“Improving Access to Capital in Underserved Communities: The Community Advantage Program, Microloans, and other SBA Initiatives”

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Submitted by

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Chairman Cardin, Ranking Member Paul, and Members of the Committee—my name is Annemarie Murphy and I am currently the President of SBA Lending for First Bank of the Lake, a small community bank. While I operate out of Greenville, South Carolina, the bank is headquartered in Missouri with a national footprint and roughly $500 million in assets. First Bank of the Lake has a dedicated focus on SBA lending, and we deliver roughly $228 million in 7(a) loans annually and served on the frontlines of delivering PPP loans across the country. I am tasked with managing all aspects of the bank's SBA lending program, from sales to servicing and liquidation, as well as ensuring compliance with all aspects of the bank's credit and regulatory policies within the government guaranty lending programs.

With more than two decades of multiple roles within the government guaranteed industry, I have seen firsthand how banks can be successful at reaching underserved markets, as well as the ways in which we can improve. I look forward to today's focus on how SBA programs reach underserved communities. It is critical to continue the collective discussion examining how the SBA lending industry can better serve these communities. In doing so, we must also bring to light the pitfalls and misconceptions behind SBA's most recent proposed rules that purport to increase lending to underserved communities, but which have the potential to bring financial harm to our most vulnerable borrowers and the 7(a) loan program as a whole.

7(a) Lending to Underserved Markets

First, I'd like to be clear: as lenders, we can and need to do more in reaching underserved markets. And lenders need to advance more quickly as an industry when it comes to reaching those borrowers that are the most vulnerable. The SBA's loan programs rely on private-sector lenders to deliver loans to America's small businesses, but it is first and foremost a public policy program and that means that all lenders who participate must understand that Congress will continue to prioritize various underserved markets that need to be better reached. And as a small community lender, I am dedicated to improving how we serve our communities. This basic premise is at the heart of all my testimony.

It is also important to note that the 7(a) loan program is inherently a mission program. In the Small Business Act, the 7(a) loan program's core premise of eligibility is to provide access to capital to small business borrowers *who cannot find credit elsewhere* on reasonable terms and conditions. As lenders, we cannot make a 7(a) loan if it does not meet this credit elsewhere requirement, and I personally review with our team that each loan is documented extensively as to why it meets our core credit elsewhere obligation. In other words, by virtue of the Congressional intent for the 7(a) loan program, *every* 7(a) loan serves a borrower that would otherwise be left behind by banks' conventional lending practices, whether that loan is reported as having been delivered to a certain demographic or not.

We also need to understand who the 7(a) loan program currently serves before we can assess how we need to improve. And I am proud to report that the 7(a) loan program as a whole is making progress year over year in many targeted, key underserved markets. Again, as it always bears repeating, we can and should do more—but, as a leader of a team at my bank, I have learned that you cannot expect others to strive to improve if we fail to even acknowledge or value where they currently succeed. Applying this principle to the 7(a) loan program, any

observer of SBA's own data would quickly see that 7(a) lenders today are reaching underserved markets.

So where does the 7(a) loan portfolio currently stand?

Roughly 50% of all 7(a) loans made in FY22 were $150,000 or under. Let me underscore this: half of all 7(a) loans are the smallest of the small loans.

68% of all 7(a) loans made in FY22 were $350,000 or under.

Now that SBA announced small dollar fee waivers for any loan $500,000 or under, if we consider $500,000 the benchmark for small dollar loans per SBA's own indications, we would expect the proportion of small dollar loans would increase. SBA does not currently publicly report on loans $500,000 or below, and instead reports on loans over $350,000 to $2 million, so it is impossible to report on exact figures for what SBA now considers small loans.

But, understanding the market and the numbers we are provided (and outlined here), it is safe to say that roughly three out of every four loans made in the 7(a) loan program are small loans.

SBA has statutory discretion to adjust fees for program participants if there is an excess in fee income after taking in the expected cost of 7(a) lending for a given Fiscal Year. Given that SBA has waived all fees for borrowers and lenders for all loans $500,000 and below for FY23 with this discretion, it is a show of incredible support to small dollar loans that likely over three-quarters of the entire 7(a) portfolio does not pay any fees to obtain access to capital through the SBA 7(a) program.

Roughly one-third of all 7(a) loans in dollars are made to minority populations, and about 30% of all 7(a) units are made to minority populations.

It is likely these numbers are understated as it is critical to note that roughly 25% of all loans made in FY22 went unreported—meaning, the small business borrower chose not to disclose their race, ethnicity, or other demographics to the lender. Remember, as lenders, we cannot force a borrower to report any relevant demographic and we cannot do that for them. There are critical fair lending laws and regulations that require lenders to lend in a color-blind fashion. As a result, the borrower must always opt to self-report and it is not mandated. We also know anecdotally that it is underserved markets and minority borrowers who are most reticent to check a box disclosing their race or ethnicity. In my personal experience as a lender, minority borrowers are worried that somehow that disclosure will lead to a negative outcome for them. While that is a cultural perception we will need to continue to work hard to reverse, it is significant to understand this dynamic at play when evaluating the success of 7(a) lending in minority populations. One-quarter of all loans made, roughly $6.5 billion in 7(a) loans, went unreported last year, and knowing what we do about minority borrowers' hesitations to self-report, we could likely conclude that lending to minority populations in the 7(a) program is greater than one-third of all loans each year.

Loans to African-Americans are at an all-time high in the 7(a) loan portfolio and saw the largest jump in lending in FY22 compared to any other minority demographic: rising from 4% (in FY17) to 7% (in FY22) of the total loans made over the past six years and rising from 2% (in FY17) to 4% (in FY22) of the total dollars delivered in the past five years. This is a 39% increase in the number of loans and a 59% increase in dollars over the past six years. In FY22 alone, $984 million in loans were made to African-American small businesses.

The proportion of loans in the 7(a) portfolio to Hispanics are at an all-time high: 10% of the total loans made and 7% of the total 7(a) dollars in FY22 went to Hispanic borrowers, amounting to $1.847 billion in loans to Hispanic small businesses last year.

Roughly 20% of 7(a) loans are made to rural populations, and roughly 80% are made to urban populations.

All of this data was provided by SBA's own weekly loan reports published publicly.

And finally, an important note on data and how it can be used to tell a desired story: As is true for comparing any Fiscal Year against another in a program like the 7(a) program, these percentages fluctuate slightly each Fiscal Year based on what our borrowers need and apply for each year. The percentage of all 7(a) loans $350,000 or under has fluctuated in recent years—in FY17 that percentage was at a high of 74%, in FY21 it dipped to 55%, and now in FY22 we are on a sharp increase once again to 68%.

It is no secret what happened in FY20 and FY21 to cause a dip in *any* sector of lending—a global pandemic that proved earth-shattering for small business. The pandemic kept many borrowers on the sidelines of growth, and therefore kept them from applying for loans. Many of our small business customers applied for capital through the PPP *instead* of a 7(a) loan in those years.

While it is not factually wrong for SBA to say that small dollar loans declined in the height of the pandemic, it doesn't give an accurate portrayal of how numbers can fluctuate month to month and year to year, places far too much emphasis on shifts that amount to a handful of percentage points, and, most importantly, it doesn't acknowledge the *why*. A global pandemic crisis is a pretty good "why" as to a decline in any lending during those two FYs, especially when the federal government was offering, even encouraging, those same borrowers into another program. And SBA's assertion about a small dollar loan problem certainly doesn't acknowledge the sharp upswings we are seeing in small dollar loans now that we are on the other side of delivering PPP.

SBA's own data tells a story of a loan program that is succeeding at delivering small dollar loans and is improving in many key underserved markets.

Why is this important to raise? Over the past several weeks, SBA released two proposed rules, *Affiliation and Lending Criteria for the SBA Business Loan Programs*, 87 FR 64724 ("Affiliation Proposed Rule") and *Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization*, 87 FR 66963 ("SBLC Proposed Rule"). The entire premise of the proposed rules as presented by SBA is to increase mission lending.

Even Vice President Harris announced from the Department of Treasury that these proposed rules would combat racial equity.

The 7(a) lending industry could not agree more with the *intent* behind these proposed rules—any creative thinking to bring about more mission lending and welcome more lenders into the program is for the better. Lenders are used to competition and even expect it. Competition is healthy and often fuels results that could lead to reaching more borrowers.

But in justifying why the SBA is proposing these rules, the agency has painted a narrative that somehow the 7(a) program is currently failing. SBA even undercuts the Community Advantage pilot program, stating that "the low historic loan volume and lack of any CA loan activity in some rural and underserved geographic areas makes this an unviable alternative."[1]

The Community Advantage program should be applauded, not criticized. The Community Advantage program should be made permanent, not disregarded. This past May, SBA made significant regulatory changes to Community Advantage to aid the pilot program even further in reaching more borrowers—these new changes should be given a chance to take effect. The Community Advantage program makes a small number of loans that make a profound impact, but SBA has highlighted this number and indicated that it means the Community Advantage program is not succeeding. Even as a small community bank, I only make an average of 200 7(a) loans annually—are those loans not valuable to the underserved borrowers we help? Our underserved borrowers would disagree. I am deeply worried that in a post-PPP world, we have become numb to volume and expect every program to show PPP-like numbers with big, splashy impact—this would be a mistake of enormous proportions.

As a leader of people and a seasoned 7(a) lender, I know this is not the best way to go about change. It is critical that we look at the agency's data for ourselves so that we can better understand the reality of our reach to small loans. And per SBA's own data, the 7(a) loan program's reach to small dollar loans **is** a success story.

SBA's Proposed Rules

So, what is included in the proposed rules and how will they impact the underserved communities that they aim to help?

The Affiliation Proposed Rule would loosen or remove the 7(a) program's requirements for how lenders underwrite loans. The SBLC Proposed Rule would lift the existing forty-year moratorium on the number of non-federally regulated institutions (called Small Business Lending Companies or SBLCs) that can make loans under the 7(a) program and permits SBA to add an unlimited number of SBLCs to the existing 14 licenses. SBA also creates a new type of SBLC called "Mission-Based SBLCs" that are meant to have mission requirements, but which are not specified. In other words, the Affiliation Rule proposes removal of the prudent lending standards I have spent my career relying upon, and the SBLC Rule proposes to bring unregulated

[1] *Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization*, 87 FR 66963, https://www.federalregister.gov/documents/2022/11/07/2022-23597/small-business-lending-company-sblc-moratorium-rescission-and-removal-of-the-requirement-for-a-loan

entities, such as FinTech, into a program that has now been stripped down of its prudent guardrails.

Let me say upfront: all lenders understand the value of automation and simplification, particularly for underserved borrowers. We are not anti-FinTech and we are not averse to simplifying SBA processes where they can be simplified. What I am profoundly opposed to are imprudent proposals that could harm underserved markets and damage the 7(a) loan program's integrity from both a reputation and performance perspective. I believe these proposals as drafted do just that.

Mission Lending. First, the proposals as drafted fail to demonstrate how they will aid mission lending whatsoever. The additional SBLCs, like the existing fourteen licenses, would not have any mission requirements and do not seem to be meant to serve underserved borrowers in any way. The Mission-Based SBLCs, while presumably meant to focus on mission lending, do not have any defined set of mission-lending requirements, leaving it up to the SBA political appointees to establish program parameters on a lender-by-lender basis. As a lender, I worry that borrowers, especially the most vulnerable, will be disadvantaged without clear rules and standards that apply consistently to all lenders—and, as a long-time SBA lender, it is a worrisome shift that there is not one standard rulebook for all participants and that the program rules will be determined on an individualized basis by political appointees.

There are also requirements for Mission-Based SBLCs to form separate non-profit corporations that could present financial and legal barriers for non-profit mission entities that have limited resources. It was also surprising that there was no described pathway for entities which are not currently involved in Community Advantage to become a Mission-SBLC, a glaring omission if the purpose is to bring more lenders into the program. Finally, it is unclear how allowing Community Advantage lenders to make *larger* loans outside of Community Advantage (where the maximum loan amount is capped at $350,000) helps more *small* dollar loans.

If a proposed rule is built entirely on the premise of aiding underserved markets, it's not a good sign for there to be this many gaps and concerns about how it actually aids those underserved markets.

Oversight. As a lender, I am deeply troubled that SBA does not have the oversight capacity to serve as primary regulator for additional SBLCs. The Office of Credit Risk Management (OCRM) serves as the office within SBA responsible for all lender oversight, and, as such, supervises both 7(a) lenders and 504 Community Development Corporations (CDCs). In addition, within the 7(a) program, OCRM serves as the primary regulator for Community Advantage participants and SBLCs, and would continue to serve as primary regulator for any additional SBLC. Given the office's current responsibilities, especially as SBA continues to untangle from a post-PPP world, OCRM is operating at its maximum capacity in my opinion. As a lender, I see firsthand the ways in which OCRM lacks the resources and has limited staff. I hear from my SBLC counterparts that are part of the existing group of licenses discuss how they have waited for many months for their regular review results from OCRM—by law, the Small Business Act requires that OCRM deliver a review to lenders within 60 days or provide notice of their delay in writing. SBA states they currently have the capacity to take on three additional SBLCs without a mission focus—my front row seat would tell me otherwise. SBA states that adding existing Community Advantage participants as SBLCs would not present any additional burden—I would argue that bringing in lenders in a completely different capacity to make loans up to $5 million when they were formerly capped at $350,000 absolutely presents an additional supervisory burden.

Unlimited Nature. SBA did not propose a slow and steady test run of bringing FinTech into the 7(a) loan program. The preamble of the proposed rule states that they will bring in three new SBLCs, which are not mission lenders, right now. However, the actual proposed rule allows an unlimited number of SBLCs into the program whenever SBA sees fit.

In addition, rather than impose a cap on volume for the new SBLCs, SBA is silent on this front. This concept of capping volume on new entities or new programs is not new—by statute, any pilot program is capped at 10% of the volume of the overall portfolio. While SBA did not present this expansion as a pilot program, even though it does present a new purpose which would seem to trigger the need for a pilot program classification, it would seem reasonable to present some sort of volume cap. This kind of cap is especially relevant given that the types of entities proposed to enter the program are FinTech, which are built on a lending and business model that relies entirely on very high volume meant to be made at rapid pace.

My concerns about a lack of any limitations are not raised out of fear of competition. Rather, my concerns are two-fold. First, I would expect that most reasonable recommendations would follow the mantra of introducing untested concepts that could present great risk to the portfolio in a gradual fashion. And secondly, we live within the realities of a Congressional program with a Congressionally imposed authorization cap on total program volume each Fiscal Year. The 7(a) loan program may make loans in FY22 only up to $30 billion—after which, the program would shut down for the remainder of the Fiscal Year. If FinTech brings their current high-volume model to 7(a) lending, we could face a programmatic shutdown mid-Fiscal Year. Again, this is not about existing 7(a) lenders wanting their share of the pie—this is about making sure we understand the limitations of a government guaranteed program, and wanting to ensure we avoid a programmatic shutdown which serves no borrower or lender.

Regulatory Gap. As a federally regulated lender, I am worried and surprised that SBA did not propose to require new SBLCs mirror any federal regulatory and compliance requirements imposed on depository institutions that are supervised by a federal banking agency or the National Credit Union Administration (NCUA). Imprudent lending behavior could lead to risk to both borrowers and the performance of SBA's 7(a) portfolio. Every day I go to work, I have to ensure compliance with Bank Secrecy Act and Anti-Money Laundering requirements, concentration caps, safety and soundness parameters, stress test parameters, and other regulatory criteria to promote prudent lending. These compliance standards dictate every decision my bank makes in both our conventional and SBA loan portfolios. But not one of these standards is set out by SBA. Instead, I am told by SBA's guidelines that I should follow my federal regulator's requirements. My 7(a) loans are reviewed and monitored by SBA, but the agency does not attempt to replicate what my federal regulator requires. Many of these rules and regulations were put in place to protect the small business owner and guard against imprudent lender behavior.

Why is this significant? If SBA is opening the program in an unlimited fashion to entities that have no federal regulator and plans to serve as primary regulator, we need to understand the basic premise that SBA does not have federal regulator-like standards to apply to these new non-federally regulated entities. In other words, they are not set up to act like a primary regulator in the manner in which the federal regulators are equipped, and the proposed rule does not even

attempt to remedy this gap. If the goal is to help underserved markets, this regulatory gap should raise concerns, as it is the most basic notion that a prudent regulatory framework protects borrowers.

Policy Shift. I am also troubled by the clear direction that SBA is taking the 7(a) loan program—instead of bringing FinTech into the existing program with guardrails, the agency appears to be modifying the program for FinTech, removing guardrails to make 7(a) lending fit into a low-touch model that FinTech currently utilizes. Of particular concern, the Affiliation Proposed Rule removes the detailed list of factors to be considered when lenders are determining whether a loan applicant is creditworthy. As a substitute for the existing credit analysis factors, SBA proposes to amend the regulations to require lenders and CDCs to use "appropriate and prudent generally acceptable commercial credit analysis processes and procedures consistent with those used for their similarly-sized, non-SBA guaranteed, commercial loans."[2] This has colloquially been described to lenders by SBA as "Do what you would do."

If a lender is directed simply to follow procedures it would use for its similarly sized non-SBA-guaranteed loans, the likely result is that federally regulated lenders will continue to operate based on the requirements imposed on them by their primary federal regulator while non-federally regulated lenders will have no such limitations. Who is hurt by this? Borrowers, especially in underserved markets.

Imagine all lending entities, including FinTech, being able to "Do what you would do" as the underpinning of all SBA credit analysis and underwriting criteria. As a lender, I can tell you immediately that for non-federally regulated entities, this kind of hall pass on prudent lending guardrails would lead to a different risk tolerance than federally regulated lenders. This equates to higher losses and an impact to overall 7(a) loan portfolio performance.

The current 7(a) loan program has low loss rates and strong performance since the Great Recession. Every lender that participates in the program contributes to this performance—all of our loans combined make up the entire 7(a) portfolio. If even a few handful of lenders begin to make riskier decisions and have higher losses than we currently have, the estimated costs of 7(a) lending will have to increase. This means that fees required of borrowers and lenders will need to be increased to cover higher expected losses. All of the fee waivers at SBA's discretion would likely be eliminated, and Congress would likely have to increase fees that are currently set in the Small Business Act and already at their statutory maximum. If fees are not increased, Congress would have to provide an appropriation. In the absence of one of those options to cover the cost of the program, the program would shut down. This domino effect will not happen right away. Typically, losses occur three to five years after the loan has been originated.

There are real consequences to greater risk and higher losses. The greater risk is not due to the borrowers being served—the greater risk is because of the types of entities SBA is inviting into the program in an unlimited fashion while simultaneously removing the rulebook. When a program is drastically more expensive for borrowers and lenders because losses are increased, underserved borrowers get left behind in a program that has suddenly become cost prohibitive.

[2] *Affiliation and Lending Criteria for the SBA Business Loan Programs* (87 FR 64724), https://www.govinfo.gov/content/pkg/FR-2022-10-26/pdf/2022-23167.pdf

Criminal and Congressional Investigations. Finally, I am deeply disturbed that SBA is welcoming FinTech into the program in an unlimited fashion with a loosening of rules just as Congress is releasing explosive reports announcing that FinTech was at the center of tens of billions of dollars in fraud because of the lack of prudent behavior and internal guardrails from those entities. But this history of looking into FinTech goes beyond just recent reports.

Congressman Cleaver started a probe in 2017 into how the algorithm at the heart of all FinTech lending could be discriminatory and harm underserved markets, asking the Consumer Financial Protection Bureau (CFPB) to take a closer look.

CFPB issued a statement in May 2022 to affirm that the Equal Credit Opportunity Act (ECOA) that protects borrowers against discrimination applies even to entities that rely purely on an algorithm to make lending decisions, having cited long-standing concerns that algorithm-based lending can lead to black-box credit decisions that have a potentially disparate impact on minority borrowers.

The Department of Treasury under the current Biden Administration released a report just last month titled *Assessing the Impact of New Entrant Non-bank Firms on Competition in Consumer Finance Markets*, which concluded that non-bank firms increase market risk and need enhanced oversight.

Finally, the Select Subcommittee on the Coronavirus Crisis has released troubling conclusions about the role of FinTech in PPP.

In early findings, the Select Subcommittee on the Coronavirus Crisis noted that "Recent reports have found that FinTechs and their bank partners handled 75 percent of the approved PPP loans that have been connected to fraud by DOJ, despite facilitating just 15 percent of PPP loans overall."[3]

Most recently, on December 1, 2022, in the most stunning example showcasing the need to press pause on bringing FinTech into the 7(a) program, Congressman Clyburn and the Select Subcommittee on the Coronavirus Crisis released a report identifying how FinTech participation in SBA's PPP resulted in wide-scale fraud.[4] This new report illuminates in detail the ways in which FinTech utilized "inexcusable misconduct" amounting to tens of billions of fraudulent loans, significant harm to the taxpayer, and in many cases, the prioritization of only large loans.[5] The report concludes that "any plans by the SBA to again open 7(a) participation to Fintechs and other unregulated, non-depository institutions must be accompanied by a well-defined, more rigorous, and better-resourced initial review process, and such entities should be subject to continuous monitoring to confirm their adherence to SBA rules and industry best practices."[6]

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[3] https://coronavirus.house.gov/news/press-releases/select-subcommittee-launches-investigation-role-fintech-industry-ppp-fraud
[4] *New Select Subcommittee Report Reveals How Fintech Companies Facilitated Fraud In The Paycheck Protection Program*,
https://coronavirus.house.gov/news/press-releases/clyburn-fintech-fraud-ppp-doj-sba
[5] Ibid.
[6] Ibid.

Congress, the IG community, the Department of Justice, the Department of Treasury, CFPB, and law enforcement all seem to be unified—FinTech is not currently properly regulated, FinTech can pose distinct risks to underserved borrowers, and FinTech brought about what appears to be the largest scale of fraud we've seen in recent decades in the federal government.

SBA appears to be moving in the opposite direction from their counterparts.

As a lender who has served as a long-time steward of the program, this is an impossible contradiction. While investigations into potential criminal behavior by FinTech companies in one federal government program (PPP) are still underway, SBA should not invite FinTech entities into another federal government program before better understanding the role these non-federally regulated entities played in this large-scale fraud.

No other factor is as significant as these recent Congressional findings to lead to the common-sense solution of pressing pause on SBA's proposed rules. A pause would allow for reasonable actions to be taken in response to the Congressional report and to give the opportunity to incorporate Congressional recommendations before moving forward.

This is especially poignant when re-reading SBA's proposed rule now that the Congressional investigation into FinTech in PPP has been released. The SBLC proposed rule reads:

> *"many non-traditional lenders participated in SBA's Paycheck Protection Program (PPP), which provided billions of dollars to small businesses during the economic upheaval caused by the COVID-19 pandemic. Based on the success of the PPP, removing the moratorium on licensing new SBLCs and Mission-Based SBLCs opens opportunities for more non-traditional lenders to participate in the 7(a) Loan Program, providing additional sources of capital to America's small businesses and targeting gaps in the credit market."*[7]

How could we possibly still want to move forward with a proposed rule that cites bringing in the supposed success of entities in PPP to the 7(a) loan program when those same types of entities are now at the center of a Congressional report pointing to large scale misconduct?

<u>Recommendations</u>

To further progress 7(a) lending outreach to minority communities, first we need to ensure no harm is done to underserved borrowers and the portfolio, which means pressing pause on SBA's two recently proposed rules through Congressional action. As an industry, many of us have seen this before—it was 2008 right before the Great Recession. The 7(a) loan program helps tens of thousands of borrowers every year and currently injects billions of dollars into minority communities. Let's keep the guardrails we need to ensure prudent lending behavior and address the concerns of Congress and this Administration when it comes to FinTech, especially in the wake of Congressman Clyburn's most recent report.

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[7] *Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization*, 87 FR 66963, https://www.federalregister.gov/documents/2022/11/07/2022-23597/small-business-lending-company-sblc-moratorium-rescission-and-removal-of-the-requirement-for-a-loan

Next, there are several legislative solutions that have been introduced by Members of this Committee that would greatly improve 7(a) lending's reach to underserved markets if they were to pass. The first is Chairman Cardin's bill that would make Community Advantage permanent, the *Community Advantage Loan Program Permanency Act of 2022*—this is critical to give program participants the assurance that this mission-driven subset of the 7(a) program will be available for the long-term. The second piece of legislation is Senator Ernst's *Child Care Small Business Investment Act*, a targeted bill that would improve access for non-profit childcare providers to utilize the 7(a) loan program and aid many communities, especially rural, that rely on non-profit child care facilities to help working parents gain greater access to quality and affordable care.

I would also encourage the facilitation of more informal, roundtable style conversations with existing 7(a) lenders and Congress so that there can be a more wholistic brainstorming of what else we can tangibly do to improve minority lending even further. Ideas such as targeted goals for small dollar loans for each 7(a) lender, and codifying in statute fee waivers for small dollar loans are both issues we should discuss. While hearings are beneficial to placing insight on the record, they rarely facilitate the kind of discussion the industry and Congress could and should have on a regular basis so that ideas such as small dollar loan incentives could be better fleshed out.

Improved reporting and data collection of lending to underserved markets is also a critical piece of how we better our reach—when we have an accurate picture of what kind of lending we do, we can work towards improvement based on facts. As an example, when pulling data collected from our fair lending reporting required of the bank on race, gender, and ethnicity, it did not match with the data we pulled from our bank's SBA data platform. When I investigated further, I found that many of the smaller loans we made utilized what is called a Rollover Business Start Up, or ROBS, which allows a borrower to use money from their 401K toward their required equity injection for the loan. Upon further examination, SBA's data entry platform for lenders does not require that lenders submit any borrower-provided answer on underserved demographics when using a ROBS loan structure. For other loans, SBA's platform requires an entry—even if the borrower does not voluntarily report race or ethnicity, lenders are required to click "N/A." This is not the case for ROBS—lenders in their daily rush can simply click through the platform and not fill out anything, even "N/A." This should be addressed with SBA so that lenders are required to relay to SBA what the borrower opted to fill out. Again, this does not require the borrower to report data on race that would violate fair lending laws and regulations—it simply requires lenders to relay borrower-provided information. These small tweaks, which Chairman Cardin championed in the context of collecting data in PPP, can make small differences that add up. When we don't have an accurate picture, we can't assess our reach accurately.

We also need to better represent these data collection deficiencies in our collective dialogue. At the bottom of every report on loan activity published by the SBA on a weekly basis, SBA states:

> *"DISCLAIMER: The information being provided above is derived solely from Agency records that are submitted by the Agency's participant lenders engaged in making SBA loans. This information is collected by the lenders from SBA loan applicants who provide*

> *it on a voluntary basis. It is then forwarded by the lenders to SBA. Since the information is provided by the loan applicants on a voluntary basis, it is not necessarily inclusive of all SBA borrowers, nor can its accuracy be verified by the Agency. Accordingly, SBA cannot make any representation as to the completeness or accuracy of the information provide"*[8]

In other words, SBA asserts demographic data is limited and based entirely on a borrower's cooperation and disclosure. Perhaps there is more progress to be made for lenders as to how we educate borrowers on why this data is being collected, and perhaps SBA could aid in that improvement.

Finally, I want to share a personal case study from my own institution: nine months ago, I launched a Veterans Initiative Team within First Bank of the Lake to target lending activities to our nation's veterans. I come from a long-serving military tradition within my immediate family—my father, my husband, my brother, my nephew, and my daughter have all served or are currently serving in the military. My oldest daughter is currently serving in Guam, and I am proud of her service and who she is beyond measure. Because I know this community of underserved borrowers, I was anxious to tackle how my bank approached veterans. I started hiring veterans to create a team of lenders that had served. Once I had staffed with individuals that had a shared experience with the borrowers we were trying to reach, my bank easily tripled its volume in loans to veterans within the first nine months. My bank went from 4% of our loans going to veteran borrowers to 12% of our loans.

When we personally invest in our institution's approach to underserved markets and shape our teams in a way that the lenders reaching out to underserved borrowers share common ground and experience with those borrowers, I believe we can make enormous gains individual institution by individual institution. And small improvements lead to bigger progress.

Thank you for the opportunity to testify, and I look forward to continuing the dialogue on these critical topics.

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[8] SBA Weekly Lending Reports, https://www.sba.gov/document/report-2022-weekly-lending-reports