

March 13, 2018

The Honorable Steve Chabot
Chairman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nydia Velazquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Chabot and Ranking Member Velazquez:

On behalf of the members of the American Bankers Association, I write to express our support for H.R. 4743, the Small Business 7(a) Lending Oversight Reform Act of 2018. We applaud you for introducing this long overdue measure to improve the Small Business Administration's (SBA) 7(a) loan program.

Small businesses are an engine of growth and job creation for the U.S. economy. In order for small businesses to grow, they require safe and reliable funding. The SBA programs are an important part of business lending for many banks. They help fill a critical gap, particularly for early-stage businesses that need access to longer-term loans. The guarantee helps reduce the risk and capital required for banks and facilitates loans that might never have been made without this important level of support. ABA has long supported this successful public-private partnership and is pleased that Congress recognizes the importance of this program.

ABA applauds the Committee for considering and hopefully advancing H.R. 4743. This bill will strengthen the SBA's oversight office and provide the Administrator with flexibility to increase the program's maximum lending authority in the event it would be reached. The bill helps ensure the strength of the program into the future.

It is essential that small businesses that qualify for the 7(a) Loan Program are able to utilize the program to obtain access to the necessary capital to build and grow their businesses. In past years, this has been a challenge. For example, the 7(a) Loan Program required emergency legislation in 2015 to provide additional lending authority after the program had reached its funding limit. This legislation, if enacted, would grant authority to the Administrator to increase the amount for general business loans up to 115 percent of the fiscal year's limit. This is an important measure that gives lenders added certainty that 7(a) Loan Program funds will be available so that they can meet the needs of their customers. It also ensures that small businesses will not be affected by temporary shutdowns in the program, leaving them unable to meet payroll, purchase needed inventory, or secure necessary equipment and supplies to continue their operations and help grow their local economies.

H.R. 4743 also takes steps to improve the oversight of the program to prevent fraud and increase efficiency. The legislation would enhance the Office of Credit Risk Management (OCRM) within the SBA by outlining in statute the responsibilities of the office and the requirements of its director, which includes the issuance of formal and informal enforcement actions, when

necessary. Furthermore, this bill details a supervisory process that would ensure supervisory findings are provided to 7(a) lenders in a timely fashion.

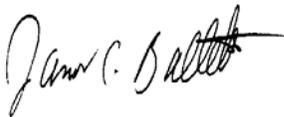
The bill's requirement that the OCRM conduct regular 7(a) loan portfolio risk analyses and submit an annual report to Congress is commonsense risk management that would help ensure the continued viability of the 7(a) Loan Program. Similar to how banks regularly review loan portfolios for credit risk performance metrics—such as historical performance and concentration risks—it makes sense to formalize OCRM's role in regularly conducting such analyses. Similarly, the requirement that a Lender Oversight Committee be formed to review reports on lender oversight activities and oversee formal enforcement action recommendations from the OCRM Director should ensure the appropriate level of accountability while maintaining checks and balances.

The SBA's Credit Elsewhere Test has long been a central element of the program to ensure that 7(a) loan program capital goes to those small businesses that face obstacles in obtaining financing outside of the program. H.R. 4743 clarifies the factors that must be considered in the Credit Elsewhere Test, helping to ensure consistent application and transparency in supervisory standards.

ABA strongly supports the efforts of the House Small Business Committee to introduce flexibility to increase the program's maximum lending authority, if needed, and strengthen the SBA's OCRM to help ensure that small businesses that are unable to obtain traditional bank loans are able to get the capital that they need through the 7(a) Loan Program.

We look forward to working with members of the Committee as you continue to craft proposals that will help SBA and our nation's banks better serve the needs of new and existing small businesses.

Sincerely,



James C. Ballentine

cc: Members of the House Committee on Small Business