



SBA DIRECT LENDING THREATENS SMALL BUSINESS ACCESS TO CREDIT

ICBA OPPOSES PROPOSALS FOR SBA 7(A) DIRECT LENDING

ICBA opposes proposals to create an SBA 7(a) direct lending program. Such a program could undermine the existing, successful public-private partnership SBA loan programs and jeopardize access to capital for small businesses.

The House-passed version of the Build Back Better Act contains a provision that would authorize direct SBA lending in the 7(a) program. Such loans would be capped at \$150,000. While the BBB has not advanced in the Senate to date, the proposal may be attached to other pieces of legislation. The proposal would sideline community bank lenders, reduce access to small business credit, and be prone to fraud.

SBA DIRECT LENDING HAS A POOR TRACK RECORD AND IS COSTLY FOR TAXPAYERS

SBA direct lending is not the answer to capital access for small business.

This experiment has been tried and has failed. A recent Congressional Research Service report found that:

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.

DIRECT LENDING IS AT RISK FOR FRAUD

The recent Economic Injury Disaster Loan (EIDL) program, an SBA direct loan program, has been rife with fraud and poorly executed. Congress should heed this warning before creating a direct 7(a) program.

The SBA is not on the ground in local markets in the way that community banks are and cannot assess the lending needs or the legitimacy of borrowers firsthand. This distance from the borrower makes direct lending vulnerable to fraud.

DIRECT LENDING IS NO SUBSTITUTE FOR COMMUNITY BANKS' ON-THE-GROUND PRESENCE

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.

The community bank-small business partnership goes well beyond lending. Community banks provide practical, real world business counseling and networking opportunities, particularly for startups, in a way that can never be matched by the SBA or any government agency.

MESSAGE FOR YOUR MEMBERS OF CONGRESS

- Support legislation to bar the SBA from 7(a) Direct Lending.
- H.R. 6037, sponsored by Rep. Blaine Luetkemeyer (R-Mo.), would prohibit the Small Business Administration (SBA) from making direct loans under the 7(a) program. The bill has 28 cosponsors.
- The Senate companion bill, the Protecting Access to Credit for Small Businesses Act (S. 3382), is sponsored by Sen. Tim Scott (R-S.C.) and has 21 cosponsors.
- Ask the senators and representatives from your state to cosponsor these important bills.