



Where democracy
gets to work

Better Support for Small Businesses: Recommendations for SBA

July 2023

CO-CHAIRS

Pradeep Belur

Former Chief of Staff and Chief Operating Officer, SBA

Ann Marie Mehlum

Former Associate Administrator, Office of Capital Access, SBA

MEMBERS

Jessica Johnson-Cope

President and CEO, Johnson Security Bureau

Awesta Sarkash

Public Policy Director, Small Business Majority

Dan Lageman

Chief Compliance Officer, Biz2Credit

Chris Upperman

Head of Governance Partnerships Team, Meta

Chris Ledesma

Senior Vice President and Strategic Planning Manager, SBA Lending Group, Wells Fargo

Michele Vervlied

Managing Director, Government Guaranteed Lending, Customers Bank

Ryan Metcalf

Head of Public Affairs, Funding Circle

Robert Villarreal

Chief External Affairs Officer, Momentus Capital-CDC Small Business Finance

Chris Pilkerton

Former Acting Administrator, General Counsel, and Regulatory Policy Officer, SBA

Dafina Williams

Executive Vice President, External Affairs, Opportunity Finance Network

Tom Pretty

Head of SBA Lending, TD Bank

ACKNOWLEDGMENTS

We thank all the individuals who took the time to share their insights and observations with the Task Force on the Future of SBA. Thank you to Vince Zito and Derek Gianino at Wells Fargo for their input and guidance. Thank you to Chris Wheat at JPMorgan Chase for his insight and outstanding research on small businesses. Thank you to Kaley Schafer and Ann Petros from the National Association of Federally-Insured Credit Unions (NAFCU) for their information and input. Thank you to BPC staff—including Dane Stangler, Michelle Kumar, Hanadi Jordan, Michele Nellenbach, Jason Wiens, and Rachel Snyderman—for their support and assistance.

Table of Contents

4 ABOUT THE TASK FORCE ON FUTURE OF SBA

5 ACCESS TO CREDIT

**8 AWARENESS, MARKETING, AND
CUSTOMER SERVICE**

9 ENTREPRENEURIAL DEVELOPMENT

11 PARTNERS AND SUPPORTERS

12 ENDNOTES

About the Task Force on Future of SBA

The Bipartisan Policy Center convened the Task Force on the Future of SBA with generous support from several different organizations. Through conversations and research over many months, the task force worked to identify feasible, bipartisan actions that could help strengthen what the Small Business Administration (SBA) already does well and address areas where improvement is warranted.ⁱ Our guiding question: How can SBA's relevance to and effectiveness for small businesses of all kinds, and the communities where they operate, be enhanced?

SBA might be a relatively small agency, accounting for a tiny share of the federal budget, but it handles a broad portfolio of programs for the benefit of millions of American small businesses. During the COVID-19 pandemic, SBA became almost a household name to many. The agency played a major part in the government's emergency response, distributing about one-sixth of all federal relief funds. Application rates for SBA-guaranteed loans doubled. Intake volume at many of SBA's entrepreneurial development resource partners, such as Small Business Development Centers, more than doubled and remains at elevated levels. SBA is no longer, as many have referred to it, the government's "best-kept secret."

Yet the pandemic period also highlighted long-standing challenges facing SBA. In conversations with subject matter experts, former agency officials, advocates, and policymakers, the task force heard consistently that SBA modernization would have been a priority even without the pandemic. In 2019, a bipartisan effort to reauthorize and comprehensively improve the agency failed. At the end of 2022, Sen. Ben Cardin (D-MD), chair of the Senate Small Business Committee, introduced a package of bills laying the groundwork for modernization. Sen. Joni Ernst (R-IA), ranking member on the committee, has also pushed for improvements at SBA. Many advocacy groups, including some of those the task force met with, have made SBA modernization a priority and released recommendations to that end.*

The task force also met with local government officials and spoke with former heads of SBA district offices. These conversations helped ground the task force's approach in the localized reality of small businesses and those serving them. Most small businesses operate locally and play important roles in their communities. When elected officials pay homage to small businesses

* Separate from the work of this task force, BPC released "Small Agency, Big Mandate: A Bipartisan Roadmap to Modernizing SBA" in March 2023. The report is available at: <https://bipartisanpolicy.org/report/modernizing-sba/>.

as America’s “backbone,” they are highlighting this local character. Small businesses’ importance is particularly true in rural regions, where they account for a greater share of local employment than in urban areas.

Reforms undertaken at the national level as part of SBA modernization must take this local perspective into account. We encourage members of Congress and SBA officials to continue talking with as many small business owners and entrepreneurs as they can, to understand how SBA programs and services are used and how changes would affect local small business support systems. The recommendations fall into the three areas addressed by the task force: access to credit; marketing and customer service; and entrepreneurial development.

The task force is comprised of former SBA officials, leaders at financial institutions, small business owners, and advocates. With support from BPC staff, members conferred with dozens of subject matter experts and reviewed publicly available data and research. As part of its work on access to credit, the task force published several short empirical briefs on small business financing.ⁱⁱ The Task Force on the Future of SBA is grateful to supporters for making this possible and to those former SBA officials, small business advocates, and others who lent their time and expertise.

Access to Credit

The task force shares the goal of SBA and Congress to expand credit access for underserved populations—including minorities, women, and rural small businesses—by leveraging digital tools and incorporating some of the key lessons of the Paycheck Protection Program (PPP).

During the pandemic, SBA played an outsize role by serving as the primary channel for distributing more than \$1 trillion in loans to small businesses. This money was a lifeline for small businesses, and PPP helped these businesses navigate government shutdowns and changes in consumer demand. Although SBA’s performance was admirable, the magnitude of the effort highlighted several areas that need improvement.

A key area where SBA and its lending network excelled was increasing access to credit for underserved populations. Improved access was achieved through depository institutions and by leveraging non-depository lenders such as fintechs. This achievement, however, was a double-edged sword: While fintech lenders were able to increase access to credit through use of digital tools, a select few lenders and non-lender service providers have been identified as contributing to high levels of suspected fraud in PPP funds.

Expanding outreach through digital tools became the predicate for the task force in shaping recommendations on access to credit. During our deliberations, SBA proposed numerous changes to its flagship 7(a) loan guaranty program, with the stated objective of increasing outreach to underserved populations. These changes entailed lifting the moratorium on the number of Small Business Lending Company (SBLC) licenses and increasing the number of nonbank participants, while granting 7(a) lenders more latitude for credit underwriting processes and determining eligibility.

One justification provided by SBA for the rule changes was to increase the supply of smaller loans. When they seek credit, for example, Black and Hispanic business owners are more likely to request less than \$100,000. As lenders and advocates have consistently recognized—and as the task force heard from many—providing smaller credit amounts to small businesses has always been a challenge due to costs, risks, and collateral.

In the following recommendations, the task force focused on enabling expansion of SBA's loan distribution network while managing risk effectively. The task force agrees with the four leaders of the House and Senate Small Business Committees that SBA's new rules, which make significant changes to the 7(a) program, deserve scrutiny.[†] The rules, while undertaken to enhance access to credit, could pose significant risks to the agency's sustainability and could challenge the traditional guardrails around the program. As Congress considers how to address the rules, we suggest the following:

1. Congress should direct SBA to explore ways to expand the participation of depository institutions in the 7(a) program and to report to Congress on the reasons why a significant number of banks and credit unions have stopped making 7(a) loans and what can be done to increase their participation.
2. Congress should require SBA to produce internal reports on the challenges of regulating all non-federally regulated lenders, including SBLCs and Community Development Financial Institution Funds (CDFIs), key concerns regarding them, and the results of cost-benefit analysis done on their performance.
3. Congress should request that SBA specify the extent to which smaller 7(a) loans, including those made through the Community Advantage pilot programs, are subsidized by larger loans. Congress should direct SBA to identify the interest rate implications of such cross-subsidization.

[†] Affiliation and lending criteria for SBA Business Loan Programs, 88 FR 21074, are at: <https://www.federalregister.gov/documents/2023/04/10/2023-07173/affiliation-and-lending-criteria-for-the-sba-business-loan-programs>; Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization, 88 FR 21890, are at: <https://www.federalregister.gov/documents/2023/04/12/2023-07181/small-business-lending-company-sbhc-moratorium-rescission-and-removal-of-the-requirement-for-a-loan>.

4. Congress should request that SBA specify how its new fraud prevention measures relate to findings by Congress and the inspector general regarding PPP fraud and oversight failures on high risk 7(a) loans. Additionally, Congress should direct SBA to confer with prudential regulators on these measures to determine how they compare with standard risk management processes for federally regulated institutions.
5. Small 7(a) loan approvals (those under \$150,000) have shown signs of rebounding after distortions caused by pandemic relief programs. Congress should direct SBA to report on the impact that higher allowable interest rates and fee waivers, effective in 2022, have had on increasing the volume of such small loans.

Additionally, the task force looked at other issues pertaining to small business credit and suggests that policymakers consider the following:

1. Congress should require in-depth analysis into 7(a) participants with high concentrations of SBA loans. These lenders specialize in SBA lending, and their commercial loan portfolios consist mostly of government-guaranteed loans.
2. Congress should consider requiring closer coordination between prudential regulators and SBA's Office of Credit Risk Management in the former's examination of highly concentrated SBA lenders.
3. Congress should request performance data on loans and technical assistance within Community Advantage to determine the program's efficacy and how it compares to the usage and impact of other 7(a) programs.
4. Congress should investigate constraints on Community Advantage lenders that potentially undermine their ability to fulfill program purposes, such as technical assistance and loan loss reserve requirements.
5. Congress should direct SBA to look at ways in which access to credit gaps can be closed, such as creation of a specific division within the Office of Capital Access.
6. The White House should direct the IRS to implement the congressionally authorized modernization of the Income Verification Express System (IVES) in accordance with statutory intent, with reliance on the agency's well established system of third-party verification.
7. The Treasury Department should direct the IRS to consult with SBA and its network of private lenders on expanding data made available in IRS transcripts to include business tax return information necessary for credit underwriting and combating fraud.

Awareness, Marketing, and Customer Service

After speaking with small businesses, former SBA officials, local government officials, and others, the task force concluded that SBA has significant scope for improving the way in which it leverages its resources and coordinates with public and private partners.

The task force gained particular insight from speaking with former mayors who, during their time in office, had made small business and entrepreneurship support a priority, both of which continue to be priorities for communities across the country. One issue they highlighted was that in many places, small business support is a crowded space, with SBA programs perhaps one of many offerings. It is difficult, said one local official, “for someone starting a business to speak the government language.” If the choice is between a government and a nongovernment program, small businesses often opt for the latter.

Additionally, former local elected officials pointed out that many small businesses, especially the smallest “micro” ones, might be “intimidated” in dealing with SBA programs or services. For them, “navigating systems is difficult ... they don’t use traditional channels and institutions.” The mere existence of an offering, even if it is heavily marketed, might be insufficient. Policymakers cannot assume that small business owners, especially the smallest, will in fact seek out resources, even when they need them. Time is a business owner’s most precious resource—they may not necessarily see taking the time to sift through available resources to find what might work for them as a wise choice. As one person put it, “Are there opportunities to go to where they are rather than expecting them to come to us?”

A former Small Business Development Center (SBDC) director affirmed this point. “We [realized we] were asking people to come into these physical places where they might not fit in or feel comfortable, or might not be anywhere close to their neighborhood. We started to go out to the neighborhoods, worked with a social service agency to try to reach nontraditional entrepreneurs.” Former SBA district directors also told the task force that significant opportunities exist for improving coordination between SBA and local partners, state governments, and other federal agencies in specific regions.

The task force suggests that lawmakers consider the following steps:

1. Congress should require SBA to use its grant funding to resource partners to incentivize a “stepping out” model with dedicated outreach to those “nontraditional” entrepreneurs and others who may need resources but cannot or will not access them through existing programs.
2. Congress should direct SBA to consider new ways, through its district offices and resource partners, to build greater awareness among local government officials about its offerings.
3. Congress should direct SBA to consider new ways to ensure that all its resource partners are equipped to educate small businesses on rules, regulations, tax credits, and more.

Entrepreneurial Development

Entrepreneurial development is the largest line item in SBA’s annual budget, and the agency’s “resource partners” serve thousands of small businesses each year. These organizations—SBDCs, Women’s Business Centers, Veterans Business Outreach Centers, and SCORE—provide technical assistance and counseling. For many, the volume of demand from small businesses is double what it was before the COVID-19 pandemic.

The absence of coordination emerged as a significant theme in the task force’s conversations on entrepreneurial development. Policymakers described what they perceive as “silos and inefficiencies,” and former SBA officials identified “a lack of intentional coordination” between different offices within SBA. Although the main responsibility of the Office of Entrepreneurial Development (OED) is to award grants, officials and resource partners say the grantmaking process could offer a potential way to provide “more guidance and direction on coordination and improvement.” Historically, one former agency official told the task force, “there hasn’t been a lot of thinking about how to design programs in a way that will better support entrepreneurs.”

The Community Navigator program, created by the American Rescue Plan in 2021, has been one such effort at SBA to help small businesses navigate resources and access services at the local level. Yet the program does not address the potential for improved coordination within SBA. The effort also points to another theme in what the task force heard regarding entrepreneurial development: Gaps in data limit the ability of SBA and others to make improvements.

Two dimensions of the problem stood out. First, data on and analysis of the impact and effectiveness of resource partner programs are insufficient. One former SBA official asked, “Where are the datasets to point to and judge performance of its programs?” Another observed, “For SBA, effectiveness has been a numbers game; it’s been like widgets. The charge for resource partners isn’t to get businesses to higher performance.” Officials with experience in both Democratic and Republican administrations raised such points. Better and more robust data from resource partners and SBA are needed so Congress can examine the programs’ effectiveness.

Second, from the resource partner perspective, standard metrics, such as jobs created or businesses started, do not adequately capture many of their value-adding activities. For example, connections and introductions made, or the impact of a micro-business on the individual owner’s family or community, or a shift in local culture as people come to better appreciate small businesses.

While recognizing that funding models, accountability, and incentive structures present challenges, the task force identified seven areas where coordination, the use of taxpayer dollars, and data analysis can and should be improved:

1. Congress should direct SBA to create close and more strategic links between its resource partners and lenders participating in SBA programs.
2. Congress should direct SBA to evaluate the technical assistance provided across its programs, including Microloan, Community Advantage, and 8(a) Business Development, to determine what is effective and what lessons can be applied more broadly.
3. Congress should direct SBA to identify how resource partners specializing in a specific issue can have their effectiveness maximized and scaled to other programs across the country.
4. Congress should direct SBA to determine how expansion of the e-learning Ascent platform can expand coaching and counseling to a broader demographic set of small business owners who do not have access to brick-and-mortar resource partner locations. SBA should develop a plan as to how resource partners can work more collaboratively with the Ascent platform.
5. Congress should direct SBA to create experimental metrics that can gauge outcomes and performance of entrepreneurial development resource partners, including those areas not measured by current metrics.
6. Congress should direct SBA to undertake robust analysis of resource partner programs and the extent to which they are serving different demographic groups in different regions of the country.
7. Congress should consider creating an Office of Business Coaching within OED that, on a pilot basis, would develop a coaching program that could be tested through SBA resource partners.

Partners and Supporters

BPC is grateful to our partners and supporters for making the task force's work possible.



EWING MARION
KAUFFMAN FOUNDATION



Endnotes

- i Ann Marie Mehlum and Pradeep Belur, “Task Force on the Future of SBA, Bipartisan Policy Center, November 2022. Available at: <https://bipartisanpolicy.org/blog/the-future-of-sba/>.
- ii See [Large, Diverse, and Growing: The Market for Small Business Financing](#), November 2022; [Credit Sources and Products used by Small Businesses](#), November 2022; [Small Business Financing Before, During, and After the Pandemic](#), November 2022; [What Role for Depository Institutions?](#), November 2022; [Nonbank Lenders and Small Business Financing](#), December 2022; [The PPP Experience](#), December 2022; [How SBA is Reforming Small Business Lending](#), January 2023; [Small Business Financing: Where are the Gaps?](#) February 2023; and [The Role of Government in Small Business Finance](#), February 2023.



Bipartisan Policy Center

1225 Eye St NW, Suite 1000
Washington, DC 20005

bipartisanpolicy.org

202 - 204 - 2400

The Bipartisan Policy Center helps policymakers work across party lines to craft bipartisan solutions. By connecting lawmakers across the entire political spectrum, delivering data and context, negotiating policy details, and creating space for bipartisan collaboration, we ensure democracy can function on behalf of all Americans.

 [@BPC_Bipartisan](https://twitter.com/BPC_Bipartisan)

 facebook.com/BipartisanPolicyCenter

 instagram.com/BPC_Bipartisan

Policy Areas

Business

Democracy

American Congressional Exchange

Campus Free Expression

Digital Democracy

Elections

Presidential Leadership

Structural Democracy

Early Childhood

Economy

Debt Limit

Higher Education

Immigration

Paid Family Leave

Energy

Health

Housing

Infrastructure

Technology



Bipartisan Policy Center

1225 Eye Street NW, Suite 1000
Washington, D.C. 20005

Where democracy gets to work