



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

October 19, 2016

The Honorable Steve Chabot
Chairman
Committee on Small Business
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Administrator Contreras-Sweet has asked me to respond to your letter, dated October 5, 2016, concerning the participation of Wells Fargo Bank, N.A. (Wells Fargo) in programs of the U.S. Small Business Administration (SBA).

Wells Fargo is a participating lender in SBA's 7(a) program and also makes "third party loans" to borrowers in SBA's Certified Development Company program (CDC/504 program). SBA's Office of Credit Risk Management (OCRM) is responsible for the monitoring and oversight of 7(a) participating lenders and of CDCs. We appreciate the opportunity to update you on the participation of Wells Fargo in multiple agency programs, as follows:

1. 7(a) Program

- a. As of August 31, 2016, Wells Fargo has 22,391 active 7(a) loans outstanding, for a total loan amount of \$7.5 billion.

2. CDC/504 Program

- a. As of August 31, 2016, Wells Fargo has 1,099 "third party loans" for 504 projects, for \$760 million. These loans have a first mortgage position on 504 project collateral, but do not carry an SBA guarantee.
- b. Wells Fargo & Company has been serving as the Central Servicing Agent for the CDC/504 program since October 1, 2012, when it was selected through a competitive bid process. The contract is in its fourth and final option year.

3. Other SBA Program(s)

- a. Wells Fargo participates in the 7(a) and 504 loan programs (see above). Wells Fargo is not a participant in the Small Business Innovation

Research (SBIR) program and is not a licensee in the Small Business Investment Company (SBIC) program. Wells Fargo does have investments in multiple SBIC licensees, none of which constitute a controlling interest.

4. Complaints from program participants regarding Wells Fargo

- a. SBA received a complaint in March 2015 from a small business that received a 7(a) loan from Wells Fargo in 2013. The borrower's complaint was regarding financial information provided by the seller of the business to the borrower, as purchaser of the business. SBA reviewed the complaint and determined that the issue was a dispute between the buyer and the seller of the business, not between the borrower and Wells Fargo.
- b. SBA became aware of another complaint against Wells Fargo as a result of a collection action filed by Wells Fargo against the guarantors of a defaulted 7(a) loan. In response to the lawsuit, the defendants alleged that Wells Fargo committed fraudulent inducement, fraudulent non-disclosure and negligent misrepresentation. The defendants claimed that Wells Fargo had tricked them into signing the guarantees, which they claimed not to have understood as imposing personal liability on them. The suit is currently pending between Wells Fargo and the guarantors.

5. SBA investigations or disciplinary actions in past five years

- a. SBA's Office of Credit Risk Management (OCRM) has conducted several risk-based, in depth reviews of Wells Fargo's SBA lending operations (in 2011, 2014 and 2016). Each resulted in an acceptable assessment and no enforcement or disciplinary actions were taken.
- b. The SBA Office of Inspector General (OIG) is authorized to perform investigations of program participants. We have no information as to any investigations by the OIG of Wells Fargo in the past five years.

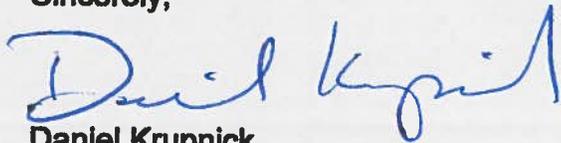
6. SBA actions in light of recent reports

- a. OCRM is currently conducting an additional targeted review of Wells Fargo including a sample of Wells Fargo's 7(a) loans to identify any unusual activity which may indicate abusive activities by Wells Fargo employees, and will follow-up as appropriate.
- b. SBA has referred this issue to its OIG, which is authorized to investigate potential fraud matters under 5 U.S.C. Appendix 3.

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We appreciate your continued support of SBA, America's small businesses, and your interest in our programs. If you or your staff has any questions, please contact me at (202) 205-6806.

Sincerely,



Daniel Krupnick
Associate Administrator
Congressional and Legislative Affairs