

**DRIVING ECONOMIC GROWTH: SBA LENDING
PROGRAMS AND THE VITAL ROLE OF
COMMUNITY BANKS**

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

HEARING HELD
FEBRUARY 12, 2025



Small Business Committee Document Number 119-002
Available via the GPO Website: www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE

WASHINGTON : 2025

58-899

HOUSE COMMITTEE ON SMALL BUSINESS

ROGER WILLIAMS, Texas, *Chairman*
PETE STAUBER, Minnesota
DAN MEUSER, Pennsylvania
BETH VAN DUYN, Texas
JAKE ELLZEY, Texas
MARK ALFORD, Missouri
NICK LALOTA, New York
BRAD FINSTAD, Minnesota
TONY WIED, Wisconsin
ROB BRESNAHAN, Pennsylvania
BRIAN JACK, Georgia
TROY DOWNING, Montana
KIMBERLYN KING-HINDS, Northern Marina Islands
DEREK SCHMIDT, Kansas
NYDIA VELAZQUEZ, New York, *Ranking Member*
MORGAN MCGARVEY, Kentucky
HILLARY SCHOLTEN, Michigan
LAMONICA MCIVER, New Jersey
GIL CISNEROS, California
KELLY MORRISON, Minnesota
GEORGE LATIMER, New York
DEREK TRAN, California
LATEEFAH SIMON, California
JOHNNY OLSZEWSKI, Maryland
HERB CONWAY, New Jersey
MAGGIE GOODLANDER, New Hampshire

LAUREN HOLMES, *Majority Staff Director*
MELISSA JUNG, *Minority Staff Director*

CONTENTS

OPENING STATEMENTS

	Page
Hon. Roger Williams	1
Hon. Nydia Velázquez	2

WITNESSES

Mr. Justin B. Hooper, Chief Executive Officer and Chairman, First Financial Bank, Weatherford, TX	4
Mr. Michael Sims, Chief Commercial Banking Officer, Georgia's Own Credit Union, Alpharetta, GA	6
Mr. Frank Wetegrove, Owner and Operator, Camp Bow Wow, San Antonio, TX	7
Ms. Heidi DeArment, President, Montana Community Development Corp dba MoFi, Missoula, MT	9

APPENDIX

Prepared Statements:	
Mr. Justin B. Hooper, Chief Executive Officer and Chairman, First Financial Bank, Weatherford, TX	41
Mr. Michael Sims, Chief Commercial Banking Officer, Georgia's Own Credit Union, Alpharetta, GA	48
Mr. Frank Wetegrove, Owner and Operator, Camp Bow Wow, San Antonio, TX	59
Ms. Heidi DeArment, President, Montana Community Development Corp dba MoFi, Missoula, MT	66
Questions for the Record:	
None.	
Answers for the Record:	
None.	
Additional Material for the Record:	
Defense Credit Union Council (DCUC)	74
National Association of Development Companies (NADCO)	83
National Association of Government Guaranteed Lenders (NAGGL)	77
Small Business Investor Alliance (SBIA)	81

DRIVING ECONOMIC GROWTH: SBA LENDING PROGRAMS AND THE VITAL ROLE OF COMMUNITY BANKS

WEDNESDAY, FEBRUARY 12, 2025

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,

Washington, DC.

The Committee met, pursuant to call, at 10:04 a.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Representatives Williams, Stauber, Meuser, Alford, LaLota, Finstad, Bresnahan, Jack, Downing, King-Hinds, Velázquez, McGarvey, Scholten, McIver, Cisneros, Latimer, Tran, Simon, Olszewski, Conaway, and Goodlander.

Chairman WILLIAMS. Good morning to everybody. And I now call the Committee on Small Business to order. Without objection the Chair is authorized to declare the recess of the committee at any time. I now recognize myself for my opening statement.

Welcome to today's hearing, Driving Economic Growth, SBA Lending Programs, and the Vital Role of Community Banks.

I want to thank our witnesses again for being here today and we, our witness is going to be Zoom I believe and so she is trying, we are trying to get her on there.

I want to know that we also know many of you have traveled along to, a long way to share your experience and perspectives, and we deeply value your time, and we deeply value your voice.

Now I strongly believe that starting a small business captures the true meaning of the American Dream. Part of what makes America so great is that anyone from any background can go out on a limb with a dream or an idea to provide a new service or product to the marketplace.

Our economy is dependent on small businesses, as they are our nation's largest job creators. It is our job here in Washington to be main street's biggest advocate and ensure they have the tools to succeed. In today's hearing, we will be exploring the triumphs and challenges of small businesses and the community lenders that provide this support.

Under the Biden Administration, Main Street America endured stifling regulations, record inflation, and high interest rates that hindered the ability of small employers to hire workers, increase wages, and reinvest back into their businesses to spur growth.

Thanks to the return of President Trump, a wave of pro-business optimism swept over the small business community. This new ad-

ministration has committed to not only cutting regulations across the board for small businesses and community banks alike but also reducing taxes and preserving the Tax Cuts and Jobs Act.

Failing to renew the small business provisions of the 2017 Tax Cuts and Jobs Act would impact all small employers in every corner and limit their ability to stay competitive and preserve countless community jobs.

Throughout this Congress and alongside the Trump Administration, we will once again prioritize policies that support Main Street America by creating an environment where small businesses can thrive, and the full potential of community banks can be unleashed.

Finally, due to travel and weather delays the witness that we said Democrats have invited to the table is unable to attend in person today. We have received permission from Leader Scalise to allow her to appear remotely. And I ask unanimous consent for the letters between letters, Leader Scalise and I noting that this exception be entered into the record. So moved. So without objection as so ordered.

So with that I will yield to my distinguished Ranking Member from New York, Ms. Velázquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. I want to thank you and your team for working with us on utilizing remote authority to enable our witness to testify today due to weather-related flight cancellations.

Small businesses fuel the American economy. They account for more than 40 percent of U.S. GDP, create approximately two-thirds of new jobs, and employ nearly half of all private sector workers. Yet, entrepreneurs and small businesses consistently tell me that access to capital and investment remains a pressing priority.

The SBA operates multiple capital access and investment programs to ensure entrepreneurs and small businesses have access to the financing and investment they need to grow and scale their operations. These programs are essential to small employers and entrepreneurs, especially those in our rural and underrepresented communities as they struggle to obtain conventional loans and investment from a financial institution or private fund.

The SBA's largest program, the 7(a) program, encourages SBA authorized lending partners to provide loans by guaranteeing a significant portion of the loan-encouraging lenders to extend credit to small businesses that might not typically be able to obtain financing. 7(a) loans strengthen local communities, create jobs, and move our economy forward. In fiscal year 2024, the 7(a) program supported a substantial volume of lending nationally with over \$31.1 billion across more than 70,000 loans. A variation of the 7(a) program is the Community Advantage Program delivered by mission focused lenders. The Community Advantage Program facilitates smaller 7(a) loans to small businesses and new businesses located in an underserved community. I am particularly excited to hear from one of our witnesses this morning about how the Community Advantage Program is being utilized in our rural communities. Another program, the 504 CDC loan guaranteed program, which is administered through nonprofit CDCs, provides long term fixed rate financing for major assets such as land, buildings, and equip-

ment. Last year the 504-program delivered almost \$6,000 valued at more than \$6.6 billion. I look forward to discussing how we can better utilize and improve all of these programs. The SBA programs are worth protecting, especially lending programs which have proven effective and efficient in how they operate while building up main street in our communities. I will call on the SBA to work with us to strengthen those programs. Thank you, I yield back.

Chairman WILLIAMS. The lady yields back, and I now will introduce our witnesses. The first witness here with us today is Mr. Justin Hooper. Mr. Hooper is the CEO and Chairman of Cross Timbers Region of the First Financial Bank located in Weatherford, Texas. Mr. Hooper has more than 30 years of banking experience and began his career as a loan officer and a review analysis in Abilene, Texas in 1997. Mr. Hooper moved to Weatherford as a commercial leader in 2004 and was named executive vice president and senior lender for the Weatherford region in 2012. He was promoted to president of the region in 2017. Mr. Hooper serves a Board Member for the Weatherford College Foundation and Trinity Christian Academy, and as a board president for the court appointed special advocates for children in Parker County. Mr. Hooper holds a bachelor of business administration and finance from McMurry University and attended the graduate school of banking at Louisiana State University. I want to thank you, Mr. Hooper for being here with us today and look forward to our conversation.

Our next witness here with us today is Michael Sims. Mr. Sims is the chief commercial banking officer of Georgia's Own Credit Union located in Atlanta, Georgia. Mr. Sims has well over two decades of experience in the banking industry serving as an executive vice president for Vinings Bank, and State Bank and Trust Company and SunTrust Bank. He is skilled in portfolio management, risk management, commercial lending, banking, and credit analysis. Mr. Sims serves as a Board Member for the Waypoint Ministry, as well as a Committee Member for Promise 686, an organization that mobilizes church communities to care for vulnerable children. Mr. Sims earned a master of business administration at the Brock School of Business at Sanford University. He also holds a bachelor of science and finance from the University of Alabama and a bachelor of science account from the University of Alabama at Birmingham. I want to thank you for joining us today and I am looking forward to the important conversation ahead.

Our next witness here with us today is Mr. Frank Wetegrove. Mr. Wetegrove is an owner and operator of the Premier Dog Care Service, Camp Bow Wow. Mr. Wetegrove and his wife, Tamara own five Camp Bow Wow franchises from Austin to San Antonio, Texas. Mr. Wetegrove is a former senior intelligence officer with over 30 years of experience for the United States Army. He has assisted with numerous programs during his interview, during his service including the command critical survivability program for the renovation of the Pentagon and the Air Force Intelligence, Surveillance, and Reconnaissance agency as an IT specialist. Mr. Wetegrove also has worked as a network engineer at the San Antonio water system, a client services engineer at Lumeta Corporation and an enterprise security engineer for information assurance at MacAulay-Brown, Inc. Mr. Wetegrove is a graduate of TMI Epis-

copal, formerly the Texas Military Institute in San Antonio, Texas. I want to thank you for your years of service and joining us today and I am looking forward to the important conversation ahead. And I now recognize the Ranking Member from New York, Ms. Velázquez to briefly introduce our next witness appearing before us today.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. I would like to recognize Ms. Heidi DeArment who has been with Montana Finance for over 17 years. She is an experienced small business lender and community development professional. MoFi is committed to helping businesses launch and create jobs in rural communities. I recognize and respect her for the work with businesses, communities and community banks throughout Montana, Idaho, Wyoming, and Utah. Thank you, Ms. DeArment. It is a pleasure to have you here.

Chairman WILLIAMS. Okay. Thanks again for all of you being here and before recognizing the witnesses I would like to remind them that their oral testimony is restricted to 5 minutes in length. If you see the light turn red in front of you it means your 5 minutes is up. You are done and conclude as you quickly can and wrap it up. I also want to say that you will periodically see Members of this committee leaving, coming back, going back and forth. We all have other committees that we are involved in so if the Ranking Member gets up and leaves or I get up and leave we are not mad at anybody. We will be back. Okay? All right. So with that now I would like to recognize Mr. Hooper for his 5 minute of opening remarks.

STATEMENTS OF JUSTIN B. HOOPER, CHIEF EXECUTIVE OFFICER AND CHAIRMAN, FIRST FINANCIAL BANK; MICHAEL SIMS, CHIEF COMMERCIAL BANKING OFFICER, GEORGIA'S OWN CREDIT UNION; FRANK WETEGROVE, OWNER AND OPERATOR, CAMP BOW WOW; HEIDI DEARMENT, PRESIDENT, MONTANA COMMUNITY DEVELOPMENT CORP DBA MOFI

STATEMENT OF JUSTIN B. HOOPER, CEO AND CHAIRMAN, CROSS TIMBERS REGION OF FIRST FINANCIAL BANK

Mr. HOOPER. Thank you, Mr. Chairman.

Chairman Williams, Ranking Member Velázquez, and Committee Members, my name is Justin Hooper. I currently serve as the CEO and Chairman for the Cross Timbers Region of First Financial Bank comprised of 14 branches in the Fort Worth area and further to the west. In total, First Financial, which was founded in 1890 in Abilene, Texas has total assets of just under \$14 billion. Many of our locations are in rural areas just outside, or outside larger metropolitan areas of the state. As community bankers, our customers rely on the bank for working capital, equipment purchases, or potentially a mortgage or construction loan. Before turning to the broader small business lending market, I am pleased to say that during the COVID pandemic our bank participated in the PPP program in the form of almost 10,000 loans with total originations of \$1.1 billion. While difficult to navigate at times the program was very successful and allowed us to support the businesses in our community at a time in which there was much uncertainty. First Financial Bank, like many lenders enjoys a preferred lender status

with SBA. This is likewise a very positive federal program but over the years we have found that due to the complexities of navigating all of the standard operating procedures with the SBA programs that it was necessary to form a specialized department in Abilene to manage our SBA loans. Nonetheless in 2024 we originated 4 million of SBA's 7(a) general purpose loans and 40 million of 504 SBA loans which provide long-term, fixed rate financing for major fixed assets. Even though we have preclearance being on the preferred lender list, the typical turn around time on SBA loans within our department ranges from 45 to 75 days. Of course we make many loans to large and small businesses that are not associated with any SBA programs. This typically allows for much quicker processing and in many case loans that can be closed in days or weeks rather than months. It also allows for greater flexibility in our product offerings that we can tailor to the customer's needs. In 2024, the bank originated \$294 million in commercial real estate loans, \$376 million in loans to schools, municipalities, and other taxing entities and just over \$825 million in commercial and agricultural loans.

The biggest problem for community banks is the increased regulatory burdens to keep pace with new and ever-changing regulations. Since 2021 our personnel costs in this area have doubled and we anticipate that they will continue to rise. That number sits at a staggering estimated \$7.1 million per year. In addition to the personnel to support our audit and compliance function we also incur legal, technology and outside audit expenses which are estimated to be another \$3.8 million. This brings our total annual cost to manage an ever-growing compliance burden to an estimated \$11 million annually, not counting the massive amount of time invested by bank personnel such as loan officers who are not categorized as compliance staff. 2025 will bring additional regulatory burdens. Most notably would be those associated with the implementation of the CFPB, small business data collection rule, Section 1071 from personnel cost, training costs and software enhancements necessary to achieve compliance we are estimating annual cost of \$2.1 million for 1071 alone. We appreciate your leadership on that issue, Mr. Chairman to see that that regulation going back on judicial hold. Additionally with the rise of internet reliance and other technology-oriented developments we are continuing to see rising fraud losses. In 2024 we incurred debit card losses due to fraudulent activity of \$1.5 million, check fraud losses of \$735,000 which were typically forgeries and counterfeits. To combat this we incurred personnel cost of \$2.6 million annually as well as \$3.3 million annually in software and technology expenses. The personnel and technology expenses are necessary and have resulted in the bank stopping additional fraud that would be far in excess of the expense we actually incurred. Therefore between the actual fraud perpetrated and the cost to combat this it comes with a price tag of estimated \$8.3 million annually. There's not doubt that the rapid increase in interest rates in 2023 has resulted in much higher borrowing costs for our customers that is lingering into 2025 despite a few rate cuts over the last year. This strain coupled with inflationary pressure that is driving up labor costs and other items for businesses is causing some to see cashflow diminish. In conclusion

we are fortunate to live in a portion of the state that's welcoming new residents every day and there is a lot of optimism in the area in which we live and many of our customers are contemplating new projects and new opportunities. Thank you.

Chairman WILLIAMS. Thank you. Great timing and now I recognize Mr. Sims for his 5 minute opening remarks.

STATEMENT OF MIKE SIMS, CHIEF COMMERCIAL BANKING OFFICER, GEORGIA'S OWN CREDIT UNION ON BEHALF OF AMERICA'S CREDIT UNIONS

Mr. SIMS. Good morning, Mr. Chairman, and thank you very much, Ranking Member Velázquez and Members of the Committee. My name is Mike Sims, and I am testifying today on behalf of America's Credit Unions. I currently

serve as the chief commercial banking officer at Georgia's Own Credit Union headquartered in Atlanta, Georgia. Georgia's Own is a community credit union serving over 240,000 Members across Georgia with \$4.3 billion in assets. At Georgia's Own we pride ourselves on small, being a small business lender. We currently have over \$571 million outstanding member business loans including both SBA 7(a) and SBA 504 program. In 2024, Georgia's Own was the number 1 ranked credit union in terms of 7(a) loan production in the State of Georgia. We currently have 153 7(a) loans outstanding totally about \$153 million. We also make SBA 504 loans and currently have 5 loans outstanding totally over \$17 million. Like many community lenders we saw a dip in interest in member business loans and over 2023 and 2024 as inflationary concerns caused many small businesses to pull back on capital access. However we have seen a noticeable uptick in interest and applications in the three months since the election and expect 2025 to be a stronger year. The MBL and SBA loan options at our credit union allow us to work with our small businesses, small business members to get them into a product that meets their needs. A great example of this is the work that we did with Radiant Solar, a woman-owned small business specializing in solar powered development and construction, also headquartered in Atlanta, Georgia. We were able to provide the owners with a \$5 million SBA 7(a) cap line to fund their working capital needs and have helped them earn recognition as one of the nation's top producers in the solar industry and we are currently working with them on a potential SBA 504 loan to help meet their needs. One of the most pressing challenges facing credit unions is the complexity of the SBA program requirements. While credit unions are eager to grow their SBA loan portfolios, many report the administrative burden make it extremely difficult to do so. Lack of internal expertise and high cost associated with participation also remains a significant barrier. Even our very experienced SBA lending staff at Georgia's Own, we see these challenges as well. We may hear the right messages from SBA leadership about their desire to help community lenders and small businesses but many times it does not always translate to the field. Our day-to-day experience in contacting the SBA with questions about loans can often be cumbersome and frustrating. It is common for answers to take questions, questions to take days or weeks for us to experience delays while the SBA works to verify informa-

tion about our borrowers. As a preferred lender under the SBA's delegated authority we believe we should be given greater leeway to operate so we can get capital to our small business members. We also believe that the SBA should provide more targeted training and technical assistance to community lenders and credit unions have expressed a strong interest in working with the SBA to enhance their operational capabilities in this space. Regular webinars, workshops, and on demand training resources could address gaps in expertise and empower more credit unions to participate in the SBA's lending programs. We also would encourage the SBA to better use regional office to engage existing program lenders and potential new lenders as well. Having the regional SBA offices more fully engaged in the day-to-day operational issues faced by lenders will ultimately help streamline inefficiencies and enable quicker access to capital for the small business members that we serve. Without a full engaged SBA regional offices, lenders are left to themselves to navigate a very challenging and often complex SBA process. Finally we would encourage congress to continue to review recent regulatory efforts that hinder small businesses, small business lending from community institutions. We are also concerned about the efforts to bring more fintech into the SBA lending space which we believe would create more risk in the system. Additionally, the overly broad 1071 rule from the CFPB stands to greatly increase burden on community lenders and we applaud the efforts of Chairman Williams to repeal this rulemaking. In conclusion, small businesses are the driving force of our economy, and the key to its success. It's important that congress and the SBA ensure that credit unions have the right regulatory environment to meet the needs of their small business members. I thank you for your time and the chance to testify before you today and welcome any questions.

Chairman WILLIAMS. Thank you. I now recognize Mr. Wetegrove for his 5 minute opening remarks.

**STATEMENT OF FRANK WETEGROVE, OWNER AND OPERATOR,
CAMP BOW WOW ON BEHALF OF INTERNATIONAL FRANCHISE ASSOCIATION**

Mr. WETEGROVE. Good morning, Chairman Williams, Ranking Member Velázquez, and distinguished Members of the Committee. My name is Frank Wetegrove, and I am a franchise owner of Camp Bow Wow, a dog care services company that my wife and I became franchisees of 18 years ago and have since grown our operation to include four locations in San Antonio, Texas, and another in Austin. At Camp Bow Wow, we offer everything from dog daycare, boarding to grooming, and training within the communities that we operate. Our team consists of roughly 100 employees. I'm also happy to share that we plan on opening of a 6th location within our Texas footprint.

It's an honor to be here today to give my perspective on the impact that the U.S. Small Business Administration's loan programs have on small businesses especially franchisors, franchisees, and their employees. Its impact to me is near as I utilized SBA's 7(a) loan program when I decided

to become a franchise owner in 2007. As a retired colonel with 34 years of service in the Army Reserve along with 8 years in active duty, I'd like to say my skillset came in handy when considering starting a franchise, and SBA's 7(a) loan program was the access to capital that gave me the opportunity to put it to good use.

Throughout my military career I held leadership positions at every level, including Platoon Leader, Officer in-Charge, Commander of Detachments, Companies, a Battalion, and a Group. More importantly, I became a husband, a father of five, and now a proud grandfather of four. As you can see sitting still is not in my nature nor the word, retirement in my vernacular.

In 2005, about 20 years into my Army mostly Reserve career, I was mobilized to work at the Defense Intelligence Agency. During my first summer in Washington, my wife and I discussed the possibility of our family spending a month there with me. However, one major challenge arose, what would we do with our dog? He couldn't join us in our temporary living arrangements and around that time my wife suggested I log into AOL, and of course I'm dating myself, to explore a business opportunity she'd come across. That business was Camp Bow Wow, a franchise that emphasized in doggy day care, something I'd never heard about, but I was immediately intrigued. This opportunity became a true family affair. Since I was still advancing in my career my wife took on the brunt of running the business. I contributed after hours, on weekend, during the holidays and this was all while we were raising our toddlers which came to Camp Bow Wow every single day. Ultimately I knew this endeavor would teach my family the difference between working for someone and working for one's self. I believe 100 percent in giving back. I have been awarded franchisee of the year several times. I speak to many of my peers daily. Every chance I get I speak to people in general. I explain to them about my success story, the conversation starts with getting to know them, the possibility of owning their own business and future and remind them of great opportunities that this country provides us including the government assistant programs available. None of this would have been possible without the support of the federal government's SBA program. The SBA's assistance was instrumental in getting my business off the ground. I know for a fact that many of my fellow franchisees and countless other small businesses would not exist without these critical funding programs. The SBA and access to capital and its' lending programs provided an essential part of the instrument—part of the franchise success story. In the fiscal year 2024, the SBA guaranteed \$31.1 billion dollars in 7(a) loan volume, \$6.7 billion in 504 loan volume. Historically franchises have represented about 20 percent of the SBA's loans by dollar volume. Finally I'd like to highlight a regulatory issue that has the potential to not only strengthen the franchise business model but also supplement SBA lending practices to further support franchise business performance for the years to come. That is to permanently extend the 2020 NLRB's joint employer rule, recognizing the harm this would bring, both the House and Senate voted to overturn the joint employer rule on a bipartisan basis in early 2024 using the Congressional Review Act, which I and other Members of the IFA commend. In March of 2024, a U.S. District judge struck down the 2023 NLRB rule and

the joint employer standard reverted to 2020 rule. While a reprieve from the previous NLRB's joint employer rule has been welcome news, I wanted to stress the importance of the current common sense standard and federal law, labor law has on franchisees like mine and state that any actions toward permanently preserving the current NLRB rule would only protect both businesses and workers but also create the regulatory conditions that allow both franchisors and franchisees to thrive, grow, and create jobs and opportunities in the community that they serve. Mr. Chairman and distinguished Members of the committee, thank you again for the opportunity to testify and I'm happy to answer any easy questions you might have.

Chairman WILLIAMS. Dogs or Pentagon, much harder. Thank you very much.

Mr. WETEGROVE. Thank you. Now Ms. DeArment, is she available?

Ms. DEARMENT. Can you hear me? I am here.

Chairman WILLIAMS. Okay. Great. Well, all right. We will now recognize Ms. DeArment for her 5 minute opening remarks? There she is.

**STATEMENT OF HEIDI DEARMENT, PRESIDENT, MONTANA
COMMUNITY DEVELOPMENT CORP DBA MOFI**

Ms. DEARMENT. Chairman Williams, Ranking Member Velázquez, and Committee Members, thank you for having me here today and thank you for accommodating the travel problems. My name is Heidi DeArment. I'm the President of MoFi. We're a nonprofit, rural, CDFI that provides small business loans and free advisory services to people in Montana, Idaho, Utah, Wyoming, Oregon, Washington.

MoFi partners with 126 bank and credit union systems across that six-state region that refer thousands of their loan denials to us annually. Between all of those denials and our Board Members who are commercial lenders we know a lot about who banks aren't funding today. And that's where we come in. We provide loans to entrepreneurs and businesses that don't qualify for financing at a bank or credit union. Last year MoFi lent \$40 million to successful applicants all of whom had been denied. This is a less profitable venture than banking, but it works. The businesses we fund build assets, they build track record, and they ultimately go back to the bank that referred them to us. MoFi has done this successfully for decades and we maintain a loss rate of less than, of 1 percent over the last ten years. That 1 percent I think tells us that these loans aren't riskier. They're just simply harder and longer to underwrite so they are less desirable for a profit motivated bank or a credit union. To do this work we rely on two essential SBA programs, the microloan program, and the Community Advantage Guarantee program. I thought it might be easier to explain how we use these programs using one of the businesses from my home town, Missoula, Montana. The businesses called Betty's Devine and it's a women's clothing store downtown. When the owner came to she was working in retail and people were coming in, asking for clothing that they didn't sell and that you couldn't buy in Missoula, which I think is the perfect start to a business, seeing an opportunity and then fig-

uring out how to build a business around that. She wrote a business plan, she contacted a bunch of vendors, she found a lease space, she built great financial projections that made sense she took that all into her back and they said, you don't have any assets, you don't have any collateral, you don't have outside income, you don't have business history. She was denied. She did qualify for an SBA microloan through us and like most of ours she became successful and then her bank refinanced her. A few later her banker came back to us and said that business is doing really well and now she wants to buy a bigger space, her own building but she doesn't have the down payment, would you do a partnership loan with us where the bank does 70 year or 75 percent, and we will fill in the gap. We do about 40 percent of our loans annually as a partnership with banks or credit unions. She was able to buy the building and today she is still there. That's 20 years later. She's a huge success. She's a household name. She's a bit of community force where we live and she's just one of many thousands of SBA microloans that have been funded across the country over the past 20 years that create jobs, revitalize our main streets, and fuel our economies. The Community Advantage program is just as important to us. MoFi uses the CA guarantee for clients who have been denied bank financing, need up to \$350,000 and they are usually start ups. We like using them on startups because the CA program is an amazing onramp to bankability. If you can show as a small business owner, a new business owner that you've been able to make your payments on a CA loan, your banker sees a future 7(a) client. These are also not risky loans. Since the start of the program in 2011, our losses have been, I think this is right, .065 of a percent. I heard the other witnesses talk about the challenges with some of the SBA programs and how long they take. That's not the case with CA. It's a fast, efficient program that allows us to get capital to borrowers very quickly. Today the U.S. financial system operates on two tiers, one for those with established wealth and one for those still building towards that future success. We need these SBA programs for entire generation of low wealth entrepreneurs who are going to be successful tomorrow, especially in the rural areas we serve. Thank you for your time and for supporting the SBA tools.

Chairman WILLIAMS. Thank you very much. And we will now move to the Member questions under the 5 minute rule. I recognize myself for 5 minutes.

Mr. Hooper, community banks are an essential resource for small businesses providing a large shares of small business capital and offering a more tailored approach to small business lending than larger financial institutions. Unfortunately, the Biden administration added \$1.7 trillion dollars in regulatory costs, disproportionately impacting small business and small lenders. So my question is, how has the increased regulatory burden impacted your ability to lend to small business?

Mr. HOOPER. Thank you for that question. You know I think probably the simplest answer is to say that due to ever increasing budgets that we have for audit and compliance, as I mentioned that's almost \$11 million is what we're estimating for this next year, it takes away from our ability to reinvest in new loan pro-

grams, effectively market those to our customers and roll out new programs that would benefit our clients. Additionally, other regulatory issues such as like the Durbin Amendment that reduced some of our debit card interchange income also takes away from our ability to offer low cost or free business deposit service to our customers in many cases. You know, from a very basic perspective the more time that we have to spend on compliance and regulatory oversight just takes away from our time that we can spend with our customers and in tailoring products to their needs.

Chairman WILLIAMS. Under the Biden administration the SBA's flag ship 7(a) loan program was altered with rule changes that stripped away prudent lending standards that had preserved a programmatic integrity for decades. While many of these changes were said to simplify the 7(a) lending program, they are instead confusing the lending community and impacting the services that community lenders provide to borrowers. So in your testimony you described that credit unions have expressed a strong interest in working with the SBA to enhance their operational capabilities in the SBA lending space but that there is a great deal to be desired in that area. So opportunities do you see for the SBA to better work with credit unions?

Mr. HOOPER. Thank you for the question, Mr. Williams, Chairman Williams. I think immediate area where we can focus our concentration on with the SBA is through their regional district offices. If we have them as a resource to help us navigate the processes, policies, and procedures that are ever changing inside the SOP it will help us to deliver more efficiently and more effectively to the small businesses that we serve in our communities. The program itself, the loan program, the 7(a) and the 504, the structures that those programs allow are very good and very flexible. It's the process and the procedures and the policies and the regulation that has dampened the effectiveness of those really good programs in getting into the hands of the business community that needs them.

Chairman WILLIAMS. With portions of the Tax Cuts and Jobs Act set to to expire, you are aware, small businesses across America are concerned that their taxes will go up. If you were able to keep more of your cash on hand and not pay it to the government how would you use that money?

Mr. WETEGROVE. I would definitely use it for improvements to my business, I would also like to, you know, pay my employees a little bit better. I think that I can only bring home so much money these days and I would love to pass that on to my employees and provide, you know, enriching lives to dogs to be honest.

Chairman WILLIAMS. In other words the money can be used better by you than by the federal government?

Mr. HOOPER. Yes, sir.

Chairman WILLIAMS. You can create more taxpayers with it?

Mr. HOOPER. Yes, sir.

Chairman WILLIAMS. Okay. I now recognize the Ranking Member for 5 minutes of questions.

Ms. VELAZQUEZ. Good morning, and thank you, Mr. Chairman. I have been a member of the small business committee—Ranking Member and Chair. I have also been a member of the Financial Services Committee and to say that regulations are impacting fi-

financial services institutions and that the Biden-Harris administration hindered small business formation doesn't hold water. The Biden-Harris administration oversaw the fastest rate of new business applications on record with entrepreneurs filing an average of over 440,000 applications every month, a rate that was over 90 percent faster than from the pre-pandemic averages. Importantly the small business boom of the last four years was equitably distributed among multiple segments of the population. Business ownership doubled among Black households, hit a 30 year high for Hispanic households, new businesses created rates hit a 30 year high for Asian Americans, and women owned business, a higher share of businesses than before the pandemic. I thought that the topic here today was about small business lending and the different programs under SBA, not making a case about tax cuts. But I know that that is the agenda here.

Ms. DeArment, can you explain how MoFi is utilizing the Community Advantage SBLC program to provide capital to small businesses in the rural communities you serve?

Ms. DEARMENT. Yes, absolutely. Thank you. We use the Community Advantage program much like banks use 7(a) but we use it for a different segment of the market. Borrowers who are credit worth but who are denied at banks or credit unions. Our clients aren't seeing a CA loan. They're referred to us from a bank after the bank says, no. I think it's really challenging in the rural areas right now that we serve. Over time banks have consolidated and closed some of the branches and even in the rural areas that do still have a bank, the commercial lending officer usually isn't there. They're in large cities. They don't know the area very well and decisions can be made elsewhere.

Ms. VELAZQUEZ. What segment of the market does the Community Advantage program reach that a traditional 7(a) loan might not?

Ms. DEARMENT. Yes. It reaches people who don't have wealth, assets, prior experience in a bank or high cash flow. I don't think you need those things. I think we've proven you don't need those things to be successful in business and be successful in paying back a loan. But we underwrite for repayment the say way a bank does. We just don't use factors like wealth, assets, or prior year cash flow. Instead we use potential industry viability and sort of hard work and determination, and it works.

Ms. VELAZQUEZ. Thank you. Mr. Sims, as you know I have been supportive of raising the member business lending cap in the past, but we need to do it in a responsible way. I also just want to say for the record that the MBL cap is an issue for the financial services committee and in which this committee doesn't have jurisdiction. As a member of the financial services committee I have made the case in terms of raising the cap. Mr. Sims, I understand you participate in both the 7(a) loan program as the primary lender and the 504 loan program as a partner working in conjunction with certified development companies. With a lens on the process of both programs would you agree with the following statements, 1, the 504 program has a unique economic development mission and, 2, at times the 504 program can be overly complex? If so, do you have

any recommendation to streamline the program and more efficiently get capital into the hands of small businesses?

Mr. SIMS. Yes, ma'am. Thank you for the support of the member business lending cap very much. Appreciate that. And I would agree with your statements. I certainly do agree with your statement, 1, the program provides small businesses with a very solid financing vehicle for owner occupied commercial real estate. As you know the 504 is best used in that environment. If you're looking for cash flow—or excuse me, operating capital, and other elements of the financing, it's not part of that program, but it is a very good program, nonetheless. And as you know on the other side we do work local, not-for-profit CDCs to provide the debenture on the sell out once the loan has met its term.

Chairman WILLIAMS. Lady's time is up.

Ms. VELAZQUEZ. Thank you.

Mr. SIMS. Thank you.

Chairman WILLIAMS. Next I would now recognize Mr. Alford from the great state of Missouri for 5 minutes.

Mr. ALFORD. Thank you, Mr. Chair and thank you Ranking Member Velázquez. Today small business are working to recover after four years of inflation, supply chain issues, workforce shortages, and burdensome over regulations. But I want to let you know, I want to let main street know that help is on the way with President Trump in office and Republicans in control of both chambers of congress, we will work for you to make sure that your business thrive. And we will cut the red tape and for you to spend more time actually building your businesses, not just filling out paperwork to satisfy some bureaucrat down the street. We will codify the Trump tax cuts to protect the 199A passthroughs and to keep more of your dollars in your own pocket and we will work with the SBA to make sure that existing businesses have the access to capital and counseling that they need to ensure that Americans can continue to found more small businesses in America.

Mr. Hooper, I have heard some of the same issues from our community bank where I bank in Raymore, Missouri from Bill McDaniel, the president, that the burdens of these over regulations among the most harmful regulations implemented during the Biden administration are the 1071 rule implementing by the Consumer Financial Protection Bureau. And thank goodness that Chairman Williams introduced last February 5th, H.R.976 which would repeal the CFPB's implementation of the 1071 rules. Fin Cen's implementation of the beneficial ownership reporting rule has been paused by federal courts though there are additional pending actions in court. So my question to you is, number 1, do you believe the CFPB is constitutional?

Mr. HOOPER. I do not.

Mr. ALFORD. I do not either. Thank you. What happens if the 1071 rules are put back into place? What effect will that have on lending to people who need this money, the capital to start and maintain a small business?

Mr. HOOPER. Sure. Thank you for the question. There's a couple of points there with 1081. There's 81 data points that have to be collected at the time we would take an application and then some of those, some of that data is then published by the CFPB annually

and so that raises all kinds of privacy concerns and things of that nature especially relative to if there were denials and things like that included in some of those data points. And so, you know, just simply managing it and then also on our side the cost to implement it is astounding. As I mentioned we're estimate prior to it being stayed we were looking at over \$2 million in cost potentially to do the training and everything necessary. But I will tell you most of our customers would find that the questioning very troublesome and difficult as well.

Mr. ALFORD. Mr. Sims, do you believe that the CFPB is constitutional?

Mr. SIMS. I do not, sir.

Mr. ALFORD. Thank you. I want to continue with you, Mr. Sims. You reached, you mentioned about regional offices, they needed to be more proactive. I agree with that. Senator Joni Ernst introduced a bill to relocated SBA workers in part from the office down here in D.C., which we were at a year and a half ago and they all scurried to show up when they knew we were coming and on any given day even if the building is staffed with 100 percent of the employees in the building it is only 67 percent full. It is a waste of money basically. We need to get these SBA regional offices out into rural America where we have business deserts if you will so they can get the capital and counseling they need in a lot of these areas where we have the rural broadband to operate businesses and the people wanting to relocate out into communities of rural America. What are your thoughts on that and how would credit corporations, or not credit corporations but credit unions play a vital role in that?

Mr. SIMS. Yes, sir. Thank you for the question, Mr. Alford. I think simply leveraging the expertise that you would have inside of an SBA district office and from a credit union's perspective my focus is on the business member and how do I figure out what's the best product set for that business member and to have an advocate that has the inner working, the knowledge of the SBA process, policies, and procedures to help us when we hit a roadblock and we have a question that has arisen as a result of a particular request they would be able to help us navigate that process.

Mr. ALFORD. Thank you very much. And again thank you for being here on this snowy day coming here on your own time and your own dime. I appreciate. And I yield back.

Chairman WILLIAMS. Gentleman yields back. I recognize Mr. McGarvey from the great state of Kentucky for five minutes.

Mr. MCGARVEY. Thank you, Mr. Chairman. I appreciate that. I will start with a question for the panel. Are any of you all Supreme Court justices?

Mr. HOOPER. No, sir.

Mr. SIMS. No, sir.

Mr. WETEGROVE. No, sir.

Mr. MCGARVEY. Fantastic. I just want to point out last year in CFPB, Community Financial Services Association of America the Supreme Court upheld in a 7-2 decision the CFPB's funding as constitutional. If we do get to take back the Supreme Court ruling in this committee, I would like to start with a few myself, maybe with Dobbs and Citizen's United. But for the moment it is constitutional so we will keep it there.

I want to agree with something that was said earlier, the American dream is alive and well and powered through our small businesses. So is the American economy powered through our small businesses. But let us zoom out and take a macro look at what is happening right now because even though Donald Trump came into office campaigning on lowering costs and lowering inflation what we are seeing right now in the number coming out today is an incredible rise in inflation, 3 percent over last year. In fact not just take last year, it is the fastest growing month for inflation since August 2023. We are seeing the cost rise in everything from gasoline to groceries to the things that our consumers use, which of course has an impact on our small business community. This inflation is driven at least in part by the tariff policies of the Trump administration.

I want to read you something. In Kentucky, local store owners are already hearing about their suppliers prices going up. One estimate suggests the president's tariffs could cost the average Kentuckian up \$1,200 each year and it is not just about rising prices here at home. During the last Trump administration retaliatory tariffs from trade partners set off a broader trade war that hit wide swaths of American industry from agriculture to manufacturing to aerospace and motor vehicles to distilled spirits. I am not quoting from some liberal publication here. I am quoting from Senator Mitch McConnell's op-ed to the Courier Journal today. On top of the rising prices and rising cost to consumers and our small businesses are making we are seeing the Fed not cut the interest rate, which is going to again have an impact on our small businesses and if that is not enough, the Trump administration last month froze funding at every single SBA capital access program, which we have heard time and again on this committee that our small businesses to succeed, to grow, to start use that capital access provided by the SBA as such a lifeline. So I think we have to zoom out and look at what is happening to our small businesses and make sure that we are going in the right direction where there costs are indeed lowered so the consumers can buy things, our small businesses can grow, and our economy can continue to thrive.

I have a question for Ms. DeArment. Where you conduct business in rural Montana, just like in my state, farmers and ranchers are going to see their market shrink thanks to Trumps tariffs. They will force manufacturers in my district to make the hard choice between swallowing increased in put costs and cutting jobs or passing them along to their customers. Could you briefly explain about why these SBA capital programs are important alternatives for small business in this kind of restricted lending environment that we find ourselves?

Ms. DEARMENT. Yes. One of the best things about the SBA programs that we use is that they provide capital to CDFIs and SBA lenders like us to use in rural areas. That capital is very limited, and it is one of the only sources we have to reach into some of the most rural or most depressed land values, building values, depressed areas. Without them fewer businesses would get funded in rural America.

Mr. MCGARVEY. And we know that community lenders support veterans, rural Americans, other traditionally underserved groups.

Just briefly because we've got a little less than a minute left, what would happen if rural communities lost access to these SBA resources? What would it mean for farmers and ranchers in your state?

Ms. DEARMENT. I think the biggest thing we would see is fewer business starts. Most of the businesses we fund using these SBA programs are business starts and banks and credit unions are funding these businesses, so these programs are what they have.

Mr. MCGARVEY. Thank you so much. Mr. Chairman, I yield back.

Chairman WILLIAMS. The gentleman yields back. And I now recognize Mr. LoLota from the great state of New York for 5 minutes.

Mr. LALOTA. Thank you, Mr. Chairman. Thanks for hosting this important hearing today for the witnesses for traveling here to be with us.

Ensuring America's small business have access to capital is fundamental to America's economic success and that starts by empowering community banks and credit unions not just as lenders but as trusted partners that fuel local economies, create jobs and drive growth. For too long burdensome regulations, inflation and misguided policies have restricted the flow of capital making it harder for small business's to expand. Fortunately, community banks and credit unions remain steady fast allies of America's small business offering personalized lending solutions and building relationships that big banks simply can't. Through vital federal programs like 7(a) and 504 loan programs, the Small Business Administration partners with these lenders to create jobs, drive economic growth and strengthen our communities. But for these programs to truly help small businesses we must cut red tape, reduce costs, and ensure access to affordable capital. With the right policies we can unleash the full potential of America's small businesses allowing them to thrive, innovate, and power America's economy moving forward. This leads me to my first question. Mr. Hooper, thank you for being here today, sir. You're the CEO and Chairman of a regional bank and in your testimony you highlighted how compliance costs at your bank have doubled since 2021 with an estimated \$10.9 million annually spent on regulatory compliance. This committee understands, sir, that regulations like the CFPB's 1099 rule adds significant reporting burdens making it harder for community banks to compete with larger institutions. So my question is this, Mr. Hooper, how has the 1099 rule and the broader regulatory environment impacted your ability to provide capital to small businesses?

Mr. HOOPER. So I would say generally speaking the regulatory environment that we have in general we spend a lot of time on that and so a lot time, resources and frankly the 1099 rule, are you referring to the 1,099 pages of the legislation relative to, that came from the Dodd-Frank Act?

Mr. LALOTA. Yes.

Mr. HOOPER. Okay. So, you know, we had to form an entirely new department after the implementation of that so that we could make sure we were compliant and could do it well and so it is incredibly burdensome. It's tough on our customers especially our small business customers who want to get a mortgage. You can just

sense when they walk in if they own a business that they know, you know, the reporting requirements for them is elevated and frankly getting a mortgage is much harder for them in many cases than it is, you know, sometimes our other, our other types of businesses.

Mr. LALOTA. And Mr. Hooper, if you didn't have to spend those resources doing that burdensome, onerous regulator compliance, could you use those resources to increase the wages of your employees, decrease the cost for your consumers and otherwise invest that money in better areas?

Mr. HOOPER. Absolutely.

Mr. LALOTA. Awesome, sir. Mr. Sims, you're the chief of commercial banking officer of Georgia's Own Credit Union. You have been the leading SBA lender with a strong record in both the SBA's 7(a) and 504 loan programs. However, sir, you noted in your testimony that administrative complexity and slow response times from the SBA often create challenges for credit unions trying to efficiently serve small businesses. So my question is this, what specific or forms to 7(a) and 504 would help credit unions expand access to capital while at the same time ensuring these programs remain sustainable and effective, sir?

Mr. SIMS. Thank you, Mr. LaLota for the question. Again go back to the programs. The programs themselves are very good. The processes are not as good. I can point to specific examples within our organization where we've seen a decline in our SBA production from 2022 to 2024 to the tune of about 25 percent. The vast majority of that has to do with burdensome regulatory environments and process and procedures associated with moving applications through the SBA process. So it's a time drain. Money does not get to your business member as quickly as they would like it and quite frankly the, really the first reaction that I get when I talk to business members about using SBA tools as a vehicle for their financing is I have to sell through the reputation that the SBA has for inefficiency and the time to take a loan from soup to nuts.

Mr. LALOTA. Great, sir. And I only have a few moments remaining, but Mr. Wetegrove I read in your bio, 34 years in the Army, retired as a colonel. Appreciate your service, sir. Real quick with about 15 or 20 seconds, how would you reducing unnecessary costs and regulatory burdens impact your ability to expand, hire more employees, make more loans, sir?

Mr. WETEGROVE. Yes. Thank you for providing the question. It would of course allow me and others to be able to expand more aggressively and be able to employ additional people and service the community.

Mr. LALOTA. Thanks for your time, sir. Appreciate it. I yield.

Chairman WILLIAMS. The gentleman yields back. I now recognize Ms. Scholten from the great state of Michigan for 5 minutes.

Ms. SCHOLTEN. Thank you, Mr. Chairman. I just want to clarify that there is no CFPB 1099 rule. You know, I think that was testimony that was getting a little muddled and it is important to get that into the record. You know, also earlier this week we extended Fin Cen's beneficial ownership requirements through Mr. Nunn, a bill that passed on suspension in this house. I want to turn to some critically important things here for West Michigan.

Ms. DeArment, I understand that your organization is an SBA certified community advantage lender. My district in West Michigan is home to many hub zone areas which are historically under-utilized business zones. The hub zone program establishes a goal of awarding 3 percent of federal contracting dollars to hub zone certified businesses each year. Ms. DeArment, your testimony points out that the community advantage program was designed to enable lenders to reach into communities that might otherwise have trouble accessing the capital that they need. Can you explain how this program can boost HUBZones like the ones that we have in West Michigan?

Ms. DEARMENT. Absolutely, HUBZones like other low-income communities don't have the same asset value and they are harder to lend in. When you go into look—for us in our experience when we go into lend there we often have expenses going into buildings or revitalizations that don't then pan out in appraisals. The SBA Community Advantage can right that ship when you're underwriting a loan and get capital to borrowers who don't qualify for a bank loan or a credit union loan that are absolutely credit worthy to build the business, be successful, get a CA loan and eventually graduate back into bankability.

Ms. SCHOLTEN. Thank you so much. Mr. Wetegrove, first and foremost I want to thank you for your service to our nation and your accomplished career in the Armed Forces. As a Co-Chair of the congression franchise caucus, I also appreciate your story of how you came to be and grow Camp Bow Wow. We have a number in our district and our beloved family dog, Smokey, has utilized those services as well. So, you noticed, you noticed the importance of acquiring 7(a) loan to start your business. Can you explain how this program was critical to the long-term success of your business?

Mr. WETEGROVE. Yes, absolutely. Thank you for the question. I don't think I could have gotten any other type of financing at the time. And, you know, even though some of the requirements were, they're not as strict as the conventional type process so I, you know, greatly appreciated that. There's a more flexible structure in the SBA program other than the convention process. Even though the underwriting was very comprehensive, it was manageable at the time. The partner that I was utilizing to give me the loan, you know, provided me counseling along the way and was very instrumental in the lending process. And I just really appreciated everything that kind of came to the table because I just think that there's so much more background in the SBA lending program. Thank you.

Ms. SCHOLTEN. That is true. Yes. Absolutely. Thank you. And one more for you, Ms. DeArment. The microloan program provides up to \$50,000 to help not only small businesses but certain non-profit childcare centers to grow. As a mom of two I know all too well how critical childcare services are in bolstering our economy especially to those trying to grown their small businesses. Can you speak to how the microloan program addresses the growing need for childcare services in our country?

Ms. DEARMENT. Yes. One of the great things about the microloan program is it provides technical assistance dollars. We see a lot of, especially women come in and say I'd like to start a

childcare business, but they don't know where to start. They don't know how to put together a financial projections, find a facility or use their home. These TA dollars allow us to bring an advisor in to help write a business plan, create financial projections, find a lease, get legal services, and get them set up for success. Once they're set up for success and have a microloan in place those businesses do really well. It's a perfect program because it combines those two components.

Ms. SCHOLTEN. Thank you. I yield back.

Chairman WILLIAMS. The gentlelady yields back. I now recognize, Mr. Jack from the great state of Georgia for 5 minutes.

Mr. JACK. Well thank you very much, Mr. Chairman, and I'd be remiss if I didn't start by acknowledging one of my guests in the audience today, the Chairman of Georgia's Small Business Development Committee in the House of Representatives, Mr. Mike Cheokas. Chairman, thank you for being here today. And likewise to our witnesses. Thank you very much for testifying before our committee. As we continue to navigate the complex and evolving challenges facing small businesses it is crucial that we recognize the vital role credit unions and community banks plan in providing accessible, affordable financial services to entrepreneurs, particularly those in our underserved and economically disadvantaged communities. I would like to of course because we have a Georgian in the audience today, I would like to direct my questions to Mr. Sims who leads Georgia's Own Credit Union in my home state. And first and foremost I would like to start by asking you, and I think in your testimony you note that over 240,000 members are served across our state of Georgia. How many employees do you have in our state of Georgia?

Mr. SIMS. Yes, sir. We have currently over 700 employees working at Georgia's Own Credit Union.

Mr. JACK. And with my district if I'm not mistaken I think you've got two Branches. You have one in Douglas County and one in Fayette County. Is that correct?

Mr. SIMS. Yes, sir.

Mr. JACK. So what I find interesting particularly within your testimony is just how successful Georgia's Own Credit Union has been, recognized throughout the state, and the, you know, the impact that you have on our community is evident. I mean one of the areas of Georgia that is booming in growth is Fayette County, Douglas County, as you get a little further out from Atlanta we are seeing enormous economic growth in large part fueled by small businesses and those small businesses are often dependent on the credit unions much like your own. So I would like to ask, I think in your testimony you noted that you were recognized as the number 1 credit union in the state of Georgia. You know, what are some helpful tips and practices you would advise our committee to engage upon to help continue to have business thrive especially in my home state and district?

Mr. SIMS. Yes, thank you, Congressman Jack. Appreciate the question very much and recognition of the performance of Georgia's Own from an SBA lending perspective inside of the state and that is a record that we're very proud of and we've been ranked number 1 credit union over the last 5 years, always in the top 5 from an

in-state production level as well. And again I think I would get back to the conversation that we had a little bit yesterday and also with Chairman Williams is leveraging our local district offices. I think there's a great role for them to be able to play in supporting both those of us that are in SBA lending, and you heard Mr. Hooper talk about having to build the infrastructure to be able to do that appropriately and it takes a lot of investment to do that. It can be that investment can be mobilized and amplified with help from our regional offices.

Mr. JACK. And for my colleagues across the committee and for everybody watching there is a lot of debate right now over tax reform and some of the taxes that are coming up, can you illustrate to all of us what the consequences would be and for not just consumers, people dependent on the credit union but the broader economy if the tax exemptions currently afforded to credit unions were to be reduced or eliminated this fiscal year?

Mr. SIMS. Yes. Thank you for that question. As you know credit unions would turn over \$36 billion to the economy annually thanks to that tax exemption at a cost of just under \$3 billion to our taxpayers. And so there's a multiple return on that. I think a eliminating or changing the credit union tax exemption would change the nature of how we do business and what we're trying to accomplish with our business members and quite honestly I think you would see a fewer, you would see fewer credit unions in specially rural markets which would lead to fewer, just to deployment of capital even underneath the SBA's program and so I think that would be a detriment quite frankly to small business members as well as consumers in the market place.

Mr. JACK. Well I appreciate that. I am not going to take much more time but I just want again illustrate as all of us are working across this distinguished body to advance agenda that we all were elected to advance, I think it is critical that we remember the impact of some of the tax provision we are considering visa vie reconciliation at the same time, too. I think we were all elected to advance pro-growth, economic policy, that is one of the reasons why President Trump earned the historic victory that he did and why more Americans voted for house Republicans this time than ever before. So I am grateful for your testimony. I am grateful for all the witnesses being here today and Chairman thank you very much for letting me bring my own Chairman from Georgia Small Business Committee in the House of Representatives of Georgia to our hearing today. Thank you.

Chairman WILLIAMS. Gentleman yields back. I now recognize Mrs. McIver from New Jersey for 5 minutes.

Mrs. MCIVER. Thank you Chairman and Ranking Member for having this hearing today and to each of our witnesses, thank you so much for joining us on a very snowy day and making your way here.

Accessing capital is a critical early step that our nation entrepreneurs must take to turn their business ideas into reality and a much-needed push for businesses fighting to expand. As our Ranking Member said, we all know the critical investments into small businesses made by the Biden-Harris administration helped millions of business owners to start small businesses and last four

years, in the last four years. Many of whom come from underserved communities. We saw business ownership rates double and reach a 30 year high among communities of color. My district alone in the great state of New Jersey in the 10th congressional district, home to nearly 2,000 minority owned business. They definitely benefitted from the efforts of the last administration. As we continue through this congress we must be mindful to protect the progress made by these communities.

With that I would like to throw my first question to Mr. Sims and Mr. Hooper. Each of you represent a different and critical part of how the SBA can help small businesses access capital. This is especially critical to protecting the gains made by underserved communities in recent years. In your view what more can congress do assist small businesses in accessing capital from institutions like yours?

Mr. HOOPER. Thank you for that question. I think a couple of ways. One is, you know, we can continue to expand the SBA resources which can be a benefit for some of our customers and I think just make the system less cumbersome. Additionally if we reduce the cost due to regulatory changes because it's an ever-evolving landscape. That would allow us to then spend some of those same dollars on bankers who actually can go and work with clients again rather than, rather than us investing large sums in oversight of compliance side.

Mrs. MCIVER. Thank you.

Mr. SIMS. Thank you, Ms. McIver, Congressman McIver. I would suggest that again the programs are really good. They are very flexible. You heard Mr. Wetegrove talk about the flexibility of the program that allowed him to put his business together. So I would encourage congress to encourage the SBA to focus on their core competency and that is how can we eliminate the burden of excess policies, processes, and procedures in order for us as the distributed lending force that's in the marketplace that are talking with business members on a day-to-day basis, and we understand what they're looking for in the structure and how do we capital into their hands more quickly and more efficiently.

Mrs. MCIVER. Thank you for that. I would also like to ask the panel about their thoughts on the Consumer Financial Protection Bureau. The CFPB has recovered over \$21 billion for consumers who have been victims of abusive and illegal activity with a budget of less than \$700 million. How do you propose the government protect consumers from crooks in the open market if it no longer exists? That is to each panelist?

Mr. HOOPER. I think if the CFPB did not exist there are other regulatory agencies that can provide similar services. We already have several, you know, that oversee the financial industry and so I think you could easily push some of those same, some of those same oversight activities to some of those other agencies that already exist?

Mr. SIMS. And I would agree. I would suggest that credit unions believe in the importance of consumer protection laws and then having an entity to regulate otherwise unregulated entities is critically important. Don't have a position on the CFP elimination but the industry has long advocated for change to make consumer bu-

reau a bipartisan commission. Unfortunately under that current structure the Bureau has to become overly, or has become overly political, and I think the focus needs to be on those unrelated entities that would be regulated.

Mrs. MCIVER. Okay. Any feedback from you, Mr. Wetegrove?

Mr. WETEGROVE. I would just agree with them since I don't know much about your question. Sorry.

Mrs. MCIVER. Okay. And I know we have, I am not sure if she is still on, Ms. DeArment who is on?

Ms. DEARMENT. Yes.

Mrs. MCIVER. Oh okay. Would you like to chime in in the couple of seconds that I have left?

Ms. DEARMENT. The one thing that I would say is that working with low wealth borrowers they fall victim to predatory online lenders and so we would want to make sure that that protection is extended to people regardless of whether or not they have resources.

Mrs. MCIVER. Thank you. I am out of time. Thank you.

Chairman WILLIAMS. The lady yields back. I now recognize Ms. King-Hinds from the Northern Mariana Islands for 5 minutes.

Ms. KING-HINDS. Thank you Mr. Chair and thank you to all the witnesses who braved the storm today. I am from the Marianas where it is about 75 degrees right now. So this weather it not in the business for me.

It is very encouraging to hear about the optimism and resilience among small business across the United States. But as we have heard optimism—as we have heard optimism alone is not enough. It must be backed by a financial system that empowers small businesses with the capital that they need to thrive. We have seen how entrepreneur respond to the economic optimism, taking risks and investing in growth. But that optimism along does not drive lending decisions. It is the outlook of financial institutions that determines whether capital flows into communities and businesses. When banks see potential for secure returns they invest. When uncertainty looms a vicious cycle takes hold. Businesses struggle, lending slows and economic recovery stalls. Right now my district is caught in that very same exact cycle. In an economy where banks see no path to recovery, even the brightest most promising entrepreneurs find their potential stifled. Lenders hesitate, investments dry up, and businesses are left to fend for themselves. Small businesses in my district aren't giving up. They are fighting for recovery. But in speaking with business owners more and more they are being forced to rely on high interest credit cards and personal loans just to stay afloat. Unlike the rest of the U.S. where consumer debt is 69 percent of the size of commercial and industrial loans, in the Northern Mariana Islands consumer debt is 180 percent of commercial lending. That is just unsustainable. Small businesses should not have to shoulder the burden of economic recovery alone and so, you know, I wish we had a credit union back home from where I'm at. We only have, we have, we are down to two banks right now, three banks and so this is more of a broad question for Mr. Hooper. How can the federal government help small businesses in communities where industries have collapsed or remain in decline? So basically in these economic conditions where we are

caught in this vicious cycle, how can the federal government assist to be able to allow for access to capital?

Mr. HOOPER. You know, I think as Mr. Sims noted the SBA programs that exist are good programs. And so I think continuing to make those more manageable for the consumer as well as the banks that are putting those programs into place with the customer I think is one way, just to make it less burdensome. You know that I would say that's probably one of the primary ways. Additionally if interest rates come down a little more I know many of our customers would appreciate lower borrowing rates, which also make it more manageable from a small business perspective as far as them managing their budgets with other inflationary pressures they already have.

Ms. KING-HINDS. All right. Just a quick follow up question. In your written testimony you spoke about the fact that it is just not just the beginning of the application process but the bank's ability to go and recover those SBA guarantees. Can you speak us to the challenges with regards to that particular issue?

Mr. HOOPER. Sure. I'm actually in the middle of one right now. We're in our second year of trying to do the recovery. Part of the dilemma is once you go down that road and you start through liquidation you have to liquidate everything that you had as collateral as well as pursue all other opportunities for recovery and it could be a variety of different things. You have to do all of that before you can go back to the SBA to get the SBA to honor the guarantee that they gave at the inception of the loan. So the other difficulty that exists within that is like others had mentioned getting communication from SBA can prove difficult and some of the answers we get at times are vague and so which also puts us in a precarious position because if we don't make the right choices as we go through that liquidation process and that recovery process it has the potential for the SBA to claw back potentially some of that guarantee when we get to that stage of the process.

Ms. KING-HINDS. Which would I presume discourages lending?

Mr. HOOPER. It certainly makes it harder if we don't have clear, you know, expectations and understanding of how the SBA is going to respond.

Ms. KING-HINDS. All right. Thank you. I yield the rest of my time, Mr. Chairman. Thank you.

Chairman WILLIAMS. Gentlelady yields back. I now recognize Mr. Cisneros from the great state of California for 5 minutes.

Mr. CISNEROS. Thank you, Mr. Chairman. Mr. Sims, you noted in your testimony the legislative purpose of Section 1071 is to facilitate enforcement of fair lending laws and to enable communities, governmental entities, and creditors to identify businesses and community develop needs and opportunities of women-owned, minority-owned, and small business. We all seem to want loans that are more transparent and more equitable and more responsive to the needs of all borrowers. You know, in my community a lot of our community banks have kind of been eaten up by the bigger banks. There really aren't too many here in California. Credit unions have kind of helped to kind of fill that void. But I feel there is a need to kind of protect those banks. How do we protect those? Beside a regulatory questions what are other steps that we on the

committee can take to ensure that community lenders are strong and competitive to support small businesses, and I will open that up to the panel to see whoever wants to answer?

Mr. SIMS. Thank you Congressman Cisneros. Again I get back to the similar comments that you've gotten from Mr. Hooper here. Products are good and SBA in particular products are very good. Process is not good and the 1071 rule adds to the burden associated with that and in many cases it's going to be an increased cost for us to comply, also increased cost for the business member to comply. And I truly believe that you will see many business members, business owners not seek capital to inject into their business because of the reporting requirements that we're asking for them as they come into to try and access capita.

Mr. CISNEROS. Anyone else care to respond? You want nothing? Oh.

Mr. HOOPER. No. I was going to say I think Mr. Sims had a great answer, so.

Mr. CISNEROS. Okay. Sounds good. But what other steps, I will say in order to protect these community banks who are the lenders to our small businesses, big banks don't like to do small loans. What steps can we take to make sure that we protect your interest to ensure their survival, and they don't get gobbled up by bigger institutions?

Mr. HOOPER. Well I can tell you I've been a community banker my entire career and I love it. It's something that I hope never changes and something I can do for the remainder of my career. You know, being a community banker means that it's the business owners and the customers we work with are the same people I see at church, the same people I see in the grocery store, the same people I see at a restaurant on Friday night. It's the people we live with and are part of the fabric of the same community in which we live and so their success means success for the community and, you know, we are part of that community and success for the bank. And so I think, you know, community banking is a necessary tool because it starts with at the very personal relationship level. And we walk hand and hand with our customers and are a proven financial partner over the years for them.

Mr. CISNEROS. All right. Thank you. Ms. DeArment out there on the Zoom. Thank you for supporting women-owned small businesses across the Northern Rockies and according to the SBA summary report last report last year, 73.8 percent of total dollar amount for 7(a) loan approvals went to male owned businesses as did 71.2 percent of total dollar amounts for the 504 program. The Montana Community Development Corporation had 23 approved microloans in fiscal year 2024 in Montana alone. SBA microloans offer funding to traditionally underserved businesses such as women-owned business, SBAs also fund business development centers, loan programs, federal contract opportunities among others to focus on women and minority owned businesses. Last month the SBA awarded \$26.5 million to create 13 new women business centers and support 17 existing centers across the country. If President Trump isn't stopped and doubles down these programs funded by the SBA are at risk to be effected by a freeze in federal funds.

What would the impact for access to capital for the women-owned businesses have for you?

Ms. DEARMENT. Well I think what we've seen is that women have some special challenges. Their credit scores often go down when they have kids and leave the workforce. Their assets go down when they leave the workforce. And so just like everybody else who's low wealth or low income they have a very hard time getting a bank loan especially when they're starting out. The SBA programs allow us to wrap services around these people to help them create business plans and financial projects and get legal help and start their business and then within a couple of years become bankable. Without those programs the on-ramp into bankability will not exist.

Mr. CISNEROS. All right. Thank you for the answer. I yield back.

Ms. KING-HINDS. I now recognize Mr. Downing from Montana for his 5 minutes.

Mr. DOWNING. Thank you, Madam Chairwoman. Community banks are the economic life blood in rural communities across the nation providing tailored relationship-based banking services for small businesses. In Montana's 2nd District, which I am proud to represent, community banks help businesses like small farms and local stores access the capital that they need to thrive. Regulatory red tape and inflationary policies particularly under the Biden administration have crippled community banks. In my home district we have seen the number of community banks drastically decrease hurting the ability of local employers to hire workers and reinvest in their businesses. The Trump administration is how championing bold reforms to how the government functions promising to cut unnecessary regulations that have hindered entrepreneurship, and I am incredibly optimistic about our economic future under President Trump's leadership. And I look forward to seeing what incoming Small Business Administrator Kelly Loeffler will do to reinvigorate support for our communities banks. So to start off I am going to start with Mr. Hooper.

Through your operations in Texas to what extent do you provide services to rural businesses such as small farms?

Mr. HOOPER. Thank you for that question. That's one of the unique things about the company I work for. First Financial is spread all across the state. We have 79 locations. Many of those locations are in Far West Text and up in the panhandle and those are predominantly agricultural, you know, communities. And so last year alone we originated \$54 million in agricultural loans, many of those are going to be probably in the South Texas and then up in the panhandle in West Texas. So and a lot of those are smaller communities that we're able to partner with those businesses owners for those Ag loans.

Mr. DOWNING. What do you see are the biggest challenges in, you know, small farms, accessing capital?

Mr. HOOPER. Well I live in Texas. The weather is always the biggest challenge but we can't fix that one and so but I would say just again if we are more accessible through the reduction of some of the burdens we have on a regulatory side I think that it allows us to be better bankers.

Mr. DOWNING. And how do you see your business and, you know, how your rural business and your partners or your small farms, et cetera, compared to, you know, larger national banks? What do, how do you compare those?

Mr. HOOPER. Again I think back to my comments earlier those are the same people we live with in the community. Those are, and that's why we're hand and hand with them because their success is our success.

Mr. DOWNING. Right.

Mr. HOOPER. And so, but I think that's something you only get when you're part of the same fabric of the community that they are.

Mr. DOWNING. Yes, I agree. What in your experience are the most effective SBA programs in promoting access to capital in rural communities, especially local farms?

Mr. HOOPER. The 7(a) program is very good. It provides longer terms than we might normally have on conventional financing and the 504 program we've used extensively is great as well.

Mr. DOWNING. Great. Since the 2008 recession, the federal government has implemented numerous regulatory reforms that have disproportionately burdened community based financial institutions. So to Mr. Sims, how have these regulatory burdens hurt your institutions?

Mr. SIMS. Thank you Mr. Downing for the question. I think it principally manifest itself in additional staff and resources and infrastructure that we have to put in place in order to comply and appropriately comply with that regulation. And honestly it takes us away from what we do best, which is to be out in the marketplace and trying to serve our business members in finding the right capital vehicle for them as they're seeking to either grow, expand, buy new businesses.

Mr. DOWNING. All right. Thank you. Mr. Hooper, anything to add to that?

Mr. HOOPER. No, sir.

Mr. DOWNING. So to actually either one of you, how can congress and the Trump administration, you know, fix this?

Mr. HOOPER. Again I think reducing the regulatory burden. It's just such a huge piece of what we deal with on a daily basis and so I think that's first and foremost one of the things that needs to be tackled to allow us to be bankers again.

Mr. DOWNING. Appreciate that. And thank you for you answers. I think your responses have demonstrated how important community banks are in thriving rural economies. And I look forward to the Trump administration eliminating unnecessary regulatory burdens and empowering local banks, credit unions and other financial institutions. And on that I yield back. Thank you, Madam Chairwoman.

Ms. KING-HINDS. Thank you. I now recognize Mr. Tran from California for 5 minutes?

Mr. TRAN. Thank you, Madam Chair. I want to welcome and thank the witnesses for being here. Ms. Dearment, I probably represent the largest and oldest Vietnamese community in the United States known as Little Saigon. This community is a symbol of resilience and entrepreneurial spirit and serves as a thriving center for

Vietnamese Americans and small business and a key part of our Orange County's economy. Little Saigon is a successful because Vietnamese people are tenacious and resourceful. However this can only get you so far and time and time again I hear from the Vietnamese community that because of limited language capacity and lack of understanding of the financial system they are unable to access capital and make that leap of faith to start a small business. In fact we know that minority-owned businesses are less likely to be able to obtain a bank loan and often start out with just half as much capital as their White owned businesses. My question to you is how does your loan underwriting process differ to accommodate applicants with limited credit history or limited English proficiency and what impact has that flexibility had on increasing loan access in underserved communities?

Ms. DEARMENT. Thank you for the question. We rely on the microloan program to reach communities that often don't start at banks or banks aren't the first place they go. They might go to friends and family limiting their capital. The microloan program comes with technical assistance dollars so we can get out in the field, meet with business owners, meet with community leaders, pastors, find folks that are in the exact situation that you talk about. We also bring in outside folks to help them through the loan application process in whatever language they need. And with the flexible underwriting standards that a CDFI has we don't rely on wealth or assets or prior business experience. So we're able to provide these wrap around services long proceeds as well as any type of process they need to enter the financial mainstream. And once they're in one of the nice things about those microloan TA funds is that once they're in we are instantly trying to find a banker or a commercial lender at a credit union that can pair with that small business owner and overtime build a relationship to onboard them back into the financial system. When we do that then we see their friends and family start going to that bank and it creates a system where we become less needed overall in that community.

Mr. TRAN. Thank you for that answer. Mr. Wetegrove, Orange County's economy thrives thanks to the hard work of committed, dedicated and resourceful small business owners. As a small business owner myself before coming to congress I can say that it is not easy owning and running a small business and we face issues that are uniquely different from large corporations. And issue that I have faced and have commonly head about from small business owners from Orange County is limited access to capital. My question to you is on this side of the aisle we are always looking for ways to improve awareness of SBA's capital access programs and the benefits they provide. As a small business owner now did you become aware of SBA's capital access program and how do you think we can help improve awareness of these programs for borrowers.

Mr. WETEGROVE. Thank you for the question. So when I first started with Camp Bow Wow I was introduced to certain parties that made me more aware of, you know, these opportunities for seeking financial assistance. My father was an onion farmer in South Texas, and he was always borrowing money, and I always remember him, you know, contemplating on the terms and stuff

like that. So but to answer your question specifically I know that there's small business development center. It's at the University of Texas in San Antonio. And I think that's critical because I meet a lot of people that are, that want to start their own business because they want the entrepreneurial story. Right? And so I was pushing them to that entity in particular because I know that they're there for, you know, the assistance and the SBA help. But anything that would advertise in a entrepreneurial magazine or something like that would be extremely beneficial.

Mr. TRAN. Thank you for your answer. Mr. Sims, credit union member business lending cap is limited by statute. The statute limits both the aggregate amount of lending and lines of credit for a commercial purpose. A credit union can make up to a specific borrower as well as the aggregate amount of commercial lending a credit union can make. Can you briefly explain the member business lending cap and how does this affect veterans who are looking to start and grow a small business?

Mr. SIMS. I'm sorry. Thank you, Congressman Tran. The MBL cap has really two limitations on my business lending activity. One, it is set at 12.25 percent of assets of my organization. So as I approach that number I have to modify my business activities in the marketplace, which might mean for example for a veteran-owned business I may be unable to make that loan because I have approached that cap. I think there's a couple of things that also go into that. The number of loans, the amount of loan that counts underneath that cap is \$50,000. It was established in 1998. I see your face reacting to that. It hasn't adjusted since that time. An example or recommendation that I might have would be to put that at the SBA, small business level which would be 350, so how you would have two loans that are out there that mirror up with each other?

Chairman WILLIAMS. Gentleman's time is up.

Mr. TRAN. Thank you, Mr. Sims. I yield back, Mr. Chairman.

Chairman WILLIAMS. Now I would like to recognize Mr. Finstad from the great state of Minnesota for 5 minutes.

Mr. FINSTAD. Thank you Chairman Williams for holding this important hearing today and thank you to our witnesses for braving this weather although I find it laughable being from Minnesota that this is a weather event. This is dusting back home. So as a small business owner myself I understand the important role our rural lenders play in allowing individual to pursue the American dream. We have great opportunity in the 119th Congress to make meaningful changes that revitalize main street businesses, ensure new business owners have access to capital. I look forward to working with the Trump administration and the Members of this committee and our local financial institutions to reform the small business administration into a transparent and accountable entity that strengthens rural communities and drives economic growth across our nation. With that being said I year quite often from small business across my district and across rural America that sometimes feel like the SBA treats them like flyover land and really a lot of times where small businesses have interfaced with the SBA is through our lenders. You are the face of the programs to our small businesses and so you know the programs well. So my

question is for Mr. Sims. As you know small business across rural American rely heavily on the 7(a) and the 504 lending programs. Over the past four years what changes have you seen to the 7(a) and the 504 program and what impacts have your customers felt on these changes.

Mr. SIMS. Thank you for the question Congressman. The vast majority of the changes that we have seen over the past four years have to do with the standard operating procedures of the SBA lending program so the SOP. The programs themselves, the loans themselves, the structure and the terms are very good. The process associated with engaging with the SBA and helping our business members navigate that, those processes is the most cumbersome piece of the equation.

Mr. FINSTAD. Would you say those changes have made it more usual for our small businesses to access those programs or really burdensome and created another roadblock?

Mr. SIMS. Much more burdensome and it comes in two fashions. One is from an SBA lender, if you recall it from Georgia's Own specifically, we're the number one credit union producers in the state of Georgia so we have a really experienced staff. And as the SOP changes on an annual basis we have constantly got to go back in and figure out what those changes look like and in many cases they don't make a lot of sense. And what that does is slow down the process. And then we have to translate those changes to our business members as we engage them in capital access.

Mr. FINSTAD. Do the small business that you work with have a stable full of lawyers, compliance officers and regulation folks that can navigate this?

Mr. SIMS. That's probably a better question for Mr. Wetegrove over there when he was—

Mr. FINSTAD. Do you got a stable full of lawyers and regulators and compliance officers?

Mr. WETEGROVE. You're looking at him I'm sure.

Mr. FINSTAD. So there poses an opportunity and a challenge for I think this committee and this congress is to, you know, clean up some of the stuff that just doesn't make some sense and make these programs again good, solid, historical programs that we know have worked.

Mr. SIMS. Very good.

Mr. FINSTAD. but if they are sitting on a shelf because we can't get out of the way of ourselves then it is just a good program sitting on a shelf. So I will turn this a little bit here to Mr. Hooper. I have heard from several organizations across Southern Minnesota regarding the confusion around the beneficial ownership rule. And what impact has this rule had on your bank and what have you heard from your customers on the, on the ground regarding the limitation of this rule?

Mr. HOOPER. So I would say many of our customers just find it intrusive because we're digging into work through all of the different business owner, or the different owners of that business. I know our new account staff spends a tremendous amount of time making sure that they complete all the beneficial ownership forms as well as our lending staff and so it's just a, it's cumbersome proc-

ess and customers are not always appreciative of the process either.

Mr. FINSTAD. So Mr. Hooper, I would assume that your designating staff to that all pro-bono, it is all free, you don't have any, I mean you're just going to eat all that, right?

Mr. HOOPER. Absolutely.

Mr. FINSTAD. Yes. So the, you know, the cynical, I guess point is that there is time, money and effort that is put into this and again we have to ask ourselves in this congress, you know, who are we afraid of in this scenario? What problem are we trying to fix? And at the end of the day it is access to capital that's the most important thing for rural America to thrive right now and if we continue to put roadblocks in between a good, intended government program and the customer at the end day we will see less jobs created, not more. I appreciate your time and Mr. Chair, I yield back.

Chairman WILLIAMS. Gentleman yields back. I know recognize Dr. Conaway from the great state of New Jersey for five minutes.

Mr. CONAWAY. Thank you, Mr. Chairman. And thank you to the witnesses who have presented themselves here today to offer information on the SBA program. I want to start my time here with some remarks. I have to say I'm most distressed to hear America talk down and we have heard about how terrible things are in the economy and yet some of our Ranking Members here have quite rightly noted that we have had during the Biden-Harris administration over the past four years entrepreneur filed more than 20 million new business applications and saw the fast rate of new business applications on record with entrepreneurs filing an average of 440 applications every month, a rate that is over 90 percent faster than the pre-pandemic averages. And as we've heard we have seen the number of Black households and Hispanic households, and Asian households hit new highs in terms of their business ownership. Again all greater than pre-pandemic. In New Jersey, we are very pleased, and I have some experience with the SBA process. We have seen an average of, we have 28,771 approved 7(a) loans with an average loan size of 700—I'm sorry, 430,422. And as you know, these are essential for small business to grow and to thrive, to advance the economic vitality of their communities. We have heard today and in our previous hearing a lot of concern about the 1071 program. And I have to say when I particularly as you just heard me talk about these important improvements that we have seen and the business ownership by a person of color and minorities, other minorities, which I take as a sign of a vital and America, America that includes everybody in our economic growth and yet we hear that this program which is designed to actually find out what is going on lending activities in the banking sector is being, we're being asked not to collect data. Now I am a physician. I thrive on data and taking data and producing that data and understanding that, and using that data to make, to made help patients make decisions. This is across all businesses whether you're sending somebody to the moon or building a bridge, data analyzing it and using it to make good decisions, which is important that society has decided that it is important that fair lending take place and that all people in our country irrespective of their color or where they're from have access to capital. So explain to me without

giving the data to understand whether or fair lending rules are being, and laws are actually working and that there is compliance with those laws that recognizes that we're all part of a great country. If we take away the data collecting process to find out how the laws are working and how you in the lending community are actually, whether you're actually in compliance with the law or not. How do we ensure that everybody has a stake in our economy and has a chance to start their own small business? And that's for Mr. Hooper and Mr. Sims.

Mr. HOOPER. Thank you for that question. You know, I would say, you know, in my opinion it's our responsibility as good bankers to make loans everyone we can in our community and support the community at large. You know, not specifically talking about 1071 but speaking about from a fair lending perspective, you know, I'm very proud of the products that we offer now only to, you know, specifically we have better products for those customers that live in majority, minority Census tracks. We also have programs that are, you know, I live in Texas and so we have people who are there on work visas and they have an I-10 and so we're able to provide different home ownership options for them with lower amounts down and additionally we try to have bilingual personnel in just about every office that we can.

Mr. CONAWAY. I need to reclaim my time because I see the clock is ticking. I don't think we can make good decisions without getting data. Data should drive our policy decisions and if we pass a law we're going to find out whether or not it is working. I'll just leave with the time I have remaining to talk about the Serve Act that I'm a lead on with Ms. Davis and Mr. Alford. I am a veteran myself and serve a lot of veterans in my community. I live near a base and served on that base. But in the time remaining and I'll leave it for a later answer off line but tell me how the SBA is working to ensure that veterans are getting a fair shake and accessing the lending process. Thank you, Mr. Chairman for your forbearance.

Chairman WILLIAMS. Gentleman yields back and now I recognize Mr. Stauber from the great state of Minnesota for five minutes.

Mr. STAUBER. Thank you very much, Mr. Chair, for holding this meeting. And thank you to our witnesses for taking time out of your busy schedules to provide insight into the challenges and opportunities in small business lending. Access to capital is critical for the success of small business and in rural America. Small businesses depend on relationship banking, a personalized approach to lending where community banks and credit unions excel. These institutions and the SBA backed loans programs they provide must remain a reliable source of funding for entrepreneur. However concerns have been raised about recent changes to SBA-backed programs including weakened guardrails in the 7(a) program which could increase lending risk and lead to higher cost for taxpayers. Mr. Sims, you have seen first hand the impact of SBA lending policies on small business borrowers. How have the SBA policy changes affected small business loan default rates and what reforms are needed to prevent taxpayers from being left on the hook?

Mr. SIMS. Thank you for the question, Congressman Stauber. first and foremost in support of the SBA platform with every SBA loan that is originated the borrower is charged an origination fee for their guarantee, for the SBA's guarantee of that loan. So that guarantee then goes into the coffers of the SBA. Those funds are then used for any defaults that occur underneath that program, so from a taxpayer perspective it's actually not a taxpayer funded organization. It's self-sufficient with regard to the premiums that are collected associated with new origination loans.

Mr. STAUBER. The origination fees are adequate in your mind?

Mr. SIMS. Yes, sir, they have been since the inception of the program.

Mr. STAUBER. Mr. Wetegrove, your story is exactly what the 7(a) program is meant to do, help aspiring entrepreneurs across—access rather the capital they need to make their dream of owning a business a reality. Had you explored non-SBA loan options before turning to the 7(a) program?

Mr. WETEGROVE. Yes, sir, I did.

Mr. STAUBER. And can you share a little about the process you went through?

Mr. WETEGROVE. You know in one particular process it was a little annoying. I asked for the SBA, I mean, sorry, the lending and the loan and I did all my homework, I did the procedure to get my business plan done and then all of a sudden they came back to me and said, I'm sorry, you don't have seven years in business. So I spent like a month doing all this extra work and it was extremely unfulfilling and so that is when I basically went with the SBA program.

Mr. STAUBER. And the 7(a), briefly tell us about that, how it went?

Mr. WETEGROVE. You know, it went very well. I mean the lender, the lender itself just had so much information for me and, you know, I talked to other Camp Bow Wow owners in my organization, and this is what they had done as well. So again just having that expertise in the lending institution was phenomenal. And a guy like me who didn't have all that business acumen just, you know, devoured it.

Mr. STAUBER. Your Honor, those entrepreneur's out there that are across this great nation that want to take that risk sometimes they don't know where to go on the 7(a) with the, your local community banks or credit unions are given them that opportunity and their the ones that change the world, literally.

Mr. WETEGROVE. Yes, sir.

Mr. STAUBER. Literally. You know, improving government efficiency is a big topic around here these days. And there's changes the SBA could make to improve entrepreneur access to this loans. I want to just thank you all for being here. I will tell you that the last administration, I have been on small business since I have been a Member of, privileged to serve as a Member of Congress. And I tell you what, the last administration was devastating to small business owners. I mean we're looking at over 11,000 rules and regulations and the money's that small business had to put forward just to get started or rather 11,000 regulations, rather. Not 11,00 regulations that are spread out, \$20 here, \$40 here. that's

real money to real Americans that are trying to make it, and we need to make sure that these loans are giving out with as you said, Mr. Wetegrove, with the information and how to do, not spend a whole month and then they tell you you haven't been in business seven years. You know, your life experience matters too, right? What you did in your life matters and it should be considered in allowing these loans to go forward. But I can tell you that under President Trump's leadership the optimism amongst small business owners is growing. He is prioritizing tax relief, regulatory reform, and access to capital. Small businesses are the backbone of our country, and they will continue to be the engine of our economy. Mr. Chair, I yield back.

Chairman WILLIAMS. The gentleman yields back. I now recognize Mr. Olszewski from the great state of Maryland for 5 minutes.

Mr. OLSZEWSKI. Thank you all for being here today. I will just open with an invitation. I joined many of my colleagues on this side. We want to be in conversation about regulations that might be burdensome. I certainly don't have the time here but if you want to provide for the record for the committee's benefit, specific regulations, instead of wholesale changes. Maybe with specific example so how that could be helpful. I would very much welcome the opportunity to have that information given to us. So I guess my question would be it wouldn't be something that would be viewed favorably by customers or your clients if I were to day I want to bring 20 people and look at some of your most sensitive systems. Like I want to have access to your systems tomorrow. I'm going—I mean that's not something that is good business practice or something that your customers would take kindly to, is that a fair assessment? Yes, okay. And if you wanted to be processing loans fast or opening a new franchise, if you wanted to provide more training you wouldn't tell your employees to stop working? You wouldn't stop processing loans, is that also a fair assessment? Yes. So I actually again agree. I think we want to find ways to help SBA do more training, help work through some of the regulations that might slow down these processes. But I just want to point out that that is in fact what is happening with the SBA. We have someone who without vetting our transparency is in there, has access to some of the most sensitive data that your partners in this work share and, you know, just concerned about instead of finding ways to work through these regulations we're instead telling people across this government to stop working, to not come to work and I think that is at odds with some of the testimony we heard today. So but very much look forward to those specific examples and hopefully allowing our professionals at SBA to work through those to partner with you and again really appreciate you making the time to be here today. And with that I will do a rare thing, Mr. Chairman and actually yield back some time.

Chairman WILLIAMS. The gentleman yields back. I now recognize Mr. Meuser from the great state of Pennsylvania for 5 minutes.

Mr. MEUSER. Well thank you very much Mr. Chairman. Thank you all for being here and as mentioned before braving the weather and providing some important testimony. It makes a difference so thank you. You know, Mr. Hooper, you had stated in your opening

testimony since 2021 personnel costs related to compliance and risk have doubled and we anticipate that they will continue to rise, the number sits at a staggering \$7.1 million. You went on to say 2025 will bring on additional regulatory burdens. That is nice to look forward to most notably those associated with implementation of 1071 directly obviously from the SBA, personnel costs, training costs, and software enhancements necessary to achieve compliance. We're estimating now it will cost over \$2 million. So we had a financial service committee hearing a few days last week and it was about making community banks great again and without a doubt the biggest take away was the regulatory burdens, the compliance burdens, the problems. I mean just basically the weights being put on your backs to allow small business to have access to capital. And it just, you know, thank goodness we've got an administration in here and a new SBA administrator and the majority that understand small business, is going to work on doing things that are positive for you and not negative and not deny it. It is incredible in light of the evidence and everything else that those who sit here and want to say how, actually how wonderful things should be for you as opposed to what your evidentiary testimony, not just implies but clearly states. So, you know, this, the 1071 rule, you know, we've talked about it so many times with the 81 separate data fields, has that helped anyone in any way, shape, or form? I'll ask you, Mr. Hooper?

Mr. HOOPER. No.

Mr. MEUSER. Mr. Sims?

Mr. SIMS. No, sir.

Mr. MEUSER. No. No consumers helped. No businesses helped. Mr. Wetegrove, I'm sorry, I forgot how to pronounce your name, Wetegrove, any positives coming out of that extensive amount of data?

Mr. WETEGROVE. No, sir.

Mr. MEUSER. Yes, private data? Yes. Well we didn't think so. That's why we want to eliminate it. Can you, the privacy concerns that come with it, do your small business's have grave concerns surrounding the privacy as well as the costs and the uncertainty and everything else that comes with it?

Mr. WETEGROVE. Absolutely.

Mr. MEUSER. Okay. Well that's as well. Okay. So Mr. Sims, the 7(a) program, the Biden-Harris change the existing credit elsewhere test the self-certification exercises. We know what happened there. What degree of concern that you have that this is affected, which it clearly has the integrity of the program?

Mr. SIMS. Yes, sir. A great example of that is the credit elsewhere test. As an example of a borrower, a business member wanted to come to me and move their SBA loan from one institution to another, let's say they got tired of Mr. Hooper's friendly fast over here and they wanted to come to me, for me to refinance that existing 7(a) loan. Underneath the SBA policy I actually have to go to Mr. Hooper and seek is his okay in order to refinance that and ask him to provide for me a letter that says that I cannot provide the financing that the borrower has requested. So from a competition perspective it doesn't seem like a really good thing plus the borrower has indicated that as nice as Mr. Hooper is, they want to

find a different relationship and they can't do that without his approval.

Mr. MEUSER. Thanks. And Mr. Wetegrove, and I am pronouncing it right, I hope? My apologies. I did come in late, and I hate doing that. We did have Chairman Powell in our other, my other committee so I had to pay some attention over there. But the small business provisions the tax cut and job act, 199A, the bonus appreciation, the R&D tax credits, how significant is that to your clients, your customers, the small businesses that you serve?

Mr. WETEGROVE. I could not elaborate on that. I don't know the answer.

Mr. MEUSER. Okay. Mr. Sims or Mr. Hooper?

Mr. SIMS. Would you repeat the question? I'm sorry.

Mr. MEUSER. The tax cut and jobs act provisions, bonus depreciation, R&D tax credit, 199A, and the carried interest and such, how significant a blow will it be if we don't complete that and continue those tax relief?

Mr. SIMS. Yes.

Mr. MEUSER. The business tax incentive, sur.

Mr. SIMS. I think it changes the platform and the go forward marketplace for those small businesses and they will react accordingly which would be, I'm going to stop investment. I'm not going to seek additional capital for me to go advanced my business opportunities.

Mr. MEUSER. Thanks, well the calvary is here and we are going to be on the side of small business. I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back. I now recognize Ms. Simon from the great state of California for 5 minutes.

Ms. SIMON. It is a great state. I'm sorry.

Chairman WILLIAMS. That's what I said.

Ms. SIMON. Thank you. You sure did. I appreciate it. Thank you, Mr. Chairman. Thank you Ranking Member. I am actually super excited to speak with you all today and to our witness on Zoom. I have learned so much and there is so much more to learn, and I love that I have background music. Listen I am in agreement with so much of what has been said today and in fact I'm here to actually speak on behalf of the community banks and the beautiful 12th District of California. We have over 19 community banks and, you know, I've worked with these banks and the job training programs that I have developed over the past 30 years for young people coming out of the foster care system seeking to shift their generational poverty. I have worked with folks coming out of incarceration. The community banks and our district from Beneficial Bank, you know, to Summit Bank, they have done such incredible work. So one I want to acknowledge them. You know, Mr. Wetegrove, I don't have a question for you, but I just want to thank you so much because I actually went down a rabbit hold last night learning about Bow Wow, and I have got to tell you as someone with a disability who has been very linked to guide dogs from the blind I saw the work that you have been doing with disabled folks and their pets. Folks don't realize when someone is going in for long hospital stays or for surgeries they need somewhere to keep their animal that actually keeps them alive when they are well. I want to thank you for that. I also want to acknowledge that as a

vet, we are talking about SBA. As a veteran and again I come from a family of veterans on my maternal side, SBA should be doing everything in its power to streamline resources, folks, who are leaving and retiring from the service many in my district are left in poverty. They don't deserve the bureaucracy. I 100 percent agree. If we want to do right by our veterans SBA needs to expand its services, making sure that you don't have to spend six months, not even two days getting to a representative. Just last week I was in my district, visiting our SBA lead and they are so wonderful. Wonderful folks who are working in community. There are, I mean I have got the stats here. Over 26,000 small businesses in California's 12th District. Less than two hours after I left the meeting with the SBA lead these staff members who are working with low-income business owners, business owners from technology, again to your dry cleaners, your auto repair shops, two of these members got lay-off notices in this time where we are talking about building up the nations economy, particularly the backbones of our community. I agree, Mr. Wetegrove, we need a robust system with regulations that keep us from waste, fraud, and abuse but frankly as we cut the federal workforce we will find less opportunities for our business owners to get the resources that they need to thrive. I want a bustling downtown. I want a transportation system that brings folks from the suburbs to the city. We can get there. But SBA, my God, we need to expand it. I want to say one more thing, our small business pay local taxes. We know and those taxes support our police, our fire, in fact our school systems, while some of that comes from the state and the feds. Our small business, when we say life blood they keep our cities alive. So as we cut, which is on the table, our SBA staff, we cut public safety, we damage public schools, we prevent our vendors from accessing the resources that they need to escape poverty once for all. We take from single mothers trying to create a beauty shop, or a local consulting opportunity. We take time and resource for them, and we leave them at the whims of the public dole. So in terms of community banks they do what I know a lot of the big banks can't do they support folks, right, front, and center. They are at the desk every single day. So I just have a quick question for, DeArment. People mispronounce my name all the time. That's why I ask. I have a brief question, you know, for you. You know, your organization works on the ground to finance small businesses, local small businesses that are often underserved. And it sounds like community banks and non-profit lenders, we only have a couple of seconds are filling in the gaps. Name three gaps that they are filling in?

Ms. DEARMENT. Low wealth, low income, no business experience.

Ms. SIMON. Say that again, we have a couple of seconds.

Ms. DEARMENT. Low wealth, low income, no business experience.

Ms. SIMON. Low wealth, low income, no business experience, the foundation of this country is built on those three demographics being able to lift themselves up. Let's fund, fund an SBA and community banks. Give them all the resources that they need to lift up populations from urban to rural. I yield back.

Chairman WILLIAMS. The gentlelady yields back. I now recognize Mr. Bresnahan from the great state of Pennsylvania for 5 minutes.

Mr. BRESNAHAN. Thank you, Mr. Chairman. I appreciate the opportunity here and to the witnesses for braving the inclement weather and making it out to glorious Washington D.C. Before this in my prior life something that brought me a lot of pleasure was working with entrepreneurs. I was a real estate developer, and nothing would bring me more joy than someone taking the leap, trying to make it out on their own. And something that was unanimous with every conversation was how do we have accessibility of capital and what do I need to do? Is it work with a community bank? But there was always a barrier to try to get off the ground. Either there wasn't prior experience, they didn't have the collateral to secure a certain loan. And people would always suggest, well what about the SBA? And what they found was it was absolutely impossible to try to navigate. And there were some earlier questions relevant to the team of lawyers and accountants. I mean at my company even, you know, we grew to 175 people and would struggle to meet the SBA's requirements sometimes to procure the capital necessary. I couldn't imagine a young entrepreneur trying to hurdle these boundaries to really make a difference. What could we do to lesson the bureaucratic red tape to really get dollars into the hands of these entrepreneurs and young businesses that ultimately will make a difference. And I guess my first question would be for Mr. Sims.

Mr. SIMS. Thank you congressman. I honestly think the place to start is with the SOP, the standard operating procedures of the SBA. Again I go back to the products are good. The structure of the products are good. The terms are very flexible and in particular as you compare them to a traditional commercial type product set. And so I think going through the thousands of pages of the SOP and streamlining how a small business is able to engage with the SBA through their local banker whether it be a community bank or a credit union, there is where your expertise lies. We are going to ask them questions to understand what it's going to take for them to be able to qualify underneath the SBA requirements. So even Ms. DeArment said a few minutes ago, let's go to low wealth, low income, low business experience. The SBA has requirements for that. So you must meet minimum debt service coverage requirements. You must meet minimum business experience requirements. And you must meet minimum collateral requirements. So even if the, you wanted to use the SBA vehicle as an opportunity for the type businesses that she's providing services too, you could not because they would not qualify. All right. So when she talks about turning, the banks turning those down, the credit unions turning those down, we're following the SBA procedures. So the place to start is to create opportunity for the type of businesses that she's serving where there might be a special program. For example, we talked about an area where there may be disadvantages or issues that are going on in that particular community, you could create a program where those requirements were lessened, still safe, still prudent but they're not set at the levels that they are today.

Mr. BRESNAHAN. So whose responsibility would that fall under? Would that be more in the lane of the community bank itself?

Mr. SIMS. It would not. It would be the lane of the administrator of the SBA and the SOP.

Mr. BRESNAHAN. And sometimes what I have noticed is we were super involved with the community bank. It was our primary lender for many years. And sometimes the community banks though have availability of resource concerns and, you know, trying to get staff analysts or being able to keep up with the demand to supplement the applications with the actual raw material is a challenge and it becomes a pitch point and then our young business or our entrepreneur need to find a way to get around the blockage there in the artery and try to make a difference and ultimately it stops them from opening their doors. My last question would just be by a quick show of hands. Have any of you individually had to fill out any of the beneficial ownership forms for any of your own entities? You did? I had to fill out a 11 of them and it took me from Harrisburg to Washington D.C. for about two and a half hours and I did it on the online portal after it would crash more times than I care to admit it was frustrating. And, you know, I felt that I wanted to go through the process knowing that I was going to be serving on this small business committee, and I thought the 87 data fields that Mr. Meuser had referenced earlier were incredibly redundant. If you have a single member LLC you're asked to provide the same information on three separate pages, and I think it will again be one of those barriers for that small business to get up and running and off of the ground. So with that I yield back. Thank you.

Chairman WILLIAMS. The gentleman yields back. Okay. We have one more, here she comes. Now recognize Ms. Goodlander who made a grand entrance here so from the great state of New Hampshire for five minutes.

Ms. GOODLANDER. Thank you, Mr. Chairman and my apologies. This is my first day with two hearings at the exact same time. So I have gotten my steps into today. But I want to thank you, Mr. Chairman, for bringing this hearing together and to our witnesses for coming from all across the country to talk about this really important set of issues. I am so excited to be serving on this committee. New Hampshire is a great state and the overwhelming majority, more than 99 percent of our businesses are small businesses. We are also the home of the birth of the credit union, which is very exciting. So Mr. Sims, I wanted to ask you from your perspective how, what priorities you would really point this committee towards in the days ahead? You had mentioned the importance of regional SBA staff. We are getting a lot of really unsettling reports about SBA staff who have received termination notices and who aren't sure about their fate within that important government agency. And I just want to ask you about if you could say a bit more about your partnerships with SBA staff and the role that the SBA has played?

Mr. SIMS. Yes, thank you for the question and I'm said to hear that as well. Those folks in our Georgia region district office play a vital role in my opinion can play even a greater role, play even

a greater role in helping community banks and credit unions navigate the SBA process. Again you have heard me say this a number of time. The products are very good. They are very good. The process leaves a great deal to be desired and often we are faced with elongated time frames in which we would pose a question to 7(a) questions and waiting for that question for come back. Well there is a business member that is impacted by that time frame as well that's on the other end of that answer and it would really be nice if we had a regional district office members that we could go to and say, hey, can you help us navigate this? Here's what we've done. Here's the questions we asked and we sure could use some assistance with this. Is there someone that you could pick up inside the phone that calls up the chain to be able to help us with that?

Ms. GOODLANDER. Well thank you for that. You know, some of the most exciting stories that I have heard from small business owners across New Hampshire have been the stories of microloans that have really made all the difference across my state. You know, one in particular, and SBA supported program that we have been following is the Grafton Regional Development Corporation. They have a microloan program that has really helped to bring about what we all want on this committee which is the realization of the American dream for hard working people. This program it has been amazing to read the stories from hair stylists to plumbers. This program has supported business owners all across my state. I wanted to ask and open it up to our witnesses if you could share a bit more about your experiences with SBA microloan programs and what you have seen work well and any reforms that you would point us to here in congress.

Mr. SIMS. I'll jump in if it is okay. I'm in embarrassed to say that I'm not familiar with many of the microloan programs and then I would also go back to what a great conversation that that could be with our district offices who probably are very familiar with that. Most of my organization's focus is on the 7(a) product and the 504 product and as I have learned today quite frankly through the conversation there are a lot of other different products that I'm not currently utilizing to day so a little education for me. And again I think we could lean on those district offices in order for us to get more involved in those type of lending programs.

Ms. DEARMENT. I would like to jump in on

Mr. HOOPER. I would say am not—

Ms. DEARMENT.—on the microloan? Is that all right? May I jump in on the microloan program

Ms. GOODLANDER. Please.

Mr. HOOPER. I was just going to note that I'm not familiar with the microloan programs as well. Our primary focus has been on the 7(a) and the 504 programs.

Ms. DEARMENT. I would be happy to jump in on the microloan program.

Ms. GOODLANDER. Thank you. That'd be great.

Ms. DEARMENT. Yes, we do a ton of microloan programs, a ton of microloans. One of the really interesting things about lending is if you think about someone who is getting a business loan, an small business loan, when we look at them I think from bank or credit union perspective you think if that business fails what are we

going to do to get repaid? We're going to have some outside income, some outside wealth, some collateral. Micro loaners often don't have that when they look at the clients that we serve and we think about that as a safety net, those family resources, assets, the microloan program provides technical assistance and that allows us to go in and make sure that they have good business planning, an asset plan, a credit building plan, and an onramp to bankability. It replaces that safety net by providing a loan that is wrapped in technical assistance services, so you don't need wealth as your answer.

Chairman WILLIAMS. The gentlewoman's time is up.

Ms. GOODLANDER. Thank you. Thank you, Mr. Chair. I yield back.

Chairman WILLIAMS. Okay. The lady yields back. I would like to now thank our witnesses for your testimony today and for your appearing before us. Without objection Members have 5 legislative days to submit additional materials and written questions for the witnesses to the Chair which will be forwarded to the witnesses. So I ask the witnesses to please respond promptly. If there is no further business without objection the committee is adjourned and thank you again for being here.

[Whereupon, at 12:17 p.m., the committee was adjourned.]

A P P E N D I X

February 12, 2025

Testimony of

Justin B. Hooper

On behalf of the

Texas Bankers Association

before the

Committee on Small Business

United States House of

Representatives

February 12, 2025

**Testimony of
Justin B. Hooper**

On behalf of the

Texas Bankers Association

before the

Committee on Small Business

United States House of

Representatives

February 12, 2024

Chairman Williams, Ranking Member Velázquez, my name is Justin Hooper. I currently serve as the CEO and Chairman for the Cross Timbers Region of First Financial Bank. I have been with First Financial Bank for 22 years and began my banking career working as a teller during my college years. In addition to completing a variety of training opportunities with the bank, I am also a graduate of the Graduate School of Banking at LSU in Baton Rouge, LA and the Management Development Program provided by the Texas Bankers Association. Being a community banker has afforded me the opportunity to also serve on a variety of local boards in support of my community.

The Cross Timbers Region of First Financial Bank represents many of the counties just west of the Dallas-Fort Worth Metropolitan area. The region is comprised of 14 branches and ranges (east to west) from Parker County to Eastland County, and further south into Erath and Somervell Counties. This part of Texas has enjoyed tremendous growth primarily due to its proximity to Fort Worth and its diverse and vibrant economies. This is also aided by incredible school districts and growing universities in the area.

Looking back at 2024, the region enjoyed strong loan demand fueled in part by the expansion of the Fort Worth area further to the west. Additionally, there are many families that

February 12, 2025

choose to relocate to this part of the state and enjoy great communities and schools. It is also an area of the state that draws many looking for retirement options or recreational venues such as Possum Kingdom Lake or ranch land for a retreat from the city. This drives both growth in new deposit accounts but also growth in commercial loans, construction loans and mortgage activity. First Financial Bank continues to be a leader in these communities and is the market leader in most of the counties we serve.

First Financial Bank was founded in 1890 in Abilene, Texas and has been serving the needs of Texans for over a century. It is comprised of multiple bank regions with a total of 79 branch locations throughout the state. The bank is wholly owned by First Financial Bankshares, Inc. and its stock is traded on the Nasdaq under the FFIN symbol. As of the end of 2024, the bank had total assets of just under \$14 Billion.

I. Community Banking and the Role We Play

What makes First Financial Bank unique is our community approach to banking. Many of our locations are in rural areas or just outside larger metropolitan areas of the state. As community bankers we play a vital role in those communities we serve. This may be through participating and providing leadership in the area chambers of commerce, serving on a variety of non-profit boards, or simply supporting the youth of our community at various livestock shows or sporting events. We give back to our communities both with time and money (nearly \$2.2 Million in 2024) because we are part of the community. We live in the communities we serve and many of our customers are the same people we might see at church on Sunday, at a restaurant on Friday night, or even in the stands at a sporting event. Our Mission Statement illustrates this by stating “We build loyal life-long relationships by providing first class service with personal attention.” Additionally, our Service Philosophy is summarized in four points:

1. Advice - Our customers learn from us and are better because of our relationship.
2. Relationship - We care about the long-term success of each of our customers and strive to build trust-based relationships.

February 12, 2025

3. Availability – We are accessible to our customer and always ensure that their experience with us is efficient and timely.
4. Accuracy – We do the job right. We perform with precision and ensure error-free interactions with each other.

Our commitment to our community is what also allows us to be a resource for business owners and individuals that live in the area. I have been in the Weatherford area for just over 20 years and have worked for First Financial Bank for that entire time. It brings me joy to drive down the street and see businesses that are both new and old that we have supported over the years. Many times, they have relied on the bank for working capital, equipment purchases or potentially a mortgage or construction loan. Additionally, they look to the bank to be a financial partner who can provide sound advice. It is especially fulfilling to see business owners that we worked with at the inception of their business that are now enjoying the success that comes from years of hard work. Those same businesses are also employing many of the people that live in our community and therefore the impact they have is multiplied many times over. Put simply, our role as community bankers is to support our community because our success is tied directly to the vitality of that community.

II. SBA and Small Business Lending

First Financial Bank like many lenders enjoys a Preferred Lender status with the SBA. We have originated several loans in my region, both in the 7(a) program as well as the 504 program. Over the years, we have found that due to the complexities in navigating all of the Standard Operating Procedures (SOP) within the SBA programs, that it was necessary to form a specialized department in Abilene to manage our SBA process. This department is instrumental in keeping us apprised of changes within the various programs but also works directly with our customers to navigate those same programs. In 2024, the bank originated \$4 Million of 7(a) loans and \$40 Million of 504 loans. The typical turn around time on these requests ranges from 45-75 days from start to finish.

February 12, 2025

During the COVID era, our bank participated in the PPP program that was administered by the SBA and generated 6,530 loans in the first round, 3,179 loans in round two, and 7 Main Street Loans. The grand total of our originations under these programs was \$1.12 Billion.

The main benefit for the bank in utilizing the SBA programs is that it allows us to assist customers with loans for new or start-up companies, business acquisitions, as well as expansion activities for newer companies. Additionally, the bank can offset some of the risk by relying on the guaranty from the SBA (typically 75% under the 7(a) program). The 504 program can provide the customer with an opportunity to put less money down on a real estate purchase as well as receive the benefit of a second lien note at a competitive fixed rate for 25 years. The first lien note is held with the bank and the bank can realize a low loan to value relative to that first lien note that is typically near 50%.

Originating the loans is only the beginning. The process to work towards the recovery of a SBA guaranty once a default exists can be a cumbersome process. Personally, I have been involved with the liquidation and workout process on a SBA loan that is now in its second year and we have not completed all aspects necessary so that we can submit the file to the SBA. You must liquidate all collateral as well as pursue other areas of recovery before you can submit to the SBA for payment. Getting guidance from the SBA is difficult. Many times, the response received relative to processes or procedures is that the bank should simply utilize its normal procedures as we would on any other loan. The dilemma with this response is that if later the SBA deems our processes or procedures to be flawed then it could impact the ability of the bank to collect on the guaranty from the SBA.

We make many loans to large and small businesses that are not associated with any SBA programs. This typically allows for a much quicker process and in many cases, loans that can be closed in days or weeks rather than months. It also allows for greater flexibility in our product offerings that we tailor to the customer's needs. In 2024, the bank originated \$294 Million in commercial real estate loans; \$376 Million in loans to schools, municipalities, and other taxing entities; \$775 Million in commercial loans to businesses for a variety of needs such as working capital, inventory purchases, accounts receivable financing, and equipment financing; and \$54 Million in agricultural loans.

February 12, 2025

III. Regulatory Burden and Other Challenges

Over the past several years we have seen increased regulatory burdens on financial institutions. This has resulted in large increases in expense to keep pace with the changes and ensure that we are compliant. Since 2021, our personnel costs related to compliance and risk have doubled and we anticipate that they will continue to rise. The number sits at a staggering \$7.1 Million per year. In addition to the personnel to support our audit and compliance function, we also incur legal, technology, and outside audit expenses which are estimated to be another \$3.8 Million. This brings our total annual cost to manage an ever-growing compliance burden to an estimated \$10.9 Million annually.

2025 will bring additional regulatory burdens. Most notably would be those associated with the implementation of 1071. From personnel costs, training costs, and software enhancements necessary to achieve compliance, we are estimating an annual cost of \$2.2 Million for 1071 alone.

Additionally, we are continuing to combat fraud losses and do not see this slowing down anytime soon. In 2024, we incurred debit card losses due to fraudulent activity of \$1.5 Million and check fraud losses of \$735 Thousand (forgeries and counterfeits). To combat this fraud activity, we incur personnel costs of \$2.6 Million annually as well as \$3.3 Million annually in software and technology expenses. The personnel and technology expense is necessary and has resulted in the bank stopping additional fraud that would be far in excess of the expense we actually incurred. Therefore, between the actual fraud perpetrated and the costs to combat this, it comes with a price tag of an estimated \$8.3 Million annually.

IV. Outlook for Small Businesses in 2025

The rapid increase in interest rates in 2023 has resulted in much higher borrowing costs for customers that is lingering into 2025 despite a few rate cuts over the last year. This strain coupled with inflationary pressure that is driving up labor costs and other items for businesses is

February 12, 2025

causing some businesses to see cash flow diminish. For the most part, businesses in our area are still healthy, but are feeling the impact of these outside forces. We have many real estate loans that re-price every three or five years and therefore we will continue to see borrowing costs rise for our customers as older rates are readjusted under the new interest rate environment.

As I noted, many of our customers are still reflecting a healthy financial position. We live in a portion of the state that is welcoming new residents every day. Parker County was listed as the 8th fastest growing county in the country (by % growth from 2021 to 2022) by the US Census bureau. There is a lot of optimism that exists for 2025 which has many of our customers contemplating new projects and opportunities.

Conclusion

As noted previously, the bank is investing a significant number of resources into our compliance and audit teams and the technology needed to support them. This number continues to grow and our staffing costs in this area have doubled in just four years. This trend line will be difficult to navigate over the next five to ten years unless something is done to lower the regulatory burden.

Being a community banker, I would say that our customers have access to a wide variety of loan products that we can offer. In my opinion, community banks such as First Financial Bank are part of the foundation of that community in which they serve. We are leaders in the community and provide sound advice to our customers to help them grow and succeed. We give back to our community in a very substantial way both in time and resources. We do this not just as good businessmen and women, but because we are part of the community, and its success benefits us all.

48

Testimony of

Michael Sims

Chief Commercial Banking Officer

Georgia's Own Credit Union

On behalf of

America's Credit Unions

Hearing: "Driving Economic Growth: SBA Lending Programs and the Vital Role of Community
Banks"

Before the

House Small Business Committee

February 12, 2025

Introduction

Good morning, Chairman Williams, Ranking Member Velázquez, and Members of the Committee. My name is Mike Sims, and I am testifying today on behalf of America's Credit Unions. I currently serve as the Chief Commercial Banking Officer at Georgia's Own Credit Union headquartered in Atlanta, Georgia. Georgia's Own is a community credit union serving over 240,000 members across Georgia with \$4.3 billion in assets. America's Credit Unions is the voice of consumers' best option for financial services: credit unions. The association advocates for over 4,000 institutions who serve their over 142 million members nationwide.

I have worked in commercial banking at various financial institutions, including national, regional, and community banks for over 30 years, before joining the leadership team at Georgia's Own Credit Union to help enhance our organization's commercial and SBA lending platform. Thank you for holding this important hearing today. I look forward to sharing my experiences, in particular with the SBA's Lending programs.

My credit union's story began over 90 years ago with an initial investment of \$160 from eight telephone employees. Georgia's Own Credit Union is a full-service financial institution that exists to help our member families and small businesses flourish and better the communities we serve. As a credit union, our "people helping people" philosophy is at the core of everything we do. We build personalized, meaningful relationships and provide unparalleled financial services to our members—from advice and support to a full suite of financial tools designed to help our members live well financially. Georgia's Own Credit Union has always been a place where members come first.

Background on Credit Unions

Credit unions serve a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system serves to promote thrift and make financial services available to all consumers, many of whom would otherwise have limited access otherwise. Every credit union is a cooperative institution organized "for the

purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes” (12 § USC 1752(1)). Congress established credit unions as an alternative to banks and to meet a precise public need—serving those that banks left behind—and today credit unions provide financial services to over 142 million Americans. Since President Franklin D. Roosevelt signed the Federal Credit Union Act (FCU Act) into law nearly 91 years ago, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

1. Credit unions remain totally committed to providing their members with efficient, low-cost, personal financial services; and,
2. Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

The nation’s approximately 4,600 credit unions serve a different purpose and have a fundamentally different structure than traditional banks. Credit unions exist solely for providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions, united by a common bond, all credit union members have an equal say in the operation of their credit union—“one member, one vote”—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors, something unheard of among for-profit, stock-owned banks. Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. Since the Great Recession, consolidation of the commercial banking sector has progressed at an increasingly rapid rate. At a time when for-profit banks are deemphasizing the human touch for financial services, credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

Credit Unions as Small Business Lenders

Credit unions have a long history of helping underserved communities due to their cooperative structure, and nothing demonstrates this better than their response to the COVID-19 pandemic, when they extended loans through the Paycheck Protection Program (PPP) to small businesses that had been turned away by for-profit banks.

Unfortunately, credit unions have an artificial barrier to being able to do all that they can to help small businesses. When Congress passed the Credit Union Membership Access Act (CUMAA) (P.L.105-219) in 1998, it put in place restrictions on the ability of credit unions to offer member business loans. Credit unions existed for nearly 70 years without these restrictions. Congress codified the definition of a member business loan and limited a credit union's member business lending (MBL) to the lesser of either 1.75 times the credit union's actual net worth or 1.75 times the minimum net worth of a well-capitalized credit union (12.25 percent).

CUMAA also established, by definition, that only business loans above \$50,000 count toward the cap. This number was not indexed and has not been adjusted for inflation in the nearly 27 years since enactment, eroding the de minimis level. Where many vehicle loans or small lines of credit may have been initially exempt from the cap in 1998, many loans that meet the needs of small business today are now included in the cap due to this erosion. To put this in perspective relative to inflation, what cost \$50,000 in 1998 costs over \$92,000 today, using the most recent consumer price index data. That is more than an 80 percent rate of inflation that is completely ignored by current law and greatly hampers a credit union's ability to meet its members' needs.

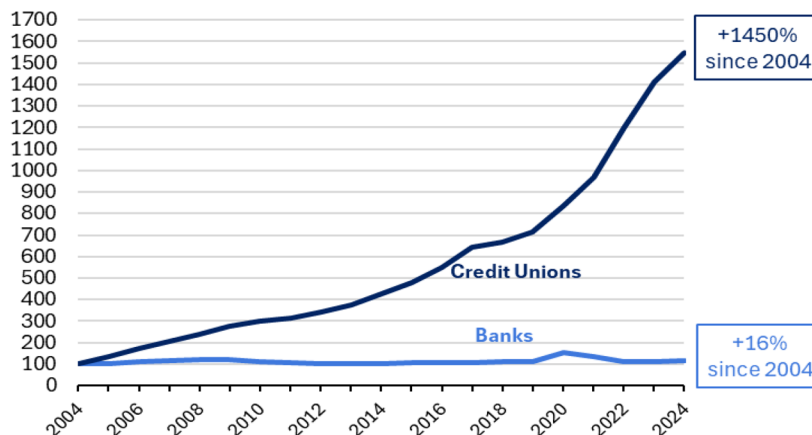
It should be noted that the government-guaranteed portions of Small Business Administration (SBA) loans do not count toward the member business lending cap, but the non-guaranteed portions do. This could ultimately lead to a situation where a credit union may be an excellent, or even preferred, SBA lender and have to scale back participation in SBA programs as it approaches the arbitrary cap. This would hit SBA Express loans first, as those have lower guarantees and, thus, may have a bigger impact on money available below the cap.

As such, we would urge Congress to support legislation to modify or remove the arbitrary cap on credit union member business lending. At the very least, Congress should update the \$50,000 threshold to reflect inflationary changes over the last quarter century. This was proposed as part of H.R. 4868, the Member Business Loan Expansion Act, a bipartisan bill by Representatives Vincente Gonzalez and Brian Fitzpatrick in the 118th Congress.

While some on the banking side may say that credit unions unfairly compete, we would note that a 2011 study commissioned by the SBA's Office of Advocacy found that bank business lending was largely unaffected by changes in credit unions' business lending, and credit unions' business lending can actually help offset declines in bank business lending during a recession (James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Small Business Research Summary, SBA Office of Advocacy, No. 387 (Sept. 2011)). The study shows that during the 2007-2010 financial crisis, while banks' small business lending decreased, credit union business lending increased in terms of the percentage of their assets both before and during the crisis.

Additionally, as the chart below outlines, credit unions have experienced strong growth in the number of small business loans made over the last 20 years as compared to banks. This includes continued growth during the Great Recession and during the coronavirus pandemic, when many small businesses turned to us when they could not get loans from other sources.

Credit Union vs. Bank Small Business Loans index: 2004=100



Note: Credit union series shows all member business loans
Sources: NCUA & FDIC call reports, America's Credit Unions calculations

Georgia's Own Credit Union's Role as Small Business Lender

Georgia's Own Credit Union is proud of its work as a small business lender. We currently have over \$571.5 million outstanding in member business loans, including SBA 7(a) and 504 loans. In 2024, Georgia's Own was the #1 ranked credit union in terms of SBA 7(a) loan production in the State of Georgia. We currently have 153 SBA 7(a) loans outstanding, totaling \$153.9 million. We also make SBA 504 loans and currently have 5 outstanding loans totaling \$17.4 million.

Like many community lenders, we saw a dip in interest in member business loans over 2023 and 2024, as inflationary concerns caused many small businesses to pull back on accessing capital. We have seen a noticeable uptick in interest and applications in the last three months since the election and expect 2025 to be a strong year.

As a credit union, we appreciate the way our MBL and SBA options allow us to work with our small business members to get them into a product that meets their needs. A great example is our work with Radiance Solar, a woman-owned small business specializing in solar power development and construction that is headquartered in Atlanta, Georgia. We were able to provide the owners with a \$5 million SBA 7(a) CAP line product to fund their working capital needs. Our work with Radiance Solar has helped them become recognized as one of the top commercial and industrial solar installers in the United States, and we are currently in discussions with them to provide project financing for a distributed solar energy generation platform using the SBA's 504 Green Program.

Expanding Credit Union Participation in SBA Lending Programs

One of the most pressing challenges facing credit unions in expanding their utilization of the SBA's lending programs is the complexity of program requirements. While credit unions are eager to grow their SBA loan portfolios, many report that the administrative burden makes it extremely difficult to do so. Lack of internal expertise and high costs associated with participation remain significant barriers. A 2019 survey revealed that 68 percent of non-participating credit unions identified insufficient expertise in processing, closing, and servicing SBA loans as the primary reason for their non-participation. Moreover, smaller credit unions, which often serve the most vulnerable communities, frequently lack the resources to hire specialized staff or invest in the infrastructure necessary to navigate these programs.

Even with an experienced department at Georgia's Own we see these challenges as well. We may hear the right message from SBA leadership about wanting to help community lenders and small businesses, but it does not always translate to the field. Our day-to-day experience in contacting the SBA with questions about loans can often be cumbersome and frustrating. It is common for answers to questions to take days or weeks, or for us to experience delays while the SBA works to verify information on our borrowers. As a Preferred Lender under the SBA's Delegated Authority, we believe we should be given greater leeway to operate so we can get capital into our small business members' hands quicker.

Streamlining SBA loan processes would be a game-changer for credit unions and the small businesses they serve. For example, we commend the SBA's efforts during the pandemic to provide flexibility through initiatives like temporarily expanding size standards and increasing the Express Loan threshold from \$350,000 to \$500,000. These changes not only allowed credit unions to reach more borrowers but also demonstrated the potential for reducing procedural burdens without compromising program integrity. Making such changes permanent would incentivize broader credit union participation.

Additionally, providing more targeted training and technical assistance to community lenders is essential. Credit unions have expressed a strong interest in working with the SBA to enhance their operational capabilities in this space. Regular webinars, workshops, and on-demand training resources could address gaps in expertise and empower more credit unions to participate in programs like 7(a) and 504. We believe this can be done by regional offices being more proactive in reaching out to institutions in their footprint. By fostering a collaborative learning environment, the SBA can ensure that credit unions are well-equipped to deliver the high-quality, mission-aligned lending that small businesses need. We would encourage the SBA to better use regional offices in such an effort to engage existing program lenders and potential lenders as well. Having the SBA Regional Offices more fully engaged in the day-to-day operational issues faced by lenders will ultimately help streamline inefficiencies and enable quicker access to capital for the small business members that we serve. Without a fully engaged SBA Regional Office, lenders are left to themselves to navigate a very challenging and often complex SBA process labyrinth.

Safeguarding SBA Programs from Risks Introduced by Fintechs

The rise of fintech lenders in SBA programs has brought both opportunities and challenges. While fintechs have demonstrated an ability to leverage technology to reach new markets, their participation in SBA initiatives has raised serious concerns about program integrity. The PPP highlighted these risks, with a December 2022 report from the Select Subcommittee on the

Coronavirus Crisis revealing that fintech lenders were disproportionately associated with fraudulent loans. Among the troubling findings were instances where fintechs prioritized profits over compliance, bypassed fraud detection protocols, and failed to provide adequate oversight of their automated systems.

Credit unions, in contrast, bring a track record of prudent lending and robust compliance frameworks. Regulated by the National Credit Union Administration (NCUA), credit unions are subject to rigorous oversight that ensures adherence to safety and soundness standards. Unlike fintechs, credit unions are deeply embedded in the communities they serve, providing a level of accountability and trust that fintechs have struggled to match. By partnering with credit unions, the SBA can reduce the risks associated with fraud and ensure that taxpayer dollars are used responsibly.

To address these concerns, we urge the SBA to adopt stringent safeguards for fintech participation in its programs. This includes enhanced initial vetting, continuous monitoring, and requirements for compliance with the same regulatory standards applied to depository institutions. Additionally, the SBA should carefully evaluate the cumulative impact of regulatory changes. This includes the recent loosening of lending criteria and introducing new Small Business Lending Company (SBLC) licenses, to ensure they do not disproportionately benefit fintechs at the expense of community-based lenders. Protecting the integrity of SBA programs is essential to maintaining public trust and ensuring their long-term success.

Opposition to Direct Lending Initiatives

The SBA's past intent to address capital access gaps through direct lending initiatives is fundamentally misaligned with the agency's strength and mission. Direct lending by the SBA raises significant concerns about capacity, efficiency, and effectiveness. The Agency's Office of Credit Risk Management (OCRM) is already operating at maximum capacity, and expanding its responsibilities to include direct lending would strain resources further. Moreover, the SBA has

historically relied on partnerships with private sector lenders to deliver its programs, and there is little evidence to suggest that a shift to direct lending would yield better outcomes.

Credit unions are ideally positioned to fulfill the SBA's mission in this regard. During the PPP, credit unions demonstrated their ability to deliver SBA funds efficiently, often stepping in where traditional lenders faltered. An average credit union loan was \$41,000, compared to \$73,000 for other lenders, underscoring their commitment to serving the smallest businesses, which was one of the stated goals of the direct lending proposal. By leveraging the expertise, infrastructure, and community focus of credit unions, the SBA can achieve its goals without overextending its operational capacity.

Concerns with the Recent Rulemaking

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted to respond to the 2008 financial crisis. One of the key provisions of this act was the creation of the Consumer Financial Protection Bureau (CFPB). The Bureau was established to protect consumers from another financial crisis, with institutions below \$10 billion exempted from its oversight and enforcement. Everyone agrees that credit unions did not cause the 2008 financial crisis, and that is why we expressed concerns about the increased regulatory burdens that credit unions would face being subject to new rules from another regulator (the CFPB) in addition to those from our functional regulator, the NCUA. Unfortunately, our concerns have proven true, as the number of credit unions has declined significantly since the passage of the Dodd-Frank Act with regulatory burden being the number one reason given for credit unions disappearing.

Included in the Dodd-Frank Act was Section 1071, which amended the Equal Credit Opportunity Act (ECOA) to require financial institutions to report information concerning credit applications made by women-owned, minority-owned, and small businesses. The legislative purpose of Section 1071 is to facilitate enforcement of fair lending laws and to enable communities, governmental entities, and creditors to identify business and community development needs and

opportunities of women-owned, minority-owned, and small businesses. America's Credit Unions and credit unions across the country support this goal. However, we have concerns about how the CFPB has chosen to carry out its authority. The overly broad scope of the CFPB's final rule will increase burdens on community lenders and raise the cost of small business borrowing. It will also require covered financial institutions to collect data on businesses that are not "small businesses" by any traditional metric. We applaud Chairman Williams for introducing H.R. 976, the 1071 Repeal to Protect Small Business Lending Act, and would urge Congress to advance this measure if the new leadership at the Bureau does not take action to change the rule.

Conclusion

Small businesses are the driving force of our economy and the key to its success. The ability for them to borrow and have improved access to capital is vital for job creation. Credit unions are ready and willing to provide the capital to help small businesses grow. We urge the SBA to improve the process for its credit union lending partners and call on Congress to ensure that credit unions have the right regulatory environment to do so.

Thank you for your time and the chance to testify before you today on this important issue to credit unions and our nation's economy. I welcome any questions.



FRANK WETEGROVE

FRANCHISE OWNER
CAMP BOW WOW

TESTIMONY BEFORE THE HOUSE SMALL BUSINESS COMMITTEE

HEARING ON *“DRIVING ECONOMIC GROWTH: SBA LENDING
PROGRAMS AND THE VITAL ROLE OF COMMUNITY BANKS”*

FEBRUARY 12, 2025

Good morning, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee. My name is Frank Wetegrove, and I am a franchise owner of Camp Bow Wow, a dog care services company that my wife and I became franchisees of 18 years ago and have since grown our operation to include four locations in San Antonio, Texas, and one other in Austin. At Camp Bow Wow, we offer everything from dog daycare, boarding to grooming, and training within the communities that we operate. Our team consists of roughly 100 employees. I am also happy to share that this year, we also plan to open a 6th location within our Texas footprint.

I appear today on behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 830,876 franchise establishments that support nearly 8.8 million direct jobs, \$896.9 billion of economic output for the U.S. economy, representing almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

It's an honor to be here today to give my perspective on the impact that the U.S. Small Business Administration's loan programs can have on small businesses, especially franchisors, franchisees, and their employees. Its impact to me is near, as I utilized SBA's 7(a) loan program when I decided to become a franchise owner in 2007 and open our first Camp Bow Wow location in San Antonio. As a retired Colonel with 34 years of service in the Army Reserve along with 8 years in active duty, I'd like to say my skillset came in handy when considering starting a franchise, and SBA's 7(a) loan program was the access to capital that gave me the opportunity to put it to good use.

Today, I will tell you more about my story as a Camp Bow Wow franchisee, as well as franchising generally, and share with you some of the ways that SBA's lending programs can help companies and their brands grow faster and smarter now and into the future. I will also take time to speak to the regulatory climate which is paramount to the franchise community at large and very well complements the capital that is provided by SBA's lending programs.

My Story

I have had the distinct pleasure of serving in the Armed Forces—specifically, the Army. Nearly five years ago, I retired as a Military Intelligence officer. My military career began as a means to fund my college education. I enlisted in the Army, seeking tuition assistance and the Montgomery GI Bill. After completing a two-year enlistment, I returned to Texas and earned a Bachelor of Business Administration in Marketing from the University of Texas - Pan American. Additionally, I hold two master's degrees—one in Information Technology and another in Strategic Studies from the United States Army War College, which remains one of the most rewarding experiences of my lifetime.

Throughout my career, I held leadership positions at every level, including Platoon Leader, Officer-in-Charge, and Commander of Detachments, Companies, a Battalion, and a Group. Beyond my military service, I gained diverse experience across multiple industries, working in my father's farming business before transitioning to roles in insurance, education, and IT (including Tier 1 support, network engineering, cybersecurity, and enterprise security). I also worked as a government contractor and an Air Force Civil Servant. More importantly, I became a husband, a father of five, and now a proud grandfather of four. As you can see, sitting still is not in my nature nor the word "retirement" which isn't in my vernacular.

The Journey to Camp Bow Wow

In 2005, about 20 years into my Army (mostly Reserve) career, I was mobilized to work at the Defense Intelligence Agency. During this time, I contributed to the Pentagon Renovation Program (PENREN), specifically the Command Critical Survivability Program (CCSP). During my first summer in Washington, D.C., my wife and I discussed the possibility of our family spending a month there with me. However, one major challenge arose—what would we do with our dog? He couldn't join us in our temporary living arrangements. Around that time, my wife I explore a business opportunity she had come across. That business was Camp Bow Wow, a franchise that emphasized doggy daycare—something I had never even heard of before. I was immediately intrigued.

Within 24 hours of learning about the brand, I made the decision to move forward. That choice changed my life, my family's life, and ultimately, the San Antonio community. Today, I operate five locations and have a new territory in development, bringing quality pet care services to our community while also creating jobs and opportunities for my employees and family.

When my family and I decided to invest in Camp Bow Wow, it became a true family affair. Since I was still advancing in my career, my wife took on the brunt of running the business. I contributed after hours, on weekends, and during holidays, all while we were also raising toddlers, bring them daily to the facility. Ultimately, I knew this endeavor would teach my family the difference between working for someone else and working for oneself. I am incredibly thankful to say it has been a success in every regard. Moreover, as I approached retirement, I found myself at a crossroads, eager for my next opportunity. What would I do with this newfound time after my Army retirement?

I believe 100% in giving back. Since day one with Camp Bow Wow, I have served more than half of my time on some form of franchise council formulating long-term policies. I have been awarded Franchise of the Year several times. I speak to many of my peers daily. Every chance I get, I speak to people in general and explain to them my success story. The conversation starts with getting to know them, the possibility of owning their own business and future and remind them of the great opportunities that this country provides us including the government assistance program available.

The Franchise Model

Franchising is perhaps the most important business growth strategy in American history. First beginning in 1731, when Ben Franklin entered into a partnership with Thomas Whitmarsh, who franchised Franklin's printing business – *The Pennsylvania Gazette*, the franchise system has served as a core American model over centuries for opportunity and entrepreneurship, contributing to robust job creation and providing foundational skills development for small business owners and workers.

When most people think of franchising, they first focus on the law, and while the law is certainly important, it is not the central tenant to understand franchising. At its core, franchising is about the relationship between the franchisor and its franchisees— how the franchisor supports its franchisees, the franchisor's brand value and how the franchisee then meets its obligations to deliver the products and services to the system's brand standards.

Often affiliated as "big business," franchising is in fact the exact opposite. A franchise is first a local business, distinguished from other local businesses because it licenses the branding and operational processes of a franchisor while operating independently in a defined market. The local owner, or franchisee, like myself, is responsible for hiring staff, organizing schedules,

managing payroll, and all daily operational tasks as well as local sales and marketing. The value of franchising then lies in a strategic balance in the relationship between a franchisor and franchisee: the independence of a franchisee to manage its day-to-day operations and connections with its employees, consumers and the local community balanced with the franchise system giving aspiring small business owners a head start toward becoming their own boss, with a proven business model that can set up new business owners for success and easier access to lines of credit than a traditional business.

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. Like I mentioned earlier in my testimony, there are more than 300 different sectors that are represented in franchising, and franchised companies offer a huge range of products and services from lodging to fitness, home renovators to hair salons, plumbing to pest control, restaurants, security, lawn care, and yes, even to dog care services, like Camp Bow Wow. So again, franchising is utilized far beyond the fast food brands that many most associate with it. In fact, 60% of franchises are outside of the restaurant sector.

There are two principal explanations for the popularity of franchising as a method of distribution. One is that it “was developed in response to the massive amounts of capital required to establish and operate a national or international network of uniform product or service vendors, as demanded by an increasingly mobile consuming public.” The other is that franchising uniquely provides an opportunity for an aspiring business owner to own their own business with a brand, concept, and system for support in place, while having the autonomy to run their own day-to-day business operations. These two motivations are consistent with a business model in which the licensing and protection of the trademark rests with the franchisor, and the capital investment and direct management of day-to-day operations of each franchise unit are the responsibility of the franchisee who owns, and receives the net profits from, its individually owned franchise unit.

It is typical in franchising that a franchisor will license, among other things, the use of its name, its products or services, and its operational processes and systems to its franchisees. The turnkey nature of operating a franchised business is why I and so many of my fellow franchisees purchased a franchise. Franchisees look to the franchisor to protect the trade names, trademarks and service marks (collectively the “Marks”) and brand by establishing and enforcing standards on all franchisees in a system. Such standards are essential for protection of franchisees’ equity in their businesses and consumers of the brand. These standards allow franchisors to maintain the uniformity and quality of product and service offerings and, in doing so, to protect their Marks, the goodwill associated with those Marks, and most importantly, consumer confidence in the Marks and brand.

2025 Franchising Economic Outlook

For the last several years, franchising has exceeded economic expectations and surpassed the rate of growth of the broader economy. Last week, IFA released its annual Franchising Economic Outlook for 2025, and for the second consecutive year, franchising is experiencing tremendous growth. The report, conducted by FRANData, an industry-leading research and analytical firm, is IFA’s annual study that details the franchise sector’s performance for the past year and projected economic outlook for the year ahead. It also provides an in-depth state outlook for all 50 states and Washington, D.C.

The report positively notes that even in the face of ongoing economic uncertainty and policy headwinds in 2024, franchise growth exceeded expectations, highlighted by 2.2% growth in franchise establishments and more than 189,000 new jobs. And now, as we turn the calendar year into 2025, the report notes that a stabilizing labor market, easing interest rates, and increasing optimism about our economy are expected to propel franchising further, forecasting that franchise establishments will grow an additional 2.4%. This growth is projected to create approximately 210,000 new jobs across franchising this year, bringing franchise employment to more than 9 million jobs. Some other key highlights from the report that I wanted to bring to the Committee's attention are:

- Projected growth in the number of franchise establishments is expected to increase in 2025 by more than 20,000, or 2.5%, from 830,876 total franchise establishments to 851,000 total establishments.
- Total franchise output in 2025 is projected to exceed \$936.4 billion, increasing by 4.4%, from \$896.9 billion in 2024.
- Franchise GDP is expected to increase at a pace of 5% to \$578 billion, which significantly outpaces the 1.9% growth in the broader economy projected by the Congressional Budget Office.
- The two franchise sectors that are expected to be the fastest-growing industries in 2025 are personal services and then retail food, products, and services, anticipated to increase by 4.3% and 3.5%, respectively.
- Regionally, it is forecasted that growth in the Southeast and Southwest will outpace the rest of the U.S. franchise market this year, with output growing by 6.2% and 8.5%, respectively.
- And as it pertains to states, the top 10 fastest-growing for franchise growth are: Georgia, North Carolina, Virginia, Arizona, South Carolina, Pennsylvania, Tennessee, Florida, Colorado, and Maryland.

So, as we enter into 2025, the economic outlook for franchising is strong and promising. We have favorable economic conditions and supportive regulatory policies which are helping pave the way for such expected growth and expansion across various sectors in franchising. SBA loans are an essential component to providing entrepreneurs with greater access to capital so they can continue to drive economic growth and create meaningful jobs.

To the members of the Committee, I urge that you continue to focus on ways to foster both an economic and regulatory climate that allows for such growth and expansion in franchising to occur. We appreciate the Committee's interest in doing so and would be happy to be a resource as it considers what, if any, action to take.

SBA Lending

None of this would have been possible without the support of the federal government's Small Business Administration (SBA) lending program. The SBA's assistance was instrumental in getting my business off the ground. I know for a fact that many of my fellow franchisees—and countless other small businesses—would not exist without these critical funding programs.

The Small Business Administration (SBA) and the access to capital that its lending programs provide are an instrumental part of the franchise success story. In fiscal year 2024, the SBA guaranteed \$31.1 billion in 7(a) loan volume and \$6.7 billion in 504 loan volume. Historically, franchises have represented about 20% of SBA loans by dollar volume.

Two years ago, the SBA finalized a number of changes to its affiliation rules, including elimination of the concept of affiliation by control which also resulted in the elimination of the Franchise Directory.

IFA continues to support efforts that streamline government-supported lending programs and recognizes this was the intent of eliminating the principle of affiliation by control in the SBA size standards, which in the case of a franchise was based on franchise agreements. Those determinations required, by their very nature, subjective assessments of contract language. As such, consistency of those determinations, delays in approvals created by occasionally lengthy reviews, and the back and forth with franchisors to reach acceptable agreement language all were impediments to franchisees being able to access the capital they needed to grow. We commend the previous SBA's desire to address these issues and believe that it was a good effort to do so.

However, as part of the affiliation review and use of the Franchise Directory, the SBA conducted an eligibility review, an effort to help lenders from an efficiency standpoint. Unlike other businesses, in franchising there is a set of agreements between a franchisor and the small business franchisees that borrow using SBA-guaranteed loans. In essence, it is a one-to-many review. One-time eligibility review decisions eliminate the need for each lender to review the sometimes lengthy and complicated agreements to assess eligibility. Importantly for franchisors, such reviews avoided the problem encountered years ago where they got inconsistent and often conflicting decisions and requirements from various lenders.

IFA's understanding of the affiliation change now shifts this burden to lenders. This shift may create an inefficiency that will put many franchise brands at a disadvantage. IFA is particularly concerned about access to capital for emerging brands (of which there are hundreds each year) and smaller, regional brands. IFA continues to work with its members and with the lending community to understand how these changes have affected franchise lending in the marketplace.

As you begin the 119th Congress, we appreciate the Committee's attention to this issue given how critical SBA lending is to new franchisees. Banks and borrowers are still adapting to these changes, and we would appreciate any efforts to once again have the use of the Franchise Directory.

Other Regulatory Concerns – Joint Employer Rule

Finally, I would like to highlight a regulatory issue that has the potential to not only strengthen the franchise business model but also supplement SBA lending practices to further support franchise business performance for the years to come. That is, to permanently extend the 2020 National Labor Relations Board's joint employer rule.

In October 2023, the NLRB issued its final joint employer rule, which rewrote the standard for determining how brands and owners could be jointly responsible for the same employees under the National Labor Relations Act (NLRA). The rule threatened the ability of hundreds of thousands of local small business franchise owners, like mine, to make their own employment decisions – as it would ultimately lead to higher costs, less autonomy, and less equity for franchisees. When the joint employer standard was similarly expanded from 2015 to 2017, it cost franchised businesses \$33 billion per year in operational costs and led to a 93% increase in lawsuits.

Recognizing the harm this rule would bring, both the House and Senate voted to overturn the joint employer rule on a bipartisan basis in early 2024 using the Congressional Review Act (H.J. Res. 98),

which I and other members of IFA commend. In March 2024, a U.S. District Court judge struck down the 2023 NLRB rule, and the joint employer standard reverted to the 2020 rule.

While a reprieve from the previous NLRB's joint employer rule has been welcome news, I wanted to stress the importance that the current, commonsense standard in federal labor law has on franchisees, like mine, and state that any action towards permanently preserving the current NLRB rule would not only protect both businesses and workers, but also create the regulatory conditions that allow both franchisors and franchisees to thrive, grow, and create jobs and opportunities in the communities that they serve. There have been four different joint employer standards in the past decade – the certainty that a permanent joint employer rule would provide strongly complements the impact that the SBA's lending programs have on franchising ability to grow both smarter and quicker.

Conclusion

Mr. Chairman, and distinguished members of the Committee, thank you again for the opportunity to testify. I am happy to answer any questions you may have.

February 12, 2025

Testimony of

Heidi L.

DeArment

On behalf of

**Montana Community Development
Corporation, dba MoFi**

before the

Committee on Small Business

United States House of

Representatives

February 12, 2025

Testimony of

Heidi L.

DeArment

On behalf of

**Montana Community Development
Corporation dba MoFi**

before the

Committee on Small Business

United States House of

Representatives

February 12, 2024

Chairman Williams, Ranking Member Velázquez, my name is Heidi DeArment. I serve as the CEO and President of Montana Community Development Corporation, dba MoFi. MoFi is a nonprofit Community Development Financial Institution (CDFI) established in 1986. We provide small business loans and New Markets Tax Credit loans, both coupled with free business assistance. Over 39 years, our service area has expanded to include Montana, Idaho, Wyoming, Utah, Washington, and Oregon. While our financing tools have evolved to meet business and community needs, our mission remains unchanged: serving business owners and entrepreneurs who do not qualify for financing from traditional banks or credit unions.

The role of small businesses in our economy has grown, but access to capital has not kept pace. Over the past two decades, most banks and credit unions have shifted toward a profitability-focused model, prioritizing larger loans for wealthier clients. Many entrepreneurs assume that a strong deposit relationship, a well-researched business plan, good references, or even a modest loan request will help them secure financing. In reality, these factors are not enough.

MoFi partners with 126 banking systems across our six-state region and receives thousands of referrals each year. Banks and credit unions refer loan applicants to MoFi when they either don't qualify or don't meet the full loan request. Through these partnerships, along with insights from commercial lenders on our governing board, we have deep insight into the realities

February 12, 2025

of bank lending. While individual criteria vary, in general, applicants need:

- A credit score over 700.
- Assets exceeding the loan amount requested.
- At least two years of strong cash flow—demonstrating they could have made future loan payments in the past.
- A financially strong guarantor with outside cash flow.
- A loan request above a bank's minimum threshold—typically \$50K to \$500K+

From a profitability and regulatory standpoint, this approach makes sense. Underwriting a \$20K loan costs nearly as much as underwriting a \$2 million loan. It's also easier and more cost-effective to assess wealth and assets than to analyze a business plan. If an applicant has significant assets, repayment is assured even if the business fails. Evaluating a new business idea requires far more time and effort. As a result, banks prioritize larger loans to established businesses and high-net-worth individuals. For the regulators, loans with strong collateral are considered higher asset quality.

Accessing capital from banks or credit unions is particularly challenging for individuals in small, rural areas. During my tenure at MoFi, I have witnessed the consolidation and closure of numerous banks, further limiting access to financial services. In many rural communities, local bank branches have disappeared entirely. Even where banks remain, they often lack commercial lenders, restricting available financial products to consumer loans such as auto and home loans while leaving small businesses and entrepreneurs without the capital they need to grow. Without a local commercial lender, borrowers cannot build the relationships necessary for business financing, as credit decisions are made remotely, often by institutions unfamiliar with the unique challenges and opportunities within these communities.

The shift in business models among banks and credit unions—along with ongoing consolidation and the retreat from rural markets—has left a growing number of entrepreneurs without access to traditional financing. In response, MoFi and other CDFIs have become critical entry points for future bank customers. Our loans are not high-risk; they are simply less profitable for traditional financial institutions. Unlike banks, which can rely on asset-backed lending and established income history, CDFIs conduct a more intensive underwriting process. We evaluate business plans, conduct in-depth borrower interviews, verify references, and analyze bank statements line by line. While our borrowers may lack significant assets or a long credit history, they have demonstrated strong debt repayment habits, a solid work ethic, and a well-researched plan. If their business does not succeed, they have the ability to secure employment and meet their financial obligations. CDFIs play a crucial role in bridging the gap between aspiring entrepreneurs

February 12, 2025

and the traditional banking system, ensuring that promising small businesses have the opportunity to grow and contribute to the broader economy.

This is a less profitable venture—but it works. Once businesses build assets and establish a track record, they refinance with a bank. MoFi has done this successfully for decades, maintaining a loss rate of less than 1% over the past ten years. These loans are not riskier—they are simply harder to underwrite—so less desirable for a bank or credit union.

Too often, a bank denial is seen as a sign of higher risk. That needs to change. Many of these businesses are just as creditworthy as their bank-approved counterparts—they just require a different, more resource-intensive approach to lending. MoFi and our peers have proven that it works.

MoFi uses three important tools from the Small Business Administration that are critical to ensuring that capital remains accessible to business owners and entrepreneurs. They are SBA Microloan Program, Community Advantage Guarantee, and 504 Guarantee Program.

I. The SBA Microloan Program

The SBA Microloan Program plays a critical role in supporting small businesses by providing capital to intermediary lenders, such as MoFi, which then issue loans of up to \$50,000 to entrepreneurs and business owners who do not yet qualify for traditional financing. Each microloan made through this program is paired with hands-on business assistance, ensuring borrowers have the tools and guidance necessary to achieve bankability. This includes credit-building strategies, asset accumulation, profitability growth, relationship development with financial institutions, and the establishment of a two-year track record of strong cash flow—all key factors in securing future bank financing. As a result, many microloan recipients ultimately graduate to traditional bank loans, strengthening the overall financial system.

At MoFi, we have deployed millions of dollars in SBA microloans, with an average loan size of approximately \$30,000. These loans have been instrumental in helping entrepreneurs start and expand businesses, create jobs, and drive economic activity—particularly in rural and underserved communities where access to capital remains a significant challenge. Beyond financing, the SBA Microloan Program provides a structured pathway to financial inclusion, enabling small business owners to establish creditworthiness and long-term financial stability. This program is a proven, cost-effective strategy for fostering entrepreneurship, enhancing economic mobility, and ensuring that more businesses have the opportunity to thrive and contribute to local economies.

February 12, 2025

A compelling example of the impact of the SBA Microloan Program is Betty's Divine, a small clothing boutique in Missoula, Montana. While unique to Missoula, Betty's Divine represents countless small retail businesses across Main Street America, offering a carefully curated selection of men's and women's clothing from local producers to national brands.

The entrepreneur behind Betty's Divine approached MoFi in her 30s, balancing the demands of raising two small children while pursuing her dream of opening a clothing store after years of working in the industry. She had identified a promising retail location but needed support refining her business plan, lease terms, and financial projections. When she applied for financing at a traditional bank, she was denied due to a lack of industry experience, insufficient assets, limited outside income, and not meeting the requirement of two years in business.

Through the SBA Microloan Program, MoFi provided the capital she needed to secure her lease, purchase inventory, and launch the store. That was 20 years ago. Since then, Betty's Divine has grown into a thriving, bankable business, securing a line of credit from a traditional lender to support inventory expansion. Beyond her own success, the entrepreneur has mentored other small business owners, organized events to revitalize downtown Missoula, and even launched a river tubing shuttle service to boost summer tourism.

When the time came to purchase a permanent location for her business, she faced a new challenge—she did not have the 25% down payment required for a commercial real estate loan. Once again, she and her banker turned to MoFi, working together to structure a financing solution that allowed her to acquire the property. Today, she is fully bankable, operating successfully with traditional financing while continuing to strengthen Missoula's small business community.

This story is not unique—it is happening in communities across the country, year after year, strengthening local economies. Small businesses create jobs, drive innovation, and build economic resilience. They provide essential goods and services while fostering a sense of identity and vibrancy, making our towns and cities places where people want to live, work, and invest.

The success of these businesses is not accidental. It is the result of a proven approach that combines SBA Microloan capital with hands-on technical assistance. This model ensures that entrepreneurs are not just receiving funding, but also gaining the knowledge, skills, and financial stability they need to succeed. Without this support, many viable businesses would never get off the ground, limiting economic opportunities and stifling local growth.

These are not risky loans. The entrepreneurs we serve are hardworking, resourceful, and committed to repaying their debts. The reality is that these loans simply are not profitable

February 12, 2025

enough for traditional banks and credit unions to make. That is why the SBA Microloan Program is so important—it fills a critical gap in the financial system, ensuring that small business owners have access to capital and guidance to build strong businesses, create jobs, and contribute to a thriving economy. Without it, we lose not just individual businesses, but the economic vitality and character of our communities.

II. The SBA Community Advantage Program

The 7(a) Community Advantage (CA) Program, launched in 2011, expands access to SBA-backed loans for small businesses that do not qualify for traditional bank financing. The program provides a guarantee of up to 85% on loans up to \$350,000, allowing mission-driven lenders like MoFi to finance businesses that banks cannot serve.

MoFi was among the first Community Development Financial Institutions (CDFIs) certified as a CA lender, using the SBA guarantee to extend capital to small businesses that would otherwise be denied financing. The program also allows lenders to sell loans on the secondary market, providing liquidity and enabling them to reinvest in new loans. This is critical for nonprofit lenders, which must raise or borrow funds to support entrepreneurs and do not have access to federal programs like the Federal Reserve.

The SBA designed the CA program for CDFIs, SBA-certified Community Development Companies (CDCs), and SBA-approved Microloan Intermediaries—organizations with expertise in serving businesses that traditional 7(a) lenders do not finance. The program enables these lenders to reach deeper into communities, funding businesses in low-to-moderate-income areas, rural regions, HUB Zones, Empowerment Zones, and Opportunity Zones.

A key focus of the CA program is startup financing, an area where banks rarely lend. At MoFi, half of all loans support startups—businesses with strong potential but without the collateral, financial history, or down payment required by traditional lenders. The CA program was built for this purpose, ensuring that viable businesses get the capital they need to start and grow.

This is not high-risk lending. MoFi has a 10-year track record with just 0.0065% in losses to the SBA under this program. These businesses repay their loans, create jobs, and strengthen local economies—they simply do not fit the bank mold.

One good example of the importance of the CA program is MoFi's use of the guaranty for a rural Napa auto parts store in Montana. In 2023, this long-standing community staple needed a new buyer to stay in business. The prospective buyer had nearly 30 years of experience

February 12, 2025

in the automotive industry, including overseeing a fleet of heavy equipment for a major construction company and working in multiple automotive shops. Additionally, the buyer's family had operated small businesses for years, providing direct exposure to business management. Despite extensive industry knowledge and a 40-year relationship with their bank, they were turned down for financing due to limited collateral and a lack of prior business ownership history. MoFi used the Community Advantage loan, MoFi provided the necessary capital to complete the acquisition, ensuring the store remained locally owned and preserving jobs. Now, with over a year of successful ownership, the business is thriving. The new owner is planning to purchase the building within 2–5 years and is already exploring opportunities to acquire additional NAPA Auto Parts locations in Montana. He should be fully bankable by 2026.

The SBA Community Advantage Program is critical in cases like this. Without it, essential local businesses and jobs would be at risk, limiting growth and economic stability in communities across the country. This is just one borrower. Across the country, CA borrowers are building businesses, creating jobs, and strengthening communities.

III. The Importance of the SBA Microloan and Community Advantage Programs for Small Businesses

The U.S. financial system operates on two tiers: one for those with established wealth and credit history, and another for those still building their financial track record. Community Development Financial Institutions (CDFIs) are essential to ensuring that entrepreneurs, small business owners, and underserved communities have access to the capital they need to grow and succeed. Without CDFIs, millions of hardworking Americans would be locked out of the financial system—not because they lack potential, but because traditional banks are not structured to serve them.

CDFIs use the SBA Microloan and Community Advantage programs to provide the first rung on the financial ladder, offering tailored lending products, technical assistance, and a pathway to bankability. They take the time to evaluate business plans, consider character, and invest in the potential of individuals who, with the right support, go on to create jobs, build businesses, and strengthen local economies. This is not charity—it's smart, long-term economic strategy. When CDFIs do their job well, businesses stabilize, credit scores improve, assets grow, and entrepreneurs graduate to conventional bank financing, contributing to a stronger and more resilient economy. Without CDFIs and the SBA programs they use, the country's small business

February 12, 2025

ecosystem would erode, leaving fewer job creators, fewer wealth-building opportunities, and less economic dynamism in rural and underserved communities. If we want a thriving economy driven by innovation and opportunity, we need to invest in CDFIs, their tools including SBA, and their products—because strong businesses, good jobs, and vibrant communities start here.



Jason Stverak
Chief Advocacy Officer

1627 Eye St, NW
Suite 935
Washington, DC 20006
202.734.5007
www.d cuc.org

February 11, 2025

The Honorable Roger Williams
Chairman
Small Business Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Nydia Velázquez
Ranking Member
Small Business Committee
United States House of Representatives
Washington, DC 20515

Dear Chairman Williams and Ranking Member Velázquez,

On behalf of the Defense Credit Union Council (DCUC), I am writing to highlight the essential role that credit unions play in supporting small businesses, particularly veteran entrepreneurs, and to urge the Committee to ensure that the Small Business Administration (SBA) partners with all community-based financial institutions. DCUC represents credit unions stateside and overseas serving military and veteran communities as well as their families, encompassing over 40 million members and having over \$525 billion in assets.

As the Committee prepares for the upcoming hearing titled "Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks" on February 12, 2025, I respectfully request that you consider the following points.

Credit Unions: Equal Partners in SBA Lending

While the SBA has historically partnered heavily with community banks in small business lending programs, credit unions are equally vital to local economies and should not be excluded from these programs. The goal of the SBA should be to maximize access to capital for small businesses by leveraging all community-based financial institutions—not just one subset of them.

- **Credit Unions Specialize in Relationship-Based Lending:** Unlike many large financial institutions, credit unions are member-owned and mission-driven, meaning they prioritize long-term relationships over short-term profits. This allows them to provide personalized, flexible financing solutions that cater to the specific needs of small businesses, including startups and veteran-owned businesses.
- **Credit Unions Serve Underserved and Rural Communities:** Many credit unions are the primary or sole financial institutions in rural and underserved areas where community banks have consolidated or left. According to the National Credit Union Administration (NCUA), nearly 60% of credit unions operate in designated rural or underserved areas, making them a critical source of capital for small businesses in these regions.
- **Credit Unions Offer Competitive Loan Terms:** Because they are not-for-profit financial cooperatives, credit unions reinvest earnings back into their members, resulting in lower interest rates, fewer fees, and more flexible repayment terms on small business loans.

The SBA Must End the Discrimination Against Credit Unions

The current structure of SBA loan programs does not treat credit unions equally with community banks, effectively limiting the options available to small businesses. Several issues contribute to this unfair imbalance:

1. **Regulatory Barriers:** Credit unions are subject to a member business lending cap, limiting their ability to issue small business loans—despite strong performance and demand. Meanwhile, community banks face no such restrictions.

Serving Those Who Serve Our Country

2. **SBA Loan Participation Challenges:** The SBA's processes for approving and servicing loans are designed with community banks in mind, creating administrative burdens and delays for credit unions that want to participate in these programs.

3. **Lack of Equal Access to SBA Resources:** Credit unions often lack the same level of inclusion in SBA outreach, training, and resources, making it harder for them to participate fully in government-backed lending programs.

To truly drive economic growth and ensure capital flows where it is most needed, the SBA must expand its partnerships beyond community banks and fully embrace credit unions as equal partners in small business lending.

Veterans, Small Business Lending, and the Role of Credit Unions

One of the most compelling reasons for the SBA to expand its partnerships with credit unions is the urgent need to support veteran entrepreneurs. Veterans possess strong leadership, discipline, and strategic skills, making them ideal candidates for business ownership. Yet, despite their potential, veteran-owned businesses face disproportionate challenges when trying to secure capital.

- **Veterans Rely Heavily on Personal Savings:** According to the SBA's Office of Advocacy, 73% of veteran-owned businesses rely on personal or family savings as their primary source of startup capital—a much higher rate than non-veteran entrepreneurs.

- **Access to Business Loans Remains Limited:** Even when they seek financing, veteran entrepreneurs are less likely to be approved for traditional business loans due to factors like gaps in civilian credit history and difficulty meeting collateral requirements.

- **The Decline in Veteran Business Ownership:** The share of veteran-owned businesses in the U.S. has dropped from 11% in 2014 to just 8.1% in 2020, underscoring the need for targeted policies that expand credit access.

Pass the Veterans Member Business Loan Act

A key solution to improving access to credit for veteran entrepreneurs is passing the Veterans Member Business Loan Act, introduced by Representatives Vicente Gonzalez (D-TX) and Brian Fitzpatrick (R-PA). This bipartisan legislation would exempt loans made to veteran-owned businesses from the arbitrary member business lending cap imposed on credit unions.

This simple but impactful reform would:

- ✓ Allow credit unions to lend more capital to veteran-owned businesses without running into regulatory restrictions.
- ✓ Expand small business financing options for veterans, ensuring they are not solely reliant on traditional banks.
- ✓ Strengthen local economies by encouraging more veteran-owned businesses to grow and thrive.

Empowering Defense Credit Unions to Support Veteran Entrepreneurs

Another critical step is allowing defense credit unions—those serving military bases and communities—to fully participate in SBA lending programs. These institutions are uniquely positioned to help service members transition into small business ownership, but they face unnecessary barriers to offering business loans.

By ensuring that defense credit unions can fully support veteran entrepreneurs, Congress can provide a direct path to financial readiness and business success for those who have served our country.

To ensure small businesses—especially those owned by veterans—have full and equal access to capital, the SBA must embrace all community-based financial institutions, including credit unions, as equal partners in small business lending.

This means:

- ✓ Ending restrictions that limit credit union participation in SBA lending programs.
- ✓ Passing the Veterans Member Business Loan Act to remove unfair lending caps.
- ✓ Allowing defense credit unions to provide business loans to transitioning service members and veterans.

I urge the Committee to ensure that credit unions are included in the SBA's lending partnerships and that legislative efforts support their ability to serve America's small business community.

Should you or your team have any questions or desire additional information, please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,



Jason Stverak
Chief Advocacy Officer
DCUC

CC: House Small Business Committee Members



February 12, 2025

The Honorable Roger Williams
Chairman
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Nydía Velázquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, D.C. 20515

Re: Statement for the Record, Hearing Entitled: “Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks”

Dear Chairman Williams and Ranking Member Velázquez:

On behalf of the National Association of Government Guaranteed Lenders (NAGGL), I am writing to submit this statement for the record for the Committee’s February 12, 2025 hearing entitled, “Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks.”

NAGGL is the only national trade association that exclusively represents the lenders and industries that implement the 7(a) Loan Program, with NAGGL’s nearly 1,000 lender members being responsible for over 94% of all 7(a) loan dollars pumped into the small business economy each year. These lenders range in size and type from the largest national institutions to the smallest community banks, credit unions, Community Development Financial Institutions (CDFIs), and non-profit lenders located throughout the country. On behalf of this broad and unique membership, NAGGL advocates for policies that both ensure the long-term programmatic integrity of the 7(a) Loan Program and allow the 7(a) lending industry to effectively meet the needs of over 70,000 small businesses each year.

The Small Business Administration (SBA) administers several programs, but the 7(a) Loan Program, with its 72-year history, is its flagship lending program and the agency’s largest source of access to capital for small business borrowers across the country. A large part of the success story of 7(a) lending is that **the small business borrower seeks financing directly with the private-sector lender and not with the government.** These lenders, for the most part, also make conventional loans of all types either on a national basis, or within their local communities. It is the private sector lender that receives loan applications from the small businesses and determines that the loans are eligible and creditworthy for submission for SBA’s guaranty, **meaning that the program entirely relies upon the vast network of private-sector, largely federally-regulated lenders to make this program possible.** It is also **the lender that provides the capital to the small business directly, making this truly a bottom-up job creation tool.** SBA’s involvement is limited to that of a guarantor, only stepping in to share with the lender any ultimate loss on the loan. **Today, because of the private-sector expertise of 7(a) lenders, roughly 99.5% of all 7(a) loans are repaid (more on this data later in this statement) and the**

program operates at zero subsidy to the taxpayer, meaning that the fees generated by lenders and borrowers cover the cost of any loan losses and do not require appropriations, or taxpayer dollars¹.

The 7(a) loan program provides loans in amounts up to \$5 million to qualified and eligible small businesses at either fixed or variable rates for terms that vary up to 25 years depending on the use of the loan proceeds. Applicants for 7(a) loans are only eligible if they are otherwise unable to secure the requested long-term financing on reasonable terms through nongovernmental sources, a requirement known as the “credit elsewhere test.” This critical element **ensures that 7(a) loans are never displacing the loans that the private-sector should and does provide, but rather, are complementing the conventional markets—an incredibly important factor when evaluating the need and validity of any government program.** The program’s successful historical performance metrics show that these otherwise financially healthy borrowers fall into a gap in the lending market as a result of the highly-regulated, conventional small business lending environment which often deems small businesses, especially start-ups and new businesses, the riskiest type of borrowers.

As a result, the 7(a) program is a true Main Street program and the numbers back that up. Year after year, the 7(a) lending program vastly outpaces every other SBA program in delivering small dollar loans and reaching start-up entrepreneurs. Of note, 29% of all 7(a) loans approved are for \$50,000 or less (the largest proportion of any loan category), over 54% of all loans are for \$150,000 or less, and 80% of all loans are considered small loans by SBA’s standard of \$500,000 or less². And nearly 41% of all loans approved go to start-ups, new businesses (defined as those in existence for 2 years or less), or a business undergoing a change of ownership. These statistics illustrate how well 7(a) lending fuels an impressive amount of local entrepreneurship³.

The numbers tell a story of the great success in the 7(a) Program’s lending reach. In Fiscal Year (FY) 2024, financial institutions, large and small, provided **more than \$31.12 billion in loans to 70,242 small businesses nationwide through the 7(a) program.** All loan programs create jobs and community opportunity, and the 7(a) Loan Program is no exception—**roughly 886,007 jobs were created or retained just last Fiscal Year alone thanks to 7(a) loans**, according to data submitted by 7(a) borrowers to the SBA in FY24⁴. If we assumed a national average wage of \$61,984, as most recently reported by the Bureau of Labor Statistics, for each of those jobs, then **the 7(a) program could be deemed to have supported at least \$54.92 billion in income across the country in one Fiscal Year⁵.** These **impressive jobs numbers make the 7(a) Loan Program the highest job creation program among SBA’s lending programs⁶.** And these numbers likely underreport job impact given that loan applicants estimate the number of jobs to be created or retained if the loan is approved and

¹ U.S. Small Business Administration Loan Program Performance: <https://www.sba.gov/document/report-small-business-administration-loan-program-performance>

² U.S. Small Business Administration 7(a) and 504 Summary Reports: <https://careports.sba.gov/views/7a504Summary/Report?%3Aembed=yes&%3Atoolbar=no>

³ *Ibid.*

⁴ U.S. Small Business Administration 7(a) & 504 FOIA Database: [7\(a\) & 504 FOIA - Dataset - U.S. Small Business Administration \(SBA\) | Open Data](#)

⁵ News Release: Bureau of Labor Statistics, US Department of Labor, January 22, 2025, “Usual Weekly Earning of Wage and Salary Workers, Fourth Quarter 2024”: <https://www.bls.gov/news.release/pdf/wkyeng.pdf>

⁶ U.S. Small Business Administration 7(a) & 504 FOIA Database: [7\(a\) & 504 FOIA - Dataset - U.S. Small Business Administration \(SBA\) | Open Data](#)

SBA does not capture the multiplier effect of a 7(a) loan that starts or supports a company into even more growth in the following years.

And the impact does not stop with just those topline numbers— **in addition to future employment statistics, there are other benefits that are often hard to measure including increased tax revenue for federal, state, and local governments, and community growth driven by small business expansion in cities, small towns and rural areas across the country.** There is a never-ending and often intangible domino effect of benefits gained from the success of the 7(a) Loan Program.

The historical performance metrics over the past decade also tell a success story. According to SBA's own data, **the average repurchase rate on defaulted loans has remained below 1% over the past 10 years, while total recovery rates on collateral remains strong**⁷. Putting the two statistics together, **SBA reports a historically low charge-off rate for FY 2024 of 0.56%, outperforming four of the past ten Fiscal Years**⁸. **Put simply, 99.44% of all 7(a) loans are currently repaid**, a tremendous statistic and a tribute to the public-private partnership under which this program operates. And keep in mind, that the 0.56% of 7(a) loans that are not repaid is a shared loss between the lender and the federal government, and not entirely on the federal government alone.

This Committee has important work before it this Congress when it comes to SBA's loan programs. Most critical is the need to review the policy changes enacted during the past 3 years, which eroded or altogether removed standard prudent lending guardrails that had proven to be effective in both conventional lending and the 7(a) Loan Program for decades. Early performance indicators confirm our concerns over these policy changes. NAGGL encourages the SBA and Congress to work together to put many of these prudent guardrails back in place. If such action were taken swiftly, the trend of these early performance indicators could be quickly reversed and there would be no lasting impact on the otherwise healthy overall portfolio and program success as described above.

Finally, it should be noted that the 7(a) lenders which I have the privilege of representing are also the same lenders that were charged with being on the front lines of delivering much of the economic aid set forward in the CARES Act, most notably the Paycheck Protection Program ("PPP"), to the country's millions of small business borrowers. While these efforts continue to undergo oversight, it is important to remember that **7(a) lenders and their existing reach to Main Street America through the 7(a) Loan Program served as the cornerstone of the national response laid out by Congress to support the American economy in the wake of the COVID-19 pandemic.** The role played by 7(a) lending will always serve as a testament to just how connected the private-sector lenders who deliver 7(a) loans are to their local communities.

On behalf of the country's 7(a) lending industry, NAGGL thanks you for calling the hearing today to discuss the importance of SBA's loan programs. Tens of thousands of borrowers across the country rely on a 7(a) loan to help fuel their small business success stories. The 7(a) Loan Program is evidence of not only what lenders can deliver to support Main Street America, but also what the SBA and Congress can do when they support private-sector driven programs like 7(a). We stand ready to continue our 40

⁷ U.S. Small Business Administration Loan Program Performance: <https://www.sba.gov/document/report-small-business-administration-loan-program-performance>

⁸ *Ibid.*

years of dialogue between NAGGL and this Committee when it comes to maintaining the proud success story of the 7(a) Loan Program.

Sincerely,

A handwritten signature in black ink that reads "Anthony R. Wilkinson". The signature is written in a cursive style with a large, stylized "A" and "W".

Anthony R. Wilkinson
President & CEO

cc: Members of the Committee on Small Business



February 11, 2025

The Honorable Roger Williams
Chair
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Williams and Ranking Member Velázquez:

Since 1958, the Small Business Investor Alliance (SBIA) has been the voice of America's small business investors including Small Business Investment Companies (SBICs). We thank the Committee for holding today's hearing entitled "Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks" and write to express support for this committee's strong commitment to capital access for small businesses.

Access to capital remains a critical challenge for small, particularly in rural and underserved areas outside major financial centers. Community and regional banks play an essential role in providing traditional financing to these places. Community banks are critical partners to SBIC funds.

Community banks and SBICs have a healthy and symbiotic relationship. When SBICs invest in small businesses these small businesses then become more "bankable" for community banks to provide conventional bank services, benefiting both the small business and the community bank. Further, community banks are permitted to own their own internal SBIC fund or, more commonly, to invest as a limited partner into external SBIC funds.

The benefit of SBIC investment is clear with small businesses regularly adding 100 or more new, permanent employees after receiving SBIC capital infusions, positively impacting communities.

We specifically want to express support for H.R. 754, the Investing in Main Street Act, introduced by Representatives Judy Chu, Brad Finstad, LaMonica McIver, and Andrew Garbarino. This bipartisan legislation would help align banking law with small business investment law, enhancing the positive impact community banks and SBICs have across the country.

The SBIC program has demonstrated particular success in supporting critical American industries like manufacturing and in channeling investment to areas outside traditional venture capital hubs. With continued bipartisan support from Congress, including passage of H.R. 754,

SBICs can further expand their vital role in fueling economic growth and job creation nationwide.

We urge this committee to continue supporting legislation that strengthens the SBIC program and its partnership with community banks. Together, they provide an essential source of capital and expertise for America's small businesses.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brett Palmer".

Brett Palmer
President
Small Business Investor Alliance



February 13, 2025

Honorable Roger Williams
 Chairman
 Committee on Small Business
 2361 Rayburn House Office Building
 Washington, D.C. 20515

Honorable Nydia Velázquez
 Ranking Member
 Committee on Small Business
 2069 Rayburn House Office Building
 Washington, D.C. 20515

Dear Chairman Williams and Ranking Member Velázquez:

The National Association of Development Companies (NADCO) represents nearly 200 Certified Development Companies (CDCs) across the country whose core mission is to foster economic development in local communities. The CDC lending industry appreciates you holding the hearing, “*Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks,*” and focusing on the community-based lenders providing critical access to capital for small businesses to start and grow.

CDCs are community-based, non-profit lenders who primarily deliver the Small Business Administration’s (SBA’s) 504 Loan Program. The 504 program is the SBA’s premier economic development program, which requires small businesses to create jobs or meet specific public policy and community development goals. Since 1986, the 504 Loan Program has leveraged nearly \$400 billion in financing to Main Street businesses and facilitated the creation of over 3 million jobs.¹

The 504 Loan Program is delivered by CDCs in partnership with a third-party lender, usually a bank or credit union. This partnership is a 40 percent (CDC/SBA-guaranteed debenture), 50 percent (bank/credit union) break down, which provides the small business borrower the benefit of a low 10 percent downpayment to preserve capital to manage their business growth.

CDCs cannot deliver the 504 Loan Program without this collaboration with banks and credit unions. In fact, there are 1,340 third-party lenders who worked with CDCs to deliver 504 loans in FY 2024, of which the vast majority are community banks and credit unions.² This is not a surprise – CDCs, community banks, and credit unions share a deep understanding of the needs of their communities, know their small business borrowers, and strive to build local economies.

This partnership between CDCs and community banks and credit unions also means that 504 loans are underwritten twice: by the CDC and the banking partner. The numbers reflect the strength of this collaboration – according to SBA, 96 percent of 504 loan applications were

¹ [7\(a\) & 504 FOIA - Dataset - U.S. Small Business Administration \(SBA\) | Open Data](#)

² [504 Third Party Lender Statistics](#)

approved and funded in FY 2024. This scrupulous process, along with vigilant servicing and oversight resulted in the following 504 Loan Program performance as of September 30, 2024:³

- 12-month default rate: **0.31 percent**
- Early default rate: **0.21 percent**
- One-year charge off rate: **0.10 percent**, 7 basis points lower than the previous year
- 10-year charge off rate: **0.5 percent**
- Stressed loan rate: **1.11 percent**
- Early problem loan rate decreased from 3.57 percent to **1.96 percent** year over year

In addition to its strong performance, the 504 Loan Program also operates at zero cost to taxpayers and is comfortably paid for by fees. Taken together, the mission, structure, and performance of the 504 Loan Program make it a prime example of a successful public private partnership that stands ready to build on its strong foundation to help more small businesses grow.

NADCO and the CDC lending industry look forward to working with the Committee to meet our mutual goal of providing capital to entrepreneurs across the country in support of a robust small business economy.

Sincerely,



Rhonda Pointon
President & CEO
National Association of Development Companies (NADCO)

³ https://www.nadco.org/resource/resmgr/2025/504_Connect_Call_Slide_Prese.pdf, slide 46