

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SBA's Awarding of Small Business Lending Company Licenses



Evaluation Report

Report 25-08

February 13, 2025



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NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.



U.S. Small Business Administration Office of Inspector General

EXECUTIVE SUMMARY

SBA's Awarding of Small Business Lending Company Licenses (Report 25-08)

What OIG Reviewed

A Small Business Lending Company (SBLC) is a non-depository lending institution that is licensed and authorized by the U.S. Small Business Administration (SBA) to make loans pursuant to Section 7(a) of the Small Business Act and loans to intermediaries in SBA's Microloan Program.

On August 17, 1981, SBA imposed a moratorium on licensing new SBLCs because it did not have adequate resources to effectively service and supervise them. On April 12, 2023, SBA lifted the moratorium. During the moratorium the number of SBLC licenses remained unchanged at 14.

On May 22, 2023, SBA announced that it was opening the application period for three new SBLC licenses from June 1 to July 31, 2023.

On November 1, 2023, SBA announced that it issued three new SBLC licenses to lenders focused on underserved markets, including small businesses in native, rural, and low-income communities. These licenses went to Arkansas Capital Corporation, Alaska Growth Capital BIDCO, Inc., and FC SBA Lending LLC. This increased the total number of licenses to 17.

Our objective was to assess SBA's process for awarding SBLC licenses and its compliance with licensing procedures.

What OIG Found

SBA complied with its licensing procedures when it awarded the three new SBLC licenses in fiscal year 2024. SBA's procedures included an evaluation of qualitative factors required in the SBLC application and a comprehensive assessment of other factors that gauged each

applicant's strengths and limitations. These factors included, but were not limited to, historical performance measures, whether the applicant was subject to any legal proceedings, and the applicant's affiliation with lenders or lender service providers previously sanctioned by SBA.

Additionally, the application evaluation process included reviews by different personnel across multiple SBA offices.

We reviewed the applications for the three awarded licenses and determined they contained all the information SBA required. We also reviewed SBA's evaluation process and found the agency reviewed each application according to its criteria.

What OIG Recommended

We did not make any recommendations.

Agency Response

This report does not contain any recommendations and the Agency did not provide any comments on this report.



**OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

MEMORANDUM

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Date: February 13, 2025

To: Everett Woodel, Jr.
Acting Administrator

From: Sheldon Shoemaker
Deputy Inspector General

A handwritten signature in black ink that reads "Sheldon Shoemaker".

Subject: SBA's Awarding of Small Business Lending Company Licenses (Report 25-08)

This report presents the results of our evaluation of SBA's Awarding of Small Business Lending Company Licenses. This report does not contain any recommendations, and the Agency did not provide any comments on this report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Wesley Coopersmith, Chief of Staff
Ben Grayson, Deputy Chief of Staff
James "Chris" Stallings, Acting Associate Administrator, Office of Capital Access
John Miller, Deputy Associate Administrator, Office of Capital Access
Peter Meyers, Senior Advisor, Office of Capital Access
Wendell Davis, General Counsel, Office of General Counsel
Lisa Lopez-Suarez, Attorney Advisor, Office of General Counsel
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Deborah Chen, Deputy Chief Financial Officer, Office of Performance, Planning, and Chief Financial Officer
Katherine Aaby, Associate Administrator and Chief Financial Officer, Office of Performance, Planning, and Chief Financial Officer
Tonia Butler, Office of Internal Controls, Office of the Chief Financial Officer
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Introduction

This report presents the results of our evaluation of the U.S. Small Business Administration's (SBA) awarding of Small Business Lending Company (SBLC) licenses. Our scope of work covered the three SBLCs that were awarded licenses in fiscal year (FY) 2024.

Background

An SBLC is a non-depository lending institution that is licensed and authorized by SBA to make loans pursuant to Section 7(a) of the Small Business Act and loans to intermediaries in SBA's Microloan Program.¹ An SBLC license allows the lending company to use government guarantees when underwriting small business loans to reduce the level of risk to the lender and cost to the borrower. SBLCs are positioned to write a higher volume of loans to small businesses because of a government guarantee and are:

- supervised and examined solely by SBA at the federal level;
- subject to additional SBA Loan Program requirements including, but not limited to, regulations specific to SBLCs regarding formation, capitalization, and enforcement actions; and
- subject to all other 7(a) Loan Program requirements including, but not limited to, those specific to origination, servicing, and liquidation.

The Small Business Act states that SBA shall authorize lending institutions and other entities, in addition to banks, to make 7(a) loans.² SBA has authorized SBLCs, as defined by SBA regulations, to participate in the 7(a) Loan Program.³ On August 17, 1981, SBA proposed a moratorium on licensing new SBLCs because it did not have adequate resources to effectively service and supervise them, and on April 12, 2023, SBA announced it was lifting the moratorium on licensing new SBLCs. During the moratorium the number of SBLC licenses remained unchanged at 14.

On May 22, 2023, SBA announced that it was opening the application period for three new SBLC licenses from June 1 to July 31, 2023.⁴ SBA's process to award new SBLC licenses was outlined in

¹13 C.F.R. Part 120, Subpart G, §120.700. The Microloan Program assists women, low-income individuals, minority entrepreneurs, and other small businesses which need small amounts of financial assistance. Under this program, SBA makes direct and guaranteed loans to intermediaries who use the proceeds to make loans to eligible borrowers.

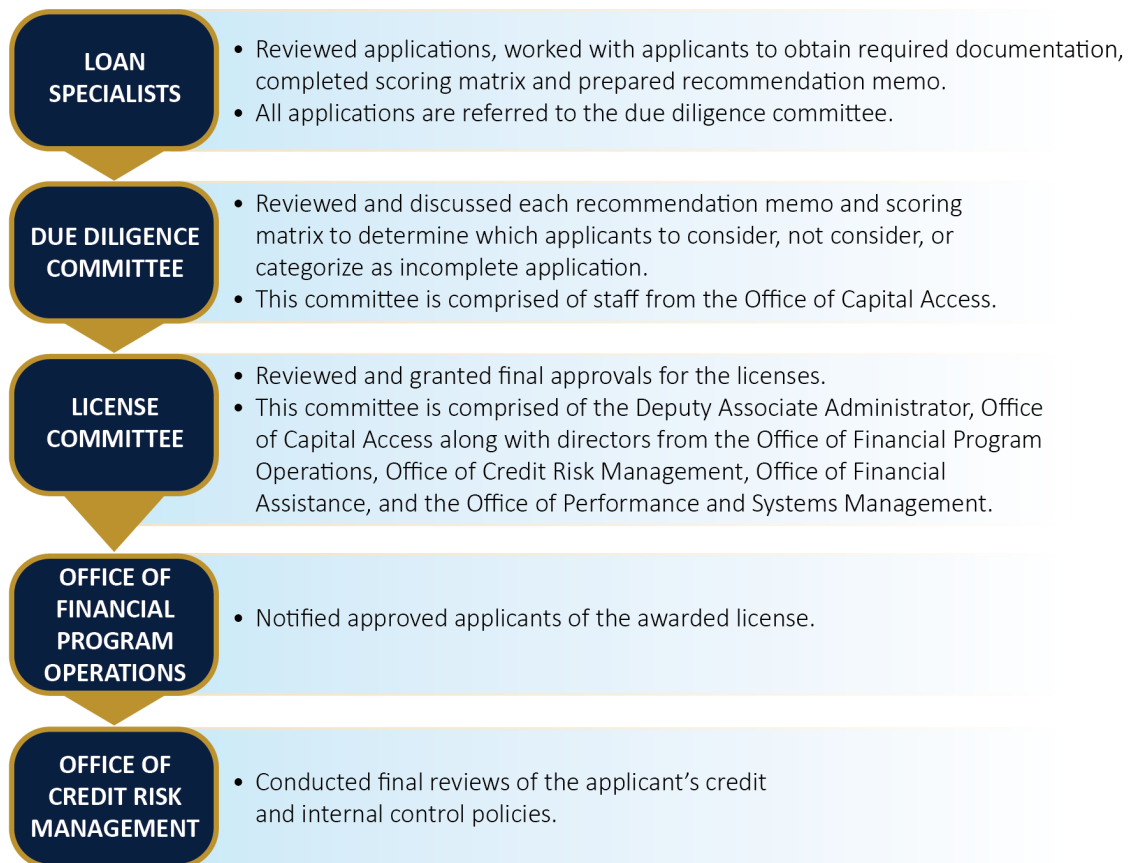
² Small Business Act §7(a)(17).

³ 13 C.F.R. §120.10.

⁴ 88 *Federal Register* 32623 - Small Business Lending Company Application Process, May 22, 2023.

the May 22, 2023, *Federal Register* notice announcing the open application period which included information on SBLC requirements, the SBLC application procedure, and the SBLC evaluation process. The notice was based on existing criteria in SBA regulations and standard operating procedures. The application evaluation process included reviews by different personnel across multiple SBA offices (see Figure 1).

Figure 1: SBA Reviews for SBLC Licenses



Source: OIG-generated based on process information provided by SBA officials.

On November 1, 2023, SBA announced that it issued three new SBLC licenses to lenders focused on underserved markets, including small businesses in native, rural, and low-income communities. These licenses went to Arkansas Capital Corporation, Alaska Growth Capital BIDCO, Inc., and FC SBA Lending LLC. As of November 1, 2023, there were 17 SBLC licenses in the marketplace.

In June 2024, FC SBA Lending LLC merged with another lender that had an SBLC license. Therefore, FC SBA Lending LLC voluntarily returned its newly granted SBLC license to SBA prior to making any 7(a) loans. SBA then retired the license. On August 9, 2024, SBA announced a new

application period for up to three additional SBLC licenses from September 2 to October 15, 2024.

Objective

Our objective was to assess SBA's process for awarding SBLC licenses and its compliance with licensing procedures.

Results

SBA complied with its licensing procedures when it awarded three new SBLC licenses in FY 2024. SBA's procedures included an evaluation of qualitative factors required in the SBLC application and a comprehensive assessment of other factors that gauged each applicant's strengths and limitations. These factors included, but were not limited to, historical performance measures, whether the applicant was subject to any legal proceedings, and the applicant's affiliation with lenders or lender service providers previously sanctioned by SBA. Additionally, the application evaluation process included reviews by different personnel across multiple SBA offices. We reviewed the applications for the three licenses and determined they contained all the information SBA required. We also reviewed SBA's evaluation process and found that SBA reviewed each application according to its review criteria.

SBA Complied with Procedures When Awarding SBLC Licenses

SBA used multiple factors in its decision making to award three new SBLC licenses that included a review of the strengths and weaknesses of each applicant. These factors included the applicant's:

- prior commercial lending experience;
- cash position;
- focus on underserved markets;
- projected average loan size; and
- projected loan volume.

Two of the three selected SBLC licensees, Arkansas Capital Corporation and Alaska Growth Capital BIDCO, Inc., were existing 7(a) lenders with extensive SBA lending experience, a history of focusing on underserved markets, qualified professional management teams, and well-developed business plans. SBA selected the third SBLC licensee, FC SBA Lending LLC, based on its cash position, projected loan volume, and a smaller projected average loan size.

SBA deemed an SBLC with a smaller average loan size could play a crucial role in better serving the needs of underserved markets.

We reviewed the three applications selected for the SBLC licenses and determined they contained all the information outlined in the *Federal Register*⁵ such as:

⁵ 88 *Federal Register* 32623 - Small Business Lending Company Application Process, May 22, 2023.

- certificate of incorporation or formation;
- identification of all classes of equity capital and proposed funding amounts;
- identification of key employees;
- a comprehensive business plan explaining lending operations and 3 years of loan activity projections;
- financial statements; and
- legal opinion on whether the SBLC is duly formed and has the legal right to enter into the proposed transaction.

SBLC Licensing Evaluation Process

We found SBA reviewed each SBLC application according to its review criteria and adequately supported the selection of the three new SBLC licenses. Specifically, SBA considered the following factors in its evaluation of SBLC applications:

- lending policies of the proposed SBLC, including those for non-SBA loans, and their alignment with SBA's mission;
- historical performance measures;
- whether the applicant is subject to any legal proceedings, enforcement action, order or agreement with a regulator or the presence of other related concerns;
- small-dollar lending for underserved markets;
- affiliation with lenders or lender service providers previously sanctioned by SBA; and
- reviews of credit and internal controls policies.

Overall, we found that SBA complied with licensing procedures when it awarded three new SBLC licenses in FY 2024; therefore, we are not making any recommendations.

Appendix 1: Scope and Methodology

This report presents the results of our evaluation of the Small Business Administration's (SBA) awarding of Small Business Lending Company (SBLC) licenses. Our objective was to assess SBA's process for awarding SBLC licenses and its compliance with licensing procedures. Our scope of work covered the three SBLCs that were awarded licenses in fiscal year 2024. Our scope did not include Community Advantage SBLCs.

To answer our objective, we reviewed laws, regulations, policies, and procedures pertaining to SBLC requirements. We interviewed SBA officials from the Office of Capital Access to gain an understanding of SBLC program requirements and analyzed the applications for the three new SBLCs to identify whether they contained all of the required information. We then reviewed SBA's evaluation process to determine whether SBA reviewed each of the three SBLC applications according to its review criteria and adequately supported the selection of the three new SBLCs.

We performed this review in accordance with the Council on Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require that we adequately plan and perform the evaluation to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our objective.

Use of Computer-Processed Data

We did not rely on computer-processed data to conduct our evaluation.

Prior Audit Coverage

The OIG did not identify any prior audits or reviews related to the objective of this evaluation.