ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA®

November 12, 2021

The Honorable Charles Schumer
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker
United States House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
Minority Leader
United States House of Representatives
Washington, D.C. 20515

Dear Majority Leader Schumer, Minority Leader McConnell, Speaker Pelosi, and Minority Leader McCarthy:

I write on behalf of ICBA and the nearly 50,000 community bank locations we represent to express our strong opposition to a provision of the House Build Back Better Act that would authorize the Small Business Administration to issue direct 7(a) loans. America's community banks were the engine of the Paycheck Protection Program (PPP), proving irreplaceable value by serving millions of America's smallest businesses. Community banks account for 66 percent of 7(a) loans, meeting the needs of the smallest borrowers. An experiment in SBA direct lending, in which the agency has a poor track record, would be ill conceived. This damaging proposal must be rejected by Congress for the sake of America's small businesses and taxpayers. Moreover, we do not believe the proposal would comply with the Byrd Rule because its budgetary effects are merely incidental to the nonbudgetary components of the provision and therefore should not be considered under reconciliation procedures. We urge the Senate to give thorough consideration to Byrd Rule compliance.

Community bankers stepped forward in a historic crisis to meet an overwhelming demand for PPP loans from existing as well as new customers. Community banks' PPP lending disproportionately helped the smallest businesses. The average size of a community bank PPP loan was under $30,000. In aggregate, community banks' 4.7 million PPP loans worth $429 billion served 55.8 percent of all PPP recipients and accounted for nearly 60 percent of the program's total loan amount. These loans supported the retention of nearly 49 million jobs. Moreover, community banks made nearly 87 percent of the PPP loans to minority-owned small

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businesses, 81 percent of the PPP loans to women-owned small business, and nearly 69 percent of the PPP loans to veteran-owned small businesses. I am proud that my industry stepped up to support the survival of these diverse businesses in a time of crisis.

SBA Direct Lending Has a Poor Track Record and Is Costly for Taxpayers

I ask you to consider the finding of a recent Congressional Research Service report:

> The SBA has authority to make direct loans but, with the exception of disaster loans and loans to Microloan program intermediaries, has not exercised that authority since 1998. ***The SBA indicated that it stopped issuing direct business loans primarily because the subsidy rate was "10 to 15 times higher" than the subsidy rate for its loan guaranty programs***.

The SBA retreated from direct lending as an ill-conceived experiment. Congress must not repeat this mistake. The recent Economic Injury Disaster Loan (EIDL) program, an SBA direct loan program, has been rife with fraud and poorly executed.

Direct lending is a poor and costly alternative to private sector lending and would reach fewer borrowers. Today, there is a strong network of community banks, Community Development Financial Institutions, and other lenders already in place to meet demand for small business borrowers.

Lenders Are What Make the 7(a) Program Successful

Proponents of SBA direct lending cite data showing a decline in 7(a) lending in 2020. This data is misleading. Small business 7(a) loans were displaced by PPP loans and small business borrowing needs were met during this critical period. As PPP has come to a close, the SBA has already guaranteed a record $30.1 billion in lending in fiscal year 2021, with financing for the 7(a) program funded by user fees. The most recent NFIB survey of small business owners found that just two percent of owners said that their credit needs were unmet.

Bank and other private sector lender underwriting and expertise are what make the 7(a) program successful. They have direct ties to their communities, knowledge of local economic conditions and expertise honed over generations that cannot be duplicated by the SBA. Displacing these lenders would be a grievous error.

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ICBA will continue working with policymakers to maximize the effectiveness of the 7(a) program for the small businesses they serve.

Thank you for your consideration.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

CC:	Chairman Ben Cardin	Ranking Member Rand Paul
	Chairwoman Nydia Velázquez	Ranking Member Luetkemeyer

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