

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members of the Committee on Small Business

FROM: Committee Majority Staff

DATE: May 9, 2024

RE: Full Committee Hearing Titled: “Under the Microscope: Reviewing Key SBA Programs with Associate Administrator Frost”

On **Wednesday, May 15, 2024, at 10:00 AM ET**, the Committee on Small Business will hold a hearing titled “**Under the Microscope: Reviewing Key SBA Programs with Associate Administrator Frost.**” The meeting will convene in room 2360 of the Rayburn House Office Building. The purpose of this hearing is to receive testimony from the Associate Administrator of the SBA’s Office of Capital Access and inquire about ongoing issues within the main SBA lending programs.

I. Witness

- **Ms. Kathryn Frost**, Associate Administrator of the Office of Capital Access, U.S. Small Business Administration

II. Background

The SBA’s Office of Capital Access (OCA) is responsible for administering the SBA’s business lending programs, including its flagship the 7(a) Loan Program. The OCA is tasked with assisting small businesses that cannot access capital through conventional sources, while also conducting continuous, risk-based monitoring of the SBA’s lending partners. The purpose of the OCA is to protect the integrity of the business lending program and safeguard American taxpayer dollars. Unfortunately, the SBA has made several changes to the 7(a) Loan Program over the last couple of years that will affect the longstanding lending standards that have ensured programmatic integrity for decades. These changes include the removal of prudential underwriting criteria, a proposed direct lending 7(a) program, and the lifting of the SBLC moratorium.

Despite Members in both the House and Senate on both sides of the aisle expressing concerns over the SBLC expansion, citing doubts about the SBA’s capacity to serve as the primary

regulator for additional SBLCs, the SBA awarded three new licenses. One of the licenses was awarded to Funding Circle. Because an SBLC license provides a lender with the ability to obtain government guarantees when underwriting small business loans, allowing them to underwrite a higher volume of loans to small businesses than would otherwise be possible due to risk, the SBLC award process requires careful vetting and exhaustive scrutiny. As either American taxpayers or borrower fees foot the bill for any loan losses, it is unacceptable that the SBA moved forward with awarding an SBLC license to Funding Circle despite its CEO announcing its departure from the U.S. market as a result of its net operating losses, and publicly questioning the financial viability of its U.S. business.¹

To that end, on April 24, 2024, the Committee requested that the SBA immediately revoke Funding Circle's SBLC license, and provide a briefing and documentation regarding Funding Circle's application process.² To date, the request has gone unanswered. This hearing provides an opportunity to examine whether the SBA performed proper due diligence on this company, and the risks created as a result of the compounding, misguided policy changes.

Lastly, the OCA is responsible for managing the COVID Lending Programs, including the Paycheck Protection Program (PPP) and the COVID Economic Injury Disaster Loan (COVID EIDL). These programs have now stopped issuing new loans, providing the Committee an opportunity to view the landscape for these loans, and the cost of servicing. The OCA has an obligation to taxpayers to assist in the recouping of taxpayer dollars from these loan programs. From April 2022 until December 2023, the SBA had indicated that it would not take collection actions on delinquent PPP or COVID EIDL loans valued at \$100,000 or less. The SBA has since reversed course on that decision. However, many questions remain on why this decision was made in the first place, how many loans are no longer collectable as a result of months of inaction, and how the SBA will responsibly collect on these loans moving forward.

III. Conclusion

Given the SBA's attempts to expand its lending authority, reckless policy changes, and questionable decision-making of its government-guaranteed lenders, this hearing will investigate the OCA's processes and improvements that must be made to ensure programmatic integrity.

¹ John Reosti, *SBA forges ahead with Funding Circle license despite pushback*, AMERICAN BANKER (April 4, 2024).

² Letter from Roger Williams, *et al.*, Chairman, H. Comm. on Small Business, to the Honorable Isabella Casillas Guzman, Administrator, U.S. Small Bus. Admin (Apr. 24, 2024).