

7(A) LOAN AGENT OVERSIGHT ACT

JUNE 5, 2023.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. WILLIAMS of Texas, from the Committee on Small Business,
submitted the following

R E P O R T

[To accompany H.R. 1644]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business, to whom was referred the bill (H.R. 1644) to amend the Small Business Act to require a report on 7(a) agents, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

CONTENTS

	Page
I. Purpose and Bill Summary	00
II. Need for Legislation	00
III. Hearings	00
IV. Committee Consideration	00
V. Committee Votes	00
VI. Section-by-Section of H.R. 1644	00
VII. Congressional Budget Office Cost Estimate	00
VIII. New Budget Authority, Entitlement Authority, and Tax Expenditures	00
IX. Oversight Findings & Recommendations	00
X. Performance Goals and Objectives	00
XI. Statement of Duplication of Federal Programs	00
XII. Congressional Earmarks, Limited Tax Benefits, and Limited Tariff Benefits	00
XIII. Federal Mandates Statement	00
XIV. Federal Advisory Committee Statement	00
XV. Applicability to Legislative Branch	00
XVI. Statement of Constitutional Authority	00
XVII. Changes in Existing Law, Made by the Bill, as Reported	00

I. PURPOSE AND BILL SUMMARY

The purpose of H.R. 1644, the “7(a) Loan Agent Oversight Act” is to require the Small Business Administration’s (SBA) Office of

Credit Risk Management (OCRM) to submit an annual report to Congress regarding the performance of and risk associated with 7(a) loans generated through loan agent activity.

II. NEED FOR LEGISLATION

H.R. 1644 was introduced by Rep. Dan Meuser (R-PA) and Rep. Dean Phillips (D-MN) on March 17, 2023 to improve SBA's reporting on loan agent and broker activity in the 7(a) Loan Guaranty Program (7(a) program). Authorized by section 7(a) of the Small Business Act, the SBA's 7(a) program is the agency's flagship loan program. Private sector lenders (mostly banks and credit unions but also some non-depository lenders) originate commercial and working capital loans of up to \$5 million to small businesses who cannot access credit elsewhere. SBA guarantees 50 to 90 percent of each 7(a) loan made, depending on loan characteristics, assuring the lender that if a borrower defaults on the loan, SBA will purchase the loan and the lender will receive an agreed-upon portion of the outstanding balance.

SBA also administers several subprograms within the 7(a) program that offer streamlined and expedited loan procedures for different groups of borrowers, including the SBA Express, Export Express, and Community Advantage Pilot programs. Although these subprograms have their own distinguishing eligibility requirements, terms, and benefits, they operate under the 7(a) program's authorization. For the majority of 7(a) loans, SBA relies on lenders with delegated authority to process and service loans, and ensure borrowers meet the program's eligibility requirements. In FY2022, SBA approved 47,678 7(a) loans for a total of more than \$25.7 billion, with an average loan size of \$539,033.¹

SBA loan agents and brokers act as intermediaries between borrowers and SBA lenders. Oversight of these loan agents and brokers is lacking, which creates an environment ripe for fraud. This risk has been consistently cited by SBA's Office of the Inspector General (OIG) as a top management and performance challenge facing the agency, most recently in FY2023.² In the report, the OIG notes that SBA has taken steps to help mitigate fraud and oversee high-risk lenders. However, OIG also notes that further improvements are necessary to ensure program integrity and to mitigate the risk of fraud and loss in the loan programs.

The Committee agrees with the OIG that though lenders bear primary responsibility for monitoring their agents, only SBA is positioned to aggregate loan agent portfolios, evaluate their performance, and inform lenders and policymakers about concerning program risks or trends. The SBA must conduct more rigorous oversight and tracking of third-party agents. Companion legislation (H.R. 1651, the "Small Business 7(a) Loan Agent Transparency Act") would require OCRM to compile loan agent data using a registration system that assigns each agent a unique identifier. H.R. 1644 requires a report to Congress regarding such data, including

¹U.S. SMALL BUS. ADMIN., FY 2024 CONG. BUDGET JUSTIFICATION FY2022 ANNUAL PERFORMANCE REPORT, 33 (Mar. 11, 2023).

²U.S. SMALL BUS. ADMIN. OFFICE OF INSPECTOR GEN., TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2023, 21–22 (Oct. 14, 2022).

an analysis of the performance, cost, and risk associated with loan agent activity in the 7(a) program.

III. HEARINGS

In the 118th Congress, the Committee held three hearings examining the issues covered in H.R. 1644. On April 19, 2023, the Committee on Small Business' Subcommittee on Oversight Investigations and Regulations held a hearing on the OIG's investigations into SBA programs. The Inspector General testified to the Subcommittee that one of the SBA's top management and performance challenges for FY2023 remains risk management and oversight of loan activities and that improvement is necessary to ensure the integrity of the SBA's loan programs.³

On May 10, 2023, during the Full Committee Hearing "*Taking on More Risk: Examining the SBA's Changes to the 7(a) Lending Program Part I*" both Republican and Democrat members of the Committee expressed concerns with two recent SBA Final Rules that would add significant risk to the integrity of the 7(a) Program. Specifically, how lifting the licensing moratorium on SBLCs and eliminating long-standing loan underwriting criteria will create ripe conditions for an increase in defaulted loans. Further, on May 17, 2023, during the Full Committee Hearing, "*Taking on More Risk: Examining the SBA's Changes to the 7(a) Lending Program Part II*" one of the witnesses noted that broadening access to capital is a worthy goal but that the SBA's proposals change too much too soon in an uncontrolled environment.

IV. COMMITTEE CONSIDERATION

The Committee on Small Business met in open session, with a quorum being present, on May 23, 2023 and ordered H.R. 1644 favorably reported to the House of Representatives. During the markup no amendments were offered.

V. COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the recorded votes on the motion to report legislation and amendments thereto. The Committee voted to favorably report H.R. 1644 to the House of Representatives at 2:37 p.m.

³Office of Inspector General Reports to Congress on Investigations of SBA Programs: Hearing Before H. Comm. on Small Business Subcomm. on Oversight Investigations and Regulations, 118th Cong., 4 (testimony of Hannibal "Mike" Ware, Inspector General, U.S. Small Bus. Admin.).

118th Congress House Committee on Small Business Vote Record

Date: 5/23/23
 Convened: 2:31 PM

Bill: H R 1644

Adjourned:

Republicans	Aye	Nay	Present
Mr. Luetkemeyer (MO-03)	✓		
Mr. Stauber (MN-08)			
Mr. Meuser (PA-09)	✓		
Ms. Van Duyne (TX-24)	✓		
Ms. Salazar (FL-27)	✓		
Mr. Mann (KS-01)			
Mr. Ellzey (TX-06)	✓		
Mr. Molinaro (NY-19)			
Mr. Alford (MO-04)	✓		
Mr. Crane (AZ-02)	✓		
Mr. Bean (FL-04)			
Mr. Hunt (TX-38)	✓		
Mr. (La-Low-ta) Lalota (NY-01)	✓		
Chairman Williams (TX-25)	✓		
TOTALS:			

Mr. Chairman _____ Votes _____

Mr. Chairman _____ Off _____, Votes _____

Mr. Chairman on that vote 22 Ayes 0 Nays and _____ Present

Adopted: Reported favorably to the House

118th Congress House Committee on Small Business Vote Record

Date:

Bill:

H.R. 1644

Democrats	Aye	Nay	Present
Mr. Golden (ME-02)	✓✓		
Mr. M-fume (MD-07)	✓✓		
Mr. Phillips (MN-03)	✓✓		
Mr. Landsman (OH-01)	✓✓		
Mr. Mc-Gar-vey (KY-03)	✓✓		
Ms. Glue-sen-kamp Perez (WA-03)	✓✓		
Ms. (Skull- ton) Scholten (MI-03)	✓✓		
Mr. (Tan-a-dar) Thanedar (MI-13)	✓✓		
Ms. (Chew) Chu (CA-28)	✓✓		
Ms. Davids (KS-03)	✓✓		
Mr. Pappas (NH-01)	✓✓		
Ranking Member Velazquez Velazquez (NY-07)	✓✓		
TOTALS:	22		

VI. SECTION-BY-SECTION OF H.R. 1644

Section 1. Short title

This Act may be cited as the “7(a) Loan Agent Oversight Act.”

Section 2. Requirements for 7(a) agents

This section requires OCRM to submit to Congress an annual report regarding the performance, cost, and risk associated with loans generated through loan agent activity.

VII. CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

Pursuant to 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

H.R. 1644, 7(a) Loan Agent Oversight Act			
As ordered reported by the House Committee on Small Business on May 23, 2023			
By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	0	0
Spending Subject to Appropriation (Outlays)	*	48	not estimated
Increases <i>net direct spending</i> in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	No
	No	Mandate Effects	
Contains intergovernmental mandate?		No	
Contains private-sector mandate?		No	
* = between zero and \$500,000.			

H.R. 1644 would require the Small Business Administration (SBA) to report annually to the Congress on agents that help small businesses to secure loans of up to \$5 million that are guaranteed by the SBA under the 7(a) loan program. Agents include attorneys, consultants, and accountants that assist small businesses during the 7(a) loan application process. The report would include the number of agents assisting 7(a) loan applicants, the dollar amount of fees paid to agents, and the risk created by agents.

The costs of the legislation, detailed in Table 1, fall within budget function 370 (commerce and housing credit).

TABLE 1—ESTIMATED INCREASES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 1644

	By fiscal year, millions of dollars—						
	2023	2024	2025	2026	2027	2028	2023–2028
Estimated Authorization	*	10	10	10	10	10	50
Estimated Outlays	*	9	9	10	10	10	48

* = between zero and \$500,000.

Using information from the SBA, CBO expects that the annual report would cost about \$1 million each year. However, the SBA does not currently collect the information that it would need to write the report specified in the legislation. Thus, CBO expects that the SBA would need to establish and maintain a registration system to track agents working on 7(a) loans in order to complete a full and accurate report. On that basis, CBO estimates that implementing H.R. 1644 would cost the agency \$48 million over the 2023–2028 period, assuming appropriation of the estimated amounts.

Those estimated amounts include \$20 million to establish and maintain a system to register and track agents working on 7(a) loans, \$23 million to hire contractors to administer the registration program, and \$5 million to report annually to the Congress.

On May 26, 2023, CBO transmitted a cost estimate for H.R. 1651, the Small Business 7(a) Loan Agent Transparency Act, as ordered reported by the House Committee on Small Business on May 23, 2023. That legislation would require the SBA to register such agents but would not require an annual report to the Congress. Unlike H.R. 1644, H.R. 1651 also would require the SBA to collect fees from agents, which may be spent without further appropriation. CBO’s estimated costs for registering agents and keeping that information up to date are the same for both estimates.

The CBO staff contact for this estimate is David Hughes. The estimate was reviewed by Ann Futrell, Senior Adviser for Budget Analysis.

PHILLIP L. SWAGEL,
Director, Congressional Budget Office.

VIII. NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

Pursuant to clause 3(c)(2) of rule XIII of the Rules of the House of Representatives and section 308(a)(I) of the Congressional Budget Act of 1974, the Committee provides the following opinion and estimate with respect to new budget authority, entitlement authority, and tax expenditures. The Committee does not believe that there will be any additional costs attributable to this legislation. H.R. 1644 does not direct new spending, but instead reallocates funding independently authorized and appropriated.

IX. OVERSIGHT FINDINGS & RECOMMENDATIONS

In accordance with clause 3(c)(1) of rule XIII and clause 2(b)(1) of rule X of the Rules of the House of Representatives, the oversight findings and recommendations of the Committee on Small Business with respect to the subject matter contained in the H.R. 1644 are incorporated into the descriptive portions of this report.

X. PERFORMANCE GOALS AND OBJECTIVES

With respect to the requirements of clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the performance goals and objectives of H.R. 1644 is to require an annual report from OCRM to Congress on the performance, cost, and risk associated with 7(a) loans generated through loan agent activity.

XI. STATEMENT OF DUPLICATION OF FEDERAL PROGRAMS

Pursuant to clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, no provision of H.R. 1644 is known to be duplicative of another Federal program, including any program that was included in a report to Congress pursuant to section 21 of Public Law 111–139 or the most recent Catalog of Federal Domestic Assistance.

XII. CONGRESSIONAL EARMARKS, LIMITED TAX BENEFITS, AND LIMITED TARIFF BENEFITS

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee finds that the bill does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(e), 9(f), or 9(g) of rule XXI of the Rules of the House of Representatives.

XIII. FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

XIV. FEDERAL ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

XV. APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

XVI. STATEMENT OF CONSTITUTIONAL AUTHORITY

Pursuant to clause 7 of Rule XII of the Rules of the House, the Committee finds that the authority for this legislation in Art. I, § 8, cl.1 of the Constitution of the United States.

XVII. CHANGES IN EXISTING LAW, MADE BY THE BILL, AS REPORTED

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italics and existing law in which no change is proposed is shown in roman):

SMALL BUSINESS ACT

* * * * *

SEC. 47. OFFICE OF CREDIT RISK MANAGEMENT.

(a) ESTABLISHMENT.—There is established within the Administration the Office of Credit Risk Management (in this section referred to as the “Office”).

- (b) DUTIES.—The Office shall be responsible for supervising—
- (1) any lender making loans under section 7(a) (in this section referred to as a “7(a) lender”);
 - (2) any Lending Partner or Intermediary participant of the Administration in a lending program of the Office of Capital Access of the Administration; and
 - (3) any small business lending company or a non-Federally regulated lender without regard to the requirements of section 23.
- (c) DIRECTOR.—
- (1) IN GENERAL.—The Office shall be headed by the Director of the Office of Credit Risk Management (in this section referred to as the “Director”), who shall be a career appointee in the Senior Executive Service (as defined in section 3132 of title 5, United States Code).
 - (2) DUTIES.—The Director shall be responsible for oversight of the lenders and participants described in subsection (b), including by conducting periodic reviews of the compliance and performance of such lenders and participants.
- (d) SUPERVISION DUTIES FOR 7(A) LENDERS.—
- (1) REVIEWS.—With respect to 7(a) lenders, an employee of the Office shall—
 - (A) be present for and supervise any such review that is conducted by a contractor of the Office on the premise of the 7(a) lender; and
 - (B) supervise any such review that is not conducted on the premise of the 7(a) lender.
 - (2) REVIEW REPORT TIMELINE.—
 - (A) IN GENERAL.—Notwithstanding any other requirements of the Office or the Administrator, the Administrator shall develop and implement a review report timeline which shall—
 - (i) require the Administrator to—
 - (I) deliver a written report of the review to the 7(a) lender not later than 60 business days after the date on which the review is concluded; or
 - (II) if the Administrator expects to submit the report after the end of the 60-day period described in clause (i), notify the 7(a) lender of the expected date of submission of the report and the reason for the delay; and
 - (ii) if a response by the 7(a) lender is requested in a report submitted under subparagraph (A), require the 7(a) lender to submit responses to the Administrator not later than 45 business days after the date on which the 7(a) lender receives the report.
 - (B) EXTENSION.—The Administrator may extend the time frame described in subparagraph (A)(i)(II) with respect to a 7(a) lender as the Administrator determines necessary.
- (e) ENFORCEMENT AUTHORITY AGAINST 7(a) LENDERS.—
- (1) INFORMAL ENFORCEMENT AUTHORITY.—The Director may take an informal enforcement action against a 7(a) lender if the Director finds that the 7(a) lender has violated a statutory or regulatory requirement under section 7(a) or any require-

ment in a Standard Operating Procedures Manual or Policy Notice related to a program or function of the Office of Capital Access.

(2) FORMAL ENFORCEMENT AUTHORITY.—

(A) IN GENERAL.—With the approval of the Lender Oversight Committee established under section 48, the Director may take a formal enforcement action against any 7(a) lender if the Director finds that the 7(a) lender has violated—

(i) a statutory or regulatory requirement under section 7(a), including a requirement relating to credit elsewhere; or

(ii) any requirement described in a Standard Operating Procedures Manual or Policy Notice, related to a program or function of the Office of Capital Access.

(B) ENFORCEMENT ACTIONS.—An enforcement action imposed on a 7(a) lender by the Director under subparagraph (A) shall be based on the severity or frequency of the violation and may include assessing a civil monetary penalty against the 7(a) lender in an amount that is not greater than \$250,000.

(3) APPEAL BY LENDER.—A 7(a) lender may appeal an enforcement action imposed by the Director described in this subsection to the Office of Hearings and Appeals established under section 5(i) or to an appropriate district court of the United States.

(f) REGULATIONS.—Not later than 1 year after the date of the enactment of this section, the Administrator shall issue regulations, after opportunity for notice and comment, to carry out subsection (e).

(g) SERVICING AND LIQUIDATION RESPONSIBILITIES.—During any period during which a 7(a) lender is suspended or otherwise prohibited from making loans under section 7(a), the 7(a) lender shall remain obligated to maintain all servicing and liquidation activities delegated to the lender by the Administrator, unless otherwise specified by the Director.

(h) PORTFOLIO RISK ANALYSIS OF 7(a) LOANS.—

(1) IN GENERAL.—The Director shall annually conduct a risk analysis of the portfolio of the Administration with respect to all loans guaranteed under section 7(a).

(2) REPORT TO CONGRESS.—On December 1, 2018, and every December 1 thereafter, the Director shall submit to Congress a report containing the results of each portfolio risk analysis conducted under paragraph (1) during the fiscal year preceding the submission of the report, which shall include—

(A) an analysis of the overall program risk of loans guaranteed under section 7(a);

(B) an analysis of the program risk, set forth separately by industry concentration;

(C) without identifying individual 7(a) lenders by name, a consolidated analysis of the risk created by the individual 7(a) lenders responsible for not less than 1 percent of the gross loan approvals set forth separately for the year covered by the report by—

(i) the dollar value of the loans made by such 7(a) lenders; and

(ii) the number of loans made by such 7(a) lenders;

(D) steps taken by the Administrator to mitigate the risks identified in subparagraphs (A), (B), and (C);

(E) the number of 7(a) lenders, the number of loans made, and the gross and net dollar amount of loans made;

(F) the number and dollar amount of total losses, the number and dollar amount of total purchases, and the percentage and dollar amount of recoveries at the Administration;

(G) the number and type of enforcement actions recommended by the Director;

(H) the number and type of enforcement actions approved by the Lender Oversight Committee established under section 48;

(I) the number and type of enforcement actions disapproved by the Lender Oversight Committee; and

(J) the number and dollar amount of civil monetary penalties assessed.

(i) BUDGET SUBMISSION AND JUSTIFICATION.—The Director shall annually provide, in writing, a fiscal year budget submission for the Office and a justification for such submission to the Administrator. Such submission and justification shall—

(1) include salaries and expenses of the Office and the charge for the lender oversight fees;

(2) be submitted at or about the time of the budget submission by the President under section 1105(a) of title 31; and

(3) be maintained in an indexed form and made available for public review for a period of not less than 5 years beginning on the date of submission and justification.

(j) ANNUAL REPORT.—

(1) IN GENERAL.—The Director shall submit to Congress, in addition to the report required under subsection (h)(2), an annual report including, for the calendar year covered by the report—

(A) the number of 7(a) agents assisting applicants for loans under section 7(a), disaggregated by 7(a) agents who are attorneys, accountants, consultants, packagers, and lender service providers (as defined by section 103.1 of title 13, Code of Federal Regulations);

(B) the number of fraudulent loans made for which an applicant used services of a 7(a) agent;

(C) the purchase rate by the Administrator of loans for which an applicant used services of a 7(a) agent;

(D) the number and aggregate dollar value of referral fees paid to 7(a) agents, disaggregated by whether the applicant or 7(a) lender paid such fees;

(E) without identifying individual 7(a) agents by name, a consolidated analysis of the risk created by the individual 7(a) agents responsible for not less than 1 percent of—

(i) the dollar value of loans made with the assistance of 7(a) agents; and

(ii) the number of loans made with the assistance of 7(a) agents;

(F) an analysis of interest rates on loans for which an applicant or 7(a) lender used services of an agent; and

(G) a description of how the Administrator communicates with 7(a) agents.

(2) DEFINITIONS.—In this subsection:

(A) 7(A) AGENT.—The term “7(a) agent” means a person who provides covered services on behalf of a lender or applicant.

(B) COVERED SERVICES.—The term “covered services” means—

(i) assistance with completing an application for a loan under section 7(a) (including preparing a business plan, cash flow projections, financial statements, and related documents); or

(ii) consulting, broker, or referral services with respect to a loan under section 7(a).

* * * * *

