United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
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April 1, 2024

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

Dear Administrator Guzman:

I am writing to urge you to exercise the utmost caution as your agency evaluates applicants seeking to become Small Business Lending Company (SBLC) licensees. As Chair of the Senate Committee on Small Business and Entrepreneurship, I believe strongly that the Small Business Administration (SBA) must take the time necessary to ensure that SBLC licenses are only issued to entities with a long-term interest in the success of the agency's lending programs. This is why I am particularly troubled to learn that SBA is still considering the approval of a license for Funding Circle, a lender whose parent company has publicly stated that it is actively seeking to sell its entire U.S. business.

Last November, SBA announced the selection of three new SBLCs. This came just a few months after your agency finalized two new rules that collectively lifted the decades-old moratorium on the expansion of the number of SBLCs and loosened affiliation and underwriting standards for SBA lenders. I, along with 17 other Senators, voted in committee to advance legislation that would place sensible guardrails around SBA's lending programs and cap the number of SBLCs at 17. We were concerned that SBA did not have adequate staff and resources to permit an unlimited number of new entrants into SBA's lending programs. The legislation also reflected our shared belief that lowering affiliation and underwriting standards would increase risk to the agency and ultimately hurt small business borrowers. As my colleagues and I expressed at the time, we were concerned with how quickly SBA proceeded with this regulatory effort and called for the agency to take more time to consider the many valid criticisms that had been raised.

However, just four months after announcing the names of the three new SBLCs, it came to light that the parent company of Funding Circle, one of the selected lenders, has already begun working to sell its U.S business even before it has been approved to make a single new, SBA-backed loan. In its March 7th earnings call, the parent company's CEO stated that she did not think that the company was a good fit for SBA lending because of the agency's capital requirements, saying, "we don't believe it's the best use of our capital to invest in those loans in the US business." Despite this, you testified before my committee on March 20th that SBA is continuing to move forward with its approval process even though it does not know who will ultimately control this particular entity once it is sold. Given that your oversight division, the

Office of Credit Risk Management, will have sole responsibility for regulating the licensee and ensuring that its capital reserves are adequate, the identity of the new parent company is a critical piece of information that SBA should have before granting the authority to make loans.

Furthermore, questions about the company's current and future ownership that were raised during your appearance before our committee deserve further scrutiny. I am particularly interested in knowing whether or not the company was completely transparent with SBA when it began entertaining expressions of interest from potential purchasers. Funding Circle said it took proactive steps to contact SBA to affirmatively disclose its intent to solicit buyers. However, it is not clear that this information was shared with the SBA before the intent to sell was announced publicly on March 7th. The parent company's CEO clearly stated that day that it is "in discussion with third parties and [has] received expressions of interest for the U.S. business," indicating that buyers had been contacted prior to March 7th. If Funding Circle actively shopped itself while its application was under review without telling SBA, that lack of communication should weigh heavily against it as SBA evaluates its fitness to participate in SBA's lending programs.

Lastly, I would urge you to consider the importance of selecting SBLCs that employ a management team with demonstrated experience with the 7(a) program. Whatever entity SBA ultimately selects, I would hope that it possesses leadership with a strong familiarity with all of SBA's rules, including SBA's capital requirements, so that the entity knows exactly what will be expected of it. Also, to ensure the long-term health of the program, I would encourage you and your team to be especially cautious with regard to the entity's historical loss rate so that both borrowers and tax payers are protected from irresponsible lending practices.

SBA's mission is too important to grant loan-making authority to a lender that is not fully familiar with and fully committed to the agency's programs. Awarding a license to a company that is preemptively seeking to offload its operation even before receiving its full approval or making an SBA loan would be unprecedented and, in my view, extremely unwise. All of the agency's decisions to bring in new participants should be made with the goal of ensuring the long-term health, stability and public support for SBA and its lending programs.

Sincerely,

Jeanne Shaheen

Jeanne Shaheen
Chair
Senate Committee on Small Business and
Entrepreneurship