



U.S. Small Business Administration

TESTIMONY of

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**House Small Business Committee
Subcommittee on Investigations, Oversight, and Regulations and
Economic Growth**

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Thank you Chairman Kelly, Ranking Member Adams, and the entire Subcommittee for the opportunity to testify before you today. It's great to be back here once again and to have the ability to speak with you further about the Office of Capital Access' Microloan Program.

I am grateful for the dialogue that we've seen between the Office of Capital Access and the members of this Committee and your staff. It is incredibly important to the SBA and the American taxpayer that all of our lending programs are running as efficiently and effectively as possible. In that pursuit, we always value the feedback and input of this Committee when it comes to helping entrepreneurs access capital across our great country. We also appreciate the role the Office of Inspector General plays in ensuring that programs are successfully managed.

Administrator McMahon and the Office of Capital Access are very focused on providing smaller dollar loans to small business borrowers. Under Administrator McMahon's leadership, there has been responsible growth in all of our lending programs this year, including our Microloan Program. Administrator McMahon understands the importance of these loans and the life changing impact they can have for so many of our nation's entrepreneurs and their communities. The SBA's Microloan Program offers small dollar loans to businesses that banks are simply unable to make. As we've seen for years, the program has been incredibly successful in filling a need. For example, in Fiscal Year 2017, the Microloan Program provided small dollar loans with a reasonable interest rate to 4,708 small businesses.

As the Associate Administrator of the SBA's Office of Capital Access, I am one hundred percent committed to upholding the integrity of all of our loan programs and making sure that they are run properly with maximum accountability to this Committee and the American people. We do believe the Microloan Program is being administered appropriately, but there is of course always room for improvement.

As many of you know, in this program the SBA makes loans to not-for-profit lending intermediaries who then make microloans to small businesses for up to \$50,000. However, the program has an average loan size of just \$13,800. Year-over-year, we have seen a 5% increase in these loans which have created and/or retained an estimated 17,500 American jobs. Another interesting fact is that over 8% of our microloan recipients have gone on to receive larger loans from the SBA. This is incredibly encouraging and we would definitely like to see this number continue to increase.

In the coming weeks the Office of Capital Access will also be implementing new collaborative efforts with our Office of Field Operations to increase the number of these loans in both inner cities and rural areas. We view this initiative and others such as the recent launch of our Lender Match program as valuable tools in providing access to capital for entrepreneurs looking to attain the American dream.

It is incredibly encouraging to see the impact that the Microloan Program has had for so many American small business owners. This program is a way for aspiring and existing small business

owners to access capital at a reasonable rate, especially when you compare it to maxing out multiple credit cards at much higher interest rates. I'd also like to note that historically the Microloan Program has had a less than 2% loss rate. Keeping that number as low as possible is incredibly important for us at the SBA.

In regards to the recent Inspector General's audit of the Microloan Program, the SBA has agreed to implement the recommendations and has already begun working on enhancements to its on-site reviews by district office staff. We are also working on a project to evaluate system alternatives to modernize our Microloan lending and reporting system.

Lastly, the Office of Capital Access is committed to providing enhanced training to our lending intermediaries and the Office of Economic Opportunity has already provided two webinar trainings on how to properly document the "credit elsewhere" test. The SBA is committed to implementing the suggestions put forth in the Inspector General's most recent audit. We believe we are well on our way to improving our program and making it that much better for our nation's small business owners and the American taxpayers.

Thank you again for this opportunity to discuss the Microloan Program and I look forward to answering any questions you may have.