One Mission. Community Banks.

September 2024

ICBA Legislative Update: SBA 7(a) Lending

Status: On April 12, 2023, the U.S. Small Business Administration (SBA) finalized a rule ending the moratorium that capped the number of small-business lending companies (SBLC) permitted to participate in its 7(a) loan program at 14 and opened up participation in the program to fintech firms and other alternative lenders. The agency's intention was to fill a capital market gap for underserved markets.

At the same time, the SBA finalized a second rule that made significant changes to the 7(a) program's affiliation rules. Together, these major regulatory changes remove or weaken long-existing prudent lending standards which have ensured programmatic integrity for decades.

Fortunately, the final rules have drawn strong bipartisan opposition. In July 2023, the Senate Small Business Committee voted 18-to-1 to advance the *Community Advantage Loan Program Act of 2023* which would fix many of the ICBA-opposed SBA 7(a) changes. Among other provisions, the bill would limit the entry of nonbank fintechs and bolster their regulatory supervision.

In June 2024, one of the three new SBLC licenses was voluntarily returned to the Small Business Administration after receiving the license in April. This incident confirmed ICBA's concerns about certain fintech and non-banks fitness to participate in SBA's lending programs.

The House Small Business Committee is also considering legislation sponsored by Chairman Roger Williams (R-TX) that would further reform the SBA's troublesome rulemakings.

ICBA Position:

- ICBA is concerned that lifting the moratorium on the number of non-depository fintech lenders in the SBA 7(a) program without adequate regulatory oversight could cause damage to the integrity of the 7(a) loan portfolio and harm traditionally underserved small businesses.

- Many of the fintechs that could enter the 7(a) program were part of large-scale fraud that pervaded the Paycheck Protection Program during the COVID-19 pandemic. ICBA is concerned that the SBA isn't prepared to police nonbank lenders.

- Loosening underwriting standards, as new fintech are entering the program, also raises serious concerns. Mounting losses in the program would be passed along in the form of new borrower and lender fees. Loosening of underwriting criteria would unintentionally harm the very borrowers SBA seeks to help.

Key Talking Points:

- ICBA supports the mission of the 7(a) program to encourage lenders to provide loans to underserved small businesses. However, ICBA remains concerned that SBA's decision to lift the moratorium on the number of non-Federally regulated lenders in the 7(a) program while simultaneously loosening underwriting standards may negatively impact the performance of 7(a) loans, threaten the integrity of the program, and lead to increased borrower and lender fees.

- ICBA supports SBA's stated goal of aiding underserved borrowers but remains concerned that SBA's changes do not meet those goals and may, in fact, create the potential for serious risk to SBA loan program integrity and to borrowers.

- ICBA supports the bipartisan legislation introduced by Senate Small Business Committee Chairman Ben Cardin (D-MD) and Ranking Member Joni Ernst (R-IA). We are pleased that both the lending community and Congress are united in pushing back on the sweeping changes of the final SBA rules. ICBA encourages the House Small Business Committee to advance similar legislation.

866-843-4222
icba.org

1615 L Street NW
Suite 900
Washington, DC 20036

518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378