

Statement of Kathryn Frost
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Good morning, Chairman Williams, Ranking Member Velazquez, and members of the committee. On behalf of our Administrator, Isabella Casillas Guzman, and the entire Agency, thank you for the strong Congressional support of the Agency's lending programs and I appreciate the opportunity to appear before you today.

I serve as the Associate Administrator for the Office of Capital Access (OCA) where I am responsible for the Office of Capital Access's administration of SBA's 7(a) business loans, the 504 Loan Program, the Surety Bond Program, the Microloan Program, and SBA's Disaster Loan program—as well as the Agency's Paycheck Protection Program, COVID Economic Injury Disaster Loan (COVID-19 EIDL) program, and Restaurant Revitalization Fund. Collectively, these programs connect creditworthy small business entrepreneurs to capital when they otherwise are unable to obtain conventional sources of capital. Our business loan programs work in partnership with private sector lenders to lend necessary capital to start or grow small businesses. SBA loans were behind companies and products that are now household names, like Ben & Jerry's Ice Cream, South by Southwest, and Boppy Pillow.

Under the Biden-Harris Administration, there has never been a better time to start a small business. Since 2021, we have experienced a Small Business Boom, with over 17 million Americans filing new business applications. Starting a new business is an “act of hope” as President Biden says, and the record numbers of Americans starting a small business shows the optimism Americans have about the future of our economy. At SBA, we are working each day to ensure that every American who wants to start a small business can pursue their dream of entrepreneurship.

Women and people of color are leading the Small Business Boom. Our Nation has seen the fastest creation rate of Hispanic-owned businesses in more than a decade — over 20% faster than pre-pandemic levels. SBA data shows that lending to Latino-owned businesses is up more than 80% since the start of the Biden-Harris Administration. Similarly, Black-owned businesses are growing at the fastest rate in more than 30 years. SBA data shows the number and share of SBA-backed 7(a) and 504 loans going to Black-Owned Businesses more than doubled since 2020. Additionally, women continue to start businesses at higher rates than their male counterparts, and in 2023, women in the United States opened as many as 1,200 new establishments a day.

Whether a business is newly created or already established, it needs access to affordable and patient capital so that it can grow and create jobs in the community. SBA works with private sector lenders to provide government-guaranteed loans to qualified borrowers with the agency sharing in the risk so that lenders can put more capital to work.

SBA has invested in modern technology like the Unified Lending Platform (ULP) so that we can help borrowers get a loan decision more quickly. We also unveiled an updated LenderMatch tool to connect borrowers to financial institutions so that borrowers can compare

rates from multiple lenders offering SBA-backed loans. Our technology reforms now also include an eligibility screening at loan origination that protects taxpayer dollars by ensuring that a loan applicant is evaluated for prior fraud activity before the loan is disbursed, which also gives lenders additional assurance that a loan meets the requirements to receive a government guarantee.

These reforms are making a difference. In 2023, SBA delivered more than \$50 billion across our capital, investment and disaster programs. Specifically, that includes \$27.5 billion in 7(a) loans to more than 57,000 small businesses across the Nation. Additionally, SBA approved \$6.4 billion in 504 loans to nearly 6,000 borrowers last year.

One of the persistent problems for small businesses has been the availability of small dollar lending. Small SBA loans fell significantly during the previous Administration, with 7(a) loans under \$500,000 falling 40% from 52,000 in FY2016 to 31,000 in FY2020, and 7(a) loans under \$150,000 falling 42%, from 38,000 in FY2016 to 20,000 in FY2020. When businesses cannot access small-dollar capital, there are significant consequences such as the inability to meet employee payroll expenses with particularly significant harm for underserved communities – including minority populations, women, veterans, and rural Americans.

Reversing this decline has been one of Administrator Guzman's top priorities. In 2022, she expanded the Community Advantage loan program and proposed two rules aimed at increasing small-dollar lending by expanding lender participation and making it easier to do business with the Agency.

In August of last year, those rules became effective. Underwriting requirements for loans under \$500,000 were simplified and closely align with industry standards to ensure an SBA loan is a competitive offering. Also, as a result of these rules, complex affiliation tests are no longer a barrier to eligibility; and mission-driven lenders now have permanent status through the new Community Advantage SBLC license, resulting in **30** newly enrolled lenders. At the same time, SBA also established the most robust front-end fraud control system ever in the program, a change strongly supported by the Inspector General.

We now have 9 months of performance data after the implementation of these reforms, and I'm pleased to report on behalf of Administrator Guzman: the rules are working. In FY2024 to date, SBA has approved more than 22,000 7(a) loans under \$150,000. That puts us on pace to nearly double the number of small loans approved in the final year of the previous administration. It's also a 30% increase compared to this time last year. That's 1,500 more businesses getting approved for a small loan every month than just a few years ago. Moreover, many of these businesses are among market gap populations, including women, minority entrepreneurs, employees purchasing a portion of a business from its owner(s), and startup small businesses. For this progress, we give credit to our partners in the lending community, who have embraced the new opportunity and seized it to deliver more capital to small businesses.

Despite notable progress, there are still gaps in the availability of small-dollar loans. The Federal Reserve's 2024 Report on Employer Firms showed half of employer firms who sought capital did not receive what they needed. That's why SBA is pressing ahead with additional

reforms. SBA has enrolled three new private sector lenders through the SBLC program to increase the supply of capital, each of which demonstrated through the license application process a commitment to filling a particular market gap.

We're also moving to expand the pool of eligible, creditworthy small business borrowers. In April, our nation celebrated Second Chance Month to highlight ways that we can help justice impacted individuals reenter society. One of the best ways to reduce the risk of recidivism is to provide stable employment which, for those with convictions, often is entrepreneurship. Individuals who have prior convictions are currently eligible for most SBA programs, but asking questions about criminal history often creates a chilling effect that deters people from applying even if they would qualify.

SBA is committed to breaking down barriers that limit access to our programs and we have announced an initiative to "Ban the Box" by removing irrelevant criminal history questions on loan applications. The SBA rule change also will improve pathways to entrepreneurship for formerly incarcerated individuals by eliminating SBA capital program restrictions on Americans who have completed their sentences for past crimes, including Americans on parole and probation. Under SBA programs, lenders will continue to conduct individualized reviews that address fraud risks and assess the creditworthiness of borrowers.

The President's 2025 Budget Justification includes legislative language to enable SBA to deliver on the Small Business Act's longstanding directive of directly lending to creditworthy small businesses unable to secure credit in the private sector. Specifically, the President's Budget proposes added flexibility for SBA's direct lending terms, to enable the agency to make fair, competitively priced direct loans to businesses, at no additional cost to the taxpayer.

SBA has extensive experience with direct lending in our disaster lending program, including successfully lending \$2.98 billion to 43,108 borrowers in FY2023. SBA is currently active in more than 348 areas across the country with disaster declarations, including the Francis Scott Key Bridge collapse in Baltimore.

Finally, as Administrator Guzman testified in March, SBA is in a better position than we ever have been to combat fraud, waste and abuse. SBA's investments in technology including our new Risk Mitigation Framework ensures that every SBA loan is screened for fraud prior to disbursement. SBA has implemented GAO recommendations to improve SBA's fraud prevention measures, and we work closely with the Inspector General and other law enforcement agencies to refer suspected fraud for investigation and prosecution.

I know there are many other issues that you would like to discuss, and I look forward to your questions. Thank you for the opportunity to appear before the Committee today.