

Congress of the United States
Washington, DC 20515

November 17, 2021

The Honorable Isabella Casillas Guzman
Administrator
United States Small Business Administration
409 3rd Street, NW
Washington, DC 20416

Dear Administrator Guzman:

We write today with serious concerns about your support for the Small Business Administration (SBA) being a direct lender of 7(a) loans.¹

The SBA's largest traditional lending program is the 7(a) Loan Program, whereby the SBA partners with financial institutions to guarantee small business loans. This partnership model has proven extremely successful with the SBA 7(a) Loan Program approving over one hundred billion dollars in loans over the last five fiscal years and assisting and supporting over 2.5 million jobs across the nation.² Small businesses that participate in the program benefit from the efficiencies, expertise, and prudent underwriting of private sector lenders. Having the federal government operate as a direct lender through the SBA would crowd out the private market and compete with community banks and other financial institutions that already work in public-private partnerships. The SBA should focus on improving its existing programs and incentivizing financial institutions to participate as lenders instead of expanding its own footprint.

The SBA has shown an inability to effectively operate a direct lending program over its lifetime and has failed to impose effective guardrails for these programs, including its Disaster Loan Program and Economic Injury Disaster Loans (EIDL), which were activated to assist small businesses as COVID-19 swept across America. In fact, the SBA Office of Inspector General (OIG) cited "serious concerns of potential fraud in the Economic Injury Disaster Loan and Advance grant programs" in its July 2020 report.³ Another October 2020 report found \$78.1 billion in potentially fraudulent EIDL activity.⁴ Additionally, the OIG published a report on October 7, 2021 that found approximately \$4.5 billion in EIDL grants that exceeded policy

¹ <https://www.uschamber.com/co/events/big-week-summit/sba-administrator-on-small-business-growth-opportunities>.

² SBA, FY 2022 CONGRESSIONAL BUDGET JUSTIFICATION AND FY 2020 ANNUAL PERFORMANCE REPORT 29.

³ SBA, OFFICE OF INSPECTOR GENERAL, SERIOUS CONCERNS OF POTENTIAL FRAUD IN ECONOMIC INJURY DISASTER LOAN PROGRAM PERTAINING TO THE RESPONSE TO COVID-19 (July 28, 2020).

⁴ SBA, OFFICE OF INSPECTOR GENERAL, INSPECTION OF SMALL BUSINESS ADMINISTRATION'S INITIAL DISASTER ASSISTANCE RESPONSE TO THE CORONAVIRUS PANDEMIC (Oct. 28, 2020).

limitations.⁵ Allowing the SBA to operate as a direct lender would invite even more fraud and abuse, ignoring why repeated attempts at direct government lending have failed. Private sector lenders, that must adhere to federal financial regulations, far exceed oversight controls to protect and safeguard American taxpayer dollars as compared to a federal agency.

As a result of market inefficiencies and non-existent oversight controls that will harm American small businesses, we urge our Democratic colleagues to remove Section 100502 from their partisan Budget Reconciliation legislation that would provide the SBA with \$1.96 billion in funding to originate and disburse direct 7(a) loans. Likewise, given the lack of research and prudent foresight within this proposal, we request that you oppose this measure as well. Additionally, no later than two weeks from the date of this letter, we ask that you provide us with the subsidy rates of the last time the Agency provided direct loans through the 7(a) Loan Program. Should you have questions with this request, please contact Lucas West with Rep. Luetkemeyer's office at 202-225-2956 or Jae Jang with Rep. Hill at 202-225-2506.

Sincerely,



Blaine Luetkemeyer
Member of Congress



French Hill
Member of Congress

⁵ SBA, OFFICE OF INSPECTOR GENERAL, SBA EMERGENCY EIDL GRANTS TO SOLE PROPRIETORS AND INDEPENDENT CONTRACTORS (Oct. 7, 2021).