CELEBRATING 20 YEARS SMALL BUSINESS MAJORITY

WRITTEN STATEMENT FOR THE RECORD BEFORE THE U.S. HOUSE COMMITTEE ON SMALL BUSINESS

"PATHWAY TO CAPITAL: THE ROLE OF SBA LENDING IN SUPPORTING MAIN STREET AMERICA"

September 16, 2025

John Arensmeyer

Founder & CEO, Small Business Majority

Dear Chair Williams, Ranking Member Velázquez and members of the House Committee on Small Business:

As a leading representative and advocate on behalf of America's 36 million small businesses, Small Business Majority is pleased to provide written testimony on the importance of Small Business Administration (SBA) lending programs in supporting and strengthening access to capital for small, under-resourced businesses.

Small Business Majority is a national small business organization that empowers America's entrepreneurs to build a thriving and equitable economy. From our 12 offices across the country, we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth. Our work is bolstered by extensive research and deep connections with the small business community that enables us to educate stakeholders about keys issues impacting America's entrepreneurs, with a special focus on the smallest and most under-resourced businesses.

As access to capital remains a key barrier for small businesses, entrepreneurs raise concerns over cuts to SBA programs and staffing

In the face of persistent uncertainty on Main Street, largely due to the enactment of global tariffs, cuts to healthcare programs and the slashing of federal small business support systems, many small businesses continue to experience difficulty accessing the responsible and affordable capital they require to remain afloat. Recent national polling conducted by Small Business Majority found that two-thirds of small business owners see access to capital as a challenge facing their business, with 47% indicating that it is a major challenge. While more than half of small businesses have taken steps to access financing in the last year, most commonly through traditional bank loans or SBA loans, only 36% of those businesses that pursued financing were able to secure it. Furthermore, only 32% of small businesses that received financing in the last year received sufficient financing to meet their needs – indicating the difficulty entrepreneurs face in accessing lenders that provide tailored financing products that meet their capital needs.

As millions of small businesses turn to Small Business Administration (SBA) lending products and resource partners every year for financing, small business owners are concerned about recent staffing cuts to the agency, which will ultimately impact SBA's ability to provide training and resources to America's 36 million small businesses. In fact, Small Business Majority research found that 78% of small businesses are concerned about the staffing and program cuts being made at SBA. As entrepreneurs continue to face barriers in accessing capital, many small business owners say that they would benefit from additional support and resources that can help them get capital ready, including one-on-one coaching, educational webinars, connections to qualified lenders, and credit counseling.

The SBA is not only a lender but a network containing a multitude of resource partners that play a critical role in getting entrepreneurs ready for and connected to capital programs (both those offered by SBA and those offered at traditional lending institutions). This year, the SBA's network of trusted resource partners (which are both publicly and privately funded) face serious threats as Congress debates FY26 funding. Earlier in the year, the White House issued a request to Congress calling for the elimination of key SBA resource programs, including the Women's Business Center, the SCORE mentor program, and other flagship resource partners. Congress can reject this request by providing these programs with the funding they need to continue their operations. While the White House budget also called for the consolidation of SBA's Entrepreneurial Development programs into one program, entrepreneurs still see the unique value of each of SBA's individual programs as critical to serving the ecosystem that they operate within. We urge Congress to support the SBA in its mission by rejecting these cuts and to fully fund the programs that have, year over year, demonstrated a substantial economic impact on the communities they serve. Without access to training and resources, more small business owners will struggle to navigate loan applications and will become increasingly susceptible to the predatory loan market, which often spells disaster for small business borrowers.

New restrictions on SBA loan programs will prevent more small businesses from accessing responsible financing

The SBA has introduced several changes to the guidelines governing its flagship loan programs, which include the 7(a), 504 and Microloan programs, over the last several months. While these changes, which include the reinstatement of lender fees, a new restriction on businesses that are not 100% owned by a U.S. citizen and a requirement that bars businesses from utilizing SBA loans to refinance merchant cash advance (MCA) products, were intended to root out fraud and increase cash flow for these programs, they have actually done quite the opposite, further restricting access to SBA loan products for small businesses.

Amid an increasingly difficult economic environment for small businesses, onerous new restrictions to SBA lending, paired with uncertainty from tariffs, have had drastic impacts on SBA loan approvals in recent months. The number of 7(a) loans approved each month has dropped sharply, falling from an average of about 7,000 earlier in the fiscal year to fewer than 5,000 since June. Rather than working to streamline and expand access to responsible financing products, the SBA has instead increased the cost of its loans for both lenders and borrowers and put additional, unnecessary guardrails on eligibility that will prevent businesses from refinancing predatory loans from MCAs or factoring agreements with an SBA loan.

Preventing small businesses from utilizing SBA loans to refinance predatory loans that trap business owners in a cycle of debt is especially concerning. With this decision, SBA has indicated that business owners who have resorted to alternative loan products like MCAs cannot be trusted to either repay an SBA loan to refinance existing MCA debt, or not to resort back to predatory loan products once they have repaid a SBA loan. To date, SBA has provided no evidence or data to back up these claims. According to the Federal Reserve Bank of Atlanta, MCA products are specifically described as "higher-cost and less-transparent credit options" as they are typically much harder to repay, especially for small firms operating on tight margins.[1] Given the barriers entrepreneurs face in accessing affordable and reliable financing, whether that be from traditional financial institutions or community lenders like Community Development Financial Institutions (CDFIs), many seek financing from predatory lenders that can provide quick upfront under purposefully vague terms that often disguise incredibly high-cost loans. While some argue that small business owners who resort to predatory financing products lack creditworthiness, we argue that it instead points to the importance of strengthening access to responsible refinancing options, such as SBA loans, and government regulations that require the transparent disclosure of financing terms, including the annual percentage rate (APR). Our research found that an

[1] Federal Reserve Bank of Atlanta https://www.atlantafed.org/community-development/publications/partners-update/2020/01/200108-report-on-minority-owned-small-businesses

overwhelming 87% of small business owners would support a “truth in lending act” for small business financing to ensure that the true cost of a loan is transparently disclosed.

Small Business Majority is also concerned about the SBA’s decision to prevent any small business that is not exclusively owned by those who are either U.S. citizens, U.S. nationals or lawfully permanent residents from accessing SBA loans. This new restriction ignores the fact that immigrant communities are a vital hub of entrepreneurial activity in the United States and also prevents any majority American-owned small business with foreign investors from qualifying for an SBA loan. These new ownership requirements have already had a direct impact on small businesses nationwide, including business owner Haley Pavone who is the owner of Pashion Footwear based in California. When the new ownership requirement went into effect earlier this year, Haley was in the final stages of closing on a $5 million 7(a) loan that would have allowed her to refinance all the debt she took on during the pandemic and provided Pashion with roughly $2 million in working capital. However, since Pashion has a 1.7% equity interest from a Mexican investor, the deal fell through just days before closing. Under the SBA’s previous guidelines, Pashion Footwear, which is 98.3% owned by U.S. citizens, would have been approved for the loan. Instead, Haley and her 12 U.S.-based employees are now forced to seek capital elsewhere, delaying future investments and trapping an otherwise successful business in a damaging cycle of debt repayment.

The SBA’s role in promoting a thriving and accessible entrepreneurial ecosystem cannot be understated. Rather than be known as the “lender of last resort,” the SBA provides a gateway to the American Dream through access to its various loan and technical assistance programs. However, as we have shared in this testimony, the SBA has faced various threats to its ability to remain the go-to resource for entrepreneurs and future small business owners across the nation. The multitude of SBA’s programs play a critical role in empowering America’s economy that no other agency is able to provide. Therefore, it should come as no surprise to the SBA as to why its loan numbers have dropped following the onslaught of new barriers and restrictions to accessing its programs and loan products. To ensure that America’s small business community keeps growing, we must bolster the SBA in its mission to ensure that entrepreneurs everywhere can access the support and loan products that are right for them. To do so, we must support the SBA, not tear it down. We look forward to working with the Committee, and the SBA, to ensure that the programs (both loan-based and technical assistance) that SBA provides can remain a key resource to help entrepreneurship flourish.

For any questions or additional information, please contact our Government Affairs Director, Alexis D’Amato, at adamato@smallbusinessmajority.org.

Sincerely,

John C. Arensmeyer

John Arensmeyer
Founder & CEO
Small Business Majority