STATE AFFAIRS
WISPOLITICS
Wisconsin's Premier Political News Service

# U.S. Rep. Fitzgerald: In The Hill: Local banks know Main Street best

Posted on Friday, Dec 10, 2021

**>> WisPolitics is now on the State Affairs network. Get custom keyword notifications, bill tracking and all WisPolitics content. Get the app or access via desktop.**

**WASHINGTON, DC** – The lender-borrower relationship is crucial for the success of Main Street businesses. This relationship flourishes when local financial institutions, not the federal government, play the lending role.

**In Case You Missed It** via The Hill, read Congressman Scott Fitzgerald's (WI-05) and Congressman Blain Luetkemeyer's (MO-03) opinion editorial on the important role local banks play in the lending process.

**Local banks know Main Street best, not the federal government**

By: Reps. Scott Fitzgerald (R-WIS.) and Blaine Luetkemeyer (R-MO.)

Last year, local banks sprang into action and raced to rescue small businesses reeling from the pandemic and mandated state and local shutdowns. These financial institutions played a critical role in delivering timely aid to businesses struggling to keep their doors open on Main Street.

Now, the Biden administration is rewarding local banks' commendable success by usurping its role in the lending process and resurrecting the Small Business Administration's (SBA) direct lending program. If left in place, the government's expansive role in direct lending will be detrimental to small businesses, local financial institutions, and the American taxpayer.

On Nov. 19, 2021, House Democrats voted to advance the multi-trillion-dollar "Build Back Better" Act. Included in this disastrous bill is a provision to give the SBA approximately $2 billion to create a direct lending option that provides direct-to-borrower loans of $150,000 or less through the existing private lender-driven 7(a) loan program. However, as history has shown, oversight falls by the wayside when

the SBA engages in direct lending.

In 1998, the SBA was forced to shut down its 7(a) direct lending after the agency found that subsidy rates – the amount of support the government, and consequently the taxpayer, provides to businesses – were 10 to 15 times higher than the subsidy rate for its loan guarantee program. Despite this, the SBA has continued to underwhelmingly deliver direct loans through its disaster loan program. In fact, this program was utilized recently throughout the pandemic, and the results have been nothing short of a disaster.

In an October 2020 report, the SBA Office of Inspector General (OIG) warned of widespread fraud in the Economic Injury Disaster Loan (EIDL) program, resulting in more than $78.1 billion in suspected fraudulent loan activity. More recently, the IG reported $4.5 billion in potential fraud in October 2021.

This isn't to say the SBA doesn't provide various helpful programs to support small businesses, including venture capital, technical assistance and training, and contracting opportunities. But the question remains – what do these successful programs have in common? These programs all utilize public-private partnerships which increase small business opportunities and enhance access to capital, a stark contrast to a solely government-run direct loan option.

The SBA was never designed to be a bank. It was designed to "aid, counsel, assist, and protect the interests of small business," and to guarantee loans issued by banks and other financial institutions who have the experience and regulatory safeguards necessary to detect and prevent fraudulent activity.

The Biden administration should be rewarding private financial institutions for their tireless work assisting our country's struggling small business owners, not excluding them from the lending process. These are the same banks that help small business owners navigate the lending process; develop relationships that often transcend business interests; draft a small business model; secure access to capital; and fight for borrowers when the process isn't going their way.

The lender-borrower relationship is crucial for the success of Main Street businesses. By taking financial institutions out of the lending process, the SBA is signaling to these small business owners that their success is second to the growth of the federal government.

As former small business owners and members of the House Small Business Committee, it is our duty to advocate for Main Street U.S.A. That is why our committee is fighting for legislation to prohibit the SBA administrator from directly making loans under the 7(a) loan program. This will ensure small businesses continue to benefit from local lenders' guidance, expertise, and efficiencies.

Despite assurances from the SBA administrator that her agency will be able to create a new direct lending tool in a timely manner, we believe history has a way of repeating itself. If the SBA resurrects direct lending, taxpayers, financial institutions, and small business owners will be at risk.

**Read the full piece in The Hill.**