 7(a) program is a true Main Street program and the numbers back that up. Year after year, the 7(a) lending program vastly outpaces every other SBA program in delivering small dollar loans and reaching start-up entrepreneurs. Of note, 29% of all 7(a) loans approved are for \$50,000 or less (the largest proportion of any loan category), over 54% of all loans are for \$150,000 or less, and 80% of all loans are considered small loans by SBA's standard of \$500,000 or less¹⁷. And nearly 41% of all loans approved go to start-ups, new businesses (defined as those in existence for 2 years or less), or a business undergoing a change of ownership. These statistics illustrate how 7(a) lending fuels an impressive amount of local entrepreneurship¹⁸.

As stated above, all loan programs create jobs and community opportunity, and the 7(a) Loan Program is no exception—**roughly 886,007 jobs were created or retained just last Fiscal Year alone thanks to 7(a) loans**, according to data submitted by 7(a) borrowers to the SBA in FY24¹⁹. If we assumed a national average wage of \$61,984, as most recently reported by the Bureau of Labor Statistics, for each of those jobs, then **the 7(a) program could be deemed to have supported at least \$54.92 billion in income across the country in one Fiscal Year²⁰.** These impressive jobs numbers make the 7(a) Loan Program the highest job creation program among SBA's lending programs.²¹

And the impact does not stop with just the job creation numbers— **in addition to future employment statistics, there are other benefits that are often hard to measure including increased tax revenue for federal, state, and local governments, and community growth driven by small business expansion in cities, small towns and rural areas across the country.** There is a never-ending and often intangible domino effect of benefits gained from the success of the 7(a) Loan Program.

¹⁷ U.S. Small Business Administration 7(a) and 504 Summary Reports: <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>

¹⁸ *Ibid.*

¹⁹ U.S. Small Business Administration 7(a) & 504 FOIA Database: [7\(a\) & 504 FOIA - Dataset - U.S. Small Business Administration \(SBA\) | Open Data](#)

²⁰ News Release: Bureau of Labor Statistics, US Department of Labor, January 22, 2025, "Usual Weekly Earning of Wage and Salary Workers, Fourth Quarter 2024": <https://www.bls.gov/news.release/pdf/wkyeng.pdf>

²¹ U.S. Small Business Administration 7(a) & 504 FOIA Database: [7\(a\) & 504 FOIA - Dataset - U.S. Small Business Administration \(SBA\) | Open Data](#)

The CHAIR. And with that, the Committee on Small Business and Entrepreneurship stands adjourned. Thank you all very much.
[Whereupon, at 3:51 p.m., the hearing was adjourned.]

