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Testimony

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT & REGULATIONS

"Small Business Lending:
Perspectives from the Private Sector"

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Mr. Chairman, Ranking Member Schrader and Members of the Subcommittee,

My name is David Rader and for the past five years I have been the Business Executive responsible for managing Wells Fargo's SBA Lending line of business. I have been employed with Wells Fargo for 29 years and spent most of my career in the small business lending segment, providing capital to small business owners.

Thank you for inviting me here today. I would like to open my remarks with a brief overview of our Wells Fargo SBA Lending business.

Wells Fargo is a national SBA lender that offers all core SBA (7a) and 504 loan products. We have over 350 dedicated and knowledgeable SBA team members who are located in our community banking stores and at six centralized credit and three centralized closing processing centers around the country. We are a growing and profitable business for Wells Fargo, holding loan balances of $7 billion dollars.

For the past three years, Wells Fargo has been the nation's #1 7(a) dollar lender. For fiscal year 2011, we approved more than $1.2 Billion 7(a) loan dollars representing 3,142 loans. In 2011, despite the sluggish economic recovery, Wells Fargo made history by becoming the first institution to generate over a billion dollars of 7(a) loans in a single year. Our lending trend continues today and for the eight months ending in May 2012, Wells Fargo remains the #1 SBA 7(a) dollar lender. We have generated $734 million 7(a) loan dollars, and we are the #2 unit lender with 1,995 loans. These dollars represent a significant number of both large and small loans, with a combined average loan size of approximately $368,000 (7a only). Wells Fargo believes that the flow of new loan dollars into our communities represents a very powerful statement for job creation and economic development. We want to lend more dollars to more credit worthy customers and we believe the SBA agency is aligned with Wells Fargo to achieve this goal.

As the SBA's largest preferred (PLP) 7(a) dollar lender, Wells Fargo increased staffing levels and made significant investments of time and resources to support the SBA programs and make sure we prudently follow the SBA standard operating procedures (SOPs). We are adding more "feet on the street" and investing in training, systems and technology to ensure we are available to meet the needs of our customers.

Wells Fargo greatly appreciates the very constructive engagement of SBA and the interest in lenders' perspectives in meeting small business owners financing needs. We regularly participate with the SBA in an ongoing dialogue on credit policy issues, oversight processes and program enhancements. We also believe there are opportunities to improve the programs and streamline the very complex and rigid Standard Operating Procedures (SOPs) to the benefit of our customers.

The agency's efforts to reduce regulation over the years, especially the SOPs, are welcome. In Well Fargo's view, the SOPs can be further clarified and distilled for benefit of both lenders and borrowers. If process becomes too detailed, it is our borrowers that are ultimately impacted. For example, the prior SOP, published September 30, 2011, lacked clarity surrounding stock ownership rules and EPC/OC structure rules. As a result, it caused many industry lenders to seek standard processing approval versus PLP processing approval, which results in customer delays.

Secondly, when SOP changes are made, the agency must provide the industry with enough lead time to educate, train and develop internal risk and closing systems so we are equipped to best serve our customers, answer their questions and make loans with enforceable guarantees.

We believe there can be much more transparency in the SOP vetting processes – both with the SBA and lending industry at-large, as well as with the SBA and Office of Inspector General (OIG). From our vantage point, the OIG continues to be *too* deeply involved in the SOP formation and vetting process. We find this internal SBA/OIG vetting process unclear, and we are often surprised at the outcome, hampering our ability to react and train our teams. We suggest that the SBA give lenders an opportunity to review and comment on any final recommended SOP changes at least 30 days prior to the final release. The recent SOP change notice of May 25, 2012 with an effective date of June 1, 2012 did not do this.

We would also recommend that the SBA Agency and Office of Inspector General improve current SOP policies/procedures to speed up access to capital:

a. Eliminate the requirement for "blue ink" signatures on necessary SBA forms. Today, the IRS and the courts accept electronically signed documents and signatures. We encourage the SBA to do the same.
b. Shorten the time span for 912 approvals – why does it take 10-12 weeks?
c. Allow loans to individuals when there is a change of ownership transactions involving stock purchase rather than asset purchase.
d. Allow all 7(a) loans under $350,000 to be approved and processed under the SBA Express Loan Process using lender's delegated authority.
e. Disclose and document all new required form changes concurrently with issuance of new SOP's.

These are just a few suggestions; there are others.

Wells Fargo continues to urge SBA to focus its resources on streamlining and improving *existing* 7(a) and 504 loan programs rather than creating new spinoff programs that serve a limited niche and are confusing to customers. The recently revised CAPLine program is a great example of SBA listening to borrowers and the lending community. The Agency made substantive changes to a dormant program, enhancing it and making it into a viable, workable lending tool, able to meet the working capital needs of small businesses.

Wells Fargo welcomes practical and prudent *lender oversight* that maintains the integrity of the industry and penalizes those lenders who put tax payer money needlessly at risk. We acknowledge that strong lender oversight will ensure a level playing field and make the programs more consistent, more cost effective and easier to use for our customers. Wells Fargo views each SBA on-site review process as rigorous and an opportunity to learn and improve. We take pride in our consistent and substantial compliance with SBA regulations. We welcome the recent appointment of the new Director for the Office of Credit Risk

Management (OCRM) and look forward to a new era of collaboration as the Agency ushers in a new era of transparency and collaboration. OCRM's willingness to discuss key portfolio monitoring elements such as the SBA Lender portal and portfolio credit scoring processes are welcomed changes we have sought.

As we all work together to stimulate small business lending, Wells Fargo continues to be optimistic about our ability to help businesses succeed financially and want to work with them to fulfill their financial dreams. We are confident that we will continue to maintain our #1 SBA national lending status and be good stewards of the program. We look forward to our on-going dialogue and our partnership with the Small Business Administration.

Mr. Chairman and Members of the subcommittee thank you and I would be glad to answer any questions.