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Chairwoman, Ranking Member, and Members of the Committee, thank you for the opportunity to appear before you today. My name is Melissa Spurgin, and I am the Chief Financial Officer of First Iowa State Bank, where we serve rural communities across southern Iowa. I appear before you today on behalf of rural banks that underutilize SBA loan programs.

I appreciate your focus on the unique challenges facing small businesses in rural America, and I welcome the opportunity to share what we see on the ground.

Rural banks play a critical role in financing small enterprises. We rely heavily on local knowledge, long-standing relationships, and firsthand understanding of our communities, not just standardized financial metrics. Our limited use of SBA programs is not philosophical. It is structural.

In many rural banks, a single lender may handle commercial, agricultural, and consumer lending but SBA programs were largely designed for lenders with scale, specialized staff, and urban market dynamics in mind. SBA loans require significantly more documentation, certifications, and post-closing compliance than conventional loans, with lender staff requiring continuous training due to frequent rule changes. Combined with the persistent talent shortages and high training costs faced by many rural banks, the departure of just one employee can eliminate a bank's SBA capability entirely.

This is especially challenging because rural businesses typically need smaller loans, not multi-million-dollar financing. SBA underwriting and servicing costs, both in terms of compliance and staffing, are largely the same regardless of loan size or market area, so the economics often do not work for the small-dollar loans most common in rural communities. Yet the impact of those loans on local jobs and local economies is substantial, often more significant than larger urban loans.

Underwriting standards also frequently fail to reflect rural economic realities. Little weight is given to the judgment of experienced rural lenders, with specific requirements around aspects of a loan, like its debt service coverage ratio, that do not account for seasonal or cyclical income patterns. This results in creditworthy businesses failing underwriting not because they cannot repay, but because of timing mismatches in cash flow.

Equity injection requirements, similarly, fail to reflect rural asset structures. Many rural businesses are asset-rich but cash-poor, with wealth tied up in land, equipment, or other assets accumulated over generations. Allowing borrower equity in these assets to partially satisfy equity requirements would expand access without weakening borrower commitment or increasing risk.

Collateral and personal guarantee requirements also need greater flexibility. Rural assets are often inherited, jointly owned, or held in trusts. SBA collateral rules can require costly

and time-consuming legal restructuring simply to pledge assets or obtain guarantees. Documentation alternatives should also be permitted for long-established rural businesses with informal but reliable operating histories. Community bank relationship knowledge should be recognized as a compensating factor in underwriting.

Aligning SBA underwriting with rural economic realities would expand access, increase program utilization in rural markets, and do so without materially increasing default risk. These are flexibility improvements—not loosened standards.

Rural banks also have significant concerns about the risk of technical default and guarantee claw backs. SBA guarantees can be denied or reduced due to minor paperwork or procedural errors, even when the borrower performs as agreed, and rural banks, as I've already mentioned, typically lack the in-house SBA specialists or legal teams to manage this risk. A single denial of a guarantee can have a meaningful impact on a small bank's capital. In practice, the guarantee is only as reliable as the compliance process—and that process has proven unforgiving.

As a result, rural banks continue to lend, but we do so outside SBA programs. We rely on portfolio loans, relationship-based underwriting, flexible renewals during downturns, faster credit decisions, and long-term customer support during economic stress. Rural banks are lending. But we are not able to reach every creditworthy rural entrepreneur without SBA support. Borrowers most affected are startups and those on the economic margins of rural communities.

The path to greater rural bank participation is reducing friction in the system. I believe Congress and the SBA can better achieve the goals of supporting entrepreneurs and increasing access to capital in rural America by:

- Easing the compliance burden and cost structure for smaller loans, and for loans in rural areas.
- Recognizing the value of the judgment and relationship knowledge of the community banker.
- Providing flexibility in acceptable equity, collateral, and personal guaranty requirements and how they're documented.
- Ensuring greater clarity so banks can truly rely on the SBA guaranty without risking a claw back on a technicality.
- More effectively marketing resources such as the Small Business Development Centers to ensure both banks and borrowers understand what support exists.

The SBA, with these reforms, can be a better and more impactful partner with community banks in Iowa and across the country. We stand ready to be a partner in helping achieve this worthy goal.

Thank you for the opportunity to share these perspectives. I look forward to answering your questions.