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SBA Reverses Biden-Era Loan Policies, Citing $397M Deficit and Surge in Defaults

Matt Coleman, who oversees SBA operations in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands, said Biden-era mismanagement “left taxpayers on the hook for $400 million last year,” marking the 7(a) loan program’s first deficit since 2011.

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The U.S. Small Business Administration has announced a sweeping rollback of Biden-era policies that the SBA says had significantly loosened underwriting standards for the agency’s flagship 7(a) loan program—a move SBA officials say endangered both the program’s long-term viability and taxpayer dollars.

Under the direction of newly appointed SBA Administrator Kelly Loeffler, the agency says it will restore robust lending criteria and reimpose lender fees to curb what it describes as a rising tide of borrower defaults. “The last Administration inherited a thriving 7(a) loan program but left it in critical condition—dismantling every common-sense guardrail that kept it solvent and self-sustaining,” Loeffler said in a statement. “From slashing lender fees to destroying underwriting standards, Biden’s reckless policies have triggered a surge in defaults which now threatens the viability of the program along with its risk to taxpayers.”

The SBA’s 7(a) loan program provides government-backed loans through private lenders to small businesses that are otherwise unable to secure traditional financing. By law, the program must operate at “zero-subsidy”—meaning it should pay for itself through fees collected from lenders to cover potential borrower defaults.

However, under President Joe Biden’s administration, those lender fees were eliminated and replaced with a more relaxed underwriting approach known as “Do What You Do.” The new standard allowed lenders to apply their own internal criteria to assess risk, replacing previously mandated SBA benchmarks, according to the release.

The result, according to the SBA, was predictable: a sharp increase in loan delinquencies and defaults. With fee income reduced and risk increased, the 7(a) program posted a $397 million negative cash flow in 2024, marking its first deficit in over a decade.

“This is the first time the program has gone negative since 2011, during the Obama Administration,” said Matt Coleman, SBA Atlantic Regional Administrator, who oversees operations in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands. “The Biden-Harris administration’s failure to respect public funds left taxpayers on the hook for $400 million last year.”

Coleman praised the Trump administration and Administrator Loeffler for acting decisively. “These new efforts completely realign the SBA’s vaunted 7(a) program with responsible lending practices, safeguarding taxpayer dollars and ensuring the lending program’s long-term viability for American small businesses and entrepreneurs.”

In March, the SBA reinstated lender fees in an effort to stabilize the program and offset the financial fallout. Today, the agency unveiled SOP 50.10.8, a new procedural framework that formally eliminates the “Do What You Do” policy and restores the stricter lending standards that existed before the Biden administration.

The updated SOP also reinstates and streamlines the Franchise Directory, which helps lenders determine which businesses are eligible for SBA-guaranteed loans.

The SBA’s changes are part of a broader effort by the Trump administration to restore what it sees as fiscal discipline to federal lending programs and to promote economic sustainability for small businesses. According to the agency, future adjustments to the 7(a) program will continue to focus on reducing taxpayer exposure while preserving access to capital for qualified entrepreneurs.