

Small Business Lending Oversight Act of 2016
Senate Small Business Committee Hearing
May 26, 2016

David Vitter: Good morning everyone and thanks for joining us today for the Senate Small Business and Entrepreneurship Committee Hearing on oversight of the SBA's 7(a) loan program and efforts to reform and strengthen it. As everyone here knows small businesses are the driving force of our economy accounting for over half of all employment and nearly two-thirds of all employment growth in the US. Small businesses are among the most dynamic in the economy often responding to local needs and demands more quickly and more effectively than larger firms and also creating new jobs in the process. However, that dynamism has a clear cost as nearly a quarter of small businesses will fail in their first year and nearly half will not make it past their third.

Access to capital is the major constraint limiting the creation, growth, and expansion of small businesses and it's the main contributing factor to failure. It's a fact that our vibrant small business sector is dependent upon adequate access to capital and without it we would see the historic growth we're used to disappear. We saw this, unfortunately, during the 2008 recession. While much of the focus was on the failure of large financial institutions it was the small and medium businesses that experienced disproportionately larger layoffs and failure rates compared to larger firms and businesses. This was primarily driven by contraction in the credit markets and heightened collateral requirements.

Ensuring America's small businesses have the resources they need to start, grow, and thrive is where the SBA's 7(a) loan program comes in. With the 7(a) program small businesses can find the capital they need by SBA securing government guaranteed loans for the purchase of everything from the land the business operates on to short-term operating expenses such as payroll and salaries. In this effort the program has seen a great deal of success doubling since the depths of the recession and expanding 60 percent in the last three years. This growth has come even as the SBA has lowered or eliminated fees charged to small businesses and eliminated any taxpayer subsidy of the program. In the process the program has helped nearly 56,000 small businesses and by the SBA's estimates supported over 632 jobs in FY 2015 alone.

The 7(a) program has worked so well, in fact, that it's one of the few programs I can think of that has such tremendous and bipartisan support in Congress. The steady and dramatic growth of the program has required regular authorization increases and two emergency increases in 2014 and 2015. The 2015 emergency increase in particular only came after the program had reached its cap in July 2015 and was required to temporarily shut down. Fortunately, Senator Shaheen and I were able to pass an increase to that cap by unanimous consent with all 100 senators obviously by definition agreeing. While support for the increase was bipartisan the dramatic demonstration concerned some of my colleagues.

The rapid pace of growth in the program raised questions as to whether the SBA had the necessary tools to conduct aggressive oversight of both their current portfolio and a potentially much larger loan portfolio if and when the authorized cap was increased. My colleagues on the Senator Preparations Committee have also regularly been in touch with this committee expressing both interest in and concern over the growth of the program and whether it will in the future continue to need the increases that it has in the past. If it does it is vital that we institute reforms to strengthen the SBA's ability to effectively conduct oversight both to garner support in Congress and to protect the American taxpayer.

I've been very impressed by the administrator's efforts to create a standardized risk model for SBA lenders known as PARRiS, P-A-R-R-I-S. While the PARRiS system has only been fully up and running for about a year it's showing great promise as a tool to monitor portfolio performance, credit administration, and compliance with the SBA loan program requirements. I thank Administrator Contreras-Sweet for her and her staff's efforts on PARRiS. Now is the opportune time to act as forecasts predict that this will be the first fiscal year since 2013 that the 7(a) program will not need a midyear increase in its authorization cap. We must strengthen SBA's ability to effectively conduct that oversight and also put in place requirements that maintain transparency and keep Congress informed.

Yesterday Senators Shaheen, Risch, Ayotte, and Peters joined me in introducing legislation to do just that. Our bipartisan legislation would bolster the enforcement authority of SBA's Office of Credit Risk Management which is responsible for managing program risk of SBA's outstanding portfolio and making enforcement recommendations. Specifically and most notably it would provide OCRM additional graduated options for enforcement including civil penalties based on the frequency and severity of program violations. Right now they don't have that ability and are basically limited to a single nuclear option when dealing with lenders, barring the lender from participation completely.

This is clearly a disproportionate response to many of lesser violations OCRM and SBA identified and addressed with lenders. That's why our bill would give SBA and OCRM these additional graduated tools and expanded flexibility. It would also address lending industry concerns by ensuring that OCRM is sufficiently staffed with government auditors who are qualified to conduct oversight. Additionally, it would more clearly define standards related to what credit is available to a borrower from non-governmental sources. These reforms would be funded by a minor increase in the current lender oversight fees charged by the SBA freeing much of the currently appropriated funds for alternative uses should appropriators choose to leave that funding in SBA's allocation.

Lastly, this legislation would also institute reforms that reinforce the general soundness of the program and manage overall risk. This includes lowering the threshold for secondary market sales of SBA guaranteed loans that trigger profit sharing with SBA. The funds raised by this split are vital to SBA's efforts to minimize and eliminate taxpayer subsidies to the program and as the portfolio grows it is important for the SBA

to have the funds necessary to cover any potential shortfall. Finally, to help in managing overall program risk it will put in place limitations for large lenders on industry concentration on the number of loans they make that are 100 percent financed. Taken together these reforms will give SBA the tools necessary to keep the program on a sound footing for the future.

The SBA has done a commendable job in managing the 7(a) program and conducting oversight in the face of unprecedented growth. It cannot be stressed enough though that as the program grows resources dedicated to oversight and tools effectively focused on oversight must keep pace. All it could take is one major violation of the program's rules by a lender to make Congress question or halt continued increases in the program's authorizations. This committee would like to give SBA the tools it needs to continue its important work and oversight.

We believe this legislation will do that and in that belief we are supported by the American Bankers Association who called our legislation "needed and long overdue," The National Association of Government Guaranteed lenders who said that our bill "provides the tools and resources necessary to improve lender oversight in a measurable way," and the Independent Community Bankers of America who said, "Proper oversight of the 7(a) program as advanced by this bill will help ensure its continued safety and soundness." All three organizations have written letters of support for this legislation which now has unanimous consent to make part of the record with that objection so [unintelligible 00:09:12]. I look forward to today's discussion and thank everyone for being here today and with that I invite our ranking member Senator Shaheen for her comments.

Jeanne Shaheen: Well, thank you, Mr. Chairman and thank you all for being here. I'd like to begin by welcoming Administrator Contreras-Sweet to the committee this morning and I want to thank you in particular for the quick work that you and SBA have done to stand up the 504 refinancing program. We passed that last year, the CREED Act and I know that you all have moved very swiftly to get that up and running, so thank you very much for that.

I'm going to submit my full statement for the record, Mr. Chairman, but I just want to make a few comments about the 7(a) lending program which is the topic of today's hearing because what I still hear from small businesses in New Hampshire is that access to credit is a challenge for them. That they are still – when the financial crisis hit small businesses were affected disproportionately and they are still recovering. There was a recent study done in July of 2014, a Harvard Business School analysis authored by former SBA administrator Karen Mills. It pointed out that small business loans on the balance sheets of banks are down about 20 percent since the financial crisis while loans to larger businesses have risen by about 4 percent over the same period.

So this is clearly still a problem as you know very well, administrator, for our small businesses and it's a problem for the economy when we count on our small businesses to create about two-thirds of the new jobs. So that's why this legislation to make sure that

the 7(a) program is going forward is so important and I'm pleased to join as a cosponsor with Senator Vitter and our colleagues and hope we can get this legislation through in this year. Again thank you very much. Let me just apologize for having to leave early today. I have to go to a markup in the appropriations committee, but welcome.

David Vitter: Okay, thank you very much, Senator Shaheen. Our witness today is the Honorable Maria Contreras-Sweet, Administrator of the US Small Business Administration, an office she has held since April 7th, 2014. Prior to her appointment she had an extensive and varied business career. First serving at the age of 24 as a district manager for the US Census Bureau before being recruited by Westinghouse where she eventually became an equity partner.

She's also played an active role throughout her career in managing and assisting small businesses. This includes management of three small businesses of her own one of which was a community bank in downtown Los Angeles focused on lending to small and midsized businesses. Finally, she has an extensive record of service within the California state government and is notably her tenure as secretary of the Business Transportation and Housing Agency where she oversaw 44,000 employees, a \$14 billion budget in 14 state departments. Administrator, Contreras-Sweet, I look forward to our conversation today. You may proceed and, of course, your full written statement will be made a part of the record.

Maria Contreras-Sweet: Thank you, Chairman Vitter, and thank you ranking member Jeanne Shaheen. Thank you so much for the opportunity to testify before you on the progress that we've made on our 7(a) loan guaranty program. I'm particularly grateful for the tone, the bipartisan tone that has been set. Thank you so much for that. The last time I came before this committee was for my confirmation hearing. I'm grateful for this opportunity to reflect on the progress we've made together over the past two years. We can all be proud of the accomplishments made in that time in our 7(a) program and throughout the SBA suite of services. Your bipartisan efforts for the American entrepreneur are yielding tremendous dividends.

As you will recall SBA had such a record year in 2015 that we ran up against our statutory lending cap before the end of the fiscal year. This committee worked tirelessly together to increase the agency's 7(a) lending authority allowing small businesses across the country to continue to access the capital required to launch, repair, and grow their businesses. I'm particularly proud to report significant increases in 7(a) lending to Americans who typically struggle most to access capital. Under my tenure I want to point out that for women our lending is up by 47 percent, to our veterans it's up by 32 percent, to our African American community up by 75 percent, to Hispanic Americans 50 percent, to Asian Americans and Pacific Islanders by 30 percent, to Native Americans by 18 and to our rural entrepreneurs by 41 percent.

As our national economy continues to rebuild from the Great Recession SBA backed loans are creating jobs and rebuilding communities. Currently conventional small business lending is only at 84 percent of pre-recessionary levels creating a \$58 billion

shortfall as compared to 2008. SBA alongside with our resource partners then is working hard to fill that gap by supplementing, I want to emphasize supplementing, not supplanting the private capital markets.

As a former entrepreneur, community banker, and state bank regulator I take the stewardship of this agency quite seriously. We've been able to achieve record 7(a) lending levels while administering the program I might add at zero taxpayer subsidy for three consecutive careers. Moreover we're now at zero subsidy for our 7(a), our 504, and the SBIC, the Small Business Investment Companies programs. Our purchase rate or some may say the default rate on our 7(a) loans is at 1.47 percent. That's the lowest since the SBA began tracking that number. From my very first days in office I have prioritized the need to modernize SBA operations. We've updated our lending partner platforms by bringing advances such as automation, digital signatures, online matchmaking to the entrepreneurs that we serve.

Community banks no longer need to pour over complex federal regulations to make an SBA loan. SBA One, our new interface, leads lenders through an online turbo-like experience making the process simpler and giving comfort that the loan will qualify for the guaranty if the borrower should ever default. These enhancements have encouraged community bankers, CDFIs and credit unions across the country to commence, expand, or increase SBA lending. At the same time technology allows us to exercise the vigilant oversight required to manage risk more effectively. With our PARRiS risk-based review system now in place SBA's Office of Credit Risk Management uses 22 data points to evaluate our lenders.

As part of this system, PARRiS, we measure its financial health of every 7(a) borrower in every lender portfolio in the country four times a year. We also track each lender's historical default rate, their stress loan rate, their projected lender purchase rate and the industry concentration of their portfolio amongst many other metrics. PARRiS gives us real time view into the health of each lender as well as the overall SBA loan guaranty portfolio. Additionally, it serves as an early warning system to flag lenders for onsite in person audits that SBA's OCRM oversees across the country. These advances, however, would not be possible without the support of the members of this committee, your staff, and our program strong public private partnership. We communicate consistently with our resource and lending partners, NAGGL, ABA, all of them to find more efficient ways to carry out our shared mission.

While small businesses deeply, deeply care about access to capital it's not their only concern. They're also concerned as I understand as I've met thousands of them across the country, they tell me that small businesses need help cutting red tape, obtaining government contracts, accessing new markets, access to the latest technologies and getting quality training. We've listened and we've created, Startup in a Day, as an example and listing more than 80 cities to streamline their permitting for small businesses. We listened and we launched LINC, an online platform connecting borrowers to lenders that has seen more than 41,000 matches in the one year that it's been up.

We established the Small Business Technology Coalition with leading tech companies to give small businesses the know how that they need to thrive. Last year the federal government awarded the highest percentage of contracting dollars to small business in history. We met the women-owned small business goal for the first time ever. Our Office of Investment and Innovation is leading the effort to get record levels of capital into small businesses through the Small Business Innovation Research program and through the Small Business Investment Company program. SBA's Office of International Trade helped us achieve a remarkable \$1.4 billion in SBA Export financing last year which is an increase of 8.4 percent over prior year.

Our resource partners serve more than 1 million businesses providing high-quality counseling to entrepreneurs in communities far and wide. In 2013 we helped more than 20,000 transitioning military service members to embrace their entrepreneurial dreams and we've now launched its concomitant partner, Boots to Business Reboot, where we have entrepreneurial training workshops to help veterans, those veterans who are already back in our homeland. We initiated the innovator campaign to champion the next generation of women disrupters in the high-tech space.

We've trained more than 5,800 entrepreneurs on how to compete for federal awards through ChallengeHer. We have never performed better, we have never touched more American lives. I'm proud to work alongside the incredible SBA staff who have dedicated themselves tirelessly and selflessly to achieving these record numbers. I look forward to continuing to partner with this committee to deliver these essential programs to small businesses. After all they are America's job creators. Thank you.

David Vitter: Thank you very much, Madame Administrator. Now we'll get to discussion and questions. According to the SBA's projections over the course of the next two to three years do you expect to require additional authority above the \$26.5 billion of authorization in current law? If so roughly what growth would you expect? Obviously, we're talking about the 7(a) program.

Maria Contreras-Sweet: Correct. Thank you, thank you. Yes, indeed. Again this is based on our surveying and our projectory, the momentum that we're seeing in the marketplace. And so you see that we've been asking for fiscal year 2017 a 28.5 authorization. But I would say more importantly, Mr. Chairman, to the extent that we could work with some latitude. I've seen some of my cabinet colleagues have some latitude where they have a little trigger mechanism again that we could put in some conditions that we're all comfortable with, that would give everybody assurance that the program is being managed well. For example, I think as I mentioned in my testimony we are at zero subsidy right now on this program. The default rate is its lowest as we've ever seen since this program took place and so if all of these – we could agree on some conditions and then consider giving the administrator some latitude, so that based on those basic assumptions we could continue to increase considering that there are these new mechanisms in place also to manage risk.

David Vitter: Great. Well, I can tell you I'm certainly open to that, open to necessary increases and open to more flexibility. Speaking as a Republican and speaking for a lot of my colleagues I think to get there, to have broad support for that, we absolutely need these additional oversight tools like contained in the bill, so I really think this oversight bill will be a very important step to getting us there and to also achieving that goal. In that vein obviously this program as we've mentioned has grown enormously. I assume personnel and resources and oversight have not been able to grow within the SBA for oversight of the 7(a) program at the same percentage. The program's grown over 60 percent in three years. I assume resources and oversight has not been able to grow at that same pace. Is that fair to say?

Maria Contreras-Sweet: I'm proud to report to you that we have flat-lined our FTEs and we've been managing that very carefully. The way that we're managing the stewardship of the program is through this PARRiS program. We've put in three different mechanisms to make certain that we are providing the appropriate oversight. First, on the smaller dollar loans we put in a program that we call the Liquid FICO Score and essentially what it does is that – I don't want to use algorithms because that would be oversimplifying the system that's in place, but essentially based on certain targets that we're after when the lender puts in their information into this new interface that we call the smart FICO score system it predetermines whether it's a green lighted application or not.

Now there still has to be sufficient underwriting, but at least it gives them a sense that it's within the rubric of what we're after and so there's an expedited underwriting system under that. That has helped the lenders in large measure to get some of these programs through more efficiently, more effectively. The second mechanism that we've put in is a program that we call LINC. That is also where in our web site we had a list of all of the SBA-approved lenders and then we knew that most of the foot traffic coming onto our website was about people looking for a loan.

So we said why don't we match them up, it's like Match.com and essentially prospective borrowers answer some questions and based on that we're able to make a connection much more quickly. That allows us to be more efficient in our marketing efforts. Third is this very vast and sophisticated PARRiS system where we have the 15 benchmark measures as well as seven flags that we use on that program. I hope that you had a chance, I don't know what time our staff was able to deliver it to you, but I actually delivered a little definition about the PARRiS and a little bit about the web site that we're using.

David Vitter: Right.

Maria Contreras-Sweet: All of this, Mr. Chairman, is embedded in a brand new body of work that we're really delighted to share the progress that we've made. That is called SBA One. We are one of the few federal departments that have actually been able to pull off of the mainframe and now we have a plug in place system, so it's this very modern, current technology and we're now able to put in pieces and parts that allow us to be more

efficient. So, yes, the answer is. We're flat-lined, but putting a lot more through the system.

David Vitter: With regard to all of this oversight will the additional fees in our bill which are supported by industry be helpful making sure adequate oversight continues and grows?

Maria Contreras-Sweet: As you and I talked offline I think that the idea of having a fee generation system wherein we can pay for that oversight is reasonable. I think it's standard industry practice and something that we'd like to understand a little bit more about how it would work. But generally speaking it would be a value add considering, of course, that a budget is always dynamic, so to the extent that it is not replaced or supplanted by something else or reduced in another area.

David Vitter: And also related to that oversight are the increase enforcement tools, responses, and flexibility contained in the bill for SBA helpful. As I said in my opening statement basically SBA right now has a nuclear option, you're out of the program, which you obviously would not want to use for more threshold violations. So as a graduated approach, multiple tools, and increased flexibility for SBA enforcement helpful also.

Maria Contreras-Sweet: I just want to frame the conversation a little differently and that is that I don't see that we have just a nuclear option because honestly when we have gone and monitored, supervised, and increased our focus on somebody that has deficient loans, there's some deficiencies, there's some challenges that we see in a portfolio we have never had a bank say no. We have never had a banker come in and say that they would not respond to our requests, so we haven't had to use the nuclear bomb to your point. It has been measured, the relationship is strong, the SBA product is important to our partners and so I don't think that they would want to breach that relationship and not cooperate with our OCRM team. Plus our OCRM team is pretty serious about their work and they take it very seriously, so we've not had that adversary relationship.

David Vitter: Okay, if we pass some oversight legislation would you want additional, graduated tools in that or not?

Maria Contreras-Sweet: It would be useful to have graduated tools and again I haven't seen the specifics of the language. Again you and I had an offline conversation and the idea is encouraging, but again it's always until you see the final language that I would want to hesitate from making a comment at this point.

David Vitter: Okay, Senator Cantwell.

Maria Cantwell: Thank you, Mr. Chairman, and Administrator Contreras-Sweet, it's so great to see you. Thank you for all your hard work and all your efforts and I, too, like to see the numbers where the 7(a) loan program has grown in the state of Washington and thank you for your previous visits there. So I know that we're on track this year to continue that trend as well, so I appreciate that. At the same time we look at the women

in minority issues and realize that we still have challenges there. I think for us – I think only 27 percent of our 1,623 loans went to African American small businesses and a very small number also to the Hispanic community. So I know this isn't just a Washington problem, I know it's across the nation, so I don't know what you think we need to be doing to additionally increase our opportunities for capital to minority communities.

Maria Contreras-Sweet: Thank you for that question. You and I discussed it through my confirmation hearing and we've discussed it numerous times because this is such an important question for the SBA. So to that extent we have gone out and met with Wall Street, met with Silicon Valley, just to understand the entire universe of access to capital and lamentably it is as you and I have imagined. That is that we're finding is that there are about three states that generate most of the venture capital and it's going to only about 25 zip codes as an example, so this is not where we want to be. Of that you can well imagine that there are different measures, but from what we can tell women are receiving only anywhere from 6 to 8 percent of that capital.

We know that women certainly have more than 6 to 8 percent of the good ideas and they know their products better, they know their lifestyle better and so we think that there needs to be enormous change in this regard. So in all of our channels of capital distribution we've been studying this question. So, for example, and SBIC, I thought the most trusted research organization that I could prevail upon would be the library of Congress, so we asked them to conduct a study of our portfolio particularly in the SBIC product which is the investment product.

What we learned is really encouraging news. For example, on our women led SBICs what we learned is that they are performing as well as their general community counterparts. What we know is that for women-led firms they are seven times more apt to invest in other women-owned firms because they understand the value proposition and the insights to the presentation. So all around it behooves us to get more women in key levels and I would say that that applies the same for African Americans and Latinos and the other communities. There's such a disparity. In fact, it's worse for African Americans and for Latinos as you know, so that is why we created a product that we now call Community Advantage and it begins to build a pipeline of access to capital at the very nascent stage.

These are where we've now made the 7(a) product available to non-profit, mission-based lenders that have an obligation to focus in on underserved communities and so that's one initiative that we've undertaken that's proving to be successful and effective for us. You saw that we zeroed out fees on our loans under \$150,000. You've seen that we've recruited more credit unions into this system because we think that they are an important place of entry that our small businesses need to access as well. I could go on about the different things that we've done, but please know they are working with great intentionality in this regard.

Maria Cantwell: I always look at this as an infrastructure issue and you talking about flattening some of the barriers to the capital directly, but then there's the issue of capacity

building within those communities. For example, the women business centers. You can comment on how you think that helps and if you can tell me about the non-profit mission-based lending, what you think we're going to get out of that. I know I only have about 30 seconds, so as succinct as you can be.

Maria Contreras-Sweet: Thank you. The WBCs are particularly interesting for us because they are the only ones that have a socioeconomic requirement in terms of the target population that they serve, so they're particularly effective in this regard. The CDCs are our 504 lenders and so you've known them as NADCO, for example. They are out there providing the 504 infrastructure. They put up 40 percent of the loan on the 504 and we've added capacity, so that they can now serve the 7(a) because they are in disadvantaged communities, so it's another channel for the 7(a) product.

Maria Cantwell: Okay, thank you. Thank you, Mr. Chairman.

David Vitter: Thank you. Now Senator Fischer.

Deb Fischer: Thank you, Mr. Chairman and thank you, administrator, for being here today. In your testimony you mentioned the SBA's Office of Investment and Innovation has led the effort to inject record levels of capital into small businesses through the Small Business Innovation Research Program. While there are certain states that receive a large percentage of those rewards from the SBIR and the STTR programs other states such as my home state of Nebraska received significantly fewer. Can you talk about what SBA is doing to increase awards to underrepresented states like mine.

Maria Contreras-Sweet: Thank you, good to see you again.

Deb Fischer: Good to see you.

Maria Contreras-Sweet: Let me just say that this is something that we have been tracking and something that does give us some pause. What I personally did is challenged – do you remember that the SBIR program is distributed through all government wide. Those that have major research budgets are the ones that actually issue, but we coordinate the program much like our contracting program. So we convened the eight major departments that actually issue the SBIR grants, convened them and asked them to go through a rural community road tour. I launched it in the middle of the – we just said we want you to go to places you have never been before and our great –

Deb Fischer: I can suggest some.

Maria Contreras-Sweet: But I must say that it's just like our venture capital initiative. We really got to do something about making people more aware. USG is not usually somebody's first thought when they think about accessing seed capital. This is the world's largest seed capital. The first phase could be somewhere as much as from \$100,000 to \$250,000. Phase two could be a million and phase three gets them an award. It's a really important program and to the extent that we could work together to amplify that message in rural community, we raise our hand.

Deb Fischer: We might have to get you out to Nebraska. It's a big state with a very sparsely populated population and vast reaches of it. In your testimony you mentioned that the SBA is taking several steps to streamline regulation. Specifically you mentioned SBA's Startup in a Day which aims to make it easier for entrepreneurs to start a business by reducing the amount of time it takes to register and apply for permits and licenses at the local level. I applaud you on those efforts. We need to streamline. What type of outreach is SBA conducting to make sure that cities are aware of that initiative, so that they can access programs at a quicker pace because of the streamline in that you're saying you want to implement.

Maria Contreras-Sweet: In addition to the usual communication vehicles that we've used the program actually is in partnership with the national league of cities and so we've been to workshops and their conferences and we travel. Our district directors are directly engaged with mayors across the country. Our regional administrators are advocating and promoting the program. I, of course, have gone into my share of meeting with mayors and recruited more than my fair share, so at every turn that is a program that whether we're at here in the White House or anywhere.

If there's a mayor in front of me you know he's going to walk away knowing about Startup in a Day. But my staff might not like that I say this, but I have to tell you coming from a marketing organization, a beverage industry, one of my great laments is that I don't think that we have the proper funding mechanisms. I won't say advertise because I understand that branding and marketing and advertising is something the federal government is keen on, but I do regret that we don't have the budget that I would like to see to make the more public aware of what's available for them. Just in general I would say that that's in general across the board of all of our products.

Deb Fischer: When cities are trying to have access, all these programs that are available, do you have staff available to them to say you don't need to answer these questions? You've already answered it here. How specifically are we seeing the processes streamlined? Between agencies I think it's bad enough, but within an agency when we see a lot of duplication on questions and the forms get longer and longer, especially smaller communities are not able to put that that time in. They aren't able to hire the grant writers needed to really access all the programs that are out there. So what specifically are you able to do?

Maria Contreras-Sweet: Going from the specific to the general if I may. Specifically on our loan applications which is the lion's share of work. That's where we're so proud of the LINC program as well as the SBA One platform that we've put up. The LINC is like Match.com. You get a date the state is with the lender. That is all online, very fast. The typical answer comes back in 48 hours. It's extremely streamlined and as I mentioned earlier, you weren't here, but we've had about 38,000, I forget the exact number, of matches in months. It's working and very successful. I'm really proud of that program and it didn't cost us much. The overall SBA platform allows the lender now to use e-verify, e-signature. There are so many more things.

Please remember that when I was in my community bank in Los Angeles we were processing these through faxes. When we said let's go online it was about scanning the application and then the wiring it online. It wasn't digitized. This is an entirely new state of the art digitized system that just populates the question that needs to be answered based on your prior, so that's the specific. On the general, just going back to the general then let me just say that overall please remember that we have the resource partners across the country who are there and are consulting small businesses each and every day. Bankers, of course, are there, but we have a strong presence in our district offices as well. We have hotline, online webinars on the web site, so there's a myriad of ways in which people could learn about the shortcuts we've put in place.

Deb Fischer: Thank you very much. Thank you, Mr. Chair.

David Vitter: Thank you, Senator Hirono.

Mazie Hirono: Thank you very much, Madame Administrator, it's really good to see you again and speaking of the SBA going to places that you haven't been to, the SBA has not been to. You came to Hawaii and you were the first administrator to come to Hawaii in some ten years and you met with our businesses and your accessibility and advocacy on their behalf is very much appreciated. Let me just tell you one particular – there are a lot of small businesses in Hawaii who have access to your loan programs, but the owner of North Shore Coffee Roasters and some of you may not know that Hawaii is the only state that grows coffee. A **[unintelligible 00:41:22]** that not only does he appreciate the 7(a) program, but that he's using SBA support to expand his hours of operations and to purchase additional coffee to keep up with the demand.

So I'm really grateful for the work that you do and most recently the SBA announced a partnership with the University of Hawaii to establish a Veterans' Business Outreach Center. So all of the work that you're doing to reach out to small businesses and veterans again very much appreciated. I know that you always hear about the need to streamline your operations and I know that you've done a lot to do that especially the digitized system that you've put in place. There are always more suggestions that come to you. Is there some way that you receive feedback from the small businesses throughout the country and then to be able to respond to their desire for – not just from the businesses that are applying, but also the lenders in terms of streamlined processes.

Maria Contreras-Sweet: Personally I have roundtables with the – as I did in your community with lenders in each community that I visit and I'm on the road incessantly. My team, we have lending relation specialists across the country whose job it is to interface and interact and receive comments from the lending community whether they be non-profit, micro lenders and all the way up to the International Money Centers that we engage and so we have that mechanism.

Clearly we have the associations who come in and visit with us and we attend those conferences. We have workshops, webinars. There are just unimaginable ways that

people connect. Honestly, even at night, Senator, you would see me looking at my Twitter account to just see what people are saying about one of our products and so we use all the social media mechanisms. The feedback is really quite robust and vibrant and you know that lenders are not shy about letting us know, but again let me just state the important role that our resource partners play. Women business centers which I visited one in your community, the SBDCs, the VBox, all of them are there also as collectors of information and we have a regular dialogue with them as well.

Mazie Hirono: And I did also want to mention that your SBA team in Hawaii does a really terrific job of outreaching and being responsive. With regard to people who are just starting up their businesses, what kinds of specific improvements has SBA implemented in order to help these businesses with their startup needs?

Maria Contreras-Sweet: Thank you. One of the things that we hear is first the regulation that it takes. A nascent business starts in a locality, in a community, in a city, a county and so it's where that they're interacting at that stage with the federal government, but we felt it was still our place to work this program that we call Startup in a Day where we challenge the national link of cities to partner with us. Challenge every city across the country to develop an open counter type of mechanism, an online mechanism, so that instead of standing in a line for permit after permit after permit they could do this work online.

So we've challenged, we had a competition and I'm pleased to tell you that cities are well underway. We had over 80 major cities from Chicago to San Francisco to Los Angeles to Boston and many cities in between and we continue to recruit more who are joining us in this effort, Startup in a Day. So that's one thing that we're using to make the journey a little bit easier. The second one that I mentioned earlier is the LINC program. So that when a small business is looking for capital instead of knocking on a door of a bank and waiting for what I call a really slow maybe and meanwhile you're losing your deal, time is money in a real estate deal, so that what we've done is we've said we'll get you on average a response as to whether a lender is interested in your loan in 48 hours which is really remarkable.

The latest announcement – I could go on because I'm so enthusiastic about this area, but one of the programs that I'm really enthusiastic about is that we were able to curate a series of services that small businesses need. For example, let's just say how do they use the Microsoft suite? How can they use [unintelligible 00:46:01] box to store? What are the different technological advancements that they may not be introduced to and we've created a small business technology coalition of these types of services, so I call it small business in a box. It's a package of products and programs and services and training that a small business can come into our website now and identify these and know what they need right away. Those are just some of the examples.

Mazie Hirono: Thank you very much. And it's clear that your marketing background comes in handy when you define your programs in these very catchy ways.

Maria Contreras-Sweet: Thank you so much, Mahalo. Thank you, Mr. Chairman. By the way Jane sends her best regards. She is such a stalwart for the SBA and in every district that I visit, Senator, I always hear good comments about the district director because after all they are our field marshalls and the voice of the small business in the states.

David Vitter: Great, I want to compliment you again on the PARRiS system. That has been up and running a relatively short period of time, but within that time are there any examples you could give us about what proactive enforcement actions that has led to, the issues or potential issues that has helped identify?

Maria Contreras-Sweet: Well, this may not be the type of example, but one of the attributes and please remember – if I'm stating the obvious I apologize, sir, but please remember that the SBA is part of a regulatory construct and ecosystem. As a community banker, for example, I was regulated by my state regulatory institution, the FDI, the Financial Department of Institutions. Then on top of that I was regulated by the FDIC, my insurance, and then SBA and then there's also the Federal Home Loan Program that we were a part of, so I had four regulators descending on me.

One of the things that PARRiS has allowed us to do is to understand the trends more quickly. In fact, I inserted in your package and I hope that you'll allow me the time to actually sit down and take you through what these 13 benchmarks are because I think that they're really powerful. I'm very proud of what the team did on this body of work. But what happens as a result, sir, is that a banker can now look at how they're performing in a way that they never saw before and compare how they are performing against the industry average, so we're able now to get much earlier notification of what they're booking online, what the asset quality is of that.

We have Debt Service Coverage Ratios, we have concentrations, we have a myriad of metrics that we use here. Just like CAMELS, the FDIC uses the CAMELS ratings, the capital, asset, management, earnings, liquidity, and sensitivity to markets. Our PARRiS is pretty much the same rubric. So now instead of going into an examination where one of our examiners goes in and assesses strictly for just the performance of the portfolio, we can now give them much more specific metrics. So it's oversimplifying, but it's a little bit of self-policing, so they can self-correct even before we have to exercise any heavy disciplinary actions.

David Vitter: Okay, Administrator, moving off the 7(a) program, but while I have you here let me bring up two other things. Obviously, being from Louisiana, I'm very interested in disaster response. I want to compliment you and SBA on your recent disaster response to some tragic flooding we had there, but we've also passed the ROZ Act which you're in the process of implementing. You could give me an update on that implementation and specifically where you are on the Rowe Loan Program which is part of the ROZ Act and if you're not familiar with those details you can also follow up and submit it for the record.

Maria Contreras-Sweet: I'd be delighted to follow up with you on the record, sir. But let me just say how pleased I am and I hope that if we haven't given you this full briefing I'd like to come back and visit with you and provide it for you because just the changes that we've put in place already have been quite remarkably impactful. For example, we used to just have one queue for the loans as they came in. We went into a community descended and then we set up a queue. We've now broken that queue into three separate lines, so that if you're looking for a home loan, a business loan, or if you're looking for a business loan and you have a really strong FICO then we put you through the fast lane.

This is now automated versus the manual process that we've used, so I can tell you now that from the time that the President or the administrator declares a disaster based on the degree of severity of the program we can now be on the ground in 24 hours and have our office open in 48 hours. So the change and the reaction, the recovery time is so much more efficient as well as our ability to process those loans. I have personally visited our Office of Disaster Assistance Processing Centers all the way through the process and that's one of the – if you'll indulge me one little catchy phrase, I now call SBA the Smart, Bold, and Accessible because the smart systems that we've put in place I've challenged everybody across the agency to look for streamlining mechanisms and opportunities to make our programs more responsive and easier to navigate. I've allowed our programs to be more bold.

We have put in programs to allow the small businesses now to work with the corporate community easier and the federal government easier by putting in a quick pay program where we have small businesses that do business with the federal government. We're now paying them in ten days versus, you know, cash flow, 90 days. I've been stretched out to 120 days. The fact that we can now pay somebody in ten days and that's another program we've put in place, so all of these help small businesses get back on their feet so much faster.

David Vitter: Right.

Maria Contreras-Sweet: And then, of course, our HUBZone programs that you're familiar with.

David Vitter: That's super and again if you can just supplement on the record specifically ROZ Act implementation and the Rowe Loan Program which is part of the ROZ Act. Then finally we have five vacancies in the New Orleans SBA office and if you could just look into that. Those have been there a while. I don't have the exact timeframe in front of me, but if you could look into that and update us on the record about staffing that up and filling those.

Maria Contreras-Sweet: I'd be delighted to do that. Let me just to give you some consolation about this. What we're doing and it's really paying off is we're taking the time to make certain that the job descriptions are really current and forward looking, so that we're not just filling with the same old view that looks to the past. We're looking forward and trying to understand what the new district director, the new triple D, the

deputy district director, the new lending relations specialist, the new BOS, the business opportunity specialist, the EDS, the emerging development specialist, all of these, we want to make certain that they're forward looking. That their skill set is commensurate with what entrepreneurship is nimble and responsive. So we will get back to you, but I think you're going to be pleased with the quality of the people that we're bringing onboard as well.

David Vitter: Okay, thank you. Senator Hirono, do you have follow-up second round?

Mazie Hirono: No, **[unintelligible 00:53:58]**.

David Vitter: Okay, Senator Risch.

Jim Risch: I'll pass **[unintelligible 00:54:00]**.

David Vitter: Well, okay, I think that wraps up the discussion Madame Administrator. Thank you very much for your testimony, for your leadership in general. We'll obviously be following up aggressively on this bipartisan legislation. I'm very pleased that we were able to bring all interested parties and stakeholders together. Your office and many elements of SBA were particularly useful in putting the legislation together. I'm very pleased that Senator Shaheen and other Democrats have joined me and other Republicans on this. I also mentioned I talked to the chair and ranking member of the House committee on small business who were very interested in these types of reforms as well.

So I'm very hopeful we can move forward expeditiously and pass this into law and again I want to underscore it's important for the continued health and support of the 7(a) program. When we see this significant growth which I'm not saying that's bad in and of itself, but it does increase the threat to the taxpayer. It does increase potential liability and it increases questions and concerns among many members and so we need to have a commensurate increase in oversight. You all are doing that in many ways including the PARRiS system. I think this bill does that in many positive additional ways. I think that's the way to proactively continue to build support for the program particularly if it's going to require increased authorization levels and perhaps more flexibility in those authorization levels in the future. With that thanks everyone for being here and we're adjourned.