



U.S. Small Business  
Administration

Testimony of

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U.S. Small Business Administration

Before the

Committee on Small Business and  
Entrepreneurship  
United States Senate

Hearing on

“Oversight of SBA’s COVID Economic Injury Disaster Loan Program”

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Good morning, Chairman Cardin, Ranking Member Paul, and members of the committee. On behalf of our Administrator, Isabella Casillas Guzman, and the entire Agency, I want to start by thanking you for your strong support of the Agency's lending programs and all U.S. Small Business Administration (SBA) programs.

Since March 2021, I have served as the Associate Administrator for the Office of Capital Access (OCA). Previously I served as Deputy Chief of Staff, Deputy Associate Administrator, and Senior Advisor for the SBA. During the first year of the pandemic, my respect and admiration for the civil servants of the SBA only grew, as the Agency served as a lifeline for America's small businesses confronted with a devastating pandemic and economic crisis. I was humbled to help continue this work over the past year in my current role alongside SBA's civil servants, who continue to work tirelessly to provide small business owners the relief and capital they desperately need.

In my current role, I am responsible for the Office of Capital Access's administration of SBA's 7(a) business loans, the Community Advantage Pilot program, the 504 Loan Program, the Surety Bond Program, and the Microloan Program. Collectively, these programs connect small business entrepreneurs that otherwise are unable to obtain conventional sources of capital with participating private sector lenders willing to lend necessary capital to start or grow small businesses. SBA loans are behind companies and products that are now household names, like Ben & Jerry's Ice Cream, South by Southwest, and Boppy Pillow.

### **Supporting Small Business Growth**

In 2021, the U.S. economy added 6.4 million new jobs. In no small part, that is because 2021 was also a record year for new business starts. According to Census data, 5.4 million Americans filed an application for a new business – more than 20 percent higher than any previous year on record and more than two-thirds higher than the annual average of 3.2 million new businesses applications per year in the five years prior to the start of the pandemic. As the SBA transitions its focus from pandemic relief to its core mission, the agency has never had more startups to support. As any entrepreneur knows, new startup businesses need capital. Not only is access to affordable, timely capital key to small business growth and survival generally, but it is particularly vital in today's economy, which is marked by both high growth and rising demand, as well as headwinds such as rising prices and a changing labor market.

The SBA's core lending programs are supporting this dynamic cohort of new businesses through the tailwinds and headwinds of today's economy. Small manufacturers, which are key to the President's goal of tackling supply chain bottlenecks head-on by increasing domestic production, benefit uniquely from the 504 Loan Program. Main Street businesses emerging from the pandemic can manage cost pressures with low-cost working capital loans under the 7(a) program. Small government contractors—including those building new infrastructure under the Bipartisan Infrastructure Law—rely on SBA's Surety Bond program. Veteran entrepreneurs and

those from historically underrepresented backgrounds—which make up an increasingly large share of startup owners—are served by the Community Advantage program.

Across our programs, SBA supported \$44.8 billion in new lending in Fiscal Year 2021. That high volume was supported in large part by temporary program enhancements passed by Congress, including debt relief, fee waivers, and increased guarantee rates. In the President’s FY 2023 Budget Request, the SBA is requesting a 13% increase in lending authority across our capital programs, to support ongoing demand for these programs.

Administrator Guzman has also taken action to strengthen SBA’s core lending programs and make them accessible to a broader array of entrepreneurs and business types. Specifically, she has extended the Community Advantage Pilot Program, expanded its accessibility to underserved borrowers, and made it more accessible to entrepreneurs previously involved in the justice system. We continue to explore ways to extend changes like these to our other loan programs. And finally, as envisioned by this committee, SBA is working to make our loan programs more accessible to employee-owned businesses and those seeking to transition to employee ownership, by helping owners exit their business while giving their workers opportunity to build wealth.

### **Paycheck Protection Program**

At the onset of the pandemic in March 2020, the Agency took on the role of administering the Paycheck Protection Program (PPP), increasing loan volume ten-fold in a matter of weeks. In 2020, the SBA approved a total of 5.2 million loans for \$522 billion to America’s small businesses and certain nonprofits. The Economic Aid Act extended the authority to make PPP loans through March 31, 2021 with an additional \$284 billion in lending authority and modified rules for PPP loan eligibility and forgiveness and allowed certain borrowers to obtain second draw PPP loans. In March 2021, the American Rescue Plan Act provided an additional \$7.25 billion through the program.

In the 2021 rounds of PPP, the SBA approved over 6.3 million loans totaling over \$270 billion in loan volume. In the third round of PPP, the SBA prioritized reaching the smallest businesses, low and moderate-income communities, and rural areas to achieve an equitable distribution.

Delivering over \$788 billion in relief would not have been possible without the partnership of over 5,000 lenders that participated in the PPP. We are extremely grateful for all their hard work and dedication in executing this program with us. With the involvement of community banks, credit unions, Community Development Financial Institutions, Minority Depository Institutions, farm credit lenders, financial technology firms, and traditional lenders we have been able to reach small business owners across America and protect millions of jobs. Even after PPP, we hope to continue to foster these relationships and expand access to capital.

## **Addressing Fraud Waste and Abuse in PPP**

One of the criticisms of the PPP was the lack of eligibility and fraud checks on potential borrowers. In response, the Agency developed a detailed loan review plan in October of 2020. The process is designed to maximize program integrity and optimize the use of SBA's loan review resources, while considering the challenges posed by the high volume of PPP loans and the statutory timeframe for remittance of forgiveness payments.

As part of this process, in late 2020 the SBA reviewed the entire portfolio of PPP loans through the use of an automated screening process comparing loan data with publicly available information and applying eligibility and fraud detection rules.

Additionally, unlike in the first rounds of PPP, the 2021 guaranty process eliminated instant approval of applications. Instead, funding for loans was contingent on passing front-end SBA compliance checks such as verifying income with IRS and cross-checking Treasury's Do-Not-Pay list.

SBA has made significant progress in exposing fraudsters, reporting them to law enforcement, and preventing additional fraud. Last month, Administrator Guzman announced the creation of a new Fraud Risk Management Board (FRMB) to replace the Fraud Risk Management Council. She also designated a Special Counsel for Enterprise Risk to work across the Agency to further limit fraud and risk. We are also working closely with the Office of Inspector General and other federal authorities to refer suspected fraud to law enforcement authorities. The steps we have taken to strengthen program controls have been recognized by Congressional auditors.

## **PPP Forgiveness Process**

One of the highest priorities of our first year was to ensure eligible small businesses could access PPP forgiveness in a smooth, simple way. PPP loans are eligible for forgiveness if funds are used for eligible payroll costs (at least 60% of total funds) and nonpayroll costs such as mortgage payments, interest payments, rent or lease payments, utilities payments, operations expenditures, supplier costs, property damage costs, and worker protection expenditures during the covered period. The covered period is the 8-to-24 week period after disbursement of the loan.

To that end, the Agency worked diligently over the summer of 2021 to launch the SBA's Direct Forgiveness Process. Lenders could opt in to using the Portal, which streamlined the forgiveness process by allowing their borrowers to apply for forgiveness directly through SBA, provided the loans were \$150,000 or less. The SBA rendered borrowers' forgiveness applications in a web and mobile friendly platform, with most of the questions pre-populated based on information they already provided in their original PPP application. After submission, SBA sent the applications to the lender for review and decision, and then back to SBA for final decision. It takes borrowers 6 minutes or less on average to complete the application. We've not only reduced the time it takes for eligible borrowers to access the relief they need as they recover, but we've also shortened the time it takes for lenders to process these applications. To date, more

than 1,500 lenders have opted in, and SBA has processed 1.9 million loans through Direct Forgiveness.

Overall, SBA has processed 10 million forgiveness decisions, or approximately 91% of all PPP loans, totaling \$743 billion. This total consists of 4.9 million, or 97%, of 2020 loans and 5.4 million, or 85%, of 2021 loans.

## **RRF**

In March 2021, the American Rescue Plan established the Restaurant Revitalization Fund (RRF) to provide funding to help restaurants and other eligible businesses keep their doors open. After shouldering the delivery of over \$788 billion in PPP relief, the Office of Capital Access was able to take valuable learnings and implement the RRF program less than three months after the bill's passage.

The RRF program received more than 278,000 applications representing over \$72.2 billion in requested funds. SBA securely awarded all of the \$28.6 billion in Restaurant Revitalization Fund assistance by June 30, 2021. Nearly two-thirds of RRF funds (\$18 billion) went to businesses owned by women, veterans, and economically and socially disadvantaged individuals.

We were able to accomplish this because of an exceptionally user-friendly application technology portal, a highly dedicated and expert team of career civil servants, and proactive outreach to restaurateurs and other eligible entity types to inform the implementation of this critical program.

## **COVID EIDL**

The COVID Economic Injury Disaster Loan (EIDL) is the largest loan portfolio at the SBA, with 3.9 million loans totaling over \$390 billion as of the month of July. Nearly 686,000 EIDL loans received an increase. Given the unprecedented demand for the program, in 2021 Administrator Guzman immediately invested heavily in increasing SBA's capacity. Within months of assuming leadership, Administrator Guzman transitioned COVID EIDL to the Office of Capital Access to dedicate additional management capacity. Since this transition, the Office of Capital Access closed out a backlog of nearly 1 million applicants across loan and advance categories by increasing the agency's processing capacity from less than 2,000 applications per day to more than 20,000. We also increased loan officer productivity from less than two applications per day to an average of 15 while overhauling the customer service experience and solidifying robust fraud controls. In recent weeks, the agency has approved an average of over \$900 million a day; the average processing time for an applicant is two to three weeks for loans under \$500,000 and about one month for loans over \$500,000. That is on par with or faster than industry standards.

Despite our progress, there have been two recurring concerns with the programs from Congress and other stakeholders: fraud and processing delays for applicants. For fraud, a series of events contributed to this challenge for the programs that have since been rectified. In 2020, at

the start of the programs, the CARES Act prohibited the agency from collecting tax documents to verify business identity and revenue, which is one of the strongest safeguards against fraud that the agency employs, including for the SBA's traditional direct disaster lending. As a result, in 2020, 3.6 million COVID EIDL loans were approved without any tax document verification, representing 92% of the portfolio. In 2021, with the reversal of the prohibition under the Economic Aid Act, the agency implemented the IRS verification along with the Do Not Pay Check. As mentioned earlier, we re-audited the 2020 portfolio with new technology to protect against fraud. These important steps will ensure that the relief funds passed by Congress are directed to the businesses they were intended to help.

To address processing delays, Administrator Guzman directed the agency to operate with both speed and certainty. We do not believe there is a tradeoff between speed and fraud controls, as we have reached a point today where both exist and function cohesively with controls in place while we process applicants within weeks. The processing delays that continue to be experienced by applicants are mostly by applicants who are filing for reconsideration. Others did not file their 2019 taxes and successfully obtained a loan in 2020 when that control was not in place or have not submitted required documentation for verification. Now that the IRS verification control is in place, the applicant who was approved in 2020 with no IRS verification is experiencing challenges obtaining a loan increase. With an average loan increase approval rate of 50%, this means of 3.6 million loans administered in 2020 with no tax verification, half of those that have come back to loan increases have been declined for not meeting eligibility and fraud controls.

Despite these cases, the majority of COVID EIDL borrowers have obtained decisions and relief within weeks and the programs have successfully kept millions of small businesses afloat. At the same time, the fraud controls introduced under Administrator Guzman's leadership have ensured the SBA can fight against fraud for the remainder of the COVID EIDL programs and beyond.

## **Moving Forward**

I am incredibly grateful for the tremendous amount of work the SBA staff has put in over the past year to get over \$700 billion of relief to small business owners and nonprofit organizations. Despite unthinkable circumstances and devastating loss, this team quickly executed on the largest SBA program in history, protecting millions of Americans and their livelihoods. Additionally, I would like to thank the members of this committee for your support of the Agency throughout the implementation of the Paycheck Protection Program, and for your dedication to these small businesses. Small business is the lifeblood of our nation's economy and our communities. I will continue to put my whole soul into our efforts to effectively concluding pandemic programs and delivering ongoing support to small businesses so they can rehire and retain workers, safely reopen, and deliver the essential goods and services our communities depend on.