NATIONAL ASSOCIATION
OF GOVERNMENT GUARANTEED LENDERS

May 18, 2018

Dr. Khem R. Sharma, Chief
US Small Business Administration
Office of Size Standards
409 Third Street SW, Mail Code 6530
Washington, DC 20416

Re: *Advance Notice of Proposed Rulemaking* – Establishment of a Permanent Alternative Size Standard for 7(a) and 504 Loan Programs – RIN 3245-AG16

Dear Dr. Sharma:

The National Association of Government Guaranteed Lenders (NAGGL) appreciates the opportunity to provide formal comments on behalf of the association's members regarding implementation of a permanent Alternative Size Standard for the US Small Business Administration (SBA) 7(a) and 504 loan programs.

NAGGL believes that the 2010 legislation that made use of the alternative size standard permanent for both loan programs and established an interim alternative size standard allowed increased access to capital for small businesses and simplified and streamlined the process for providing this access. We support the agency's efforts to take the next step in this process by establishing a permanent alternative size standard to be applied to 7(a) and 504 loan program applicants, and potentially also to applicants for assistance under SBA's Economic Injury Disaster Loan (EIDL) program.

In order to provide meaningful comments in response to the agency's *Advance Notice of Proposed Rulemaking* and request for comments, NAGGL conducted a brief survey seeking input from the approximately 572 7(a) lender institutions that are NAGGL members. We received responses from 67 institutions that, together with input provided by NAGGL members in various other forums, are reflected in our responses to each of the agency's specific requests for comments.

Based on input from NAGGL members, it is the association's opinion that the current temporary alternative size standard should be made permanent, and that use of this alternative size standard should be expanded for use by applicants for SBA's EIDL program.

Our comments on each of the specific points raised by SBA are provided as an attachment to this document.

We hope that our comments are helpful as you consider implementation of a permanent alternative size standard. Thank you again for providing this opportunity to make the views of NAGGL's members known to SBA.

Sincerely,

Anthony R. Wilkinson
President and Chief Executive Officer

cc: William Manger, Associate Administrator, Office of Capital Access

Responses to Request for Comments
RIN 3245-AG16

1. *Whether or not the level of the temporary statutory alternative size standard under the Interim Rule (i.e., $15 million in tangible net worth and $5 million in average net income) is appropriate under the current credit environment and as a new permanent alternative size standard.*

An overwhelming majority of the lenders responding to the informal NAGGL survey (59 or 88%) supported making the current temporary alternative size standard permanent. Four of the seven lenders that did not support making the current standard permanent offered alternatives ranging from three lenders who recommended decreasing the standard and one lender who recommended increasing the standard to $20 million in tangible net worth and $7.5 million in average net income.

Based on input received both in response to the survey and anecdotally over time, NAGGL believes that it would be appropriate to make the current temporary alternative size standard permanent. This standard has been in use for nearly 8 years and feedback from NAGGL members indicates that it both simplifies loan application processing and allows a small number of businesses that might not qualify under traditional size standards to be eligible to receive 7(a) financing. We would also note that we have not been made aware of concerns by lenders that the standard has inappropriately excluded businesses from loan eligibility.

As SBA indicated in the Federal Register publication, there is a dearth of information available to provide any scientific basis for supporting a particular alternative size standard. Therefore, NAGGL is unable to provide data or analysis to support making the interim alternative size standard permanent. However, we believe that the fact that the temporary alternative size standard has been in use since 2010 with no concerns that we are aware of having been raised, supports the conclusion that the temporary standard has been appropriate.

2. *Impact of using an alternative size standard on small businesses seeking loans through its Business Loan Programs. Specifically, SBA welcomes information on industries/sectors where small businesses benefit the most or do not benefit at all from the use of an alternative size standard.*

As part of its informal survey, NAGGL asked its 7(a) lender members to identify those industries that may benefit the most from use of the alternative size standard. The responses received varied, but generally covered the entire spectrum of small businesses that might seek SBA-guaranteed financing. The industries that were specifically named included: manufacturers; distributors; high growth industries (e.g., software, technology, professional services); construction firms; warehousing firms; healthcare businesses; big ticket retail businesses (e.g., car dealers); businesses engaged in the hospitality industry; and agricultural businesses. In addition, several commenters mentioned the fact that really all industries benefit from the alternative size standard since it provides a simpler means for testing the size of the business applicant, thus simplifying and streamlining the loan application process.

NAGGL does not have access to data related to the number of businesses that qualified for loans under the alternative size standard that would not have qualified under the traditional revenue and employee size standards, so cannot comment on this issue.

3. *Suggestions on sources of relevant data and information, especially tangible net worth and average net income of applicants to SBA's Business Loan Programs, that SBA can evaluate to assess the impact of the Interim Rule on small businesses and use in developing a new permanent alternative size standard and in estimating the impact of the new permanent alternative size standard.*

Comments from lenders responding to the NAGGL survey generally were consistent with SBA's own conclusions on this issue: there are few sources available to assist in establishing an appropriate alternative size standard. Among the possible date sources mentioned by the institutions that responded to the NAGGL survey were: RMA; Moody's; Dun and Bradstreet; PayNet; IBIS World Industry; any tax return data that might be available from the Internal Revenue Service; survey of business owners in all industries; survey of lenders; and data SBA has available from electronic input of loan application data and via oversight activities. Although not mentioned by survey responders, NAGGL also believes that data from the US Business Census might be helpful.

4. *Proposal to apply the same new permanent alternative size standard established for the Business Loan Programs to the EIDL Program as an alternative to industry based size standards.*

Approximately half of the lenders who responded to NAGGL's informal survey thought that use of a permanent alternative size standard should be expanded to applicants applying for loans under the agency's Economic Injury Disaster Loan (EIDL) program, with another approximately 20% of the responders opposing this action. We believe, however, that the lower support rate for this action may result from lenders' lack of familiarity with the EIDL program.

In separate conversations on this topic, lenders have indicated that access to EIDL funding can make the difference between a business being able to survive a disaster-related interruption of its business and the business' failure. In this regard, one lender pointed out that her experience has been that access to EIDL financing has helped "save" some of her 7(a) borrowers that suffered disaster-related business interruptions, and, on a longer term basis, helped to assure repayment of their SBA-guaranteed loans.

Based on the survey results and other feedback from lenders, NAGGL believes that the alternative size standard should be expanded to EIDL applicants in order to make program eligibility consistent between the regular SBA loan programs and the EIDL program.

5. *How the Interim Rule has affected the processes used by lenders participating in the Business Loan Programs and what effects a permanent alternative size standard would have on application processes and processing times.*

Based on the survey responses and NAGGL's other discussions with its members, we believe that virtually all 7(a) program participants regard the ability to use the alternative size standard as a simplification and streamlining of the 7(a) application process. On this point, one lender commented that "using the alternate standard is a benefit to the banks processing SBA loans because it is the same for all businesses and lenders don't have to look up NAICS codes to get sales or number of employees". That lender further commented that using the traditional size standards takes more time and can be more difficult if the operations of the company involve more than one NAICS code.

As to what effects a permanent alternative size standard would have on application processes and processing times, NAGGL would note that both SBA and lenders participating in the 7(a) program have treated the current "temporary" alternative size standard as if it were permanent. Therefore, we would not expect the establishment of a "permanent" alternative size standard to significantly alter either application processes or loan processing times.

6. *Whether, and to what extent, if any, SBA Business Loans approved under the Interim Rule have substituted for or displaced directly or indirectly conventional small business lending, or whether such SBA Business Loans played more of a supplementary role in conventional small business lending activity.*

As noted in the Federal Register publication, SBA data supports the conclusion that allowing size to be determined based on either the traditional or alternative size standards is believed to have resulted in a slightly larger number of businesses qualifying as small for purposes of accessing SBA-guaranteed financing. However, NAGGL does not believe that this has had any impact on conventional small business lending. We base this opinion on the fact that the statutory credit elsewhere test does not permit SBA to guarantee a loan when credit is available elsewhere. So, access to the alternative size standard means only that a small number of additional businesses are now able to access credit that would not otherwise be available to them in the conventional loan marketplace.