July 24, 2023

The Honorable Ben Cardin
Chairman
Committee on Small Business &
Entrepreneurship
United States Senate
Washington, D.C. 20515

The Honorable Joni Ernst
Ranking Member
Committee on Small Business &
Entrepreneurship
United States Senate
Washington, D.C. 20515

Dear Senators Cardin and Ernst:

We write today deeply concerned regarding the Community Advantage Loan Program Act of 2023 which would amend recent SBA regulations regarding the SBA 7(a) lending program by:

- Reinstating the moratorium on issuing Small Business Lending Companies (SBLC) licenses
- Requiring annual stress testing for only SBLCs and exempting all other lenders
- Imposing a 5-year moratorium on “Delegated Authority” for only new SBLC licensees while exempting the existing 14 SBLCs and all other lenders

We share your objective to protect the integrity of the program and believe that necessary guardrails should be in place for all SBA programs and lenders. However, this bill limits competition in the market by reinstating the 40+ year moratorium on licensing more SBLCs, imposes “stress testing”, a costly and unnecessary regulatory requirement on only SBLCs while exempting the other 2,200 lenders in the program, and imposes a restriction on only three new SBLC licensees that limits the speed and efficiency in which they can process loans while also exempting the other 2,200 lenders in the program.

We also share the goal of the Biden-Harris Administration of increasing competition1 and 7(a) Small Loans to underserved communities on reasonable terms and conditions. In fact, financial technology (fintech) companies have played a powerful role in expanding access to capital and serving the underserved through innovative lending platforms that provide a real-time, more accurate view of creditworthiness. A recent study from the Federal Reserve Bank of Philadelphia concludes that fintech small business lenders are “increasing access to capital at a lower cost for small businesses who are less likely to receive credit from traditional banks…” and “predicting future loan performance more accurately than the conventional method to credit scoring, leading to better loan performance”2.

Financial technology companies are uniquely positioned to leverage innovative technology and nontraditional data to facilitate additional access to SBA programs. In addition, like banks, those that directly engage in small business lending are subject to licensing and registration

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1 July 09, 2021 Executive Order on Promoting Competition in the American Economy
requirements. State regulators conduct examinations, impose capital and liquidity requirements, define permissible investments, and enforce laws that protect customers. For those offering services through partner banks, they are overseen by their bank partners and are subject to the third-party risk management guidance issued by the federal banking agencies.

Further, it should be noted that all SBLCs are already subject to stringent supervision by SBA. In addition to safety and soundness exams at time of application, SBLCs are subject to safety and soundness examinations at least once every two years. In addition, SBA conducts targeted reviews of loan files, among other reviews, to further monitor lender risk.

We encourage Congress to amend this legislation to apply the rules and regulations of the 7(a) program equally across all lenders.

Sincerely,

Electronic Transactions Association
Financial Technology Association
Innovative Lending Platform Association
Small Business Finance Association