Consumer Financial Protection Bureau

Taskforce on Federal Consumer Financial Law Listening Session

September 29, 2020
3:00pm to 3:30pm Eastern

Organization: Small Business Administration (SBA)

CFPB Participants: Bill MacLeod, Alex Eckstein, Nat Weber, Jeff Magliato

SBA Participants: Bill Manger Chief of Staff and Associate Administrator for Capital Access, Rob Casapoola Senior Advisor

Purpose: On Tuesday September 29, 2020, Taskforce Member Bill MacLeod and staff met remotely via WebEx with two SBA officials as part of the Taskforce's commitment to engage with external stakeholders to gain insights regarding the financial service industry and financial consumer protection laws. The group discussed opportunities to improve, strengthen, and modernize consumer financial protection laws.

Discussion:

1) Introductions and Opening

Taskforce member Bill Macleod and SBA personnel introduced themselves. Taskforce Staff Director provided background on the Taskforce and explained that this meeting was one meeting in a series that the Taskforce is conducting with federal and state parties.

2) On Inclusion and Access (*see discussion prompts*)

SBA does commercial loans not consumer loans.

SBA loans are used when credit is not available elsewhere. Lender's issuing an SBA loan must certify that the SBA loan is the only available opportunity for the small business to get credit.

There are no minimum amount thresholds to the size of a loan.

Credit decisions are based on the business credit score and the individual credit score. SBA uses a proprietary formula to create a credit score that is then used along with the lender's underwriting criteria to determine lendability. SBA does not share its formula with lenders. SBA believes its blended score is reliable and even more predictive than what is used in the private sector.

In regard to ECOA and Reg B, SBA has an office of Credit Risk Management that takes into consideration discrimination related issues. An outside vendor monitors the SBA loan portfolio (now about $120 billion not including recent PPP loans). SBA described a monitoring process that was more focused on default risk than it is on fair lending risk.

Prior to Cares Act lending, the default rate was very low, less than 1%.

The monitoring process is used to decide the SBA subsidy rate for loans so the monitoring process is continuous.

SBA monitors is detailed. It is able to observe if a particular lender's loans are falling into a pattern that indicates repayment issues. On-site reviews of loan information is conducted to ensure proper underwriting.

3) **On Regulatory Modernization and Flexibility (*see discussion prompts)***

No specific discussion took place about this discussion prompt.

4) **On Competition and innovation (*see discussion prompts)***

A new business owner might use its own personal credit (credit card) to fund a business thus incurring engaging in consumer borrowing, but once that person applies for an SBA backed loan, the SBA loan can only be a commercial debt. SBA only loans to business entities. In fact, when looking at payback likelihood, SBA will only consider funds from the business be loaned to and will not factor in funds from the personal account of a business owner.

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SBA loans are not direct competitors to regular private loans in that they can have far longer repayment periods and they are only available in situations where private loans are not available.

SBA gave no specific definition of a commercial loan other than a loan made to a business for business purposes. The commercial loan can be in any amount there are no limitations/thresholds. They do loans as small as $1000. Their microloan average size is $15,000.

Interest rates are determined by the lending institution using an SBA issued band of rates. The lender decides what to charge based on its risk considerations. Lenders have skin in the game because SBA loans are not 100% guaranteed so lenders face risk which they deal with via underwriting and pricing.

SBA has not studied if competition impacts the ultimate interest rate on a loan. Since loans are only made to borrowers unable to get a loan elsewhere competition may not be much of a factor. Lenders, however, do compete to issue SBA loans so the ultimate rate setting process by a lender could be affected by competition. SBA noted that most businesses approved for an SBA loan do not shop around after as they are grateful to have been gained an approval.

Potential recommendations:

None.

5) Potential Action Items:

None.