

Congress of the United States

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

November 21, 2024

Honorable Isabel Casillas Guzman
Administrator
U.S. Small Business Administration
409 3rd St., S.W.
Washington, D.C. 20416

Dear Administrator Guzman:

During your most recent appearance before the U.S. House of Representatives' Committee on Small Business ("the Committee"), on September 18, there was a significant amount of discussion regarding the current default rate in the U.S. Small Business Administration's ("SBA") 7(a) Loan Program ("the 7(a) Program" or "the Program"). As we continue to investigate and analyze the Program's current default rate, and its corresponding subsidy rate, it is necessary to ensure our investigation is rooted in the facts and in the data.

The 7(a) Program is the SBA's primary small business lending program, assisting small businesses with financing when they are unable to attain credit elsewhere.¹ The SBA guarantees a portion of each loan that a participating private lender partner makes to an eligible small business.² In order to offset the cost of administering the Program, the SBA charges lenders an up-front, one-time guaranty fee and an annual, on-going service fee for each 7(a) loan that is approved and disbursed.³ The SBA guaranty assures the lender that if the borrower defaults, and does not repay the loan, the SBA will reimburse the lender for its loss, up to the percentage of the guaranty.⁴

The Program has multiple sub-programs and delivery methods that offer streamlined and expedited loan procedures, including the SBA Express Program and the Community Advantage Small Business Lending Program ("CA SBLC Program").⁵ The SBA Express Program, for example, is designed to increase the availability of credit to small businesses by permitting lenders to use their existing documentation and procedures in return for receiving a reduced SBA guarantee

¹ U.S. Small Business Admin., "FY 2025 Congressional Budget Justification and FY 2023 Annual Performance Report." (March 11, 2024) (Pg. 43).

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ *Id.* (at Pg. 44).

on the loan, while the CA SBLC Program is designed to facilitate smaller-dollar loans to small businesses that are new businesses or located in an underserved community.⁶

As you stated to the Committee on September 18, “the 7(a) Program operates at zero-subsidy,”⁷ costing the American taxpayers no money to operate. A zero-subsidy rate occurs when the Program generates sufficient revenue through fee collection and recovery of collateral on defaulted loans so as not to require a Congressional appropriation to issue new loan guarantees.⁸ Maintaining the Program’s zero-subsidy rate has, historically, been a bipartisan priority for members of the Committee.

During the hearing, some Members expressed concern about the Program’s potentially rising level of current defaults.⁹ While we share the potential concern expressed by some of our colleagues, we believe the current overall default rate must be put in context and measured against its historical benchmark to determine whether it is outside the appropriate standard. Moreover, the overall default rate must be broken down and categorized by each of the 7(a)’s sub-programs, loan size, and lender type to provide an accurate representation of the 7(a) Program’s operation.

Therefore, we are requesting answers and supporting materials for each of the following:

- I) How many 7(a) loans thus far in FY 2025 have defaulted? Of the total number of 7(a) loans that have been issued in FY 2025 what percentage do these defaulted loans represent?
 - i) How many loans with a value of \$50,000.00 and less are in default? Of the total number of 7(a) loans that have been issued in FY 2025 what percentage do these loans represent?
 - ii) How many loans with a value of \$50,001.00 and up to and including \$250,000.00 are in default? Of the total number of 7(a) loans that have been issued in FY 2025 what percentage do these loans represent?
 - iii) How many loans with a value of \$250,001.00 and up to and including \$350,000.00 are in default? Of the total number of 7(a) loans that have been issued in FY 2025 what percentage do these loans represent?

⁶ *Id.*

⁷ Testimony of the Honorable Isabel Casillas Guzman before the U.S. House of Representatives, Committee on Small Business. “Holding the SBA Accountable: Testimony from Small Business Administrator Guzman,” (September 18, 2024). <https://www.youtube.com/live/MRambLRACKU>.

⁸ Dilger, Robert Jay and Anthony A. Cilluffo, “Small Business Administration 7(a) Loan Guaranty Program.” *Congressional Research Services*. (Updated: June 30, 2022). (Pg. 13).

⁹ See comments of U.S. Representatives Dan Meuser (PA-9), Marc Molinaro (NY-19), and Aaron Bean (FL-4). Committee Hearing of the U.S. House of Representatives Committee on Small Business, “Holding the SBA Accountable: Testimony from Small Business Administrator Guzman” (September 18, 2024). <https://www.youtube.com/live/MRambLRACKU>.

- iv) How many loans with a value of \$350,001.00 and up to and including \$500,000.00 are in default? Of the total number of 7(a) loans that have been issued in FY 2025 what percentage do these loans represent?
- v) How many loans with a value of \$500,001.00 and up to and including \$1,000,000.00 are in default? Of the total number of 7(a) loans that have been issued in FY 2025 what percentage do these loans represent?
- vi) How many loans with a value of \$1,000,001.00 and up to and including \$5,000,000.00 are in default? Of the total number of 7(a) loans that have been issued in FY 2025 what percentage do these loans represent?
- vii) As part of your response, please provide this information for each of the SBA's 7(a) loan programs in operation for FY 2025. Please categorize each of the SBA's 7(a) loan programs individually.
- viii) Please provide us with the data points used to make your findings on the number and percentage of defaulted 7(a) loans for FY 2025.

II) In addition to the default information requested above, for the newly established CA SBLC Program, please provide the following segment specific pieces of information on the number of loans issued for FY 2024 and FY 2025, according to, if possible,:

- i) Whether the borrower is a Black-owned business;
- ii) Whether the borrower is a Hispanic-owned business;
- iii) Whether the borrower is an Asian or Pacific Islander owned business;
- iv) Whether the borrower is an American Indian, or Alaska Native, or Native Hawaiian-owned business or a Tribally owned or Alaska Native Corporation (ANC)-owned business;
- v) Whether the business borrower is a woman-owned business;
- vi) Whether the business borrower is a veteran-owned business;
- vii) Whether the business borrower is located in an urban or rural community;
- viii) Whether the business is located in a U.S. Territory;
- ix) Whether the business age is considered an Existing Business (defined by the SBA as existing or more than two years old);
- x) Whether the business age is considered a New Business (defined by SBA as two years or less);

xi) Whether the business age is considered a Start-up (defined as a Start Up that will use the loan funds to open a new business);

xii) Whether the loan funds are used to finance a change of ownership.

III) According to information published on the SBA's website, the SBA issued 60,354 7(a) loans in FY 2018; 51,907 loans in FY 2019; 42,298 loans in FY 2020; 51,856 loans in FY 2021; 47,678 loans in FY 2022; 57,362 loans in FY 2023; and 70,242 in FY2024.¹⁰ Please provide the requested information for each of the following cohorts:

- i) **2018**: How many loans defaulted in FY 2018? Of the total number of loans that were issued in FY 2018, what percentage do these loans represent?
- ii) **2019**: How many loans defaulted in FY 2019? Of the total number of loans that were issued in FY 2019, what percentage do these loans represent?
- iii) **2020**: How many loans defaulted in FY 2020? Of the total number of loans that were issued in FY 2020, what percentage do these loans represent?
- iv) **2021**: How many loans defaulted in FY 2021? Of the total number of loans that were issued in FY 2021, what percentage do these loans represent?
- v) **2022**: How many loans defaulted in FY 2022? Of the total number of loans that were issued in FY 2022, what percentage do these loans represent?
- vi) **2023**: How many loans defaulted in FY 2023? Of the total number of loans that were issued in FY 2023, what percentage do these loans represent?
- vii) **2024**: How many loans defaulted in FY 2024? Of the total number of loans that were issued in FY 2024, what percentage do these loans represent?
- viii) As part of your response, please provide this information according to the cohorts of loan size set forth in question (I) above for each of the 7(a) programs in operation from 2018-2024. Please categorize each of the SBA's 7(a) loan programs individually.
- ix) Please provide us with the data points used to make your findings on the number and percentage of defaulted 7(a) loans from 2018-2024.

¹⁰ U.S. Small Business Administration. "7(a) & 504 Summary Report," (Last Accessed: 10/31/2024), <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>.

IV) According to information published on the SBA's website, the SBA has issued 387,244 7(a) loans since FY 2018.¹¹ Of those 387,244 loans, 350,990 have been issued by a bank; 5,969 have been issued by a Community Advantage lender; 10,116 have been issued by a credit union; 534 have been issued by a savings and loan; 18,668 have been issued by a small business lending company; 679 have been issued by a state regulated financial company; and 288 have been issued by a "other lender."¹²

- i) Of the 350,990 7(a) loans that have been issued by a bank since FY 2018, how many of these loans have defaulted? Of the total number of 7(a) loans that have been issued since FY 2018, what percentage does this represent?
- ii) Of the 5,969 7(a) loans that have been issued by a Community Advantage lender since FY 2018, how many of these loans have defaulted? Of the total number of 7(a) loans that have been issued since FY 2018, what percentage does this represent?
- iii) Of the 10,116 7(a) loans that have been issued by a credit union since FY 2018, how many of these loans have defaulted? Of the total number of 7(a) loans that have been issued since FY 2018, what percentage does this represent?
- iv) Of the 534 7(a) loans that have been issued by a savings and loan since FY 2018, how many of these loans have defaulted? Of the total number of 7(a) loans that have been issued since 2018, what percentage does this represent?
- v) Of the 18,668 7(a) loans that have been issued by a small business lending company since FY 2018, how many of these loans have defaulted? Of the total number of 7(a) loans that have been issued since FY 2018, what percentage does this represent?
- vi) Of the 679 7(a) loans that have been issued by a state regulated financial company since FY 2018, how many of these loans have defaulted? Of the total number of 7(a) loans that have been issued since FY 2018, what percentage does this represent?
- vii) Of the 288 7(a) loans that have been issued by a "other lender" since FY 2018, how many of these loans have defaulted? Of the total number of 7(a) loans that have been issued since FY 2018, what percentage does this represent?

¹¹ Information compiled from the U.S. Small Business Administration, "7(a) & 504 Summary Report," (Last Accessed: 10/31/2024), <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>.

¹² *Id.*

The SBA's 7(a) Program encourages lenders to provide America's small businesses with the capital they need to enable them to grow and create jobs. While it is necessary to create more lending opportunities for underserved businesses unable to access capital elsewhere, we must balance this effort with the responsibility of ensuring the program's default rate maintains its historically appropriate standard. Doing so is vital to the continued success of the Program. The information we have requested today will help us fulfill our oversight function and help us better work with the agency to build on the ongoing success of the SBA's flagship lending program. If you have questions pertaining to this request, please contact Richard Erkel, counsel to the Committee, at Richard.Erkel@mail.house.gov. We would appreciate a response by December 20, 2024. We look forward to working with you.

Thank you for consideration of our request.

Sincerely,



Nydia M. Velázquez
Ranking Member
House Committee on Small Business



Morgan McGarvey
Member of Congress