

HOUSE SMALL BUSINESS PANEL CONVENES HEARING ON SBA LENDING, COMMUNITY LENDERS

EXECUTIVE SUMMARY

On Feb. 12, the House Small Business Committee held a [hearing](#) to examine Small Business Administration (SBA) lending programs and the role of community lenders. During the hearing, there was general bipartisan support for the SBA's lending programs and community lenders' efforts to leverage these programs to provide financing, particularly in rural and underserved areas. Members on both sides of the aisle sought to better understand the obstacles that community lenders face in utilizing these programs and potential reforms or other actions lawmakers could pursue to improve capital access. Democratic lawmakers expressed particular interest in the use of the SBA's Community Advantage and Microloan programs to help underserved communities.

However, Committee Republicans also used the hearing as an opportunity to take aim at regulations and policy changes promulgated by the Biden administration — in particular, changes to the SBA's 7(a) and 504 lending programs, the Financial Crimes Enforcement Network's (FinCEN) beneficial ownership information (BOI) reporting [rule](#), and the Consumer Financial Protection Bureau's (CFPB) Section 1071 small business lending [rule](#). In response, Democrats on the panel generally came to the defense of those actions.

OPENING STATEMENTS

Chair Roger Williams (R-TX) reiterated Republican contentions that regulatory actions, inflation, and interest rates under the Biden administration served to hinder the ability of small business owners to hire new workers, pay higher wages, and invest in their businesses. He argued that failing to renew small business-related provisions in the Tax Cuts and Jobs Act (TCJA) would limit the ability of small businesses to stay competitive and create jobs. He touted the Trump administration and Republican lawmakers' intent to reduce regulations across the board and "unleash" community banks' potential.

Ranking Member Nydia Velázquez (D-NY) acknowledged that access to capital and investment remains a pressing challenge for entrepreneurs and small businesses. She described the SBA's lending programs as "essential" to ensuring that these entities have the funding they need to grow and scale their operations, particularly in rural and underrepresented communities that struggle to obtain conventional financing. She briefly highlighted the SBA's 7(a), Community Advantage, and 504 loan programs and called on the agency to work with lawmakers to ensure that these programs are preserved and strengthened.

WITNESS TESTIMONY

Mr. Justin Hooper ([testimony](#)), CEO and Chair of First Financial Bank, Cross Timbers Region, attested that, while at times difficult to navigate, the pandemic-era Paycheck Protection Program (PPP) was “very successful” in getting funds to small businesses. He argued that the largest problem faced by community banks are the increasing regulatory “burdens” and costs necessary to keep pace with new and changing regulations. He drew particular attention to the CFPB’s Section 1071 small business lending rule, which he suggested will require significant personnel, training, and software costs to comply with. Additionally, Mr. Hooper spoke of rising costs associated with fraud losses, including debit card and check fraud.

Mr. Michael Sims ([testimony](#)), of Georgia’s Own Credit Union, on behalf of America’s Credit Unions, testified that one of the most pressing challenges his credit union faces is the complexity of SBA program requirements. He claimed that, while credit unions would like to expand their SBA loan portfolios, the administrative “burden” associated with doing so — coupled with a lack of internal expertise and high costs for participation — remain significant barriers. He urged the SBA to provide more targeted training and technical assistance to community lenders and to better utilize its regional offices to engage with existing and potential new lenders. Mr. Sims also voiced concern over efforts to bring more fintech companies into the SBA lending space, expressing a belief that this could increase risk in the system. Lastly, Mr. Sims expressed his opposition to the CFPB’s Section 1071 rule.

Mr. Frank Wetegrove ([testimony](#)), Owner of Camp Bow Wow, on behalf of the International Franchise Association (IFA), recounted his story of becoming a franchisee, hailing SBA lending for the success of his and other franchisees’ ventures. He urged Congress to make permanent the National Labor Relations Board’s (NLRB) current joint employer standard. Mr. Wetegrove applauded lawmakers for voting to overturn the NLRB’s 2023 joint employer [rule](#), as well as the decision by a U.S. district court judge to strike down that latter rule last year. Preserving the current standard would not only protect businesses and workers but also create favorable regulatory conditions for franchisors and franchisees, he concluded.

Ms. Heidi DeArment ([testimony](#)), President of Montana Community Development Corporation (dba MoFi), discussed her organization’s utilization of two key SBA lending programs — the Microloan and Community Advantage programs — to provide financing to small business owners who are otherwise unable to secure traditional financing. She described the Community Advantage program as a valuable “on-ramp to bankability” in that after small business owners make payments on their Community Advantage loans they are better able to secure 7(a) program loans. Ms. DeArment asserted that these are not “risky” loans as they go to otherwise creditworthy borrowers who lack the assets or track record to secure conventional financing.

DISCUSSION AND QUESTIONS

Community Lenders

- Chair Williams inquired about opportunities for the SBA to better work with credit unions. Mr. Sims urged a focus on resourcing the agency’s regional offices, which he said can help credit unions navigate SBA processes and procedures. Mr. Sims reiterated this in response to a question from **Rep. Brian Jack (R-GA)** about what lawmakers can do to further help community lenders, as well as a question from **Rep. Kimberlyn King-Hinds (R-CNMI)** about how the government can help small businesses access capital in communities where industries have collapsed or remain in decline. **Rep. Mark Alford (R-MO)** agreed that the SBA’s regional offices need to be more “proactive.” He highlighted **Sen. Joni Ernst’s (R-IA)** Returning SBA to Main Street Act ([S.298](#)), which would require the SBA Administrator to relocate employees to stations outside of the Washington, DC area.
- Ranking Member Velazquez noted her support for raising the member business lending (MBL) cap for credit unions. However, she added that it should be done in a “responsible” way and is a matter that is within the House Financial Services Committee’s jurisdiction.
- Citing Mr. Sims’s testimony that administrative complexity and slow SBA response times have created challenges for credit unions trying to serve small businesses, **Rep. Nick LaLota (R-NY)** asked about reforms to the SBA’s 7(a) and 504 loan programs that could help credit unions expand access to capital while ensuring that the programs remain sustainable. Mr. Sims attested that the issue is not with the programs themselves but rather the “burdensome” processes and procedures involved in moving applications through the SBA process.
- Rep. Jack prompted Mr. Sims to speak to the potential consequences of reducing or eliminating credit unions’ tax exemption. Mr. Sims anticipated that such a change would force credit unions to change their business practices and result in fewer credit unions, particularly in rural markets, leading to less capital availability.
- **Rep. LaMonica McIver (D-NJ)** asked what lawmakers can do to help small businesses access capital from community lenders. Mr. Hooper advocated for continuing to expand SBA resources to make the system less “cumbersome,” as well as addressing the costs associated with regulations. Mr. Sims reiterated a call for the SBA to explore ways to address the burden of its “excess” policies, processes, and procedures.
- Rep. King-Hinds asked Mr. Hooper to speak on the challenges that banks experience in recovering SBA guarantees. Mr. Hooper explained that banks must liquidate all collateral and pursue all other opportunities for recovery before they can try to get the SBA to honor its guarantee. He added that communication with the SBA around this process is also difficult.
- **Rep. Derek Tran (D-CA)** asked Mr. Sims to explain the MBL cap for credit unions and how it affects those looking to start or grow a business, namely veterans. Mr. Sims explained that, as his firm reaches the cap, it must modify its lending activities in such a way that it may not be able to offer additional loans to veterans or other borrowers. He also highlighted to Rep. Tran how the \$50,000 threshold for loans applying toward that cap has not changed since the cap was first enacted. He recommended raising the threshold to \$350,000.

Regulatory & Procedural Matters

- Several Committee Republicans — including Chair Williams and Reps. LaLota, **Troy Downing (R-MT)**, **Pete Stauber (R-MN)**, and **Dan Meuser (R-PA)** — generally criticized what they framed as overregulation by the Biden administration. Messrs. Hooper, Sims, and Wetegrove

agreed, citing the increasing amounts of resources necessary to comply with new regulations. Mr. Hooper also drew attention to the Durbin Amendment to the Dodd-Frank Act, which capped debit card interchange fees and, he said, has diminished his bank's ability to offer low-cost or free business deposit services.

- Ranking Member Velazquez and Reps. McIver and **Herb Conaway (D-NJ)** pushed back on Republican criticisms of Biden-era regulations, pointing to the extent of small business starts, particularly among minority households, under the prior administration.
- Rep. Alford was critical of the CFPB's Section 1071 rule and FinCEN's BOI reporting rule, and he questioned the CFPB's constitutionality. When prompted, Mr. Hooper raised privacy and cost concerns over the Section 1071 rulemaking.
- Responding to criticisms of FinCEN's BOI requirements, **Rep. Hillary Scholten (D-MI)** underscored the broad bipartisan support for legislation ([H.R.736](#)) passed by the House earlier in the week that would modify the deadline for filing BOI reports for reporting companies formed or registered before Jan. 1, 2024.
- Rep. McIver questioned how the federal government would protect consumers in the financial services space if the CFPB were to be eliminated. Mr. Hooper contended that the other federal financial regulators could absorb the Bureau's services and oversight activities. Messrs. Sims and Wetegrove concurred.
- Mr. Sims predicted to **Rep. Gil Cisneros (D-CA)** that reporting requirements under the CFPB's Section 1071 rule will result in fewer small businesses seeking capital, and he said that the rule adds to the "burden" associated with SBA processes. Mr. Hooper concurred.
- **Rep. Brad Finstad (R-MN)** inquired about the impact of FinCEN's BOI reporting rule. Mr. Hooper attested that his bank's customers have found the rule "intrusive" and that his staff has had to devote a large amount of time to assisting with the completion of associated forms.
- Rep. Conaway pushed back on criticisms of the CFPB's Section 1071 rule, asserting that it is about acquiring data necessary to ensure compliance with fair lending rules and laws.
- When prompted by Rep. Meuser, Messrs. Hooper, Sims, and Wetegrove agreed that there are significant privacy and cost concerns associated with the CFPB's Section 1071 rule.
- **Rep. Rob Bresnahan (R-PA)** criticized the "cumbersome" process involved in filling out BOI forms and anticipated that it would serve as an obstacle to small business starts.

7(a) & 504 Lending

- Chair Williams reiterated Republican criticisms of the Biden administration's changes to SBA 7(a) lending standards, claiming that they are "confusing" lenders.
- Ranking Member Velazquez asked Mr. Sims if he agreed with the following statements and, if so, if he had any recommendations to streamline the SBA's 504 loan program: (1) the 504 program has a unique economic development mission; and (2) that program can at times be "overly complex." Mr. Sims agreed with both statements, although he did not have time to offer any recommendations.
- Rep. Finstad asked Mr. Sims to detail changes he has seen to the 7(a) and 504 loan programs over the past four years and the impact they have had on his customers. Mr. Sims replied that the "vast majority" of changes have involved changes to the standard operating procedures (SOP) associated with these lending programs.

- When encouraged by Rep. Stauber, Mr. Sims affirmed his belief that SBA loan origination fees are “adequate” to address losses from 7(a) and other SBA loan default rates.
- Noting that the Biden administration changed the Credit Elsewhere Test (CET) and self-certification exercises for the 7(a) loan program, Rep. Meuser inquired about the impact of these changes on program integrity. While he did not answer directly, Mr. Sims explained that, because of the CET changes, a borrower would need to seek the approval of the firm that first gave them an SBA loan in order to move that loan to another institution.

Microloans & Community Advantage Lending

- Ranking Member Velazquez prompted Ms. DeArment to discuss how her organization is using the Community Advantage program to provide capital to small businesses in rural communities. Ms. DeArment explained that her organization uses the program in a similar manner to how banks use the 7(a) program, except the focus is on otherwise creditworthy borrowers who are unable to secure financing from banks or credit unions.
- The Ranking Member wanted to know what segments of the population the Community Advantage program reaches that the 7(a) program does not. Ms. DeArment attested that it helps in reaching those who lack assets, prior experience at a bank, or high cash flow.
- Rep. Scholten asked how the Community Advantage program can help bolster HUBZones in underutilized areas. Ms. DeArment noted that HUBZones, including other lower-income communities, have lower asset valuations and are harder to lend in. The Community Advantage program can help by providing capital to borrowers in these areas who otherwise do not qualify for a bank or credit union loan, she explained.
- Rep. Scholten prompted Ms. DeArment to speak to how the Microloan program helps address a growing need for child care services in the U.S. Ms. DeArment highlighted how the program provides funds for technical assistance, including advisers to help child care entrepreneurs draft business plans, find leases, and acquire legal services.
- **Rep. Derek Tran (D-CA)** asked Ms. DeArment how her underwriting process accommodates applicants with limited English language proficiency. The witness again highlighted how the Microloan program provides funds for technical assistance, including outside advisers who can help applicants navigate the lending process in whatever language they may need.

Additional Matters

- Rep. Alford voiced his support for making the TCJA’s Section 199A deduction permanent.
- Rep. Conaway briefly highlighted his co-sponsorship of the Successful Entrepreneurship for Reservists and Veterans (SERV) Act ([H.R.828](#)), which would direct the Government Accountability Office (GAO) to study and report on veteran and reservist small business owners’ ability to access credit.
- When asked by Rep. Bresnahan about how lawmakers could reduce administrative obstacles in SBA programs, Mr. Sims advocated for streamlining how small businesses interface with the agency and reducing requirements for underwriting loans to certain types of borrowers.