



Testimony of

Alice P. Frazier

President and Chief Executive Officer

Bank of Charles Town

On behalf of the

Independent Community Bankers of America

Before the

United States House of Representatives

Committee on Small Business

Hearing on

“Taking on More Risk: Examining the SBA’s Changes to the 7(a) Program,
Part II”

May 17, 2023

Washington, D.C.

Opening

Chairman Williams, Ranking Member Velázquez, and members of the Committee, I am Alice P. Frazier, President and CEO of the Bank of Charles Town, headquartered in Charles Town, West Virginia. I testify today on behalf of the Independent Community Bankers of America where I am Chair of the Bank Operations Committee and a member of the Board.

Our Story

The Bank of Charles Town, or BCT, was founded in 1871 in Jefferson County, West Virginia by a group of 38 farmers, orchardists, and business leaders who believed a locally based bank would create an economic and stabilizing influence in Jefferson County. Thousands of community banks around the country were founded on that same vision. Today, BCT is a \$790 million asset community bank with 121 employees serving the Eastern Panhandle of West Virginia as well as Hagerstown, Maryland and Loudoun County, Virginia.

BCT has been an SBA lender for over 40 years. I'm proud to say that more than half of our SBA loans over the past 18 months were made to minority or women borrowers. We share with this committee the goal of preserving and protecting the integrity of the SBA 7(a) program while continuing to make prudent loans to smaller and underserved businesses.

Hit the “Pause Button” on New Rules That Imperil the 7(a) Program

The new SBA rules, which were rushed through the process without input from Congress or industry, will undermine this critical goal. We recommend the agency hit the pause button, convene a working group of existing SBA lenders to determine how we can better align the program with the SBA mission of reaching the smallest businesses and entrepreneurs. Current lenders know where the challenges lie and should be given the opportunity to craft a program that works better.

We believe that the SBA's new Small Business Lending Company rule, which will admit nonbank financial technology companies, or fintechs, to the 7(a) program, is a serious threat to

its integrity. Moreover, the new affiliation rule and revisions to the SOP appear to be specifically designed to accommodate nonbank fintechs.

Nonbank Fintech Lending is no Substitute for Community Bank Lending

Online-only lending can never be a substitute for on-the-ground community bank lending. The business model of a nonbank fintech -- snap approval or rejection of loan and quick disbursement of funds – is often not in the borrower’s best interest.

We have a client who had previously obtained two small, quickly disbursed, fintech loans of less than \$30,000 each. The fintech provided no counseling on how to put that money to good use. In fact, he was overpaying himself, resulting in losses year after year. He won a Navy contract but couldn’t find a lender because of his losses. We worked with him to help him understand what lenders look for in reviewing a credit application. Ultimately, we were able to secure for him a \$150,000 SBA loan to support the Navy contract.

The community bank model is quite different. We partner with our small business borrowers and are vested in their long-term growth and success. The reality is that once the loan is funded the relationship is only just beginning. We provide practical, real world business counseling and networking opportunities, particularly for startups, in a way that can never be matched by an online-only lender.

The best thing for an underserved borrower is to work with a lender that is committed to their success. Recently, a small, African American, 8(a) government contractor applied to us for a \$150,000 loan. She had recently won a couple of contracts, but her low credit score made it impossible for us to approve her loan application at that time. Rather than turn her away, we worked with her for a year and a half to increase her credit score, and celebrated when we were able to give her an SBA loan. I cannot imagine a nonbank fintech lender standing by a loan applicant for a year and a half.

SBA Data Shows Strong Lending to Underserved Borrowers

We are committed to working with this committee and the SBA to ensure the 7(a) program is reaching the smallest, underserved borrowers. But I also think we should appreciate what the program is already achieving. For example, according to the SBA's own data, 68 percent of loans in FY 2022 were made to underserved borrowers. This far exceeds the agency's target of 42 percent of loans. Also in FY 2022, one in three 7(a) loans were to minority-owned businesses.

Nonbank Fintech Lending Likely to Result in Higher Defaults and Fraud

I fully expect nonbank fintech loans to have a higher default rate and higher incidence of fraud, similar to the results of the Paycheck Protection Program.

The costs associated with more defaults and fraud will drive fees higher and make the program more costly and less accessible to borrowers. We urge this committee to exercise robust oversight of the 7(a) program with a goal of safeguarding its integrity.

Conclusion

Thank you again for the opportunity to offer my perspective. I'm happy to answer any questions you may have.