Statement of Cara Lank
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Streamlining and Coordinating Support for Rural Small Businesses

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Introduction

Chairman Shaheen, Ranking Member Ernst, and members of the Committee, thank you for inviting me to testify today. My name is Cara Lank, and I am the Chief Credit Officer for Stone Bank, which is an $815MM community bank with six branches, based in Arkansas. While we are your typical community bank, we are also atypical in that we make government-guaranteed loans. We make SBA 7a loans, Farm Service Agency (FSA) loans (mainly FSA poultry loans), and USDA B&I and REAP loans. I am involved in all three of these programs in addition to my credit role. My background in banking started 24 years ago when began working for the Arkansas State Bank Department as a Bank Examiner. This role allowed me to see and learn about all types of community banks, from small to very large.

I have unique insight to work with rural businesses in that I grew up in rural America. My grandparents were farmers, but also my grandmother started her own small business by taking an old house and converting it into a grocery store, which she later sold and built a large store literally in the middle of nowhere. It was surrounded by soybean and rice fields.

Additionally, I am the Chairman of the Government Relations Committee for the National Rural Lenders Association (NRLA).

Background

NRLA was established in 2014 and has grown from 12 original members to an organization of nearly 100 members representing hundreds of billions of dollars in lending activities. NRLA regards itself as the primary advocacy association specifically focused on ensuring and increasing the availability of capital and business opportunities for rural communities throughout the United States. Our membership includes banks, credit unions, Farm Credit system entities, and non-traditional lenders. In total our membership includes service providers to rural businesses from the initiation of a borrower interested in a loan, to loan packers, lenders, counsel for legal and business structure purposes, construction and engineering firms, and secondary market entities.

NRLA members participate in both Small Business Administration (SBA) guaranteed loans programs as well as all USDA Rural Development guaranteed loan programs and USDA's Farm Service Agency loan guaranteed program. In total, the NRLA membership believes that guaranteed lending is often overlooked as a resource for capital infusion into businesses and communities in rural America. Despite this, these programs are critical in filling the gap that exists in the market between business creation, business development, and stagnation.

Synergies Between USDA and SBA Guaranteed Lending Programs

Many members of NRLA participate in both SBA and USDA guaranteed loan programs. My institution, Stone Bank, has experience in closing USDA/SBA combination loans. There are, however, key differences between two of the most popular loan programs, SBA's 7(a) loan program, and USDA's Rural Development Business & Industry (B&I) Loan Guarantee program.

When timing and need are complimentary, the differences between the 7(a) program and the B&I program can be used effectively to help a business. In fact, both programs can assist in providing capital needs by offering both loans for the same project. B&I loan guarantees can be up to $25 million, and 7(a) loans can be a maximum of $5 million. The B&I loan program has a geographic restriction that the loan must be in a rural area, which is defined as a population of 50,000 or less. A lender could make a loan using both programs if part of the project is in an ineligible, non-rural area.

Recipients of 7(a) loans are required to meet SBA size standards and the B&I loan program does not have size standards. 7(a) also requires that the business be 51 percent owner-occupied, and B&I does not have that requirement, so businesses like office and medical condos are eligible for B&I. Also, lines of credit are not eligible for B&I but are eligible under 7(a). As such, the two programs can work together to help a business where B&I could be used to finance the real estate and/or equipment and 7(a) could finance a line of credit.

In the area of business acquisitions, acquisitions are typically easier to do within the 7(a) program as it provides more favorable collateral requirements. B&I loans require either 10 or 20 percent equity and must be fully secured on a discounted basis. Businesses with goodwill can take advantage of the 7(a) program if they don't have enough collateral for the B&I program and are in a rural area.

Separate but directly related to lending are USDA and SBA secondary market activities. The secondary market supports lending, especially for borrowers who face the greatest challenges in accessing credit. SBA and USDA work very differently from an operational perspective while providing the same core benefits for the borrowers, impacted communities, and lenders. The differences in the secondary market arise largely from the evolution of the programs, the loan characteristics, and the history of the agencies. The SBA secondary market is supported by the SBA's Fiscal Transfer Agent (FTA) as well as processes and systems to serve as a centralized clearinghouse for loan settlements and master servicing. There is room for improvement, but the overall approach is beneficial to all stakeholders.

The USDA secondary market relies on loan approvals and secondary market assignments that run through regional USDA offices and there is no centralized clearing agent like the SBA's FTA. There are some opportunities for improvements, but any changes to the USDA secondary market program must be customized and appropriate for the uniqueness of loans and borrower needs.

Challenges Navigating SBA and USDA Guaranteed Programs

While synergies exist between the SBA and USDA, there are significant differences in the programs which can make combining these loans a challenge. First, the underwriting standards and organizational structure of the two agencies vary significantly. SBA has a Preferred Lender Program, commonly referred to as PLP. PLPs are required to follow all the rules and regulations, but they are not required to submit the entire underwriting package to SBA for approval. As a result, loans move through the process much faster than non-PLP lenders. SBA's process is also more streamlined than USDA's primarily due to SBA's systems of technology that allow the lender to enter the pertinent loan information into E-Tran. E-Tran is SBA's system that checks basic eligibility requirements, and it approves or denies loans based on its criteria assessment.

USDA has no PLP program, and regardless of lender history and performance, USDA requires all lenders to submit an entire underwriting packet which is individually reviewed by staff specialists. Some view this activity as a form of re-underwriting loans and project evaluation. Unfortunately, this system places high manual workload demands on USDA staff and specialists who are also responsible for other agency program activities such as grants among other administrative responsibilities. Every USDA loan requires a credit decision that goes through reviews for approval regardless of size. On any given loan, time delays can be significant, and some delays force a borrower to forego job-producing investments as accessing capital was not responsive to the speed of business. USDA projects require patient borrowers and lenders as most loans take from nine months to a year for processing and approval as opposed to a 90-day turnaround for an SBA loan.

Another significant process difference between USDA and SBA are requirements for construction loans. USDA loans require the borrower to conduct an environmental review beyond local and state requirements. This singular process can take months to complete and is often very costly. SBA has no such requirement.

Lastly, and arguably most importantly, for FY 2025 the SBA 7(a) program has a budget of approximately $30 billion-plus, while the proposed B&I budget authority is significantly less at $2.2 billion under the proposed U.S. House of Representatives budget and $1.9 billion in the U.S. Senate proposed budget. While NRLA welcomes these increases above the FY 2024 budget authority level, each year for the last three years, USDA has had to institute measures to "stretch" funding to the end of the fiscal year. Annually, stringent grading requirements have been instituted and/or revised forcing some loans to be placed on hold for not being favorably graded as high as some other projects. In October 2023, NRLA forecasted demand for credit under the B&I program to be $2.75 billion for FY 2024. As of September 4, 2024, USDA had obligated $1.62 billion in loans with approximately $1.16 billion in pending requests, a total of $2.78 billion in demand. Only $1.66 billion was provided in loan authority by Congress for FY 2024. Additionally, we are seeing similar demand for FY 2025.

SBA/USDA Memorandum of Understanding

In November 2023, SBA and USDA announced the renewal and second iteration of its Memorandum of Understanding (MOU) aimed at coordinating activities among the two agencies to expand credit opportunities for rural small businesses. The principles within the MOU continue to be four-fold, to (1) provide joint training, technical assistance, and mentorship opportunities for rural small business owners and entrepreneurs, (2) help agricultural producers and small businesses identify ways to export their products around the world, (3) expand collaboration between USDA's Rural Partners Network and SBA's Resource Partners Network, and (4) cross-promote programs that support rural businesses and socially disadvantaged communities.

NRLA continues to support and work with both agencies to advance mission-driven outcomes that benefit rural communities. The current MOU states as an objective the examination of "synergies to streamline and deliver programs." Such an examination must include the evaluation of currently deployed SBA technology for inputting loan materials for like or the same system operation for USDA loans. While the criteria for loans for each program are different, the basic underwriting process for lenders remains the same for entities that operate under both SBA and USDA programs. Such an activity should also be aimed at decreasing staff time and layers of approvals at USDA.

An additional examination should be conducted regarding the SBA PLP program. A USDA PLP-type program would provide for speeding lending and align with SBA posture to all for loans to be issued anywhere in the country and reduce the responsibility of the agency to primarily eligibility assessments.

Activities that are occurring, but that need to be expanded, are sponsored webinars with SBA and USDA field staff. Field staff are in local offices to assist the lender in the application process. Many USDA RD offices have held webinars with SBA State Offices to educate lenders about the two programs and give examples of how they can work together. This activity should be encouraged with consistent educational sessions across the country.

Conclusion

Federal resources to provide credit to rural businesses should be maximized within both SBA and USDA programs to provide rural businesses with the greatest chance of success. While lenders under both agencies are attempting to maximize both programs, there are operational and technological systems and efficiencies that could be shared between both agencies to assist businesses that are attempting to access capital. As expressed, delays in providing capital and mismatched availability of funds between SBA and USDA programs, due to funding shortages at USDA or the lack of SBA program awareness upend the flow of credit to rural communities. NRLA, however, is dedicated to the long-term prosperity of rural America and will continue to work toward increasing capital for its communities and businesses.

It should be noted that many NRLA member organizations reside in, are close to, or have historical ties to rural living and communities. NRLA will continue through its membership to offer credit to businesses and organizations in lower populated areas to diversify and maximize centers of profit for rural communities.

Thank you for the opportunity to provide testimony and please know that NRLA will continue to work with Congress, SBA, and USDA to provide opportunities for businesses and nonprofit organizations to grow the economic base of communities and create job and job opportunities in rural towns throughout the U.S.

I am happy to respond to any questions.

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