

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

September 16, 2016

The Hon. Maria Contreras-Sweet
Administrator
Small Business Administration
409 3rd Street, S.W.
Washington DC 20416

Dear Administrator Contreras-Sweet,

As you know, the Small Business Administration's (SBA) CDC/504 Loan Program (Program) seeks to promote local economic development by helping to provide long-term fixed rate financing for small businesses. Recently, however, the House Committee on Small Business (Committee) has been informed of adverse conditions impacting SBA's ability to process and approve Program documents. Accordingly, the Committee is requesting information regarding how the Program has been operating.

Specifically, the Committee was notified that throughout the past year, the Sacramento Loan Processing Center (SLPC), which approves all CDC/504 Program loans, has gone through periods where it could not process any documents related to the Program. This includes loan guarantees, environmental reviews, appraisals, and 327 forms among others. The Committee has been advised that recently, these periods have occurred more frequently, with extended outages in early June as well as early September. Altogether, the Committee has been told that the SLPC was down for almost one-third of all business days since June.

The impact of the SLPC not being able to process information can be significant for participants in the Program. This is particularly true when it comes to the loan closing process. After approval, loans approved within the Program are not closed until the project related to the loan is completed. During this time between approval and closing, any changes to the loan (even minor changes such as address changes) must be approved by the SLPC before going to one of the Program's District Counsels for the final sign-off. If technical problems at the SLPC prevent this approval and delay closing a CDC's loan packet in time for that month's debenture sale date¹, that CDC will have to wait another entire month for the next sale. Because small businesses that participate in the Program often obtain interim financing to bridge the gap until

¹ See SBA Standard Operating Procedure 50 10 5(H), subpart C, page 313: "The 504 Debentures are normally sold and proceeds disbursed on the Wednesday after the second Sunday of each month. The Fiscal Agent normally negotiates the final rate and fees with underwriters on the Tuesday after the first Sunday of each month."

the debenture sale that may be subject to a higher interest rate or other fees, this extra month could prove costly.

These delays also put a strain on the Program's third party lending partners who are having to adapt to this uncertainty. The Program requires small businesses to obtain 50 percent of their financing from a third party lender, but as mentioned above, most lenders also provide an interim loan worth another 40 percent of the total loan package until the debenture is sold.. As such, persistent problems with loan processing could raise doubts about the stability of the CDC/504 Program and possibly drive these third party lenders away.

If technical difficulties at the SLPC are preventing loans from being processed, it is SBA's responsibility to inform program participants, and this Committee about the problems and what steps are being taken to find a solution. However, it is our understanding that during periods where the SLPC was experiencing difficulties, Program participants have been the ones to first reach out to SBA, and then were left in the dark regarding the cause of the delays at SLPC and when they could expect any problems to be resolved. Additionally, although these problems persisted throughout the summer, SBA never communicated to the Committee that there were any difficulties associated with the SLPC or the CDC/504 program. When significant problems arise that prevent SBA from effectively administering a statutorily created program, the agency has an obligation to inform the Committee and provide updates as to how these issues will be corrected.

In light of the reports of persistent issues affecting the CDC/504 Program, the Committee requests that you provide answers to the following questions.

1. How many days, either in full or in part, has the SLPC been unable to process loans or other Program documents from May 1, 2016, to September 16, 2016?
2. For days, either in full or in part, that the SLPC was unable to process loans or other Program documents, what was the cause of these "outages"? If there were different causes for different days, please specify what the cause was for specific days.
3. For days, either in full or in part, that the SLPC was unable to process loans or other Program documents, were there any indications that SLPC would be unable to process loans or other Program documents on that particular day, and if so, was any prior warning given to Program participants?
4. When was the Associate Administrator, Office of Capital Access made aware of the problems impacting the SLPC?
5. To the extent that submission dates for closings are set by SBA, are extensions being given to those small business who are caught in delays caused by server outages or other technical difficulties?
 - a. Who makes the determination of whether an extension should be given?
6. As of September 15, 2016, was there a backlog of CDC/504 small business loan approvals, appraisals, environmental reviews, and/or 327 forms at the SPLC resulting from server outages or other technical difficulties?
 - a. If so, how many?
 - b. Does SBA have a plan to address these backlogs, and what is the timeline for that plan?

7. Will SBA establish an expedited process for certain loans with pending deadlines, and if so, how will SBA determine which loans to expedite?
8. What is SBA's long term solution to the continuing disruptions and outages at the Sacramento Loan Processing Center, and when will that solution be in place?
9. As the new solution is implemented by SBA, is it possible for any aspect of the loan review process for small business be disrupted, and is SBA making preparations for such a scenario?
10. What specific actions, if any, is SBA making or planning to make to reassure banking partners who offer loans to small businesses within the 504 program that they should be confident in this Program moving forward?
11. What specific steps will SBA take to improve communication with 504 program participants, and this Committee, should problems continue in the future, and what is the timelines for implementing those steps?

Please provide response to these questions in writing no later than September 23, 2016. Should your staff have any questions about this letter, please contact Greg Robinson (for Chairman Chabot) at greg.robinson@mail.house.gov, and Justin Pelletier (for Ranking Member Velázquez), at Justin.Pelletier@mail.house.gov.

Sincerely,



Steve Chabot
Chairman



Nydia M. Velázquez
Ranking Member