"Reauthorization of the SBA's Access to Capital Programs"

Testimony before the Senate Committee on Small Business and Entrepreneurship

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Submitted by

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Chairman Rubio, Ranking Member Cardin, and Members of the Committee—my name is Julie Huston and I am currently the CEO and President of immito, LLC. I started working as an SBA lender in 1986, and over the span of my 33-year career in lending I have had the privilege to manage and lead SBA departments that range from the traditional bank to the non-bank lender model, and from small institutions to some of the largest in the country with 12,000 SBA loans and $2.2 billion on the books. My career has weathered the ups and downs of several economics cycles, and I know firsthand what that means for small businesses. And I can tell you that I remain as committed now to providing access to capital for small businesses as I was on February 3, 1986—my first day.

In my current role at immito, LLC, I am in a unique position to assist small business borrowers. immito, LLC is a non-bank SBA 7(a) lender and holds a Small Business Lending Company (SBLC) license with the SBA that provides access to capital nationwide. We believe that starting, building, growing and supporting small business is a powerful strategy for transforming communities. I am also currently the Chairwoman of the National Association of Government Guaranteed Lenders (NAGGL), and in that role, I have the honor of representing over 800 financial institutions and partners that participate in the 7(a) lending industry. I thank this Committee for giving me the opportunity to testify both in my capacity as a veteran lender, but also as a voice for the thousands of lenders who devote their careers to helping small businesses.

WHY 7(a) LENDING:

Given the opportunity this hearing presents to reflect on the importance of these programs and the gap in access to capital it serves, I would like to touch on the importance of the 7(a) loan program and why the program has enjoyed consistent support from this Committee since its inception. It is particularly timely that we have this opportunity today, given the grave danger in which the President's budget submission has placed the 7(a) program, surprisingly requiring this Congress to either appropriate dollars or approve fee increases on small business borrowers just to continue the program next year, even though the program's credit performance has never been stronger. I will have much more to say on this critical topic later in my testimony.

Today, the American entrepreneurial spirit is stronger than ever. Unfortunately, there is a gap in conventional bank lending in this country and even the most qualified business owners often struggle to secure financing that meets their needs. While consumer optimism reports suggest an overall recovery since the Great Recession, feelings of optimism are a far different matter than a small business borrower successfully finding suitable financing to start or grow their companies. A small business seeking capital is often offered loans with short maturities when they really need long-term financing to survive. The needs of this country's small businesses are frequently a depository mismatch for banks that are often unable to tie up capital in long-term loans. Despite improvement in some sectors of business lending since the Great Recession, there is still a need for more financing options that provide greater stability for small businesses.

At the heart of the SBA's success is the 7(a) lending program, the agency's largest public-private partnership with approximately 2,000 participating private-sector financial institutions who have one or more SBA loans on the books. These lenders make private-sector loans with their own capital based on their own financial decisions to small business borrowers who meet program standards for creditworthiness and financial health, but who fall into the very common lending gap for American small businesses. In sharp contrast to what many small businesses borrowers would find in the conventional markets, 7(a) lending has a maximum term of 25 years with an average term of 16 years, and interest rates that are governed by set by statute and regulation, usually far below interest rates charged for business credit cards and online fintech lenders. In other words, 7(a) lending is the kind of financing that small businesses need to survive, but generally cannot find in the conventional market, especially in a climate where loans to small businesses are often deemed the most risky by lenders and most often fall outside of the conventional credit box. The 7(a) loan program is a rare anomaly in the broad spectrum of federal programs because SBA has figured out how to leverage private-sector expertise and take on a shared risk relationship in the portfolio. Lenders know how to make loans. As a result, SBA is not in the business of picking "winners and losers" because SBA does not make the loans and its 7(a) program is open to any eligible, creditworthy small business borrower.

The cornerstone principle of the 7(a) loan program is the credit elsewhere requirement in the *Small Business Act*, ensuring that the program complements, but does not compete with conventional small business lending. The non-competitive status of the program is assured by the fact that before any SBA 7(a) loan guaranty can be approved, the participating lender must certify that the loan could not be made without the SBA guaranty on reasonable terms and conditions. Recently, this Committee and your colleagues in the House amended this credit elsewhere language in the *Small Business Act*, and while I will touch on these changes further in my testimony, I want to take the opportunity to say that the resulting clarification of that change was critically important to assuring that the loans made under the program continue to fill the existing small business credit gap. It should be no surprise that given today's conventional credit box for small businesses, a credit elsewhere program would grow and thrive. The fact that we have seen this program continue to reach into the market in the aftermath of the Great Recession, reaffirms that 7(a) lending is fulfilling the intent of Congress that these loan programs not compete with the private sector's conventional markets or make loans to borrowers who could receive a conventional loan.

The nature of the 7(a) loan guarantee also helps to ensure that lenders have skin in the game. Generally, SBA will reimburse the lender a percentage of the outstanding loan balance if the loan defaults—generally up to 85% for loans up to $150,000, and up to 75% for loans over that amount up to the current program maximum of $5 million with trade loans qualifying for a maximum 90% guaranty. However, SBA's guarantee is a *contingent* guarantee, which means that if a lender fails to fully satisfy its compliance requirements under the program, the SBA can — and does — reduce the amount of the guarantee payment to the lender *if* the loan defaults and a deficiency balance remains after the lender has exhausted the remedies available to it to collect on the unpaid balance. In some serious cases, the SBA is permitted to deny all liability under the guarantee. These aspects of the contingent guarantee relationship serves to assure that lenders comply with the various SBA program requirements while engaging in quality lending. The guarantee program is a sharing of risk and not a complete transfer of risk away from the SBA 7(a) lending community. Beyond responsibilities to SBA and the taxpayer as responsible stewards of the program, the lenders have an ongoing responsibility to their federal and state regulators, their internal regulatory oversight group, and even their shareholders to ensure that safe and sound lending practices are maintained. In part, this skin in the game is what makes the private sector such ideal partners in the SBA 7(a) program, serving as an incentive to all lenders to be prudent stewards.

THEN AND NOW: A LOOK AT 7(a) LENDING:

From the Agency's inception, among the programs that it offered was loans to small businesses as authorized by section 7(a) of the *Small Business Act*. The 7(a) program was created in recognition of the fact that small businesses have a more difficult time than their larger counterparts in accessing the capital needed to start and grow their businesses.

Originally, 7(a) loans were provided on a direct basis, financed with taxpayer dollars, with SBA staff evaluating the eligibility and creditworthiness of the applications and taking all actions to approve, disburse, service and, if necessary, liquidate the loans. But, over time, the program has evolved to a loan guaranty program where SBA's private-sector partners – banks, and other commercial lenders, including a few SBA-authorized Small Business Lending Companies – provide the loans to small businesses applicants. The migration from a direct program to a guaranteed program was completed by the late 1990s when Congress discontinued funding to support any of the remaining direct 7(a) loan programs authorized by the *Small Business Act*.

As SBA delegated more responsibilities to lenders, it recognized the need to protect the integrity of the program by providing meaningful oversight over the lenders that were providing loans and taking necessary servicing and liquidation actions. So, in the mid-1990s, SBA established an office to review program compliance by lenders that held the delegated authority designated as Preferred Lender Program (PLP) status. Over the next two decades, in order to better manage program risk, this oversight function became much broader, taking on the responsibility for regulating non-federally regulated lenders, and for overseeing the activities of other regulated lenders and of the integrity of the 7(a) program. Now, the Office of Credit Risk Management (OCRM) plays a critical role in the continued success of 7(a) lending.

Today, the numbers tell a story of great success in the 7(a) program. In Fiscal Year (FY) 2018, financial institutions large and small provided about $25.4 billion in approvals to about 60,350 small businesses nationwide through the SBA 7(a) program. Roughly 543,100 jobs were created or retained just last year thanks to the SBA 7(a) program-- if we assumed just $30,000 in average annual wages for those employees affected by the program, that means the 7(a) program is responsible for supporting at least $16.3 billion in income across the country. The impact does not stop with just those topline numbers—there are other benefits that are often hard to measure, like employment opportunities, increased tax revenue for federal 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 domino effect of benefits gained from the 7(a) loan program.

The performance metrics also tell a success story. I am pleased to report that the performance of the SBA 7(a) loan portfolio has remained sound. Repurchase rates on defaulted loans remains near an all-time low, while recovery rates on collateral is at an all-time high. Putting the two together, SBA reports a record-low charge off rate for the portfolio in FY 2018.

Over the past several years, lending to nearly every underserved market — from rural communities, urban areas, women, Hispanics, and African Americans to name a few — has increased. For at least the last decade, roughly 75% of the 7(a) portfolio's loans have been small dollar loans, or $350,000 or lower (prior to FY09, loans up to $350,000 were not publicly reported in the same way). Having spent my career emphasizing the need to focus on underserved markets, I am proud that 3 out of every 4 loans are small. In fact, since the portfolio as a whole has grown by 42% in dollars and 30% in units, small dollars loans consistently composing roughly 75% of the portfolio actually means those loans have been increasing as well. In the past five fiscal years, small dollar loans have actually increased 33% in dollars and 31% in units.

In addition, there have been marked improvements over the past five fiscal years in providing access to capital to specific underserved markets. For instance, while a cursory assessment might show that the proportion of the portfolio has seemingly plateaued in lending to African-Americans, since the entire portfolio has grown by 42% in dollars and 30% in units, in the past five fiscal years lending has increased by 145% in dollars to African-American borrowers. For Hispanic borrowers, the proportion of the portfolio has increased by a couple percentage points, but actual dollars going to Hispanics has increased by 79% in the past five fiscal years. This is true for many other demographics over this same five fiscal year period from FY2013-FY2018: lending to American Indian borrowers increased by 107% in dollars, lending to Asian-Pacific Islander borrowers increased by 57% in dollars, lending to women-owned borrowers (when the business is over 50% woman-owned) increased by 50% in dollars and 39% in units, lending to rural populations increased by 37% in dollars, and lending to urban populations increased by 43% in dollars. In fact, lending to all minorities has increased by 67% in dollars and 47% in units. I am confident that the SBA 7(a) lending industry is fulfilling the intent of Congress to serve the country's small businesses. I stand at the ready to discuss these issues in more detail with this Committee today and in the coming months and to explore ways we might make even further progress on this topic.

SMALL BUSINESS ACT REAUTHORIZATION EFFORTS:

This Committee and its colleagues on the House Committee on Small Business have been incredibly active in taking a closer look at the 7(a) loan program over the past two Congresses, and as a result, a number of significant and historic legislative accomplishments were realized last year by updating the *Small Business Act*'s provisions as it pertains to 7(a) lending.

First, the Committee and its House colleagues drafted and passed into law the *Small Business 7(a) Lending Oversight Reform Act of 2018*, a bipartisan, bicameral effort that spanned two Congresses and three and a half years of work on the part of this Committee. The 7(a) lending industry partnered with the Committee every step of the way. I know it might sound strange that banks partnered with Congress to explore ways to refine and create stronger oversight standards on themselves—it certainly is not the norm for most regulated businesses. However, the 7(a) lending industry is keenly aware that we have the *privilege* of being stewards of a government program with a public mission, and while we are all private-sector companies, this privilege is not lost on us. Without the proper resources, tools, and oversight guidance, government programs have a way of losing their course, as well as the trust of Congress and the country. At a time of great success in the 7(a) program, it was a worthwhile and significant exercise to have gone through with this Committee and its colleagues in the House.

Specifically, the *Small Business 7(a) Lending Oversight Reform Act of 2018* reformed the *Small Business Act* in a number of significant ways, such as codifying OCRM's existence in statute, providing clarity to the credit elsewhere provision of statute to ensure the program's cornerstone principle is better understood by lenders in order to strengthen compliance, improving oversight reviews and the timeliness of providing those reviews to lenders, providing appeal rights to lenders, and finally, requiring consistent reporting and communication with Congress regarding the performance of the portfolio. This is by no means an exhaustive list of this bill's accomplishments. The 7(a) loan program is only as strong as SBA's ability to encourage good behavior and conduct enforcement when appropriate, and the *Small Business 7(a) Lending Oversight Reform Act of 2018* provided the SBA with significant tools to do just that. The entire 7(a) lending industry looks forward to SBA promulgating proposed regulations in the coming months, as it is critically important for industry to be a part of the comment period to share stakeholder views. According to statute, final regulations are required to be published by June 21, 2019.

I also want to specifically highlight another key legislative priority for the 7(a) industry that was addressed in the *Small Business 7(a) Lending Oversight Reform Act of 2018* by the legislation's inclusion of flexibility language for the Administrator, which would allow for an increase to the 7(a) authorization cap by 15% if the pace of lending is set to exceed that fiscal year's given cap. In past years, such as FY14 and FY15, when the 7(a) authorization cap was not sufficient to meet volume and the organic growth in the portfolio, lenders would adjust their behavior and create a run on the bank scenario, resulting in a momentary mid-year shutdown of the portfolio in the case of FY15. This also forced Congress to pass an emergency measure in order to reinstate 7(a) lending. While this flexibility should never supplant the role of Congress in setting authorization caps, it will serve as a common-sense safeguard against last-minute panic—a panic which this program has seen repeatedly given the challenges that come with anticipating the exact number of borrowers who will be applying for SBA 7(a) loans 18 months or more in advance during the budget process. NAGGL drafted this provision in 2015 and advocated for this common-sense safeguard on behalf of the industry for years; I am proud to say that this is now a part of the *Small Business Act*.

Yet another legislative achievement in updating the *Small Business Act* last Congress included this Committee and its colleagues in the House passing the *7(a) Real Estate Appraisal Harmonization Act*, which was also a bipartisan, bicameral effort that was signed into law in December 2018. The legislation amends the *Small Business Act* to allow SBA to use the federal regulators' threshold as its standard for requiring appraisals of commercial real property that will be secured by 7(a) loans. In the wake of a regulatory change made jointly by the federal banking regulators in April 2018, the legislation effectively raised, from $250,000 to the regulators' current threshold of $500,000, the size of a 7(a) loan that requires an appraisal of real estate collateral by a State licensed or certified appraiser. By setting the SBA appraisal threshold to match the federal regulators' threshold (or the lesser amount of the three federal regulators' thresholds if there is a discrepancy between them), as opposed to specifying a specific dollar threshold, this language makes the *Small Business Act* much more durable and avoids the need for future statutory changes if any of the regulators change the appraisal threshold in the future. And most importantly, just as the federal regulators made sure that their regulatory update would not compromise the safety and soundness of loans secured by commercial real estate in conventional portfolios, the change for SBA lending also ensures the continued sound performance of the SBA portfolio.

I am proud of the industry's involvement in these significant updates to the *Small Business Act* last year, but I also understand that looking forward, the Committee is now focusing on efforts to reauthorize the *Small Business Act* in its entirety. In my capacity today, as a representative of the 7(a) lending industry, I can tell you that 7(a) lenders are prepared to roll up our sleeves to discuss ways to modernize the program and improve the outcomes available to small business borrowers in the program.

Both NAGGL and I stand ready to discuss a variety of potential proposals with the Committee in the coming months. We would expect during the reauthorization process to spend additional time developing suggestions for positive enhancements to the program, similar (but not limited) to the following examples: (1) modernizing outdated provisions in the Small Business Act by striking many sections that are no longer applicable to current use of the program; (2) considering an increase to the maximum cap on Express loans to $500,000 after careful scrutiny of any potential subsidy impact; (3) including in the OCRM scores for lenders' risk-assessment reviews (also known as PARRiS) lenders' concerted efforts to focus on underserved markets, and accomplishing this without altering the OCRM rating related to any performance issues that may exist with the lender; and (4) discussing any challenges facing export lending and how to better encourage those lenders who are suited for that particular, niche type of lending. In addition, as we consider other appropriate legislative changes to the *Small Business Act*, it may also be appropriate to consider the possibility that Congress may need to provide additional legislative guidance on issues that SBA is seeking to address in the proposed Express regulations that it published for public comment in September 2018, and which are incredibly significant and broad in their impact to borrowers and lenders. The industry and NAGGL would like to request that Congress examine the final provisions to determine whether the rules that SBA would be imposing are appropriate given the mandates of the *Small Business Act*, or whether statutory guidance should be considered.

I would also stress that future needs for legislative changes to the *Small Business Act* are sometimes dictated by events that are impossible to predict as I sit here today. This is demonstrated by the legislative need for a technical fix to the real estate appraisal threshold amount in the *Small Business Act* last Congress—a change that became crucial once the federal regulators adjusted the same threshold in their regulatory framework. I know the Committee, given its experience in overseeing these programs, will agree that we must recognize the need for flexibility as we approach the challenges that face the 7(a) loan program in the near future and in the years to come. For instance, once fully implemented, an accounting change to be applied to banks across the country, known as Current Expected Credit Losses (CECL), is likely to have an effect on 7(a) loan volume as more lenders will turn to the 7(a) program as a resource for small business borrowers. We are undoubtedly a part of a larger fabric of macroeconomic influences that effects the program and requires a constant eye to the necessary modifications.

FY2020 BUDGET TAXES BORROWERS & SHRINKS ACCESS TO CAPITAL:

I now need to address the 7(a) industry's number one priority and concern—one which could very well require a modification of the *Small Business Act*, so an appropriate topic given the context of this hearing. The President's FY20 budget request, presented a little over two weeks ago to Congress, sent a shock wave through the 7(a) industry when it included a subsidy calculation requiring additional funding of 33 basis points (0.33%), or $99 million, for the 7(a) program. This is a major shift from the program's track record of operating at zero subsidy since FY05 (except during the years covered by the Recovery Act), which means that the fees collected from borrowers and lenders cover were projected to cover the cost of making the loans. By projecting a positive subsidy rate for FY20, the budget request is triggering Congressional action to collect $99 million more in fees from small business borrowers and lenders *in addition* to the fees already collected in order to cover the cost of making loans—which are currently being collected at their statutory maximums as authorized by the *Small Business Act*.

What does this mean for this Committee and Congress? Unless the Office of Management and Budget and SBA formally amend their projected subsidy rate for 7(a) loans made next year, Congress will need to either appropriate $99 million to the 7(a) program or amend the *Small Business Act* to raise the current caps in order to collect more fees from borrowers and lenders to cover the cost of the program. If there is not an amendment to the subsidy estimate or if Congress does not complete one of these two options by September 30 of this year—which will need to pass the Senate, House, and be signed into law by the President—the 7(a) program will shut down on October 1. I'm sure by now, you can see why this is the industry's primary focus.

Before we can even consider how Congress might best move forward before October 1st in order to prevent a very successful, popular small business program from simply shutting down, we must first collectively question the positive subsidy calculation. As a lender and Chairwoman of NAGGL, I have a number of serious concerns with this subsidy projection. My plea to this Committee is that you challenge both OMB and SBA to explain this subsidy estimate in detail, and specifically, the assumptions that went into the calculation and how those assumptions are weighted in the subsidy model.

I urge you to keep in mind throughout this conversation that OMB and SBA are simply making projections, basically educated guesses, about how loans that are made during FY20 might perform over the lifetime of those loans. Of course, this is no simple task and the model behind this subsidy calculation is complex, but it bears stressing that this subsidy calculation is really not a mathematical absolute based on a formula that cannot be challenged. Rather, subsidy calculations are made using historical data, but also a lot of assumptions or predictions. These are both assumptions made about how the portfolio performs at various cycles in the economy and assumptions based on the President's economic assumptions (PEA) released each year. Modeling assumptions that were included, assumptions that were determined should not be included, and how these assumptions are weighted in the model must be reviewed and challenged—and it's appropriate to do so as members of this Committee and as the industry. Absent holding OMB and SBA accountable for correcting or amending the subsidy calculation, this Committee is going to have to bless an appropriation or approve raising fees on borrowers and lenders to carry out the results of a calculation that it seems no one, except OMB and SBA, understands.

The 7(a) subsidy calculation in the FY20 budget does not follow reason or logic on a number of fronts. First, the portfolio's actual performance data projects a starkly different picture than this positive subsidy estimate would suggest. The portfolio has seen a steady decline in charge-off rates over the past ten fiscal years on an annualized basis and risk has generally declined since September 2012. The 7(a) program's recovery amount on defaulted loans as a percentage of the purchase amount, as reported to Congress last December, was at 50% as of June 2018, with the preceding years showing a steady uptick in that percentage. In sharp contrast and at odds with this data, the FY20 budget assumes a projected recovery rate of only 37.29%. Why has the subsidy modeling ignored this established trend of steadily increasing recovery rates?

Another indicator of excellent portfolio performance is the repeated and significant downward re-estimates in every cohort of loans since FY2010, as reported in the FY20 budget request's Federal Credit Supplement. These downward re-estimates mean that the portfolio is consistently performing better than originally projected in each fiscal year's original subsidy calculation and that the model used by SBA and OMB has been significantly overestimating program costs. The fact is that borrowers and lenders have been paying substantially more than required to cover the credit costs of 7(a) loans for the past eight years. These excess charges are simply returned to the Treasury as miscellaneous receipts, according to the *Federal Credit Reform Act of 1990*. For example, the FY20 budget re-estimate for FY18 alone, identified $757 million of fees collected from borrowers and lenders ***in excess*** of what was required to cover the cost of 7(a) loans made in prior years, with another $143 million overcharge already predicted for the current FY19. Remember that the subsidy model, according to the Federal Credit Reform Act of 1990, is intended to estimate each cohort's projected costs over the lifetime of those loans, but the data shows that the model has been very much getting it wrong. In fact, since FY10, borrowers and lenders have been overcharged by approximately $3.2 billion. This is nothing but a clandestine tax on small business borrowers. The model is not succeeding and needs to be reviewed.

With this Committee's successful passage of the *Small Business 7(a) Lending Oversight Reform Act of 2018* and SBA's significant, positive strides forward in new SOP guidance and overall oversight functions that ensure the portfolio stays between the lines, the state of the program has been markedly improved. It is difficult to follow that in light of these significant programmatic changes, continued excellent portfolio performance, and clear and repeated overcharging of borrowers and lenders that this program would have a positive subsidy in FY20. I urge this Committee to raise these concerns with all parties involved in the formulation and implementation of the budget for next fiscal year.

This very Committee and GAO have a track record of looking into the accuracy of subsidy calculations, joining its colleagues in the House to request a GAO report approximately 15 years ago. The report was published in March 2004 and titled "Model for 7(a) Program Subsidy Had Reasonable Equations, but Inadequate Documentation Hampered External Reviews." Among its most important findings was that GAO and two other independent reviewers **could not determine whether a bias existed in the model by systematically excluding variables to influence the subsidy rate in a particular direction**. This is an alarming conclusion and one that should be looked into as it applies to the FY20 calculation. **The report goes on to state that SBA could not provide adequate documentation, a key internal control, to demonstrate the rationale and basis for key aspects of the model.** One of GAO's recommendations to OMB was not implemented, which was to update and improve OMB's Circular A-11 guidance which is either silent or unclear about the level of documentation necessary for credit subsidy model development.

In addition, GAO has performed multiple reviews over the years on the inherently difficult, and therefore often flawed, effort to accurately estimate subsidy calculations for credit programs, generally. In March 1998, GAO published a report titled, "Greater Effort Needed to Overcome Persistent Cost Estimation Problems," and as recently as July 2016, issued another report titled, "Key Agencies Should Better Document Procedures for Estimating Subsidy Costs." These reports should provide this Committee with the foundation from which to continue the much needed exercise of asking the difficult and ongoing questions about what goes into these models and why.

In SBA's FY20 budget request, the agency includes a proposed new framework to Congress to restructure fees in the *Small Business Act,* noting that raising fees on borrowers and lenders is SBA's preferred solution. Fee increases mean negative consequences for the program and borrowers. Make no mistake—this is a tax on small business borrowers, especially in light of the repeated overcharging of borrowers to operate this program for the past eight fiscal years, and borrowers may be dissuaded from considering a SBA loan in the future, resulting in a reduction in access to capital.

The benefits of having a program that is built on private-sector participants are numerous, but it also means there is a stark reality that the program needs to make sense financially for private-sector banks as well. If the program does not make financial sense for lenders, then they will participate less in the 7(a) program and access to capital will be further restricted. **Without appropriately holding OMB**

and SBA accountable for their assumptions, something as arcane and bureaucratic as a flawed financial model for the 7(a) portfolio is essentially dictating the parameters of access to capital, rather than allowing Congress and the *Small Business Act* to exercise that authority.

There are several other concerning provisions in the President's FY20 budget request that warrant discussion, such as the continued request for borrowers and lenders to pay for SBA's employees' salaries and expenses by collecting excess fees beyond what SBA needs to cover the credit costs of the program. This is an outrageous request given the questionable positive subsidy calculation this year, and the 7(a) industry will staunchly oppose this provision as an additional tax on small business borrowers that they cannot afford. Most surprising is that this policy proposal completely disregards the Federal Credit Reform Act of 1990 which requires that the subsidy be calculated, excluding administrative costs. OMB and SBA attempt to circumvent that clear statutory requirement by collecting exactly what they need for administrative costs from all SBA loan programs, and then later transferring and merging that amount into SBA's salaries and expenses account—doing indirectly, what they cannot do directly. But the 7(a) loan industry is encouraged that Congress firmly rejected this proposal in the FY19 President's budget request, and urges Congress to once again reject such a burden on SBA participants.

As a lender who focuses on underserved markets, I have particular concern over the fate of fee waivers to borrowers in rural and HUBZone areas that were authorized in FY19 and the fee waiver for veterans in the Express program. With respect to the fee waivers on rural and HUBZone areas, the only way those may be provided in FY20 is if Congress appropriates enough or borrowers and lenders pay enough additional fees, presumably a part of the calculated 33 basis points subsidy rate, in order to cover the cost of those waivers—otherwise, fees may only be reduced "consistent with reducing to zero the cost to the Administration of making such guarantees," according to the *Small Business Act*. While SBA states in the FY20 budget request that they intend to offer fee waivers for veterans in the Express program in FY20, it is entirely unclear how that is possible given the *Small Business Act*'s clear direction on how SBA can implement these waivers. The provision in the *Small Business Act* governing the fee waiver for veterans in the Express program are very prescriptive in stating that "If the President's budget for the upcoming fiscal year, submitted to Congress…includes a cost for the program…that is above zero, the [fee waiver]…shall not apply to loans made during such upcoming fiscal year." In other words, the fact that the FY20 budget included a positive baseline subsidy rate immediately rendered that fee waiver null and void as of the moment the submission went to Congress, which stated that "In the absence of [Congress adjusting fees on borrowers and lenders], the 7(a) program will not be able to operate at zero subsidy under current law in 2020." These are not the outcomes that NAGGL or I would like to see—the industry wants to see fee waivers in order to help facilitate increased lending, but we also question policy announcements that violate the *Small Business Act*.

Thank you for holding this hearing and I appreciate the opportunity to testify before this Committee. As lenders, we are incredibly proud of who we serve and the role we play in each of the states you represent. The issues that SBA 7(a) loans solve for are the issues that every Main Street business across the country is struggling with and which every Republican and Democrat wants to desperately find an answer to over the next four years — jobs, community rejuvenation, and opportunity - which is why it is so important to come together to ensure we protect this portfolio. I look forward to your questions.