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THE SMALL BUSINESS LENDING REAUTHORIZATION ACT OF 2015

MAY 26, 2016.—Ordered to be printed

Mr. VITTER, from the Committee on Small Business and
Entrepreneurship submitted the following

R E P O R T

[To accompany S. 1001]

The Committee on Small Business and Entrepreneurship, to which was referred the bill (S. 1001) to establish authorization levels for general business loans for fiscal years 2015 and 2016, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

I. INTRODUCTION

The Small Business Lending Reauthorization Act of 2015 (S. 1001) was introduced by Senator James Risch, with original cosponsorship from Senators Ayotte, Coons, Gardner, Hirono, Peters, and Shaheen, on April 16, 2015.

The Small Business Lending Reauthorization Act of 2015 increases the Small Business Administration's (SBA) 7(a) Loan Program authorization level to \$20.5 billion in fiscal year 2015 and \$23.5 billion in fiscal year 2016.

During the markup of the bill, the bill was approved unanimously by voice vote.

II. HISTORY (PURPOSE & NEED FOR LEGISLATION)

The 7(a) Program's loans are made by SBA partners (mostly banks but also some other financial institutions) and partially guaranteed by the SBA. As such, taxpayer funds are only used in the event of borrower default. This reduces the risk to the lender but not to the borrower, who remains obligated for the full debt, even in the event of default.

The 7(a) loan offers flexibility, such as longer terms and lower down payments, compared to other types of business financing. 7(a) loans contribute to small business growth, because with longer terms and lower payments, owners can retain working capital and maximize cash flow. These loans are eligible to be used for standard business operations such as purchasing equipment, machinery, furniture, fixtures, supplies or materials, purchasing real estate, including land and buildings, constructing a new building or renovate an existing building, and establishing a new business or assisting in the acquisition, operation or expansion of an existing business.

The 7(a) program's current guaranty rate is 85% for loans of \$150,000 or less and 75% for loans greater than \$150,000 (up to a maximum guaranty of \$3.75 million—75% of \$5 million). Although the SBA's offer to guarantee a loan provides an incentive for lenders to make the loan, lenders are not required to do so. There has been an increased demand for 7(a) loans, from \$15.25 billion in FY12 to over \$19.2 billion in FY14 through over 52,000 7(a) loans. Recent data has shown an increase in demand with industry experts predicting that volume will reach \$20.5 billion by the end of FY15, significantly more the \$18.75 billion approved by Congress last December. According to documents released by the SBA, the number of smaller loans (those under \$150,000) increased by 23 percent in FY13, from 24,923 to 30,675. The 7(a) program's maximum gross loan amount for any one 7(a) loan is \$5 million (up to \$3.75 million maximum guaranty). In FY2014, the average approved 7(a) loan amount was \$368,737.

Last year Congress increased the 7(a) authorization to \$18.75 billion as part of a Continuing Resolution late in the fiscal year. Without this increase more than \$200 million in 7(a) loans would not have been made to small businesses.

III. HEARINGS & ROUNDTABLES

In the 111th Congress:

On October 1, 2009, the Senate Committee on Small Business and Entrepreneurship held a roundtable discussion titled "Reauthorization of SBA Finance Programs and the Impact of the Small Business Provisions in the Recovery Act." After the passage of the 2009 Recovery Act, 7(a) loans quickly became one of the most active SBA programs, especially as banks began to tighten their lending standards. The increased importance of working capital for established small businesses was also cited as a reason for the amount of applicants for the 7(a) program. Associate Administrator for SBA Eric Zarnikow expressed concern that the 7(a) Loan Program, due to the volume of loan applicants, would run out of funding by November.

In the 112th Congress:

On June 16, 2011, the Senate Committee on Small Business and Entrepreneurship held a hearing titled "An Examination of SBA Programs: Eliminating Inefficiencies, Duplications, Fraud and Abuse." With the SBA having delivered over \$42 billion in authorized loans to small businesses through the 7(a) Loan Program, Executive Vice-President of the SBA Lending Division Greg Clarkson expressed concern that they would exceed the 7(a) Loan Program's authorized amount for FY2011. These budgetary shortfalls could

have resulted in curtailment of credit or temporary termination of the loan program until more funding was received, leaving hundreds of small businesses without guaranteed loans.

IV. DESCRIPTION OF BILL

S. 1001, the Small Business Lending Reauthorization Act of 2015 increases the 7(a) loan program authorization level to \$20.5 billion in fiscal year 2015 and \$23.5 billion in fiscal year 2016.

V. COMMITTEE VOTE

In compliance with rule XXVI (7)(b) of the Standing Rules of the Senate, the following vote was recorded on April 23, 2015.

A motion to adopt the Small Business Lending Reauthorization Act of 2015, a bill to establish authorization levels for general business loans for fiscal years 2015 and 2016, was approved unanimously by voice vote with the following Senators present: Senators Vitter, Risch, Fischer, Gardner, Ernst, Ayotte, Enzi, Shaheen, Cantwell, Cardin, Heitkamp, Booker, Coons, Hirono, and Peters.

VI. COST ESTIMATE

In compliance with rule XXVI (11)(a)(1) of the Standing Rules of the Senate, the Committee estimates the cost of the legislation will be equal to the amounts discussed in the following letter from the Congressional Budget Office:

JUNE 9, 2015.

Hon. DAVID VITTER,
Chairman, Committee on Small Business and Entrepreneurship,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 1001, the Small Business Lending Reauthorization Act of 2015.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susan Willie.

Sincerely,

KEITH HALL.

Enclosure.

S. 1001—Small Business Lending Reauthorization Act of 2015

S. 1001 would set the maximum amount of debt that the Small Business Administration (SBA) can guarantee under the agency's general business loan program, also known as the 7(a) program, at \$20.5 billion for fiscal year 2015 and \$23.5 billion for fiscal year 2016. The agency's 2015 authorization level for loan guarantees under the 7(a) program is currently \$18.8 billion.

Under current law, businesses participating in the 7(a) program are required to pay various fees that are sufficient to offset the program's estimated subsidy cost, that is, the estimated long-term cost to the government of a loan guarantee, calculated on a net-present-value basis. Based on information from the SBA, CBO expects that increasing the loan levels for the program would not affect the estimated subsidy cost, nor would the changes increase the cost to administer the program, which is recorded on a cash basis. Therefore, CBO estimates that implementing S. 1001 would not affect discre-

tionary spending. Enacting S. 1001 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

S. 1001 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contact for this estimate is Susan Willie. The estimate was approved by Theresa Gullo, Assistant Director for Budget Analysis.

VII. EVALUATION OF REGULATORY IMPACT

In compliance with rule XXVI (11)(b) of the Standing Rules of the Senate, it is the opinion of the Committee that no significant additional regulatory impact will be incurred in carrying out the provisions of this legislation. There will be no additional impact on the personal privacy of companies or individuals who utilize the services provided.

VIII. SECTION-BY-SECTION ANALYSIS

Section 1. Short title

This section provides for the title, “Small Business Lending Reauthorization Act of 2015”.

Section 2. General business loans authorization

This section increases the authorized limit for general small business loans under 7(a) of the Small Business Act for fiscal year 2015 to \$20,500,000,000 and for fiscal year 2016 to \$23,500,000,000.