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U.S. Senate Committee on Small Business and Entrepreneurship
Hearing on Managing Risk for the Long-Term in the 7(a) Loan Program
February 26, 2025

Chair Ernst, Ranking Member Markey, and distinguished members of the committee, thank you for the opportunity to appear before you today to discuss managing risk in the SBA 7(a) Loan Program.

My name is Tim Fitzgibbon, and I am a senior vice president with First National Bank, a $1.1 billion dollar community bank based in Ames, Iowa, and founded in 1903. My responsibilities include managing two specialty loan programs – SBA and student loan refinance – and I am also a licensed investment advisor.

I am here today to share my viewpoint not just as an SBA lender, but also a 40-year participant in government-backed loan programs, including home mortgages and student loans, where I have spent a good part of my career helping borrowers manage their debt, improve their credit, and avoid default.

Risk in any loan program is primarily managed through sound underwriting policies. Prudent underwriting ensures equitable treatment for all applicants and is intended to be a good predictor of a borrower's future success. In short, good underwriting protects the consumer along with the lender, and in the case of the government backed SBA program, the taxpayer as well.

In 2023, new rules were written for the SBA program with the admirable goals of streamlining the application process and increasing access to funding for more small business owners, particularly those in underserved communities.

Major underwriting changes included removing the applicant's personal financial resources from the "credit elsewhere test," waiving equity injections, reducing insurance requirements, and permitting lenders to "do as you do" when underwriting SBA loans.

Reducing underwriting criteria to increase loan access is not a new idea in federally backed loan programs, but it has not always proved wise. A similar approach was used in the 1990's to increase homeownership through lowered credit standards for private market and FHA loans, which contributed significantly to the subprime mortgage crisis of 2008.

A more recent example continues today with the Federal Parent PLUS student loan program. Already low underwriting standards were further diluted in the early 2010's to allow more families to access the Parent PLUS program, which has resulted in countless older Americans becoming buried in debt they cannot afford. Originating government-backed loans for borrowers who can never repay them is predatory in nature.

It is imperative that the SBA closely monitor the impact of its reduced underwriting standards on the borrowers it serves.

To that end, early indicators suggest there are already signs of credit stress for SBA loans made under the new rules. For example, according to a recent risk assessment by the SBA, "The Small Business Administration's flagship 7(a) program lost hundreds of millions of dollars in 2024 as agency fee reductions combined with an increase in loan defaults to result in negative cash flow." [1] Similar analysis done by third party service providers show loans made under the new rules are defaulting at a much faster and higher rate than loans made in other years, particularly those originated by non-bank lenders.

I would like to end my statement with a cautionary observation, based on testimony provided just last year by Administrator Guzman in hearings before this committee where she suggested the SBA should restart its direct government lending program. I urge committee members to study the current condition of the federal direct student loan program before considering such a move. History has shown that direct government lending can lead to expensive loan modifications, and even debt forgiveness, to mask non-performing loans. Loan forgiveness does not manage debt, it simply passes the costs on to the taxpayer.

Iowa banks are committed to providing access to SBA financing to our small business communities. While we applaud efforts to streamline SBA loan processing and expand in a safe and sensible manner the number of small businesses the SBA program can assist, we urge Congress and the Small Business Administration to restore prudent underwriting standards and ensure proper oversight of all its lending partners.

I look forward to your questions, and I thank you again for the honor of participating in this hearing.

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[1] SBA's flagship small-business lending program is in the red. Here's how it could hit business. The Business Journals. Feb. 11, 2025