CONSUMER BANKERS ASSOCIATION

April 10, 2019

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

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

The Honorable Andy Kim
Chairman
Subcommittee on Economic Growth, Tax, and Capital Access
U.S. House of Representatives
1516 Longworth House Office Building
Washington, D.C. 20515

The Honorable Kevin Hern
Ranking Member
Subcommittee on Economic Growth, Tax, and Capital Access
U.S. House of Representatives
1019 Longworth House Office Building
Washington, D.C. 20515

Dear Chairwoman Velázquez, Ranking Member Chabot, Subcommittee Chairman Kim, and Subcommittee Ranking Member Hern:

On behalf of the Consumer Bankers Association (CBA), I would like to thank you for convening the Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access hearing on "SBA 7(a) Budget Proposal and the Impact of Fee Structure Changes." CBA is the voice of the retail banking industry, whose products and services provide access to credit for consumers and small businesses. Of the 100 most active Small Business Administration (SBA) 7(a) lenders, CBA members make the majority of the total number of 7(a) loans.[1] Our members operate in all 50 states, serve more than 150 million Americans, and collectively hold two-thirds of the country's total depository assets.

The 7(a) Loan Program is a vital source of capital for thousands of small businesses unable to secure financing through traditional lending. The demand for these loans has grown substantially and the dollar amount of gross loans approved has nearly doubled since 2012. Throughout this growth, the performance of the program has remained healthy, closing last year with record-low charge-off rates. Furthermore, in recent years, the current fee structure has generated in excess of what SBA actually needed to cover the 7(a) credit costs. Overall, the program continues to be strong and provides an option that meets the needs of many of America's small businesses.

Considering how well the 7(a) portfolio has performed historically, CBA encourages Congress to closely examine SBA's FY2020 budget request, specifically in regards to the agency's prediction that the 7(a) program will not be able to maintain a zero-subsidy rate. In the budget, SBA requested flexibility to modify its statutory fee structures, stating under current law the 7(a)

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

program would not be able to operate at zero subsidy based upon the administration's modeling and subsidy rate estimates.

The budget request projects an additional $99 million will be required to cover the cost of the program and proposes an increase in the fee structure to offset the shortfall. If the agency's subsidy rate is not modified, and in lieu of amending the *Small Business Act* to allow for an increase in fees to be assessed on lenders – which the banking industry would strongly oppose – Congress would need to appropriate the dollars to cover the proposal's estimated budget deficiency in order to prevent the program from being shut down on October 1.

Given the nature of the 7(a) program and the small businesses that utilize it, CBA is concerned any increase in fees will lower participation by small business borrowers in the program and further restrict them from accessing needed capital to start and grow their small businesses. The fee structure outlined in the budget request proposes a 33 basis point (bps) increase on the fees already assessed to lenders. This increase, as well as the budget's proposed counter-cyclical measures that would also increase fees by an additional 31 bps to pay for the program's administrative costs, would be a significant increase for current lenders and force them to adjust their 7(a) loan rates to reflect the change. Considering the program's credit elsewhere requirement, borrowers that rely on this program cannot obtain credit though conventional lending, and the proposed fee structure would only further reduce the already limited options available to these small businesses and increase the cost of capital for borrowers.

CBA commends the committee for holding this hearing to examine the SBA budget request for FY2020 and the impact the fee structure changes will have on small business lending. We greatly appreciate this thoughtful approach to ensuring the continued success of the SBA 7(a) Loan Program and look forward to working with members of the Committee and Congress.

Sincerely,

Richard Hunt
President and CEO
Consumer Bankers Association