

Congressional Testimony Prepared for SBA Administrator Isabella Guzman
U.S. Senate Committee on Small Business and Entrepreneurship
March 22, 2023

Chairman Cardin, Ranking Member Ernst, and distinguished members of the committee, thank you for the opportunity to discuss the U.S. Small Business Administration's impact and continued progress in achieving its mission of providing support to help America's small businesses and innovative startups grow.

The entrepreneurial spirit of the American people and their trademark grit, perseverance, and adaptability have made small businesses our nation's most important driver of sustainable job growth, market competition, and innovation.

America's entrepreneurs have not only helped deliver an incredible economic expansion—with 12.4 million new jobs since 2021—they are also powering a surge in new businesses. In 2021 and 2022, nearly 10.5 million Americans applied to start a new business—the most in any two-year span on record.

We are already seeing those businesses grow. Last month in Houston, Texas—a state where the pace of new business applications has doubled from pre-pandemic levels—I met Tramell Kukoyi who used an SBA loan to purchase a new warehouse for her shipping company—an expansion that she expects will quadruple the number of workers she employs.

Tramell is one of the thousands of small business owners I have met over the past two years as I have traveled all over the country hearing about the opportunities they are pursuing and their challenges and successes.

I have seen firsthand that small businesses continue to grow, hire, and retain their employees as they pivot to adapt to remaining supply chain challenges, inflationary pressures, and a tight labor market. They consistently outline that funding their growth is one of their biggest challenges, especially as we see they are facing rising interest rates and tightening credit standards at commercial banks. That is why helping small businesses access affordable capital is as important today as ever.

Capital is the lifeblood of any business and critical to helping small businesses grow, hire, acquire, and innovate. SBA delivered more than \$43 billion across our capital programs in 2022 and finally reversed a 10-year pattern of decline in small dollar lending, but we continue to see large gaps in the availability of loans under \$150,000.

Significant gaps in access to capital have persisted across generations for many underserved communities—and these gaps have significant downstream consequences and opportunity costs.

A lack of smaller loans has disproportionate consequences for the smallest of the small businesses, including minority, veteran, rural and other businesses that are already historically underserved by SBA's core programs.

Effectively addressing this market gap means that the SBA must pursue improvements that streamline our programs in order to better deliver on our mission and reach underserved businesses.

First, the credit markets need more competition and capacity to serve small businesses. That is why we proposed expanding our distribution networks by revitalizing the Small Business Lending Company (SBLC) program. First and foremost, the SBLC Rule will give permanence to the over one hundred nonprofit, mission-oriented lenders, who have been effectively lending to underserved communities through the Community Advantage Pilot Program. It will also offer new licenses, called Community Advantage SBLC licenses, to increase the number of these nonprofit lenders.

The rule also lifts a cap on regular SBLC licenses, enabling SBA to admit new lenders aligned with the agency's mission. SBA will begin by issuing three additional SBLC licenses to lenders with demonstrated historical performance of safety and soundness, and a strong regard for borrower financial health and protection. In doing so, SBA's objective is to increase the number of lenders serving the hardest-to-reach small businesses, including women, minorities, veterans, and rural firms, at no cost to the taxpayer.

Second, we are listening to the concerns of small businesses who want to utilize SBA loans, but struggle with red tape and complexity in our programs. Based on extensive feedback from our lending partners and community advocates, we are streamlining affiliation rules and simplifying the process for lenders to make an SBA loan to align with existing lender best practices.

Maintaining the core integrity and oversight of SBA's lending programs will always be my top priority, and I strongly believe we can both improve our support for underserved communities and strengthen program integrity at the same time.

Third, we are easing business transitions and expanding access to employee ownership, as many of the members of this committee have supported, by allowing SBA products to finance partial buyouts. Previously 7(a) loans could only be used in three specific types of ownership changes which were simply not workable for many small businesses. This added use-case will make it easier for employers to get equity out of their businesses. And, just as importantly, it provides an opportunity for employees to purchase equity in the business they work for, easing business transitions and enabling employees to become business owners themselves over time.

Finally, a bipartisan interest of this committee has been to attract more private capital to the innovative startups critical to our national economic competitiveness. That's why we have proposed a rule modifying the Small Business Investment Company (SBIC) program to incentivize patient, early-stage investments and growth strategies—with a new "Accrual SBIC"

license—and to diversify portfolios to make sure SBIC funds expand investment opportunities in rural and underserved communities.

Together these improvements will help SBA more effectively address critical gaps in the capital market, providing access to credit for borrowers who cannot find it elsewhere.

At the same time as we move forward with these updates to our programs, we continue to build on the lessons learned through managing the biggest disaster response in our agency's history during the recent pandemic. The SBA's COVID-Economic Injury Disaster Loan (EIDL) loans and advances, the Paycheck Protection Program (PPP), SBA Debt Relief, Shuttered Venues Operators Grant (SVOG), and Restaurant Revitalization Fund (RRF) were important lifelines that helped millions of small businesses navigate the crisis, preserve jobs, and recover quickly.

These programs had to scale quickly to deliver aid as directed by Congress. The agency has now transitioned to ensuring small businesses continue to be supported through ongoing loan servicing, grant reporting, or PPP forgiveness processing.

For example, the COVID-EIDL program concluded last year after providing \$390 billion in relief to 4 million small businesses across the country. We continue to work with appropriators in Congress to ensure the agency has the necessary resources to service the COVID-EIDL portfolio and support our small business customers.

In partnership with our lending network, we have processed full or partial forgiveness for more than 99.6% of the 10.6 million submitted PPP forgiveness applications.

And we continue our priority effort to combat pandemic fraud. From day one, the Biden-Harris Administration prioritized pandemic fraud prevention. We instituted standard fraud controls such as income tax verification and checking Treasury's Do Not Pay databases, while ensuring that we delivered pandemic relief funds with both speed and certainty. It was under my leadership that SBA implemented the GAO recommendations to improve SBA operations by putting in place best practices for fraud prevention, detection and response.

We also continue to prioritize strong support for recovery of stolen funds. We identify cases of suspected fraud and work closely with the Inspector General as well as other law enforcement agencies to investigate and prosecute the fraudsters who took advantage of the crisis to defraud the American people and steal funds and resources.

As a result of our new fraud framework, aggressive actions and investments, the SBA is more strongly positioned to combat fraud, waste and abuse in its longstanding capital and other programs.

SBA's mission goes beyond capital as we recognize that small businesses need to also strengthen their balance sheets with revenue growth opportunities. The SBA is committed to helping America's small businesses access the largest marketplace through federal contracting opportunities. Last year, the federal government met President Biden's contracting goal for

small disadvantaged businesses, and SBA is driving toward the President's goal of 15% for SDBs by 2025.

Earlier this year the SBA successfully launched VetCert, our new Veteran Small Business Certification Program—an authority we assumed and transitioned successfully from the Department of Veterans Affairs at Congressional direction in the 2021 National Defense Authorization Act. We built this platform to be the gold standard in customer service to take more veterans on the pathway to federal government contracting. With VetCert and the launch of new Veteran Business Outreach Centers, we are increasing SBA's footprint in underserved states and regions and across the country in support of our veterans.

We also recently completed the second stage of the realignment and strengthening of the newly reorganized Office of Disaster Recovery and Resilience (ODR&R). The transformation of our SBA disaster enterprise to align all of our capital programs will help ensure disaster survivors can easily and swiftly connect to vital financial relief. Layering support for recovery and resilience will also help strengthen small businesses and communities to better prepare for and manage the disruptive impacts to their lives and livelihoods caused by increasing extreme weather events.

I'm proud of the work we have done to create a strong, customer-centric, technology-forward SBA that is helping small businesses take advantage of the unprecedented opportunity created by President Biden's economic agenda that is investing billions of dollars in local economies and communities across the country.

The Infrastructure Investment and Jobs Act is giving small businesses access to contracts to build and revitalize our nation's infrastructure.

The CHIPS and Science Act will bolster small businesses in supply chains and support them as they develop next generation technologies manufactured right here in the United States.

The Inflation Reduction Act will lower health care costs for small businesses and their employees, and it also creates opportunities for developing a new clean energy economy, and building a more sustainable future.

And, a new three-year bipartisan reauthorization of the Small Business Innovation Research and Small Business Technology Transfer Programs will help innovative small businesses commercialize their cutting-edge discoveries and innovative technologies that have always been key to America's global competitiveness.

At the SBA, we want to make sure small businesses are leading these initiatives—and have the capital, tools and resources they need to fully leverage every growth opportunity.

The Biden-Harris Administration has made great progress at the SBA and across the federal government, building the economy from the bottom-up and the middle-out. Now we are

working to finish the job and foster strong, sustainable growth and resilience for all of our small businesses.

Thank you again for this opportunity to share some of the great work our mission-driven SBA team has been doing. I look forward to working with the new Congress to ensure our nation's small businesses get the support they need to launch, grow and build resilience to achieve their American Dream.