



U.S. Small Business Administration

TESTIMONY of

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House Small Business Committee

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Thank you for the opportunity to testify before this Committee, Chairman Chabot and Ranking Member Velazquez. As the Associate Administrator for Capital Access, I am responsible for the SBA's loan and surety bond guaranty programs which consist of the 7(a), 504, Microloan, and Surety Bond Programs. As a former community banker who relied on these tools for many years, I have seen firsthand how these programs help support small businesses and working families across America. My time at SBA has only deepened my respect for the programs and their direct impact.

At SBA, we view our role as one of filling an unmet need in the lending market place – the goal is to help small businesses access credit when a conventional loan is otherwise unavailable due to insufficient collateral or equity, start-up status or a host of other credit challenges. Administrator Contreras-Sweet has asked my office to focus on ways to streamline and modernize our programs, recruit new lending partners, increase our service to minorities and underserved markets, and develop policies that are in line with the experience of small businesses in today's economy.

Last year, our flagship 7(a) program approved over \$23.5 billion dollars in gross loans —a record loan volume in SBA's history. However there is still much work that needs to be done. I want to extend my gratitude to this Committee for leading Congress in providing additional lending authorization to meet this market place need. Your action, which provided the necessary guarantee authority in 2015, helped SBA fulfill its mission and ensure small businesses continue to benefit as our economy recovers.

In addition in our Surety Bond Guaranty Program, SBA guaranteed 11,000 bonds representing some \$1.3 billion dollars in contracts awarded to small businesses. I am appreciative of this committee's support of the surety program changes in the National Defense Authorization Act. This law increased the guaranty percentage in the Surety Bond Preferred Program from 70 percent to 90 percent- a significant win for small businesses.

SBA's growth in small dollar loans, or loans of \$150,000 or less, is also worth highlighting. Studies show that nearly 90 percent of business loan applications are for these small loans, and with gaps in the lending market place, many of the nation's underserved small businesses often rely upon high-cost alternatives.

Under the Administrator's leadership, SBA has actively encouraged lenders to expand access to these loans. And, I am pleased to report that since last year small dollar loans have increased **by twenty-two percent**. Similarly, there have been significant gains in 7(a) lending to underserved groups; specifically:

- Loans to women increased by twenty-percent over the previous year;
- Loans to veterans increased by 103 percent; and
- Loans to all minority groups increased by twenty three percent from 2014 to 2015.

SBA's commitment to underserved lending is also evident in our recent extension of the Community Advantage Pilot Program to 2020. Created in 2012, lenders participating in Community Advantage are required to make at least 60 percent of CA loans in underserved

markets. In FY2015 the program approved more than \$100 million in lending in just one year, surpassed \$200 million since its inception in 2012, and recruited its 100th lender.

SBA's Microloan Program completed a Rule change effective July 2015, that for the first time allows microloans to be made to parolees and probationers. This new rule makes aligns with White House and Interagency initiatives to make capital available to credit ready individuals in some of our hardest to reach communities.

Last year, we launched SBA One: an end-to-end modernization of the 7(a) Loan program's fiscal transfer agent system. Its goal is to make doing business with government easier by reducing the cost, time, and uncertainty in submitting a loan guaranty application. SBA One incorporates electronic signatures to complete documentation, interactive online decisioning logic to determine a small businesses's eligibility for a loan guaranty, as well as auto-populated forms to reduce redundant processing. We have consulted our lending partners in developing and refining SBA One, enrolled hundreds of lenders to use the system, and have approved over 1000 loans via SBA One since October 2015.

We can continue to encourage small business growth by encouraging new lenders to join the program. Currently a little more than 1/3 of the nation's banks are active participants in SBA's lending programs. Despite recruiting many lenders since 2014, there is opportunity for better coverage by increasing this participation level.

We continue to clarify and simplify our rules and Standard Operating Procedures for our lending programs without adding financial or reputation risk.

And, we continue to eliminate 'non-value add' tasks at our nine processing centers nationwide. This initiative for center efficiency is a multi-year undertaking which seeks to reduce the time it takes for lenders to process, service and collect SBA guaranteed loans.

For the 504 Development Company Loan Program, we are working hard since the passage of the FY 16 Omnibus to implement 504-Refi.

Finally, we continue to improve the oversight function for SBA's loan programs, which will be addressed in more detail by my colleague, Linda Rusche, who is the Director of the Office of Credit Risk Management.

We must keep these programs relevant and cost effective for lenders who make loans to small businesses. For 2016 both the 7a and 504 programs have returned to zero subsidy - a win for the taxpayer. I am confident that with the continued support this Committee has provided us, the SBA will continue to improve its service to America's small businesses, which will continue to provide jobs and economic growth.