February 12, 2025

The Honorable Roger Williams
Chairman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Re: Statement for the Record, Hearing Entitled: "Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks"

Dear Chairman Williams and Ranking Member Velázquez:

On behalf of the National Association of Government Guaranteed Lenders (NAGGL), I am writing to submit this statement for the record for the Committee's February 12, 2025 hearing entitled, "Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks."

NAGGL is the only national trade association that exclusively represents the lenders and industries that implement the 7(a) Loan Program, with NAGGL's nearly 1,000 lender members being responsible for over 94% of all 7(a) loan dollars pumped into the small business economy each year. These lenders range in size and type from the largest national institutions to the smallest community banks, credit unions, Community Development Financial Institutions (CDFIs), and non-profit lenders located throughout the country. On behalf of this broad and unique membership, NAGGL advocates for policies that both ensure the long-term programmatic integrity of the 7(a) Loan Program and allow the 7(a) lending industry to effectively meet the needs of over 70,000 small businesses each year.

The Small Business Administration (SBA) administers several programs, but the 7(a) Loan Program, with its 72-year history, is its flagship lending program and the agency's largest source of access to capital for small business borrowers across the country. A large part of the success story of 7(a) lending is that **the small business borrower seeks financing directly with the private-sector lender and not with the government.** These lenders, for the most part, also make conventional loans of all types either on a national basis, or within their local communities. It is the private sector lender that receives loan applications from the small businesses and determines that the loans are eligible and creditworthy for submission for SBA's guaranty, **meaning that the program entirely relies upon the vast network of private-sector, largely federally-regulated lenders to make this program possible**. It is also **the lender that provides the capital to the small business directly, making this truly a bottom-up job creation tool**. SBA's involvement is limited to that of a guarantor, only stepping in to share with the lender any ultimate loss on the loan. **Today, because of the private-sector expertise of 7(a) lenders, roughly 99.5% of all 7(a) loans are repaid (more on this data later in this statement) and the**

program operates at zero subsidy to the taxpayer, meaning that the fees generated by lenders and borrowers cover the cost of any loan losses and do not require appropriations, or taxpayer dollars[1].

The 7(a) loan program provides loans in amounts up to $5 million to qualified and eligible small businesses at either fixed or variable rates for terms that vary up to 25 years depending on the use of the loan proceeds. Applicants for 7(a) loans are only eligible if they are otherwise unable to secure the requested long-term financing on reasonable terms through nongovernmental sources, a requirement known as the "credit elsewhere test." This critical element **ensures that 7(a) loans are never displacing the loans that the private-sector should and does provide, but rather, are complementing the conventional markets—an incredibly important factor when evaluating the need and validity of any government program.** The program's successful historical performance metrics show that these otherwise financially healthy borrowers fall into a gap in the lending market as a result of the highly-regulated, conventional small business lending environment which often deems small businesses, especially start-ups and new businesses, the riskiest type of borrowers.

As a result, the 7(a) program is a true Main Street program and the numbers back that up. Year after year, the 7(a) lending program vastly outpaces every other SBA program in delivering small dollar loans and reaching start-up entrepreneurs. Of note, 29% of all 7(a) loans approved are for $50,000 or less (the largest proportion of any loan category), over 54% of all loans are for $150,000 or less, and 80% of all loans are considered small loans by SBA's standard of $500,000 or less[2]. And nearly 41% of all loans approved go to start-ups, new businesses (defined as those in existence for 2 years or less), or a business undergoing a change of ownership. These statistics illustrate how well7(a) lending fuels an impressive amount of local entrepreneurship[3].

The numbers tell a story of the great success in the 7(a) Program's lending reach. In Fiscal Year (FY) 2024, financial institutions, large and small, provided **more than $31.12 billion in loans to 70,242 small businesses nationwide through the 7(a) program**. All loan programs create jobs and community opportunity, and the 7(a) Loan Program is no exception—**roughly 886,007 jobs were created or retained just last Fiscal Year alone thanks to 7(a) loans**, according to data submitted by 7(a) borrowers to the SBA in FY24[4]. If we assumed a national average wage of $61,984, as most recently reported by the Bureau of Labor Statistics, for each of those jobs, then **the 7(a) program could be deemed to have supported at least $54.92 billion in income across the country in one Fiscal Year**[5]. These **impressive jobs numbers make the 7(a) Loan Program the highest job creation program among SBA's lending programs.**[6]. And these numbers likely underreport job impact given that loan applicants estimate the number of jobs to be created or retained if the loan is approved and

[1] U.S. Small Business Administration Loan Program Performance: https://www.sba.gov/document/report-small-business-administration-loan-program-performance
[2] U.S. Small Business Administration 7(a) and 504 Summary Reports: https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no
[3] *Ibid.*
[4] U.S. Small Business Administration 7(a) & 504 FOIA Database: 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data
[5] News Release: Bureau of Labor Statistics, US Department of Labor, January 22, 2025, "Usual Weekly Earning of Wage and Salary Workers, Fourth Quarter 2024": https://www.bls.gov/news.release/pdf/wkyeng.pdf
[6] U.S. Small Business Administration 7(a) & 504 FOIA Database: 7(a) & 504 FOIA - Dataset - U.S. Small Business Administration (SBA) | Open Data

SBA does not capture the multiplier effect of a 7(a) loan that starts or supports a company into even more growth in the following years.

And the impact does not stop with just those topline numbers— **in addition to future employment statistics, there are other benefits that are often hard to measure including increased tax revenue for federal, state, and local governments, and community growth driven by small business expansion in cities, small towns and rural areas across the country**. There is a never-ending and often intangible domino effect of benefits gained from the success of the 7(a) Loan Program.

The historical performance metrics over the past decade also tell a success story. According to SBA's own data, **the average repurchase rate on defaulted loans has remained below 1% over the past 10 years, while total recovery rates on collateral remains strong**[7]. Putting the two statistics together, **SBA reports a historically low charge-off rate for FY 2024 of 0.56%**, **outperforming four of the past ten Fiscal Years**[8]. **Put simply, 99.44% of all 7(a) loans are currently repaid,** a tremendous statistic and a tribute to the public-private partnership under which this program operates. And keep in mind, that the 0.56% of 7(a) loans that are not repaid is a <u>shared</u> loss between the lender and the federal government, and not entirely on the federal government alone.

This Committee has important work before it this Congress when it comes to SBA's loan programs. Most critical is the need to review the policy changes enacted during the past 3 years, which eroded or altogether removed standard prudent lending guardrails that had proven to be effective in both conventional lending and the 7(a) Loan Program for decades. Early performance indicators confirm our concerns over these policy changes. NAGGL encourages the SBA and Congress to work together to put many of these prudent guardrails back in place. If such action were taken swiftly, the trend of these early performance indicators could be quickly reversed and there would be no lasting impact on the otherwise healthy overall portfolio and program success as described above.

Finally, it should be noted that the 7(a) lenders which I have the privilege of representing are also the same lenders that were charged with being on the front lines of delivering much of the economic aid set forward in the CARES Act, most notably the Paycheck Protection Program ("PPP"), to the country's millions of small business borrowers. While these efforts continue to undergo oversight, it is important to remember that **7(a) lenders and their existing reach to Main Street America through the 7(a) Loan Program served as the cornerstone of the national response laid out by Congress to support the American economy in the wake of the COVID-19 pandemic**. The role played by 7(a) lending will always serve as a testament to just how connected the private-sector lenders who deliver 7(a) loans are to their local communities.

On behalf of the country's 7(a) lending industry, NAGGL thanks you for calling the hearing today to discuss the importance of SBA's loan programs. Tens of thousands of borrowers across the country rely on a 7(a) loan to help fuel their small business success stories. The 7(a) Loan Program is evidence of not only what lenders can deliver to support Main Street America, but also what the SBA and Congress can do when they support private-sector driven programs like 7(a). We stand ready to continue our 40

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[7] U.S. Small Business Administration Loan Program Performance: https://www.sba.gov/document/report-small-business-administration-loan-program-performance

[8] *Ibid.*

years of dialogue between NAGGL and this Committee when it comes to maintaining the proud success story of the 7(a) Loan Program.

Sincerely,

Anthony R. Wilkinson
President & CEO

cc: Members of the Committee on Small Business