



December 14, 2021

The Honorable Tim Scott
U.S. Senate Committee on Small Business and Entrepreneurship
Washington, D.C. 20510

Dear Senator Scott:

On behalf of the Consumer Bankers Association ("CBA"), I write to express our strong support for S. 3382, which would prohibit the Administrator of the Small Business Administration (SBA) from directly making loans under the 7(a) loan program. This bill is vitally important as lawmakers continue to deliberate a proposal contained within the Build Back Better bill that would invest nearly \$2 billion for the SBA to make direct loans of less than \$150,000.

CBA is entering our 103rd year as the voice of retail banking in Washington, D.C. and strongly advocates for policies that allow banks to continue offering well-regulated services to families and small businesses across the country. Whether buying a home, financing an education, or launching a small business, our members partner with consumers to help them achieve their unique dreams.

The premise of an SBA 7(a) direct lending program is misplaced and unnecessary. Prior to the COVID-19 pandemic, CBA member banks were some of the most active 7(a) lenders in the country, facilitating SBA-backed loans of all sizes. Our member banks operate in almost every community and lend billions of dollars in capital through a safe and secure process. These lending relationships are a critical resource to fund those borrowers who may not qualify for conventional loans and help build the foundation for future non-SBA lending.

The past two years during an unprecedented pandemic, CBA member banks partnered with the SBA to stand up and administer the Paycheck Protection Program (PPP) in a very short time by devoting significant resources to prioritize PPP lending and help struggling small businesses at the height of economic uncertainty. Our member banks were 13 of the top 15 PPP lenders in 2020 and led the effort to protect more than 90 million jobs. Through the PPP and the hard work of our member banks, millions of small businesses and their employees' jobs were saved, ensuring that hardworking Americans could continue to put food on their tables.

As seen with the Economic Injury Disaster Loan (EIDL) program during the pandemic, fraud within an SBA direct lending program can be widespread. According to a recent analysis by the SBA Office of Inspector General, there have been \$79 billion in potentially fraudulent EIDL loans processed and advanced. Compare this to the PPP, where only \$4.6 billion in potential fraud was identified, - mostly originated by non-bank lenders- it is apparent the underwriting our member banks provided was key in minimizing fraud. With billions of taxpayer funds already jeopardized through EIDL, we question the need for this expansion of direct 7(a) lending.



In addition to fraud concerns, a new direct lending program established by Congress create concerns of a government-subsidized SBA direct lending program that will be in competition with private market lenders that have invested heavily over the years to be able to offer 7(a) loans. Perhaps a more constructive policy would be for Congress to consider continuing the CARES Act provisions that enhanced 7(a) lending, such as the 100% loan guarantee for loans under \$150,000.

We appreciate your leadership on this issue and urge Congress to reconsider a 7(a) direct lending approach. We look forward to working with you to pass this important piece of legislation.

Sincerely,

A handwritten signature in black ink that reads "Richard Hunt". The signature is written in a cursive style with a large, stylized "R" and "H".

Richard Hunt
President and CEO