



**Testimony of Isabella Casillas Guzman
Administrator
U.S. Small Business Administration**

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Good morning, Chairwoman Velazquez, Ranking Member Luetkemeyer, and distinguished members of the committee. Thank you for the opportunity to be here to discuss the important work the U.S. Small Business Administration is doing to help America's 32.5 million small businesses and innovative startups continue to propel our economy forward.

When I was last here in May, just two months into my role as SBA Administrator, I talked about how, working with Congress, we'd already made considerable progress fighting COVID and reopening small businesses and our economy. At that time, the Delta variant was just beginning to appear in the United States. Our small businesses were starting to see what looked like light at the end of the tunnel – the possibility that there would be relief from the pandemic.

Today, as we know all too well, the Delta variant continues to cause uncertainty for our small businesses – with revenue impacts, increased costs, supply chain delays, and workforce issues. Many still need the SBA's help and we continue to deliver billions of dollars in relief.

At the same time, it fills me with hope to say that America's small businesses, and our nation, are in a much better place than six months ago, or a year ago.

And that incredible progress is thanks in large part to the American Rescue Plan, which many of you helped bring to life, and to President Biden's efforts to fight this pandemic with vaccinations and bold economic policies. In addition, many others deserve credit -- including SBA's dedicated staff, our counseling and lending partners, and the many on-the-ground community advocacy groups and local governments, who have all stepped up in remarkable ways to support our nation's small businesses.

America's recovery and return to employment are happening much faster than many predicted. More and more Americans are getting vaccinated every day, and we now have the strong economic and public health scaffolding to help us fight this pandemic.

And with 9.1 million new business applications since the beginning of 2020 -- the American entrepreneurial spirit is stronger than ever. At the SBA, we're working

to ensure our nation's entrepreneurs have the tools and resources they need to innovate, create jobs, and deliver economic output to advance our global competitiveness.

The SBA has delivered for small businesses

Over the course of the pandemic, the SBA has delivered lifelines for millions of America's small businesses and innovative startups. We've scaled from an agency that provided nearly \$40 billion per year in loans and investments to one that has distributed more than \$1.1 trillion in emergency relief – alongside our core programs, many of which have also delivered at record levels.

Over the past few months, I've been traveling all over the country, visiting with entrepreneurs -- listening and always looking for new and better ways that the SBA can adapt to improve its offerings. And everywhere I go, I hear story after story of the SBA's outsized impact.

In Minnesota, I visited Mercury Mosaics, a small manufacturing company that produces handmade mosaic tiles in the middle of Minneapolis. Mercury's founder Mercedes Austin told me that Paycheck Protection Program (PPP) funds allowed her to cover her rent and keep her 30-person staff intact during the pandemic. The Mercury team recently opened a third manufacturing location in Wadena, Minnesota and the company expects to keep growing.

In Colorado, I met with three generations of the Ortega family, who own and operate three Mexican restaurants across the state. Alvaro Ortega showed me the new outdoor patio space at one of their locations – which was built with capital they received from a Restaurant Revitalization Fund (RRF) award. That outdoor patio allowed the Ortegas to continue serving their customers throughout the pandemic. All three restaurants have now reopened – and the Ortega family has been able to give back to their community, contributing food to local food banks and school lunch programs.

And I connected with Martin Miller, with Theater Squared in Northwest Arkansas, a crucial cultural center for the region. Funds from the PPP and COVID Economic Injury Disaster Loan (EIDL) programs allowed Martin to keep his team intact and provide innovative, digital programming until live performances could resume. And, SBA's Shuttered Venue Operators Grant program gave him the ability to reopen safely and drive local economic activity. Today, Theatre Squared is up and running with a full season of shows -- both in-person and online.

These are just a few of the many, many small business owners and communities that the SBA has touched during this challenging period.

SBA staff: First responders to this economic disaster

Local businesses and community and civic leaders have recognized that without the incredible dedication of the mission-driven SBA staff who have stepped up and continued to go above-and-beyond, month after month, millions of America's small businesses wouldn't have survived. COVID-19 relief implementation and operations continue full force. The SBA team has been so dedicated to our mission, and they continue to work tirelessly as the demand endures.

The SBA team and resource partners have truly been the first responders to this economic disaster.

Technology-forward, customer-first, and equitable

Today, the SBA is continuing to deliver for millions of small businesses by being as entrepreneurial as the entrepreneurs we serve. In the eight months of my leadership at the SBA, we've leveraged technology to streamline, automate, and deliver relief to small businesses with a customer service-first and equity focus.

Just like the small business owners throughout the country who constantly adapt to meet their customers' needs, we are engaging with stakeholders and adapting our programs and outreach to meet their needs.

And in the same way that so many small businesses have implemented technology at high rates during this pandemic, our SBA team is leveraging automation across our processes, providing mobile device options, and using tools like machine learning to deliver our services swiftly, effectively, and equitably.

Raising the bar and leveling the playing field for our smallest businesses

The SBA is doing all of this and more to build on President Biden's government-wide directive to deliver programs and services equitably for the American people.

We're working across our programs and services to better meet the needs of all small businesses, especially those that were left out of early rounds of relief – often our smallest businesses and those owned by women and people of color.

These underserved businesses have faced disproportionate hardship during the pandemic, and they continue to grapple with longstanding inequities and persistent

barriers to the capital, markets, and networks they need to survive and thrive in any economic conditions.

In 2021, we've made important gains in reaching these businesses.

Delivering Paycheck Protection Program Forgiveness

With the nearly \$800 billion Paycheck Protection Program, we made key programmatic changes to expand our reach – improving access for sole proprietors, ITIN holders, and ensuring America didn't slam the door on small business owners with past non-violent convictions or student loan borrowers who may have fallen behind on payments.

We saw impressive results -- 96 percent of our 2021 PPP loans went to small businesses with fewer than 20 employees, with especially strong performance in low-to-moderate-income communities.

In addition, a recent Government Accountability Office report found that our reforms helped close capital gaps – expanding equity and securing more COVID lifelines in those historically left-behind communities.

Now, we're helping to deliver on the congressionally-directed promise of forgiveness for our more than 11 million PPP loans. Under my leadership, SBA has ensured that this process is being carried out at the highest standards and with utmost integrity.

In 2021, after the development of an in-depth loan review process and completion of a significant number of manual reviews – the SBA deployed a machine learning model that ensured our manual reviews were directed to high-risk loans. To date, the SBA has conducted over 76,000 manual reviews to identify potential noncompliance with eligibility requirements, fraud, or abuse. And, for all 2021 PPP loans, we used a fraud control framework that prevented loan authorizations from being approved without a compliance check process.

So far, more than three out of every four loans have been forgiven, at a total of more than \$610 billion -- sending that money back to work in the economy.

To simplify and streamline the experience for our small business customers as Congress intended, we launched our SBA PPP Direct Forgiveness Portal to offer a pathway to relief for the 6.5 million small business owners who took out loans of \$150,000 or less. We've been able to bring more than 1,400 lenders into the portal to date.

This innovation alone has shown how technological advancements can help us expand our reach and simplify our processes – 60% of our 1.5 million direct forgiveness applicants have used a mobile device to complete what is now a six-minute process.

Revamped and retooled COVID EIDL

We’ve seen similar positive results with our reforms and improvements to the EIDL program—the last and most flexible of our SBA COVID lifelines.

For context, the SBA has provided close to five times more COVID EIDL loans during this crisis than the combined total amount of all EIDL loans delivered during all other disasters for the entirety of our 68-year existence.

So far, under the COVID EIDL program, we’ve approved more than 3.8 million EIDL loans, for a total of more than \$292 billion in long-term, patient capital for America’s small businesses, plus an additional \$26 billion in COVID EIDL grants. We are engaging industry groups, stakeholders, and partners to conduct extensive outreach to deliver billions more in COVID EIDL funds as quickly as possible.

And we expanded our reach while protecting against fraud, waste, and abuse.

We brought back tax record verification, consistent with our historic approach. We have also implemented additional measures to help ensure good stewardship of this program’s resources.

We also made major strides in improvements to our efficiency, accelerating daily processing from 1.86 applications to 20 per loan officer, and clearing a backlog of almost 1 million loan increase and grant applications.

And we enhanced the program to better meet the changing needs of small businesses as the pandemic continued – restoring the statutory maximum \$2 million loan size by removing the controversial \$150,000 lending limit, providing for 24 months of deferment, and allowing for flexible use of funds including paying down commercial debt.

Building bridges: Community Navigator Pilot Program

We’re also taking steps to vastly improve outreach across all our programs to small businesses in every corner of the nation including in our underserved communities.

We recently announced 51 grantee organizations as part of the \$100 million Community Navigator Pilot program, funded through the American Rescue Plan,

which will deploy trusted community partners in underserved communities to better connect small business owners to federal, state, and local resources.

These Navigators will greatly enhance SBA's existing resource partner networks -- supplementing the incredible technical assistance support offered by Small Business Development Centers, Women's Business Centers, SCORE Chapters, Veteran Business Outreach Centers, Regional Innovation Clusters and Growth Accelerators.

And, we've greatly expanded the footprint of our Women's Business Centers to meet a rising need and urgent opportunity – today, at 140, we have more WBCs than ever before, including several located at Historically Black Colleges and Universities. In addition, our Veteran Business Outreach Centers have provided invaluable support during the COVID pandemic to our highly entrepreneurial veterans – serving more than 60,000 clients in FY2021.

Taken together, over the past year, our network of more than 1,000 resource partners and grantee networks have provided millions of hours of counseling, supported close to 1 million jobs and helped more than 60,000 entrepreneurs launch their businesses, laying the groundwork for local ecosystems that give small business owners the knowledge, skills, and opportunities they need to succeed in a post-COVID world.

Closing capital and opportunity gaps

As our nation continues to emerge from the COVID pandemic, the SBA will continue to chart a path forward to a thriving and equitable economy that lifts all small businesses and innovative startups in communities across America, building from the bottom up and middle out – to leave no one behind.

Closing the capital, opportunity, and connection gaps that persist must be the first steps on that path.

Access to capital remains one of the most critical factors for small business success. Yet small businesses continue to lack access to the small dollar loans they need to survive and grow -- from 2015 to 2020, just 44% of small firms obtained funds from a bank, according to a 2020 Federal Reserve study. And during the first year of the pandemic, 53% of small employer firms had unmet financial needs, according to a 2021 Federal Reserve study.

This problem is particularly acute for our smallest businesses and those from underserved communities. Many unbanked small businesses go online or to predatory lenders – where they can face fees or interest rates that are far more costly than conventional terms.

This capital gap grew wider during the pandemic and kept many small businesses from receiving relief. During the pandemic's first year, small businesses without pre-existing banking relationships and those from historically underserved communities had a hard time accessing emergency relief from PPP and other COVID rescue programs. According to the Federal Reserve 2021 report, only 13% of Black-owned businesses and 20% of Hispanic-owned firms received all the capital they needed in 2020, compared to 40% of white-owned firms.

Disparities in access to capital and other resources run deep, but they are not inevitable. At the SBA, we're committed to addressing those disparities and closing those gaps – not just because it's the right thing to do, but also because there's a promising rate of return.

For the past decade, entrepreneurs from underserved communities have been starting businesses at record rates. Even over the almost two years of the pandemic, they faced down barriers and inequities and continued to start businesses. Our economic recovery depends on our ability to help these entrepreneurs thrive and grow to deliver more jobs and economic impact.

The President's Build Back Better framework will help us increase access to capital to these entrepreneurs by creating a direct lending product that leverages our incredible, growing lender network -- including the Community Development Financial Institutions, Minority Depository Institutions and other mission-oriented lenders that have expertise working with the entrepreneurs we're trying to reach.

We're also working to close the opportunity gap by increasing the number of small businesses that do business with the federal government. Over the past decade, the number of small business federal contractors has decreased by close to 40%. And underserved businesses still receive a disproportionately small share of government contracts.

SBA is working to change that by providing underserved entrepreneurs with a fair shot at competing for billions of dollars in federal contracts, by helping them get contract ready and access capital to pursue opportunities.

The Build Back Better framework will help us build equity in government procurement – with nationwide investments in business incubators and innovation accelerators, and a specific program for our veteran entrepreneurs.

Now is the right time to ensure that more small businesses will be able to be part of the \$1.2 trillion in historic investments in the rebuilding of our nation's infrastructure, made possible through the Bipartisan Infrastructure Deal. This plan is a game-changer, providing unprecedented investments in infrastructure, broadband and enhancing our global competitiveness, and we want all our small business contractors to participate.

President Biden's Budget

The President's proposed Fiscal Year 2022 budget for the SBA will help us close gaps and continue to deliver at our newly scaled level to meet the growing demand for our services.

Our PPP and COVID EIDL programs represent the majority of our rapid growth over the pandemic. However, many of the millions of small businesses that have come to us through these COVID relief programs, are also using our core products and services. For example, we announced a record year in lending and our lending partners have repeatedly pointed to long-term rising demand for capital through our 7a and 504 loan programs, and our Small Business Investment Company program reported a steady increase with a cumulative total for private and public capital of \$34.2 billion.

The President's 2022 budget request includes added support for our underserved entrepreneurs, investments to help strengthen our innovation ecosystem, and significant efforts to help small businesses and communities prepare for and manage the growing threats of climate change.

In addition, the President's budget prioritizes funding for programs that help small disadvantaged businesses and veterans get contract-ready.

Challenges

We know that many challenges remain, and the unknowns continue. The SBA's role as first responder to this economic crisis is far from over. A recent survey from Goldman Sachs found 88 percent of small business owners support the federal government providing additional financial emergency assistance given the rise of new COVID-19 cases.

Because of this, the SBA will continue to provide relief, and maintain rigorous oversight of our COVID relief programs.

We're also working with our partners across the Biden-Harris administration, and in Congress, to continue to address lingering challenges brought on by the pandemic -- such as supply chain bottlenecks, workforce attraction and retention, and cybersecurity with the increased digitization of our small businesses.

Conclusion

Over the past eight months, the SBA has used a customer-first, technology-forward and equitable approach to successfully implement programs at scale.

We have shown what we can do as a renewed, revamped agency.

In the months ahead, we will continue to harness the power of the entrepreneurial spirit to drive our economy, and our nation, forward. And we will do that by ensuring that every entrepreneur in every corner of our nation can achieve their dream of small business ownership and build prosperity for their families and communities.

As President Biden said recently: "It's about expanding opportunity – not opportunity denied."

Thank you, Chairwoman Velazquez, Ranking Member Luetkemeyer, and distinguished members of the committee, for the opportunity to appear before you today and I look forward to your questions.