

SBA Lending

Problem:

The U.S. Small Business Administration (SBA) has played a crucial role in supporting small businesses throughout the COVID-19 pandemic. SBA offers several different relief options to help small businesses recover from the impacts of COVID-19. In 2020, the agency backed more than \$547 billion in small-business loans, and 2021 is likely to be just as significant. SBA provides a variety of lending options for America's small businesses and their mission is critical to overall economic growth in the U.S.

- *The Paycheck Protection Program (PPP)*: Approved as part of the CARES Act 2020, the PPP was designed to help businesses stay in business and keep their workforce employed during the COVID-19 crisis. Borrowers under the PPP can receive loan forgiveness provided the loan is primarily used for payroll costs, employee benefits, mortgage payments, and a handful of other targeted purposes. While the roll-out was bumpy—no surprise for a federal program in excess of \$500 billion implemented in just 10 days—legislative changes were made to improve it. It was more recently re-opened for first- and second-draw loans, but is set to close March 31.
- *COVID-19 Economic Injury Disaster Loans (EIDL)*: the program is designed to provide economic relief to businesses that are currently experiencing a temporary loss of revenue due to COVID-19. The purpose of EIDL loans is to help businesses meet financial obligations and operating expenses that could have been met had the disaster not occurred.
- *7(a) Loans*: The 7(a) loan program is SBA's flagship lending program, which provides critical funds for businesses who otherwise may not get needed financing. Loans are offered at very low interest rates with minimal fees and there are a variety of tailored lending programs to fit a variety of small-business needs.
- More than 7.1 million businesses received some form of aid from the agency in 2020. Over 5.2 million small businesses received a PPP loan during the first and second tranches of the aid program, 1.8 million businesses received debt relief from the agency, and more than 42,300 businesses received a loan through SBA's flagship 7(a) loan program in 2020.

Solution:

While small businesses continue to struggle due to the ongoing effects of the pandemic, they need access to capital to continue their operations and keep their employees on payroll. Policymakers must ensure that programs and pandemic-related program changes are not closed if the need for lending still exists.

- SBA must be given appropriate leeway to leverage appropriated dollars to match stakeholder need and avoid inadvertent program shut-downs. Keeping fees low for borrowers and lenders is critical in ensuring ample lender participation: if lenders don't want to participate in a program, it will not benefit small businesses.
- SBA should seek opportunities to streamline and simplify the application process in order to benefit all small businesses, specifically more rural small businesses which are served more often by smaller lenders without the teams of staff available at larger banks to navigate what can be a complex lending process under the SBA.