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SBA REAUTHORIZATION: PROGRAMMING FOR SUCCESS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

JUNE 4, 2003

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ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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C O N T E N T S

SBA REAUTHORIZATION: PROGRAMMING FOR SUCCESS

WEDNESDAY, JUNE 4, 2003

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 2:05 p.m., in Room SR–428A, Russell Senate Office Building, Hon. Olympia Snowe, Chair of the Committee, presiding.

Present: Senator Snowe.

OPENING STATEMENT OF HON. OLYMPIA SNOWE, CHAIR, SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP, AND A UNITED STATES SENATOR FROM MAINE

Chair SNOWE. The hearing will come to order.

I want to say how much I welcome the Administrator here this afternoon to our hearing on the reauthorization of the Small Business Administration and its programs. I welcome you, Mr. Barreto, here today to join in the discussion on some of the issues as we prepare for the reauthorization process.

This is the last in a series of hearings, as well as roundtables, that the Committee has been holding to examine the entire range of SBA programs that are designed to serve the needs of America's small businesses and the entrepreneurs of tomorrow.

In March, we began this endeavor by focusing on the SBA's contracting programs and the problem of contract bundling. We heard testimony about the nearly $235 billion in federal contracts awarded in Fiscal Year 2001. While this figure overall represents an 11 percent increase over the amount spent 5 years earlier, there have been a steady decline in the number of small businesses receiving new contract awards. Since 1991, the pool of small business contractors receiving new contract awards has declined by more than 50 percent.

So the testimony was clear that significant changes needed to be made if federal agencies are to meet the goal of ensuring that at least 23 percent of the value of federal contracts go to small enterprises.

In April and May, we conducted a thorough review of the agency's various programs through a series of roundtables. On April 9th we heard about the impressive track record of the SBA's Office of Advocacy, which is an invaluable voice for small business within the Administration, and has produced an estimated $21 billion in regulatory cost savings for small businesses in Fiscal Year 2002.

Our roundtable also examined the individual entrepreneur development programs the SBA offers to small businesses, the Small Business Development Centers, the Women Business Centers, the Service Corps of Retired Executives, and a host of other programs that assist small firms and individuals to try to create their own small businesses.

We are also looking carefully at the SBA's Government contracting and business development programs which assist small businesses in competing for the business of the Nation's largest consumer, which of course is the Federal Government.

The conclusion is while there are some programs that are working well at SBA, there are insufficiencies that we can address to ensure that small businesses get the assistance that they require through start up and operations. Once operating, these small businesses should be assured that the SBA can deliver solid Government contract assistance through experienced SBA personnel.

Finally, in our two roundtables that were held on April 30th and May 1st, we focused on the SBA's lending and investment capital programs. The 7(A) and 504 loan programs are two of the most useful and critical resources the agency has to offer small businesses that continue to seek capital to operate their businesses as well as to grow and expand.

I was pleased to learn that the SBA is continuing to improve these programs through new initiatives like the SBAExpress Program. These loan programs have a solid record of helping small businesses create and retain more than 2 million jobs, and I plan to build upon the success by working through the reauthorization program to make these programs more efficient, more user-friendly for small businesses that seek capital to strengthen their enterprise.

Similarly, the SBA's investment capital programs have been significant sources of long-term capital for small enterprises. The past few years have been a difficult time for businesses seeking venture capital. But these programs have kept venture capital at far greater levels than would otherwise have been the case.

The SBIC program alone has made more than 16,000 investments in small businesses since the start of Fiscal Year 1999 totaling almost $17 billion. Moreover, these investments have supported approximately 481,000 jobs in small businesses.

With a significant record on the SBA's program, their strengths and weaknesses already in hand, today we complete our fact-finding with a final hearing and a special guest, the SBA Administrator. Throughout the past 3 months, our focus has been on the agency's success stories, what has been helping small businesses the most, why it has worked, and how can that success be applied to other programs.

This afternoon I certainly look forward to listening to the Administrator about the SBA's proposals for improving the agency's ability to respond to the many challenges facing existing small businesses and the increasing number of new startups. I know the SBA has offered a package of legislative proposals over the next several years and I am eager to hear about those proposals and how they will enable SBA to build upon its record of success, particularly this year when the SBA celebrates its 50th anniversary.

So Mr. Barreto, we are very pleased to have you here this afternoon. This is an important hearing because it will help us to work through some of the issues that are important to the agency and highlight the leadership that you have provided to the agency. I want to commend you for that. We want to work with you throughout this reauthorization process to succeed in reaching some decisions on those programs that have really worked well for small businesses and to see what we can do better in the future.

So I welcome you, Mr. Barreto. You can begin and I will submit your full testimony in the record.

STATEMENT OF HON. HECTOR V. BARRETO, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Administrator BARRETO. Thank you very much, Madame Chair.

Thank you for inviting me here today to discuss the President's budget request and reauthorization package for the U.S. Small Business Administration for Fiscal Year 2004.

As you know, President Bush and his Administration are dedicated to serving and protecting America's small businesses. The President appreciates the enormous contributions that small business makes to our country and his domestic policy agenda reflects that appreciation. The Jobs and Growth Act was a good example of how the President is working to help small business. From the rate reductions that will help small business owners who file their business income on their personal returns to quadrupling the expensing limits for business equipment, small business owners are one of the main beneficiaries of the Jobs and Growth Act.

The budget request and reauthorization package for the SBA also reflects the President's faith in small business and this Administration's desire to serve the small business community. To support the President's small business agenda, the SBA is focusing on three strategic goals. First, SBA is championing small business by minimizing the regulatory burden, providing easily accessible information about regulatory compliance and ensuring that regulatory process treats small businesses fairly.

Second, SBA is empowering entrepreneurs by increasing access to capital and information, technical assistance and counseling, as well as increased access to procurement opportunities.

Third, SBA is continuing to play a vital role in helping businesses and families recover from disasters.

When I testified before Congress last year, I testified about the challenges facing SBA. Today, I am pleased to report that this Administration has met those challenges and has significant accomplishments to report to you. For example, our new econometric model for the 7(A) Loan Guarantee Program will enable SBA to allocate resources more effectively, determine program costs more precisely, and increase its ability to target loans to aspiring entrepreneurs. The model improves the Government's ability to forecast loan performance by accounting for a wider range of economic factors, as well as a wider variety of loan characteristics.

We are also changing the way that SBA delivers services to its customers. Today, we are implementing our transformation efforts with a 3-district pilot program. We have worked hard to ensure the success of SBA's transformation efforts and to address the concerns raised by our congressional partners in formulating this plan.

SBA has also taken steps towards a more modern oversight system for our lending partners. SBA contracted with Dun & Bradstreet to develop a new loan monitoring system that meets our needs for lender oversight. I believe we have made great strides in these areas and others, and I respectfully ask for your support of the President's Fiscal Year 2004 budget request for the SBA.

The President's plan proposes a total Fiscal Year 2004 appropriation of $797.9 million. It maintains the spending level proposed for Fiscal Year 2003 and would provide substantial levels of credit, capital, procurement, and entrepreneurial development assistance to small businesses. This fiscally sound budget would provide more than $20.8 billion in small business loans, loan guarantees, and venture capital, and more than $760 million in new disaster loan funds for victims of natural disasters. It includes funding for $9.3 billion in guaranteed loans under the 7(A) program, as well as more than $115 million for the agency's technical assistance programs.

This budget proposal demonstrates that SBA, under the President's management agenda, is seeking ways to serve the Nation's small businesses more efficiently and ensure economic security by creating jobs. A prime example of this comes in the request for the 7(A) Loan Guarantee Program, SBA's flagship program. Earlier in Fiscal Year 2003, to deal with the effects of lowered fees on 7(A) loans, SBA instituted a cap of $500,000 per 7(A) loan. The emphasis on smaller loans enabled us to leverage resources and provide an increased number of loans to emerging markets. This put SBA ahead of its 7(A) lending goals in every category for Fiscal Year 2003, including 35 percent ahead to women-owned businesses, 65 percent ahead to African-American owned businesses, 39 percent to Hispanic-owned businesses, and 31 percent to veteran-owned businesses.

By focusing on smaller average loan size, we are assisting more small businesses and creating more jobs. In 2002, we estimate that our Capital Access Programs helped create or retain 573,000 jobs. Historically, we calculated the job creation and retention by estimating one job created or retained for every $32,000 lent. Using our portfolio data, we found that loans under $50,000 give the greatest return in job creation, with $14,700 in loan dollars creating one job, whereas loans between $1 million and $2 million require $140,000 to create one job. Smaller loans have a true win-win track record.

To date SBAExpress and smaller loans in general tend to have lower default rates than larger loans. The growth of SBAExpress, a program offering efficiency that is attractive to borrowers and lenders alike, is a testament to its value to our private sector partners. Lenders want to help budding entrepreneurs, and SBA is committed to working with them to accomplish that goal.

We will also promote smaller loans by expanding the lending program to allow 1,500 credit unions to join our network of lenders, a potential increase of some 30 percent in the number of outlets for capital for small businesses.

The budget request will enable SBA to provide $4.5 billion in loans through the 504 Certified Development Company Program with no cost to taxpayers. The 504 program, which was established to increase long-term fixed asset funding, has always had a job creation goal and SBA recognizes the need to increase access to 504 loans.

The budget request includes $8.8 million to continue implementation of SBA's transformation efforts. These efforts are crucial to the agency's continued relevance in its second half century. In recent years, SBA's program delivery has changed dramatically, but SBA has not adapted to these changes. Through transformation, SBA will shift field office efforts from administrative functions such as loan purchases and liquidation functions to more direct relationships with customers and resource partners. This new approach will empower SBA to serve more small businesses.

SBA carefully negotiated the implementation of the pilots with its union and they are currently underway. We will evaluate the results of these pilot programs and incrementally expand the successful practices to more offices until all of the SBA has been transformed.

The transformation plan is linked with SBA's implementation of the President's management agenda which emphasizes better management of the Federal Government through five key areas: human capital, competitive sourcing, E-government, integration of budgets and performance, and improved financial management.

The budget requests $16.5 million, including $8.8 million for the transformation plan, to support the agency's execution of the President's management agenda.

SBA requests $2.3 million to streamline business processes to reduce costs and to improve customer service and $1.7 million to support SBA's information technology infrastructure.

SBA's Fiscal Year 2004 budget request includes level funding for entrepreneurial development programs, SCORE and the SBDC, the women's business centers, and business information center networks. It is often said that access to information is the key to small business success.

The budget request includes continued funding for the agency's Disaster Assistance Program. SBA works closely with the Federal Emergency Management Agency to assist small businesses and individuals directly affected by disasters to get them back on their feet in times of trouble.

At the SBA, we are proud of what we have accomplished over the past year and over the past 50 years. While we take pride in our achievements, we are not going to rest on our laurels. We continue to look ahead, and SBA's Fiscal Year 2004 budget request offers an opportunity for us to work together with you to ensure that SBA continues to assist small businesses into the next half-century.

I would now like to address the first part of our legislative proposal for reauthorization. We are asking Congress to extend the reauthorization of SBA's programs to a 6-year cycle. Over the years, our private sector partners have spoken about the problems they face due to crises of confidence in the public sector. There is no surer sign of the Administration's confidence and support than our proposal.

This is something our SBIC partners can show the markets and allow CDCs time to plan further into the future. It will not affect the oversight authority of Congress, which has been exercised many times over the years regardless of program authorization.

Specifics of our legislative proposal, explained in greater detail in my submitted written testimony, are as follows. We propose changes to update SBDC assistance by encouraging new technologies, creating a virtual SBDC, analyzing local economic development needs, and increasing the capacity of the SBDC and Women Business Center clearinghouses. This will significantly expand sharing of SBDC information, leverage resources, and support the integration of entrepreneurial development programs.

Because of our strong support for women business centers, we do not believe the reauthorization of sustainability is the best way to serve them. The pilot requires SBA to spend 30.2 percent of the women's business center budget on sustainability grants. After funding existing centers and the sustainability requirement, little is left for new centers, ideas, or for outreach. Sustainability locks in the status quo.

With the funding currently dedicated to sustainability, the SBA estimates that an additional 24 centers could be opened. Currently, there are no centers in Nevada or Delaware or the city of Los Angeles. Sustainability is preventing the WBC program from reaching women in more than a dozen cities.

Madame Chair, I appreciate your work on S. 1154. Our staffs have been talking and I look forward to working on this program with you.

SBA is also proposing competition for the SBDC program. The process would be phased in with strong performing centers flourishing and underperforming centers working to improve their performance and prove their value to the small business community. Women business centers compete, why should SBDCs remain a monopoly, under a system that prohibits other potential service providers from even offering their services.

SBA is also proposing changes to the 7(A) program to clarify SBA's approach, authority to regulate small business lending companies, and carry out the SBA's fiduciary responsibilities. Currently, SBLCs have no federal regulator, yet carry out approximately 20 percent of all SBA lending.

We have proposed two changes to the Microloan program, one regarding eligibility requirements for participation, and the second repealing the current limits on the use of technical assistance funds. This will allow additional qualified intermediaries into the program, and we propose to give them flexibility to best serve microborrowers.

SBA is also proposing changes to the loan loss reserve for the 504 Premier Certified Lending Program. The original formula requires loss reserves that financially strain CDCs. SBA's proposal is less restrictive to a risk-based system that will encourage CDCs to participate in PCLP lending.

SBA proposes a statutory modification to increase fees for the SBIC Participating Securities Program to maintain the program's zero subsidy. This change is not due to any failure of the program but due to a drop in the Treasury rates reflecting in reduced participation agreement returns. If this change is not enacted, the program will require an appropriation.

SBA also proposes changes to allow participating security SBICs to make increased distributions to the SBA and to allow SBICs the flexibility to invest idle funds in securities.

Madame Chair, this concludes my testimony and I am happy to answer any questions you might have at this time. Thank you very much.

[The prepared statement of Mr. Barreto follows:]

STATEMENT OF
HONORABLE HECTOR V. BARRETO
ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION
SBA'S FISCAL YEAR 2004 BUDGET REQUEST
AND PROGRAM REAUTHORIZATION
BEFORE THE
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
UNITED STATES SENATE
JUNE 4, 2003

Madame Chair, Ranking Member Kerry, and members of the Committee, thank you for inviting me here today to discuss the President's Budget Request and Reauthorization package for the U.S. Small Business Administration (SBA) for Fiscal Year (FY) 2004.

President Bush understands the vital role that America's small businesses play in creating opportunities. He also recognizes that as we look toward economic recovery, small businesses play a leading role, and that, in such times, it is small businesses that account for virtually all new jobs.

Therefore, to support this vital sector of the American economy, the President has designed a small business agenda that bolsters small business and creates an environment in which entrepreneurship can flourish. This agenda includes: broad tax relief aimed at boosting small business growth, providing small businesses with the information they need to succeed, ensuring full access to government contracting opportunities, and tearing down regulatory barriers to job creation for small business by giving them a voice in the complex and confusing federal regulatory process.

By accelerating tax reductions that were enacted in the 2001 tax act, the Jobs and Growth Act of 2003 will provide small business owners with much needed assistance.

- 23 million small business owners would receive tax cuts averaging $2,209.
- Owners of flow-through entities, including small business owners and entrepreneurs, comprise two-thirds (about 400,000) of the 600,000 tax returns that would benefit from accelerating the reductions in the top tax bracket scheduled for 2006 to 2003.
- These small business owners would receive 79% (about $9.7 billion) of the $12.4 billion in tax relief from accelerating the reduction in the top tax bracket to 35% from 2006 to 2003.

- The increase in the expensing for new investment will encourage small business owners to purchase the technology, machinery, and other equipment they need to expand.

    - The amount of investment that may be immediately deducted by small businesses would quadruple from $25,000 to $100,000 beginning in 2003.

The amount of investment qualifying for this immediate deduction will begin to phase out for small businesses with investment in excess of $400,000 (doubled from $200,000). Both parameters are indexed for inflation beginning in 2004. Computer software would be eligible for expensing. The provision sunsets after December 31, 2005.

- The increase in expensing provides incentives for small businesses to grow.

- Small business owners who purchase equipment to grow and expand will get assistance through this provision. The increase in expensing encourages capital investment by small businesses.

- Tax compliance and record-keeping burdens will be simplified by allowing many small businesses to avoid the inherent complexity of depreciation provisions.

Beyond the need for tax relief, SBA is leading the charge to implement President Bush's small business agenda. To do this, the Agency is focusing on three strategic programmatic goals designed to create more jobs.

First, SBA is championing small business interests by minimizing their regulatory burden, providing them with easily accessible information about how to comply with regulations, and working to ensure that the regulatory process treats small businesses fairly.

Secondly, SBA is continuing its efforts to empower entrepreneurs. The Agency is working to increase the opportunities for entrepreneurs to start and grow a business by providing: increased access to capital and information, technical assistance and counseling, as well as increased access to procurement opportunities.

Thirdly, SBA is continuing to play a vital role in helping businesses and families recover from disasters. Through its disaster assistance program, SBA provides speedy and customer-friendly assistance to restore homes and businesses to their pre-disaster conditions.

The Administration's FY 2004 budget request reflects SBA's lead role in implementing the President's small business agenda. SBA celebrates its 50th anniversary in 2003, and as the Agency begins its next 50 years, SBA will continue to be in the forefront of helping to solve small business problems, such as access to affordable health care and reduced tax and regulatory burdens.

When I testified before Congress last year, I testified about a number of challenges facing SBA in its efforts to retain its relevance. Today, I am pleased to report to you that this Administration has met those challenges and has significant accomplishments to report to you.

I testified that for FY 2004, SBA would use an improved model to calculate the subsidy rate for the 7(a) Loan Guaranty Program. The 2004 budget request uses such an econometric model. Working with the Office of Federal Housing Enterprise Oversight, we have developed and implemented a more accurate subsidy rate calculation model. Using this revised model, for FY 2004, SBA has been able to dramatically reduce the 7(a) program subsidy rate from 1.76% (as proposed for FY 2003) to 1.02%. The Administration is requesting $94.86 million for the 7(a) program, which using the improved subsidy rate calculations, will provide a program level of $9.3 billion.

The new econometric model will enable SBA to allocate its resources more effectively, determine program risk more precisely, and increase its ability to target loans to aspiring entrepreneurs who cannot obtain financing without a government guaranty. The model also improves the government's ability to forecast loan performance by taking into account a wider range of economic factors, including Gross Domestic Product (GDP) and unemployment, as well as a wider variety of loan characteristics that affect performance.

In short, implementing this model is a huge plus for small business. Under President Bush's leadership, SBA has delivered.

I also testified that SBA needed to change the way it delivers services to its customers – America's small businesses. Today, we are implementing our transformation efforts with a three-district pilot project. Many throughout the Agency have worked long and hard to ensure the success of SBA's transformation efforts and have addressed each and every concern raised by our Congressional partners in formulating this plan. I will discuss SBA's budget request for transformation later in my testimony.

Last year, I also testified on the need to improve oversight of our lending partners. Since then SBA has taken the steps necessary for a more modern oversight system. To assist with this effort, SBA contracted with KPMG Consulting, and last June, they provided recommendations as to how to proceed with developing a loan monitoring system (LMS) that meets both SBA's and Congress' needs for lender oversight.

In undertaking these actions, this Administration has addressed the challenge of modernizing LMS by using the private sector, where the experts in this area are, rather than developing a separate, more costly system.

SBA has also had successes over the past year in areas beyond those about which I testified. Under President Bush's leadership, this Administration has consistently identified problems and has addressed them directly. For example, the General Accounting Office (GAO) recently issued a report outlining concerns about accounting issues related to the asset sales program that SBA has been running for the past several years. SBA is acting promptly to correct any problems with this program. Even before GAO released its report, I put into place a new financial management team, giving them the top priority of addressing the issues identified in the GAO report.

This financial team has nearly completed its detailed analysis of the situation, and SBA intends to take the appropriate steps based upon its findings.

Now, I respectfully ask for your support of the President's FY2004 Budget Request for SBA.

The President's plan proposes a total FY 2004 appropriation of $797.9 million, maintains the spending level proposed for FY 2003, is about 4 percent larger than the budget for FY 2002, and would provide substantial levels of credit, capital, procurement, and entrepreneurial development assistance to small businesses.

This fiscally sound budget would provide more than $20.8 billion in small business loans, loan guarantees and venture capital and more than $760 million in new disaster loan funds for victims of natural disasters. It includes funding for $9.3 billion in guaranteed loans under the 7(a) program as well as more than $115 million for the agency's technical assistance programs.

This budget proposal demonstrates that SBA, in line with the President's management agenda, is looking for ways in which to serve the Nation's small businesses more efficiently and to ensure economic security by creating jobs. A prime example of this comes in the request for the 7(a) Loan Guaranty Program, SBA's flagship program.

Earlier in FY 2003, operating under a series of continuing resolutions while dealing with the effects of lowered fees on 7(a) loans as a result of legislation passed last year, SBA instituted a cap of $500,000 per 7(a) loan. This has produced interesting results. By creating an emphasis on smaller loans within the program, we have been able to leverage resources to provide an increased number of loans to emerging markets. This has allowed SBA to be ahead of its 7(a) lending goals in every category for FY 2003, including 35% ahead to women, 65% to African Americans, 39% to Hispanics and 31% to veterans.

Now that Congress has enacted both the FY 2003 appropriations for SBA as well as legislation allowing for the use of the econometric model for calculating the subsidy rate for the 7(a) program in FY 2003, SBA has removed the cap on 7(a) loans. We will, however, continue to promote smaller loans. By focusing on a smaller average loan size we are assisting more small businesses and creating more jobs. In 2002, our division of Capital Access created or retained 573,000 jobs.

Historically, we calculated job creation and retention by estimating one job created or retained for every $32,000 lent. Now, SBA is using actual portfolio data to determine job creation. Our data indicates that smaller loans create more jobs than larger loans.

In fact, loans under $50,000 have the greatest return on the number of jobs created – requiring only $14,700 to create one job. Loans between $1 million and $2 million require $140,000 to create one job. Clearly, these numbers prove we get more impact on job creation from smaller loans.

Let me be clear, we are not ignoring small businesses that need larger loans. The goal of the Administration is to maximize the economic impact of our loan programs. That means job creation and retention. Our marketing focus on small loans is meant to do precisely that.

As part of our goal to reach more small businesses, SBA consulted with the industry to improve the SBAExpress pilot program. In SBAExpress the guarantee is 50%, in exchange for the lenders using their own processes and forms to make the credit decision. There are as many different processes and forms as there are lenders. We are still evaluating aspects of the pilot. The most important task is to find the right balance between simplification and maintaining adequate oversight. To date, SBAExpress and smaller loans in general tend to have lower default rates than larger loans. The growth in the use of this program is a testament to its value to our private sector partners. Our private sector partners want to help budding entrepreneurs and SBA is committed to working with them to accomplish that goal.

We will also promote smaller loans by expanding the lending program to allow as many as 1,500 of America's more than 10,000 credit unions to join our network of lenders. This represents a potential increase of some 30 percent in the overall number of storefronts through which entrepreneurs can seek capital for their businesses.

The Budget Request will also allow SBA to provide $4.5 billion in loans through the 504 Certified Development Company program with no cost to taxpayers. The 504 program, which was established to increase small businesses' access to real estate and other long-term fixed asset funding, has always had as a program goal job creation. SBA recognizes the need to increase small businesses' access to 504 loans, and will implement steps in FY 2004 to accomplish this goal.

This Budget Request includes $8.8 million to continue implementation of SBA's transformation efforts. I have spoken with many of you personally about the importance of transformation to SBA's future success. These efforts are crucial to the Agency's continued relevance in its second half-century.

In recent years, SBA's program delivery has changed dramatically to the point at which SBA now relies principally upon its lending and other program partners to directly assist small businesses. However, SBA has not aligned its resources, including personnel, with this changed business practice. Through transformation, SBA will shift field office efforts from administrative functions (such as loan purchases and some liquidation functions) to more direct relationships with customers and resource partners. SBA's field offices will use outreach, marketing, and customer and resource partner relationship management to ensure they know and meet small business needs.

This new approach will empower SBA to serve more small businesses. SBA will test this new concept through pilot projects in selected district offices to ensure that the new methods achieve the intended results. Upon evaluation, SBA will incrementally expand the successful practices to more offices until all of SBA has been transformed. SBA has carefully negotiated the components and the implementation of the pilots with its union. The pilots are underway, and transformation will continue through FY 2005. We will evaluate the results of these pilot programs and incrementally expand the successful practices to more offices until all of SBA has been transformed.

Realization of the transformation plan is closely entwined with SBA's implementation of the President's Management Agenda (PMA). The budget request includes $16.5 million (which includes all sums necessary for the transformation plan) to support the Agency's execution of the PMA. The PMA shows President Bush's emphasis on better management of the Federal government through five key areas: human capital, competitive sourcing, E-government, integration of budgets with performance, and improved financial management.

SBA requests $2.3 million to modernize and streamline business processes to reduce costs and to improve customer service. Additionally, we are asking for $1.7 million to support SBA's information technology infrastructure.

SBA's FY 2004 budget request includes level funding for entrepreneurial development programs – SCORE and the SBDC, WBC and BIC networks. It is often said that access to information is the key to small business success.

The budget request includes continued funding for the Agency's Disaster Assistance Program. SBA works closely with the Federal Emergency Management Agency to assist those small businesses and individuals directly affected by disasters such as tornadoes, floods and hurricanes to get them back on their feet in times of trouble when they most need government assistance.

Madame Chair, I want to take a moment to recognize the heroic efforts of the employees of SBA's Office of Disaster Assistance who through the unprecedented nationwide expansion of the Agency's Economic Injury Disaster Loan (EIDL) Program were instrumental in delivering $1.1 billion in loans to those directly impacted by the September 11th events. I want to again extend my heartfelt thanks to our employees, without whose dedication SBA's compassionate and prompt delivery of services would not have been possible. And I commend you too, Madam Chair, for your strong leadership on this as well.

Madame Chair, as I noted earlier, SBA celebrates its 50th anniversary this year. On August 1st, SBA will honor that anniversary with a ceremony in Abilene, Kansas, the birthplace of President Dwight D. Eisenhower, who signed into law on that very day fifty years earlier the Small Business Act, the legislation authorizing the creation of SBA.

All of us at SBA are proud of the Agency's legacy of achievement. Many businesses with household names today – Staples, Winnebago, Callaway Golf and Outback Steakhouse – but also other important entities such as Black Entertainment Magazine and Juanita's Foods in Los Angeles – all received SBA assistance in their formative stages.

Our challenge is to find the next generation of companies and to make sure these entrepreneurs have access to our programs and services so they too can become success stories.

We are proud of what we have accomplished over the past year. While we take pride in our achievements, we are not going to rest on our laurels. We continue to look ahead and SBA's FY 2004 budget request offers an opportunity for us to work together with you to ensure that SBA continues to assist small businesses into its next half-century.

LEGISLATIVE PROPOSAL

I would now like to address the first part of our legislative proposal. We are asking Congress to extend the reauthorization of SBA's programs from the current three-year cycle to a six-year cycle. We believe this proposal has significant merit. Over the years Congress has heard from our private sector partners about the problems they face due to crises of confidence in the public sector. Hence, our proposal to extend the authorizations to six years. There is no surer sign of the Administration's confidence and support than that. This will provide our SBIC partners with a sign they can take to the markets, it will allow our CDCs time to plan further into the future, and it will in no way affect the oversight authority of the Congress. Congress has exercised its oversight authority many times over the years regardless of the status of program authorization, and we expect it will do so again when necessary.

CAPITAL ACCESS

7(a) Loan Program

In our Capital Access programs we have proposed changes to the 7(a) program to clarify SBA's authority to regulate Small Business Lending Companies. Most SBA lenders are depository institutions that are regulated by one of the Federal financial institutions regulators. The SBLCs and Non-Federally Regulated SBA Lenders described in the legislation are not regulated by a Federal financial institutions regulator. The SBLCs have no financial regulator and the Non-Federally Regulated SBA Lenders have varying forms and degree of state oversight. In order to carry out the SBA's fiduciary responsibilities, specific enforcement and supervisory authorities are needed.
SBA is also requesting the ability to charge fees to our PLP lenders in order to defray the cost of examinations; this authority mirrors the authority granted SBA for the SBIC program.

Microloans

SBA has proposed two changes to the Microloan Program. The first amends the eligibility requirements for participation in the Microloan Program. Currently, applicant organizations must have a minimum of one year of experience making and servicing Microloans, and one year of experience providing integrated technical assistance, before they can be eligible to apply for participation in the Program. Experience is currently measured in terms of the organization as opposed to the experts working within it. SBA wants to take advantage of the proficiency of the individuals within the organization. The change aids organizations that seek to expand their business assistance products and

services in microenterprise development by allowing them to hire experts who would in turn train other staff at that organization. Risk is mitigated for new participant lenders by the requirement that the personnel hired have a high level of expertise that will build capacity in the organization as a whole.
The second change repeals the current limits on the use of technical assistance funds. We believe putting a percentage limit on the intermediary's use of grant funds is not in the best interest of the small business concerns. This amendment would allow intermediaries to have flexibility in deciding what percentage of grants would best aid the small business borrower.

The 504 program
In addition to reauthorizing the 504 program SBA is proposing changes to the loan loss reserve requirements applicable to the 504 Premier Certified Lending Program (PCLP). SBA believes that the original statutory formula is unduly restrictive and burdensome. Under the current formula participating CDCs are required to have unnecessarily high cash loss reserves, reserves that put financial strains on our best CDCs. SBA's proposal is a less restrictive, more flexible, graduated system commensurate with risk. It is our hope that this will encourage more of our 504 partners to participate in PCLP lending, lenders that might have been discouraged by the high reserves currently required.

SBA is also proposing to simplify the guidelines for leasing a portion of property financed using SBA programs. Existing legislation requires that 60% of the space must be used by the small business. It provides that 20% may be leased on a long-term basis but is silent on the remaining 20%. The language for the 7(a) and 504 programs is slightly different though SBA has interpreted it to mean the same thing, but we do not have specific legislative guidance stating that these phrases have the same meaning. Our proposal eliminates any confusion by authorizing small businesses to lease up to 40% of the rental space on a permanent basis and provides 7(a) and 504 borrowers with the same legislative guidance.

SBICs
SBA is also requesting an important statutory modification to enable the SBA to increase fees for the participating securities program. Currently, the fee is 1.311%. To keep the program at a zero subsidy rate the fee must be increased to 1.454%. SBA is requesting authority to raise the fee as high as 1.7% solely as a precaution. This change is not mandated by any failure of the program but rather by an unexpected economic event. Undoubtedly, when the program was initiated no one expected Treasury rates to dip as low as they are now. Because the SBA's profit participation is linked to the ten year Treasury bond, the current low rates have resulted in unexpectedly low inflows for the program subsidy.

SBA is also proposing changes to allow SBICs using participating securities to elect to make increased distributions to the Administration, which will permit them to reduce the amount of their outstanding leverage. Currently, SBICs using participating securities must make distributions to both private investors and the Administration according to a prescribed ratio. This change gives SBICs using participating securities greater flexibility in reducing their outstanding leverage.

Finally, SBA proposes a provision to allow SBICs the flexibility to invest idle funds in securities comparable in risk to those currently allowed.

Surety Bond Guarantee Program.
SBA is proposing a statutory change to allow guarantees of bonds for contracts where the contract range, but not bond liability, exceeds the $2 million contract limit at the time of bond execution. Although the statute is silent on the point, the regulations interpret the Act to mean $2 million at the time the bonds are signed by the surety. All contracts will be reviewed by the surety, which will be best informed as to the magnitude of the contracts that the principal can perform and the conditions under which the contract will be performed. Fraud by the obligee will discharge the surety and SBA.

SBA is also proposing to reduce the frequency of audits in the preferred surety bond guarantee program and provide authorization levels through Fiscal Year 2009. The Office of Inspector General (OIG) and the Office of Capital Access (OCA) believe that the current annual audit requirement is unnecessary and not an efficient use of resources. Currently, contractor and surety fees and recoveries received by SBA fully offset claims paid by SBA and the program does not pose a great risk for loss to the government.

Based on the many years of experience on the part of OCA in operating the program and on the part of OIG in auditing it, OIG and OCA believe that no substantial risk is forthcoming. This change will not weaken the oversight of the Preferred Surety Bond Guarantee Program, but it would provide the OIG with more flexibility to prioritize and apply its resources where they are most needed.

Disaster Loans
SBA is also proposing a change in the loan ceiling for "Major Source of Employment" disaster loans. These are disaster loans to businesses that may not be small but provide significant employment in the disaster area and are therefore a vital part of the rebuilding effort. The current $1.5 million level is not incorporated in the body of the Small Business Act, but in a note to the section. This proposal will make the necessary conforming change to the main text.

ENTREPRENEURIAL DEVELOPMENT PROGRAMS

In the area of entrepreneurial development, SBA is seeking to improve the services offered to small business and maximize our efforts through our service providers. We have recently begun a new Native American Business Development effort based on funding received in the latest appropriation and we hope to build on that effort in the future.

SBDCs
For the SBDC program we are proposing to improve SBDC Assistance to Out-of-State Businesses by updating the statute to accommodate new technologies, such as the Internet and satellite systems to better leverage program resources and to help create a virtual SBDC. The SBA also proposes language to allow continuous analysis of local economic development needs in order to help SBDCs better tailor the services that they provide to the community.

The Administration is also seeking to increase the capacity of both the SBDC and Women's Business Center (WBC) clearinghouses to access all SBA resources. This will significantly expand the sharing of SBDC information, help SBDCs and other SBA partners leverage resources, and support the concept of integrating Entrepreneurial Development programs.

Administratively, we are proposing to set aside 1% of SBDC funding for administrative costs including travel for examiners and program reviews, systems development, needs assessments, economic development data collection, and policy development. Currently, the SBA is authorized to use $500,000 of the funds appropriated for the SBDC program to offset the costs of mandated functions. All other administrative expenses are borne by the Agency through its general operating budget. Making this amount a formula, rather than a dollar amount, will ensure that sufficient funding is available for these activities.

Finally, we are proposing competition for the SBDC program. This is not as extreme a plan as some people believe and the specter of a wholesale dismantling of the SBDC system is baseless. Every existing SBDC will not be eliminated. The competitive process would be phased in, and the proposal calls for a system in which strong, performing incumbents will have a decided edge. Underperforming centers will have to work to improve their performance and prove their value. Furthermore, service providers with new ideas and innovative proposals will be encouraged to participate.

Women's Business Centers
The SBA fully supports the continued funding and authorization of this program. However, we do not support the reauthorization of the sustainability pilot program. Currently, sustainability requires SBA to spend 30.2% of the WBC budget on sustainability grants. That translates to $3.6 million in FY2003. After funding existing centers within their first 5 years, and fulfilling the sustainability requirement, little budget is left for new programs, ideas or outreach. Sustainability "locks in" the status quo.

With the funding currently dedicated to sustainability, the SBA estimates that an additional 24 new centers could be opened in just the first year. Currently, there are no centers in the states of Nevada or Delaware. There is no center in the Los Angeles area, or in all of Southern California.

The following is a list of some cities that could receive their first center with just one year of sustainability funding.

Las Vegas, NV
Portland, OR
Minneapolis, MN
Miami, FL
Tampa, FL
Des Moines, IA
Little Rock, AR
Baton Rouge, LA
Los Angeles, CA
Omaha, NE
Indianapolis, IN
Louisville, KY
Pittsburgh, PA
Cleveland, OH
San Diego, CA
Houston, TX
Charlotte, NC
Dallas, TX

Veterans Business Development
SBA is proposing reauthorization of the Advisory Committee on Veterans' Business Affairs. This committee was only recently constituted and should be allowed to provide the assistance and support to the National Veterans Business Development Corporation that was originally intended in law.
SBA is also proposing a change in the language concerning outreach grants for veterans. The change will reconcile the requirements of PL 93-237 and PL 106-50 for "full consideration" for veterans in all SBA programs by including "members of a reserve component of the Armed Forces" in the definition of "veteran".

BusinessLinc
The SBA is not requesting a reauthorization of the BusinessLinc program. We believe that the services of the program can and should be performed through our existing program providers. Mentor-protégé relationships are useful to small business both in and outside of the government contracting arena but this can be accomplished through SBDCs, SCORE, Women's Business Centers and our existing mentor-protégé program.

In many ways SBA is suffering from an overabundance of programs aimed at similar and overlapping ends. This results in an agency that has difficulty managing all of the various programs under its direction. Our staff remains overburdened and unable to focus as well it might.

GOVERNMENT CONTRACTING

Our Government Contracting, Business Development division is responsible for several non-credit programs that need to be considered during the re-authorization process. These programs include the Small Business Innovation and Research (SBIR) Rural Outreach Program, the SBIR Federal and State Technology (FAST) Partnership Program, the 7(j) Technical Assistance Program, the HUBZone Program, and the Procurement Marketing and Access Network (PRO-Net).

GC/BD's main objectives are (1) to increase prime and subcontracting by securing top level commitment from the agencies to achieve their goals, promote procurement opportunities through Nationwide Matchmaking Events, and improve customer service; (2) to modernize the 8(a) Business Development Program through a program restructuring, the development of an automated on-line 8(a) application, and the implementation of a Procurement Academy; (3) to facilitate community economic development and job creation through the HUBZone Program, and (4) to facilitate commercialization of Federal research and development performed by small businesses.

SBIR Rural Outreach

The SBIR Rural Outreach Program is a matching cooperative agreement program that provides funding to eligible rural states to establish or expand outreach programs to technology-based businesses that may participate in the SBIR and STTR programs. Eligible states have an opportunity to use these funds to provide small businesses with SBIR/STTR technology assistance, business development and commercialization assistance that will enhance their technological competitiveness in the marketplace.

Participating agencies in the SBIR/STTR programs have reported a significant number of proposals received from small firms for their recent solicitations which, in our view, is attributable to the outreach and training activities provided by the states that receive these grants. The program also provides the Federal SBIR/STTR Program Managers with valuable state contacts to facilitate program outreach to low and moderate income, rural and HUBZone areas. There were 10 cooperative agreements awarded in FY 2002 totaling $450,000. SBA proposes reauthorization of this program to coordinate with the SBIR/STTR program.

SBIR Federal and State Technology Partnership (FAST) Program

The FAST Program is a matching grant program that provides funding to eligible states and territories to encourage and develop high technology small businesses that may have an interest or are currently involved in the SBIR program. The program was authorized by Congress because of growing concerns regarding the geographic distribution of SBIR awards, in particular, the relatively low level participation of states in the South, Midwest and Rocky Mountain regions. There were 27 FAST cooperative agreements awarded in FY 2002 totaling $2.7 million.

The Program provides states and territories an opportunity to receive Federal grant/cooperative agreement funding to expand their state's technology infrastructure to assist small high tech firms with proposal development, business development and commercialization.

Without funding in FY 2003 for the FAST and Rural Outreach Programs, SBA will have to leverage its existing resources to continue to support the states in their efforts to provide outreach and technical assistance to small businesses. We are working the existing recipients to use their existing funds to maximize their assistance efforts.

8(a) Business Development Program
The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act including access to sole source and limited competition Federal contract opportunities. SBA works with Federal agencies to develop contract opportunities for program participants and assist firms with partnering, teaming, and joint venture arrangements in support of their business development plans.

Since the inception of the Program in 1968, there have been more than 542,000 contracting actions worth about $88 billion. The 7,585 current 8(a) firms provided employment for an estimated 171,524 people during FY 2002, an average of 23 employees per company compared to the 23.7 million small businesses which employed an average of 2 people per firm. While 71 percent of new businesses fail within 8 years, 42 percent of 8(a) firms are still independently operational 10 years after they enter the program.

The only change SBA is proposing for this program is cosmetic. While the statutory title of the program is "Minority Small Business and Capital Ownership Development" we propose changing that to reflect common usage and the goal of the program - "8(a) Business Development Program". This change will not affect any program goals or eligibility requirements, but it will more accurately reflect the goal of the program – building 8(a) businesses. This name has been used in the government contracting arena, and in Congress for years; we propose to make it technically correct.

HUBZone Program
The HUBZone Program promotes job growth and economic development in Historically Underutilized Business Zones (HUBZones) through contract assistance to firms that locate in and hire residents from these areas. HUBZones are distressed urban and rural areas characterized by chronic high unemployment and/or low household income, or are designated as Indian Lands. SBA certifies firms as qualified HUBZone small business concerns if they are small, 100% owned and controlled by United States citizens, have their principal offices in HUBZones, and hire at least 35% of their employees from HUBZones. The Program Office has outsourced professional services to the maximum

extent practicable, allowing it to certify more than 2,000 firms annually, with no more than four full time equivalent staff assigned to determinations of eligibility. Through award of such contracts, funds flow to distressed communities to promote job growth, capital formation, and economic development

Although agencies have not achieved the HUBZone goals, each dollar spent on the Program yields a return of $288 dollars in contract awards. Based on FY 2001 data from the Federal Procurement Data System, the Program helped to support 12,782 U.S. jobs, of which approximately 8,974 were located in distressed areas. The SBA is proposing reauthorization of this valuable and growing program.

ADMINISTRATIVE PROVISIONS

SBA has identified a number of provisions referring to obsolete programs, defunct organizations and duplicative reports. We are requesting technical corrections to remove these references and perform some housekeeping in the Small Business Act. We are also requesting some changes to the agency's gift and cosponsorship authority.

Gift Authority/Cosponsorship

These changes would allow SBA to use appropriated and gift funds to pay for apparel with SBA's name and/or logo on it for our Office of Disaster Assistance field staff employees engaged in disaster site activities. In disaster circumstances, this will aid in the immediate identification of an SBA employee as an individual with an official reason to be in the affected area. Other disaster relief agencies, such as the Emergency Preparedness and Response Directorate, Department of Homeland Security, formerly the Federal Emergency Management Agency, also have agency specific wearing apparel to identify themselves. Without specific statutory authority, it is difficult for agencies to justify the purchase of wearing apparel due to decisions of the General Accounting Office.

We are also requesting a provision amending SBA's gift authority to allow the use of gift funds to purchase and distribute (to individuals and entities who are the targets of SBA's marketing and outreach activities) promotional items with SBA's name and/or logo on them, such as tote bags or coffee mugs. This provision does not allow SBA to spend appropriated funds for these purposes.

This would allow the Agency to use gift funds to pay for tee-shirts, polo shirts, jackets, caps and other similar wearing apparel with SBA's name and/or logo on them for our employees engaged in marketing and outreach activities. For example, identification of individuals as SBA employees through specially marked clothing will significantly assist in marketing efforts to hard-to-reach new business concerns.

Another important administrative proposal would streamline the SBA's current cosponsorship authority to maximize the use of public-private partnerships in furtherance the Agency's mission. It would accomplish these goals by allowing the SBA to engage in cosponsored and SBA-sponsored activities whenever the SBA is providing assistance for the benefit of small business, allow SBA to charge minimal fees to cover the direct costs of providing such assistance, confirm SBA's ability to solicit as well as accept gifts in support of such activities, and mandate the issuance of appropriate regulations.

Reports

The SBA has identified a number of reports that could be simplified and condensed for efficiency, better public service, avoidance of duplication, provision of better information, and elimination of outdated information collections. Most of the information required under sections 10(a) and (b) is duplicated in other reports issued by SBA such as the State of Small Business Report, the Performance and Accountability Report and the Annual Report on Federal Procurement Preference Goals.

The information provided in these other reports is much more comprehensive and useful to Congress and the public than the information in the current Annual Report and Annual Loss Report. The information in the other reports melds operational, financial, budgetary, goaling, strategic planning, management strategies, internal controls, and other information into comprehensive, efficient, and understandable formats much more useful than our current Annual Report and Annual Loss Report. The information in the Annual Loss Report is outdated as well as duplicative. After the Federal Credit Reform Act, the information Congress needs is presented by other reports in more detail. SBA's annual audited financial statements are in our Performance and Accountability Report. SBA's budget projection and other appropriation-related information are contained in our Annual Budget Request and Performance Plan. In addition, SBA already presents monthly loan and budget information to Congress in our Yellow Book Management Information System (MIS) Reports.

By reducing the reporting requirements on SBA, SBA personnel will have more time to engage in direct program operations, leading to increased efficiency and better public service. Currently, SBA is required to furnish 24 different annual reports to Congress, as well as other one-time or limited duration reports, time that should be spent operating SBA programs and serving the public.

Madame Chair, that concludes my prepared remarks. I believe SBA has come far in the last two years but I know that we still have more to do. I look forward to working with you to reach our goals and I am happy to answer any questions.

Chair SNOWE. Thank you, Mr. Barreto. I appreciate your comments here this afternoon.

First of all, I want to applaud you for applying the econometric model to the 7(a) program, because I think that certainly does expand the value of the portfolio and the ability to be able to lend more money. Then, in addition to that, it ultimately responds in a greater number of jobs created.

Do you have any estimate on how much additional loan authority the model will create? Again, we are talking about $1.4 billion in additional funding, ability to loan.

Administrator BARRETO. We believe that is going to take our lending authority to almost $11 billion.

Chair SNOWE. Do you have any idea how many jobs that potentially could create?

Administrator BARRETO. Again, it depends on the size of the loans that we end up doing. As I mentioned before, we believe that the smaller loans can create jobs with as little as $14,700 in loan amount. So obviously, at the track that we are currently on with the SBAExpress and some of the percentage increases that we are seeing in our loan volume, we believe that it could be significant. But we would be glad to put some numbers together for you on that.

Chair SNOWE. I appreciate that. And I think it is important because certainly it illustrates the value of being able to expand some of these loan programs because I believe that there is a demand. If we can expand these programs to meet that demand, it will create more jobs.

We depend on small businesses to generate job creation in this country. And basically, we are wholly dependent on small businesses to create jobs.

So anything we can do to expand that potential is really essential. I think the SBA ought to be advertising that. I think that is one of the issues. I do not think that you do enough—you, the agency, not you personally—but you, the agency, touting those numbers. In each of the programs in where—for as little amount of money that can be invested per job essentially really does make a profound difference.

Administrator BARRETO. I could not agree with you more. We have a great resource in our networks and we have, as you know, offices in every State of the union. We have 70 major program offices. But we have this other great network, which is our resource partners. We have something in excess of 7,500 lending partners. More and more are signing up every day, especially for the SBAExpress Program. And they are a great vehicle for us to get the word out, to do the outreach.

Of course, we have wonderful outreach partners in our technical assistance partners. I also mentioned in my testimony that we have also opened our programs up to credit unions which oftentimes do those small loans that create those jobs. We have opened it up to at least 1,500 potential credit unions that could take advantage of our programs. We will continue to do that.

But I agree with you, it is our responsibility to get the word out, to do the outreach, and to really talk about how these tools can really help small business grow.

Chair SNOWE. I think the outreach is important. It's important to make known the availability of these programs, through the district offices, out in the various parts of the country.

I had a roundtable recently, during the recess, and I was so amazed because I do not think there is enough awareness about the SBA's programs and the available resources for somebody to expand their business or to start a business.

I think we are just going to have to do a better job at expanding and expounding on these programs, because I really do think they are very, very critical to the future success of our economy.

Administrator BARRETO. I agree 100 percent. We are doing two things in particular that I would like to draw your attention to. One of them is that we are continuously enhancing the information that we provide on the Internet. We have recently relaunched our website and we are currently averaging about 1.5 million visitors—not hits, but visitors—to the website every single week. And of course, they have access to all of the information on all of our programs and we will continue to use that as an important tool to reach small businesses.

Also, as you mentioned, this is our 50th anniversary. So we are going to take that as an opportunity to not only talk about what the SBA has accomplished over those 50 years, but really talk about where the SBA is going and what the future opportunities are. We will be doing events all across the country culminating in a major conference we will do here in Washington DC. where we will have businesses and centers of influence from all across the country.

The reason I mention these events is that we want to use them as opportunities to continually reinforce all of the resources that SBA can bring to bear.

In fact, as you know, we are doing matchmaking events this year. At every matchmaking event we have all of our resource providers and representatives from all of our programs there to not only help small businesses get access to contracts, but also help them to get access to capital and access to technical assistance. Thus far, that has been working very well.

Chair SNOWE. You mentioned the transformation initiative that is underway at SBA. I would like to explore some of those issues with you because I think the Committee would be interested in the progress that is being made in implementing this transformation initiative. I know there has been a request for funding, which is what, $16 million?

Administrator BARRETO. Yes, ma'am. It is a total of $16.5 million.

Chair SNOWE. $15 million? You had a chart that showed $17,400,000.

Administrator BARRETO. There are different elements to it. When you break it all down, you can put all of this under the transformation category but there is money there for training and development, for restructuring our office space, for the expansion of our current pilots. We want to study the commercial activities that we do, and where we can, centralize some of our functions; and where possible, possibly outsource some of the functions. So there is a lot of stuff in there.

Also, the upgrade in our technology and the modernization of our systems. All of this kind of goes under the transformation banner. But it is approximately $16 million, maybe a little bit more than that.

Of course, you know that we had asked for that money in our budget last year, and unfortunately, we were not able to receive it. The President has asked for the money again this year, and we are very hopeful because we think it is critically important to really position the SBA for our next 50 years.

Chair SNOWE. Has the agency spent any money on this initiative?

Administrator BARRETO. Very little when you talk about these major investments that we need to make.

Chair SNOWE. Have you made any progress on the initiative?

Administrator BARRETO. We have. We have started the initiative by beginning with three pilot offices currently underway. We are looking at them. We are benchmarking them. We are really studying.

One of the things that we know is that not every SBA office is exactly the same with the same kinds of needs. So this really gives us an opportunity to really customize our approach. But at the end of the day what we want to try to do is free employees up. One thing that we are very aware of is the workforce of the SBA has declined significantly over the last 10 years. We are not planning on losing any more of our employees, but we also know that it is not that likely that we are going to receive a lot more employees. So what that makes us do is to operate as efficiently and as effectively as possible.

As you know, one of the things I did last year was I visited almost 40 of my 70 districts. I went to 30 of the 50 States. They kept telling me the same thing. They kept saying "Look, you keep giving us more and more work, but there are only so many of us. We can only do so many jobs." They said "What we want to do is, we want to help small businesses. What we want to do is, we want to be out in those small communities and develop partnerships and refer people."

We need to be freed up from a lot of the process and the bureaucracy that we are saddled with. So that is one of the things that we are really focusing on, unshackling some of these offices to do what they really want to, which is to help more small businesses.

Chair SNOWE. So there has been very little money that has been spent to date in implementing this initiative? So really it is contingent upon this request for $15 million?

Administrator BARRETO. Absolutely. In order for us to be successful with transformation there is no doubt that we are going to need the resources to invest in being able to do this. There is no doubt in my mind that we will get significant return on investment, especially if our return on investment is helping more businesses get started, get access to capital, and technical assistance.

Chair SNOWE. The three pilot programs, are they underway at this point?

Administrator BARRETO. Yes, they are. We have already begun pilots in Miami, Florida; Phoenix, Arizona; and Charlotte, North Carolina.

Chair SNOWE. How long will it take to determine the results of those pilot programs?

Administrator BARRETO. Well, it is on an ongoing basis.

Chair SNOWE. Do you plan to expand the pilot programs?

Administrator BARRETO. We do. We want to expand this pilot program. We have a number of our district offices that are begging us to be part of the transformation pilot. So we would definitely expect and plan on expanding it. However, we need the resources to be able to do that.

We felt it so important to begin this process, even though we did not get an appropriation for it. We were not able to do it is aggressively as we would have been able to do it otherwise. Again, we think that this is critically important to the future of the SBA.

Chair SNOWE. So these offices would ultimately be involved in outreach and marketing, for example? So they would be involved in promoting SBA's programs?

Administrator BARRETO. Absolutely. All district offices do that already. What has happened is that by removing some of the liquidation processes, and some of the other loan monitoring processes that they currently were tasked with, it has freed them up. Maybe they only had a fraction of their folks that were able to do that. Now that they have freed up a lot of people from doing those activities, now it is like they have a whole new workforce.

When I would go out there, they would say "We need more people to do this marketing and outreach." But really what they needed is to better utilize the people that they had. That is what transformation is allowing us to do.

I will tell you that we are starting to see some great results. Miami is up double digits in their loans, technical assistance, and the events that they are doing. Phoenix is showing some very strong signs, too. Charlotte is coming around, as well.

So it is working, and we want to fast-forward the progress across our whole network.

Chair SNOWE. Would you be able to share with the Committee some of the results of those pilot programs anytime soon?

Administrator BARRETO. Absolutely. I would be more than happy to document exactly, because, in working with them, we have come up with some very aggressive, substantive, specific goals on how many loans we want to be doing in those areas, how many training sessions that we can do for small businesses, partnership agreements, we can and do provide opportunities for procurement. We have some very specific benchmarks in all those areas and I would be happy to provide you with those for each one of those district pilots and the progress we are making in achieving those goals.

Chair SNOWE. So in making that shift, do they have funding for the additional responsibilities? I know that you said that they do some of it, but like for outreach and marketing and promotion?

Administrator BARRETO. All district offices receive a budget to be able to do that, absolutely. But some of these activities do not necessarily require a significant amount of resources to do the marketing. In other words, if we had somebody that was processing forms for 8 hours a day and now they do not have to do that anymore, they can go out in the field and they can network with Chambers of Commerce and business associations, explore partnership agreements, et cetera. That is not going to necessarily cost us a significant amount of money to allow them to do that. It just frees up the time for existing employees.

Now, a key thing that we need to do is we need to train them and transition them into these new activities. We do not expect that one day somebody will be processing forms and the next day they will be a master marketer.

Also, it is not to say that every single person will be involved in marketing. There are a lot of activities related to directly assisting small businesses and that is really we want to do.

As I said, when I talked to the district offices, many of our employees would say "I never get to talk to a small business because I am always stuck behind a desk or have all of this paperwork I have to do. So I never get out to reach them."

Chair SNOWE. I know that there are some problems that you also inherited with respect to accounting problems. I know the SBA auditors, after being informed by the GAO of their findings regarding the loan asset sales, withdrew their unqualified clean opinions for SBA financial statements. I wanted to explore some of these issues with you today because obviously, if SBA does not have a clean opinion it is going to be very difficult to engage in loan asset sales. It affects the disaster loan programs.

This has occurred for three consecutive Fiscal Years, 2000, 2001, and 2002. I know that SBA has contracted with a private company to examine the SBA's financial accounting systems and to recommend improvements. What has occurred as a result of this work conducted by the private contractor? How long do you think it is going to take before they will finalize and complete some examination so the SBA can receive an unqualified opinion?

Because otherwise, that is going to be a continuous problem. That impacts the overall agency. I am just wondering how long it is going to take to rectify this issue so that it does not repeat itself?

Administrator BARRETO. Absolutely. I agree with you. When we first came in, the SBA actually—what we had been told is that we had received very good opinions on all of our financials. It was only last year, I believe, that we found out that some of those opinions now had to be changed.

The good news, if we can say that, is that we were able to discover this issue and this problem well before the GAO report. In fact, we are working very closely with GAO and others in the Administration to make sure that we have the best financial statements possible. This really speaks to our integrity. I agree with you, it is very, very important for the agency to have its integrity and to be an agency that is credible in everything that it does.

One of the things that we did immediately is to make some changes in our chief financial officer and some of the folks that were responsible for these financial reports. We also are working very closely with our auditor.

We do not have the full answers yet, but we have made significant progress in looking at this issue and looking at this problem. I can't give you a specific date, I promise to follow up on that. But I want to tell you that it is going to be very soon, sooner than later. They have had a very aggressive timetable in being able to resolve these issues.

The issue gets somewhat complicated because a lot of what it has to do with is how the subsidy rate is applied to some of these measurements and whether the subsidy rate currently applied to disaster loans is even an accurate subsidy rate. That is something that we are going to have to determine. We are working very closely with our outside contractor and with our new chief financial officer to make sure that this is not only clarified, but that safeguards are put in place to prevent this from ever happening again.

Again, this is something that is a top priority for me because I understand that once you do lose that credibility, or if there is any doubt whatsoever—especially when you are dealing with the private sector and the markets—that would be something that would be very undermining to our mission. Of course, we will do everything that we can to prevent that from happening.

Chair SNOWE. Obviously, it is the systems in place that are resulting in a persistent problem. That is why I think it is important to correct them.

Administrator BARRETO. I agree.

Chair SNOWE. And I know that you have taken steps to do so and hopefully it is going to be a permanent correction, because I know that money has been spent over the last 6 years—for example, the loan monitoring system—that obviously were overestimates. And that has created huge problems and ultimately it undermines the entire program.

So I do think it is something that needs to be corrected sooner rather than later. And I know you understand that. I just hope that it can be done.

Administrator BARRETO. It will be done and I want to commit to you that it——

Chair SNOWE. Will it be done in the next few months?

Administrator BARRETO. I will give you an exact date on it. I want to tell you that we have, as you know, hired a contractor. In the end, I believe that we are going to have not only a system that works well and does what it is intended to do, but that we will have come a long way from where we started. There is no doubt that a lot of money was spent, probably unnecessarily and unwisely, in the past to get a system that we never got and never worked. We did not make the problem, but we are going to fix the problem. I assure you that we will get you a specific report on our progress to date on the loan monitoring system.

Chair SNOWE. We would appreciate that, because ultimately it casts a shadow if these problems do not get corrected. And ultimately, it is costing money, let alone eroding the integrity of the programs. It is fundamental. I hope that we can correct it as soon as possible. So would you give a report to this Committee on the progress?

Administrator BARRETO. Yes, ma'am.

Chair SNOWE. The same is true for the loan monitoring system, and I know this has been a problem since before 1997. I understand the SBA has entered into a contract with Dun & Bradstreet, is that correct? Is it to establish a loan monitoring system?

Administrator BARRETO. Yes, that is right.

Chair SNOWE. What do you expect to result from that contract? When do you think they will set up a loan monitoring system? Because again, this also seems to be a persistent problem. I understand $12 million has been spent since 1997 internally. And now I know SBA has had to hire an outside contractor to get the job done. That contract is worth more than $9 million, with a contractor; is that correct?

Administrator BARRETO. Yes.

The main thing that we expect is to have a loan monitoring system that works and to also make sure that it is as cost-effective and efficient as possible. I believe that is what we are embarking upon.

We have always had a loan monitoring system at the SBA, but we always felt that we needed to have something that was even more thorough, more effective than what it is that we had before. I think that we will have that once our contractor finishes the work.

And again, this is something that I will include in the report in terms of the timetable.

I also want to state that this has been something that we have taken a very hard look at. This is something that we realized very early-on was going to be a challenge for the SBA if we did not get not only our financial situation resolved and corrected, but also have an effective loan monitoring system. It is one of our highest priorities.

I want to commend the work our folks have done since those problems have been identified. The new team that is in place that has really carried the ball very, very far with regards to making progress on this. I will not be satisfied until both of those issues are corrected and are beyond reproach.

Chair SNOWE. Were all of the SBA's loan guarantee programs included in this contract with Dun & Bradstreet? Or were some excluded?

Administrator BARRETO. I do not believe that it includes every one of the loan programs, but I will double check on that.

Chair SNOWE. Would there be a reason why some would be excluded?

Administrator BARRETO. I want to verify that, whether the disaster loans and the 7(A) loans might be separate. But I will definitely check on that.

Chair SNOWE. I hope that there will be a way in which to ensure the accuracy of the whole system and to make sure that the information that goes into the system is accurate, because I understand that also can be a problem.

Administrator BARRETO. Absolutely.

Chair SNOWE. Because the kind of information that you provide to Dun & Bradstreet is going to be critical in determining the success of establishing this program. It has to be the most up-to-date information, the most accurate information.

Administrator BARRETO. The integrity of the information is key to being able to get the proper reports and the proper opinions, and so we will definitely ensure that that happens.

Chair SNOWE. So that effort is underway as well?

Administrator BARRETO. Yes, it is.

Chair SNOWE. Is that something that is recognized by your agency?

Administrator BARRETO. Absolutely.

Chair SNOWE. I would like to turn our attention to some of SBA's programs. I have had a chance to review some of the budget and legislative proposals, and you mention the 7(A) program. I know it is basically the same request, based on historic levels, of $9.3 billion, I gather.

During the course of our roundtables, we have had some recommendations, obviously by lenders, to expand the program because they estimate that there is an increase in demand and that demand will exceed the program's capacity.

What is your opinion about this? I know that you have obviously made your recommendation. But do you also think that if we were to expand this loan capacity for the 7(A) program that it might result in greater number of requests for and the demand may exceed even $11 billion? We heard that consistently in these roundtables, that there really is a big demand out there for these type of loans.

Administrator BARRETO. There has definitely been a big demand for SBA loans this year and we are excited about that. Let me just put it a little bit in perspective.

First of all, we are not concerned about running out of money in Fiscal Year 2003, even before we made our announcement yesterday about the expansion of our budget authority because of the econometric model that we applied.

Compared to this point last year, SBA has reached 10,000 more small businesses, yet used fewer dollars. Loan approvals right now are averaging $40 million a day. We would need to do $54 million a day for the rest of the Fiscal Year to run out of lending authority, and we do not believe that is going to happen.

Our projections are based on historical lending and we think that is very much in line with the usage manifested over our recent history. We feel pretty good about where we are at.

Now, is it possible that we could get a huge uptick in demand? Yes, and we hope that happens. But right now, I think we are doing pretty well.

One of the things I mentioned in a previous hearing is the fact that we were actually concerned prior to the SBAExpress Program really taking off because we had about 13 percent of our borrowers absorbing 50 percent of our budget authority. In other words, one of the reasons that we would have run out of money is the fact that so many large loans were coming out of the 7(A) loan program. It does not mean that we do not want to do large loans in the 7(A) program, but we have other programs like the 504 program, which are very well situated to do those larger real estate loans.

As of right now, we feel that we are in a pretty good place and we monitor the situation daily. So it is not something that would sneak up on us.

Chair SNOWE. So you do not believe that a higher program level would lead to different behavior or greater demand?

Administrator BARRETO. It just has not, again, over the last few years. We are having a banner year this year, but we just do not see it. I think that historically we have been running in that $9 billion to $10 billion level. That is where we will be at this year. I think it is pretty safe to say that we will probably be there next year, as well.

Chair SNOWE. What I have also noticed is that there is a difference between the assessments made by the industry and those made by SBA. Is there reason? What accounts for that discrepancy? It just seems to be a major difference in assessments about what will result.

Administrator BARRETO. One of the things that we were very excited about was that when we talked about making these changes to the SBAExpress Program and making it easier for lenders to participate in this program, many people said to us "Well, it is not going to happen, the lenders are not going to be interested, they will not do the smaller loans, et cetera."

The exact opposite has happened. We are getting tremendous response from the lenders saying that they really like the SBAExpress Program. They like being able to do these smaller loans. They do not mind—in fact, they like the changes that we made in the SBAExpress Program.

By the way, these changes did not come out of SBA's great ideas office. We do not have a great ideas office. It came from doing lender roundtables. It came from talking to the lenders and asking them what they wanted. What they told us that they wanted was what we provided them. And you know the old saying "the proof is in the pudding." They are really responding to it.

Chair SNOWE. How do you assess the growth in demand? What tools do you use to make that estimate, especially now? I was just thinking that given the state of our economy and the fact that small business really is responsible for 75 percent of the job growth in America, and continues to really be the engine that drives the economy.

So would it not be wise and prudent to invest more in expanding the loan capabilities of SBA programs because ultimately they will lead to greater job creation?

Administrator BARRETO. I agree with that, but I also agree with the advice you give us about doing more outreach because that is what will create the demand. We do not have that level of demand right now, but we want to get that level of demand. One of the things that we think will be vitally important, is to enlarge our network—in other words, if we have more people that are offering SBA loans, I think that is going to generate more demand.

That is why we made the changes to SBAExpress—to attract more lenders—lenders that we did not have before, especially small lenders, community lenders, rural lenders. We thought that was very important. We thought the change we made to our regulations to allow 1,500 potential new distributors of SBA products, credit unions, was important. That is a new change and we are working with the credit unions to get more and more of them involved.

But I think it is also going to be necessary to create the awareness. That will create the demand for our products and services.

A lot of times, I like to say small businesses do not know what they do not know. It is not their fault, they are busy. So we need to get out there and make sure that they are aware of that.

Once we make them aware of what the SBA does and how it can help them, they also need to have confidence in us. A lot of times when we have talked to small businesses they have a perception that it is going to take a long time, it is going to cost a lot of money, it is going to be very complicated. "I can take a 'yes,' I can take a 'no,' but the 'maybe' kills me."

We are trying to change that perception. I think the experience we are seeing right now at the SBA with our loan activity, percentage increases in every major demographic, especially the fastest growing segments of small business, reflects on our future and our ability to be successful in all of our loan programs.

Chair SNOWE. What if you are so effective in the outreach and you do not have the loan capacity to meet that demand?

Administrator BARRETO. That has not happened to us yet.

Chair SNOWE. You do not think it is going to happen? I know it is the chicken and the egg, you do not know if having money there is going to make the difference in being able to attract more lenders and participants in the program. Or the fact that you do not have the moneys creates a deterrent.

Administrator BARRETO. We have a program called the 504 CDC Program. It is a great program. We have budget authority for $4.5 billion. We believe that many, many small businesses could take advantage of that program as well.

But every year we leave a couple of billion dollars in budget authority for the 504 Program on the table. What that tells us is we have got to restructure the way that we distribute 504s. We have to change the way that we communicate about that program. We have to make it easier for people to take advantage of that program. We need to make it a win-win situation for our partners. It is a perfect example.

One of the things that I am very confident of is that the SBA has never run out of money to make these loans, and I do not believe that we will. We will work very closely with you and monitor the situation so if it does become a situation where we do need to expand the budget authority, we can.

Chair SNOWE. I agree with you on the SBAExpress Program. I have heard a lot of positive feedback on that program. I think again, it goes back to being innovative and streamlining the program and making it easier.

One of the things that we did hear in the roundtables was the burden of paperwork under the 504 Program. And people just, in fact, demonstrated this burden by bringing in the amount of paperwork necessary to fill out. I agree, it does become a huge handicap to participate in some of these programs. So where we can enhance and expand efficiencies, we ought to. So I applaud you for doing that.

Is there any improvements we can make in the 7(A) loan processing program, drawing on lessons from the SBAExpress Program?

Administrator BARRETO. We are definitely looking at different things that we can do there. Again, anytime that we can minimize the process we will try to do so—by the way, this is one of the things the lenders told us. They said "Look, we would be willing to take less of a guarantee if you could allow us to do these loans quicker because time is money for us." So we did that with the SBAExpress Program.

But we are looking at all of our loan programs to see if we have the ability to be able to do that, to make them much more streamlined and easier. It needs to be a win-win situation for our partners. We depend on our partners to be able to distribute these products. We cannot do it without them.

So, on all of our programs we will continue to take a very hard look at what we can do to get better. We are not satisfied we are even close to being done with improvements that can be made to our programs.

Chair SNOWE. I am going to ask you several more questions. We have a vote and since I am the only one here, I will finish up.

But there are several more questions here. The women-owned business program is one of my interests in trying to create very coordinated, cohesive programs. And my legislation is seeking to address that as well.

And also, to put it on the same model as the Small Business Development Centers Program. I have introduced legislation that will ensure that we can have some continuity, especially with the expiration of the sustainability grants.

I hope that you would look at that approach. I want to work with you because I do think we should be making sure that all of these programs are cohesive and they work well together.

Administrator BARRETO. We would definitely look forward to not only working with you, but really coming up with some very good solutions on behalf of women business owners. This is something that is very important to us.

Women business owners are the fastest growing segment of small business. They are already 40 percent of all businesses and they are doing some incredible things. So we want to make sure that we are doing everything that we can to surround them with all the tools that they need to succeed.

I know that our staffs are working closely together on this. I believe there are some meetings coming up tomorrow and the next day. And you have our commitment that we will work closely with you to come up with the best solutions for women business owners.

Chair SNOWE. I appreciate that and am looking forward to working with you on it because I want to ensure that they are a permanent part of the landscape for small business. They truly do work well in providing counseling and the resources and support and it is something we ought to encourage since they are the fastest growing segment of our economy, women-owned businesses. So it truly is important to the future of our economy.

On contract bundling, and on the issues of contracting in general—and there are a lot of issues there, however, I will not get into all of them today.

Suffice it to say that there are some issues that we need to explore on that front. But I know one of the issues that came up during the course of the March 2003 hearing was the issue that some of these large companies that received contracts having been certified as small businesses, and during the course of the contract ended up becoming a large company and they still happen to be on the federal database as small businesses.

In fact, the same companies that were reviewed by GAO continue to be listed on PRONet in the central contractor registration database.

Why is it that they continue to be on that list when they no longer qualify as a small business?

Administrator BARRETO. This is also a very important issue, because I think it has become a perception problem and we are very concerned about this perception, that big businesses are taking contracts away from small businesses—we want the exact opposite to be happening. We want small businesses to get more access to the $230 billion procurement pie. And we are working very hard to ensure that with a number of our initiatives.

What happens is I think it gets a little complicated in the sense that sometimes folks may misperceive what the PRONet system is intended to be. It is a directory, not a certification program.

Having said that, one of the other things that we experienced is that when the PRONet and CCR got merged together late last year, there were some glitches. There were some large companies that ended up appearing in there.

I will tell you that we have removed 600 of those companies. Now there are approximately anywhere from 180,000 to 200,000 firms that are listed on the PRONet directory. We are constantly looking at it and scrubbing it.

But this issue is very important. In fact, we sent a letter very recently to all of the procurement departments of each federal agency, letting them know of this issue.

This is also something that we have now put on our website as a warning to those large businesses that put themselves on there, explaining what the ramifications and applications will be.

Another one of the reasons it gets complicated is sometimes a small business will be registered on the PRONet and they will qualify as a small business for certain types of procurements. However, there are other types of procurements where these businesses are no longer considered small business.

Also, sometimes a small business will go on PRONet, get a contract, and the next day will not be a small business based on our standards.

We are putting a number of different measures in place, not only to police it, but to make sure that the information that is on PRONet is accurate and responsible.

Chair SNOWE. Are there any penalties involved, at this point? Because I think there is something to be said about creating incentives so this does not occur.

Administrator BARRETO. There are a number of different penalties, again depending on what the actual infraction is. If it is a large business that has purposely and willfully misrepresented themselves, there could be criminal penalties. But oftentimes what will happen to a small business, if they are doing it on a regular basis, they may be delisted and never be allowed on the register, and prohibited from doing any kind of procurement.

When I was in business, one of the best policing methods is other business owners banning together. If you are going up against a contract with a big business and you lose out to that big business, believe me, the small business will protest and make it known that they lost this contract to a big business.

Again, the purpose of PRONet is not to certify that these are small businesses. It is to list them. There are auto-certifications, self-certifications that are going on there.

Having said that, we are being very vigilant about removing any large businesses that should not be there, and we have already removed 600.

Chair SNOWE. Is it true that federal regulations generally permit a company to remain as a small business, I mean to be certified as a small business, through the life of the contract even though they now have become a larger business?

Administrator BARRETO. One of the things that we have done is we have submitted a proposed regulation to mitigate that. It is true for some small businesses, especially with what has happened in procurement reform over the last 10 years. In the old days, I guess, it was not so common to see these 10- and 20-year contracts. However, our own regulation has not kept pace with the changes that have occurred in procurement.

One of the things we find is a small business has been awarded a contract, and maybe they were small before and now they are large, that agency will not be able to get credit for small business goals if that business is no longer a small business.

Chair SNOWE. I appreciate it, Mr. Barreto, for your willingness to be here today and I am looking forward to working with you during this reauthorization process, with you and your staff, and doing all that we can to ensure that we can improve upon the programs and making sure that they continue to serve small businesses for the year to come.

I know that you have also expressed a desire to expand the authorization from 3 to 6 years. Obviously, I have some concerns about that because of our responsibilities with respect to conducting oversight on these programs. So it is something we will weigh.

But generally, the 3 years seems to be a reasonable period of time in which to be able to examine some of these programs. Whereas you get 6 years, and it becomes far more difficult to make the kind of changes that may be necessary during such a longer period of time, doing the authorization. But that is something we can continue to discuss.

I am looking forward to working with you and all the stakeholders involved in developing these programs and the reauthorization. We hope to move forward with this legislation.

The record will remain open for an additional week, to June 11th, for anybody who has additional questions or comments. We certainly invite them to be submitted within the record.

I appreciate all of your cooperation, Mr. Barreto, and I am looking forward to working with you and to make sure that we can be very efficient and expeditious throughout this reauthorization process and be hopefully concluded in a timely basis. That is certainly my intention and I am going to do everything that I can to make sure that that process works.

Administrator BARRETO. Thank you very much, Madam Chair.

Chair SNOWE. I thank you very much for your cooperation.

Administrator BARRETO. I appreciate your leadership and your support of small businesses. Thank you very much.

Chair SNOWE. Thank you. This hearing is adjourned.

[Whereupon, at 3:06 p.m., the hearing was adjourned.]

POST HEARING QUESTIONS

Post-Hearing Questions
Committee on Small Business and Entrepreneurship
to
The Honorable Hector V. Barreto, Administrator,
U.S. Small Business Administration

"SBA Reauthorization: Programming for Success"
June 4, 2003

Questions submitted by Senator Mike Crapo

The first four Questions are in reference to the new contract bundling regulations published in January (FAR case 2002-029).

1. Is there a cost-benefit provision in the proposed contract bundling regulations? If so, what is it? If not, I would like to see the OMB initiate some form of cost-benefit analysis for the proposed regulation.

A Benefits Analysis is currently required under SBA's Bundling Regulations (13 CFR 125.2) and the Federal Acquisition Regulation. The analysis may include:

- Cost savings and/or price reductions, quality improvements that will save time or improve or enhance performance or efficiency, reduction in acquisition cycle times, better terms and conditions, and any other benefits that individually, in combination or in the aggregate would lead to:
    - Benefits equivalent to 10 percent of the contract value (including options) where the contract value is $75 million or less; or
    - Benefits equivalent to 5 percent of the contract or order value (including options) or $7.5 million, whichever is greater, where the contract or order value exceeds 475 million.

2. The small business contracting community involves not only prime, or first tier contractors, but also subcontractors, or second tier contractors. What are the participation rates for the small business second tier contractors? Do you have data indicating the job creation effectiveness of first tier and second tier contracting efforts? Given the thrust of procurement reform, as well as the development of electronic commerce, it would appear that a major opportunity for small business is as a second tier vendor, yet nearly all the focus seems to be on prime contractors? Why is this and what are the plans to broaden the focus here?

- Neither SBA nor any other Federal agency collects data for small business participation at the second tier subcontracting level, nor do we have data on job creation at the first or second tier levels. Agencies collect subcontracting data at the first tier level from large business prime contractors that receive a contract over $500,000 or $1 million in construction.

- We acknowledge that the recent trend toward consolidating contract requirements has affected small business participation as both prime and subcontractors. In order to secure contracting opportunities for small businesses, we are conducting a series of matchmaking events throughout the country that allows agencies, large prime contractors, and local governments the opportunity to meet with and discuss contracting opportunities with potential small business suppliers.

- We are also in the process of developing an automated data collection system that will take the place of the current paper based system. The automated system will:

    - Track subcontracts issued by large businesses to their large business subcontractors and the associated subcontracts awarded to small businesses,
    - Give Federal managers more timely feedback on the subcontracting performance of prime contractors,
    - Give both Federal managers and large businesses a method of tracking subcontract awards at various tiers, and
    - Give SBA and Federal activities a management tool to monitor and measure subcontracting activities at the sub-tier level.

3. Item 4 of the contract bundling regulation identifies agency specific dollar thresholds at which point small business consideration would be included in the procurement process. How were these dollar thresholds developed? How do the thresholds differentiate between a contractor doing environmental remediation and one providing janitorial products? Shouldn't the differentiation be based on the industry instead of the agency?

- An OMB-lead Interagency Group reviewed contract data obtained from the Federal Procurement Data System (FPDS) to determined the most efficient and effective way to leverage resources to mitigate the effects of contract bundling.
- Based on an agency's volume of contracts, three thresholds were selected (i.e., $7 million for DOD, $5 million for NASA, GSA, and DOE, and $2 million for all other agencies) to maximize use of agency resources without imposing unreasonable burdens on the agencies.
- These thresholds are especially significant in that they also trigger additional documentation and review requirements to ensure high level agency attention to potentially bundled acquisitions.
- In the proposed regulations, this oversight responsibility is assigned to agency small business specialists and OSDBUs, who work with our Procurement Center Representatives (PCRs) to ensure small business participation.

In reference to the issue of contract bundling differentiation based on the industry instead of the agency, the Administration believed that the dollar thresholds, in combination with other existing criteria would provide a more balanced approach to mitigate the effects of contract bundling on small businesses. Regardless of the dollar value, a bundling review is required where:

- the consolidation of two or more procurement requirements previously provided or performed under separate smaller contracts into a solicitation of offers for a single contract that is likely to be unsuitable for award to small businesses due to the diversity, size or specialized nature of the elements of the performance specified, or the geographical dispersion of the contract performance sites.

- Any combination of dollar value or the factors mentioned above would trigger a bundling review and address your concerns regarding industry specific analysis.

4. Item 6 indicates that there will be a performance assessment of contractors regarding their small business plan. Will this be based on how well they achieve their numerical goals or will it be based on their effort to achieve performance? If it is based on numerical achievement of goals, how can we evaluate contractors?

- The proposed regulations require agencies to use contractor's compliance with subcontracting as an evaluation factor for future contract awards. Agencies must assess the prime contractor's performance in meeting goals under prior contracts as well as their plans to use small businesses in the current contract.

- However, agencies are also required to assess a prime contractor's performance against established subcontracting for a particular contract. The rating is typically based on the percentage of small business subcontracts awarded compared to the subcontracting goals approved by the contracting officer.

- SBA's Procurement Center Representatives (PCRs) are responsible for reviewing the procurement opportunities to maximize small business participation at both the prime and subcontracting levels. They also review the subcontracting plans prior to the award to ensure that prime contractors have considered maximum subcontracting opportunities for small businesses.

- SBA's Commercial Market Representatives (CMRs) review contractor's overall compliance with their small business subcontracting program.

5. **Along with the proposed new regulations I referenced in my previous questions, Congress is also considering new legislation to address the issue of contract bundling. It is my understanding that the Bush Administration, as it has in the past, continues to oppose legislative provisions, such as the recently-passed Collins amendment to the Department of Defense (DoD) Authorization bill, which would institute new contract consolidation requirements on the DoD. If you are successful**

in promulgating the new regulations that were proposed in January, do you believe additional targeted or government-wide bundling legislation is also needed?

- SBA does not believe additional government-wide bundling legislation is needed.
- The Administration's proposed regulations should be given a chance to succeed without statutory changes.

6. **Probably more than any other agency, in the past few years, the SBA has had to do more with less in terms of federal funding. Despite this, the SBA has done a commendable job with the resources it has been given, and has really become a model of efficiency that should be emulated by other federal agencies. Do you believe the current and proposed levels of funding for Procurement Center Representatives (PCR) are sufficient to monitor and enforce any new contract consolidation requirements imposed either through regulation or legislation? If not, do you believe additional PCRs can be funded without taking needed resources from other vital SBA programs?**

- The work of the PCRs has been impacted by several dynamics, including the procurement reforms of the last eight years.
- SBA will manage their changing role by leveraging our resources through working with the OSDBU Directors, using technology to help get the job done, and relying on leadership and accountability at each agency to support the small business programs.
- SBA will continue to evaluate its resources to determine if the current and proposed levels of funding are sufficient.

7. **In terms of both prime and subcontract opportunities, has any study been done as to whether it is the practice of contract bundling or the sole source contracting status of Federal Prison Industries that has the greater impact on preventing small businesses from freely competing for federal government contracts?**

- The OFPP October 2002 Contract Bundling Report to the President references a Report prepared by Eagle Eye Publishers for SBA's Office of Advocacy that states for every 100 bundled contracts, 106 individual contracts are no longer available to small businesses. For every $100 awarded on a bundled contract, there is a $33 decrease to small businesses. (Please note that report included a footnote to show that Eagle Eye's definition of contract bundling did not correspond to the statutory definition.)
- The OFPP report also stated that there has been a significant decline in new contract awards to small businesses even though the overall dollars to small

businesses have remained relatively constant, (i.e., 86,243 new contracts in 1991 to 34,261 in 2001.)

- However, there has been a significant increase in dollars awarded as orders against GSA schedule contracts, Government-wide Acquisition Contracts, multi-agency contracts, and multiple award contracts, (i.e., $21 billion in 1990 to a high of $72 billion in FY 2001.)

- SBA has not conducted a study on the impact of sole source contracting to Federal Prison Industries on small business' participation in Federal contracting.

However, SBA does receive anecdotal information from small businesses that mandatory sources such as Federal Prison Industries and the Javits Wagnor O'Day Program (NIB-NISH) impact their ability to compete in the Federal Market.

Questions submitted by Senator Mary Landrieu

1. The original appropriation for the New Markets Venture Capital Program provided enough funding to establish up to fifteen New Markets Venture Capital Funds across the country. Only seven funds were established during the first round of funding and a second round of funding was to occur this spring. Unfortunately, Congress rescinded the funding for the second round in the 2003 Omnibus Appropriations Bill that passed in February. The rescission occurred after the President submitted his budget for FY 2004. My colleague Senator Breaux and I sent a letter to the Appropriators requesting that the money be restored in Fiscal Year 2004.

Does SBA support the restoration of this funding and can we look forward to a request by the President?

SBA believes that the funding for the New Market Venture Capital Program is sufficient to run the program, and SBA is administering the program and carefully evaluating the current round. The Administration's FY 04 budget proposal did not request funds for this program.

2. The New Markets Venture Capital Program is a unique program in two primary respects: it is the only SBA developmental venture capital program to target investments in small businesses located in very low-income areas at the same time as it provides operational assistance to these businesses to ensure their success.

Can you tell me how the SBA plans to meet these program goals if a second round of funding for the NMVC program does not occur?

SBA is committed to providing equity capital to low income areas. The SBIC program is achieving great success in that regard, and SBA intends to improve on that success. Please see attachment for more detail of SBIC financings in Low Income areas and Low and Moderate Income areas.

3. Can you tell me how many small businesses located in very low-income areas SBA has assisted with equity capital investments in the past two years versus the total number of small businesses assisted with equity capital provided by the SBA during this period? Can you tell me how many jobs have been retained or created as a result of these investments?

Please see attachment for more detail of SBIC financings in Low Income areas and Low and Moderate Income areas, both of which are defined in the Small Business Investment Act and/or 13 CFR part 107. SBA has no defined "very low-income area" investments, so we are unable to provide data on that. The data provided accounts for all financings, not just "equity capital investments". The SBIC program created or retained 78,000 jobs in FY 2002, 127,000 jobs in FY 2001, and 156,000 jobs in FY 2000.

Questions from Senator Levin

1. The SBA Microloan Program has grown from a small pilot program with 35 microlending intermediaries in 1992 to a permanent program with over 180 intermediaries participating in the program as of February 20, 2003 and these intermediaries have made more than 18,000 loans totaling approximately $200 million with the average loan being less than $12,000.

After 10 years, the SBA Microloan Program has demonstrated that the fusion of lending and technical assistance has a positive impact on the success rate of the micro businesses receiving financing through SBA intermediaries. The low loss rates experienced by microlending intermediaries attests to the efficacy of professionally delivered technical assistance in helping emerging businesses to succeed.

Technical assistance grants are a critical component to the Microloan Program. These TA funds enable the local lending intermediaries to keep their loss rates low, even as they lend to borrowers that traditional lenders categorize as high risk- the single most important purpose of the program.

Despite the programs demonstrated success and growing demand for funds from lending intermediaries and entrepreneurs in the field, the program has been under funded particularly on the technical assistance side.

While the Administrations proposed reauthorization legislation would authorize significantly higher levels of authorized appropriations - the Administration has not supported these appropriations in their budget requests. The President's FY 2004 budget requests $19 million in direct Microloans and $15 million in technical assistance grants for the Microloan program. Can you explain how this level of technical assistance requested can support the activities of the lending intermediaries participating in the program and the small businesses they serve?

The statute that governs the Microloan Program calls for the calculation of grants to intermediary lenders based on the debt that they owe to the SBA. Historically, SBA has interpreted this requirement very conservatively, using only debt levels as the measure of grant funding to be awarded. However, at the end of FY2001, minimum performance standards were published and implementation began in FY2002. Based on the performance requirements and data collected directly from the intermediary lenders, some organizations did not receive grant funding during FY2003 so that resources available were utilized by performing and incoming intermediaries. In addition, a more efficacious approach to future funding decisions is in development. We expect this approach to follow the statute in terms of maximum grants allowed, but to include other important distribution factors such as performance of the microlender. We believe that the utilization of resources in a manner that better reflects the performance of the grantee, as opposed to only the debt, will assist in more efficient utilization of the resources requested.

2. Because the technical assistance funds are critical in making successful Microloans it is particularly important that there be an appropriate balance between the funding provided for technical assistance grants and the funding provided for direct loans. In FY 2002 $17.5 million was made available to support Microloan technical assistance grants and the SBA ran out of funds in the late spring. This shortfall left the SBA unable to fully obligate loan funds and meet the demand from micro lending intermediaries.

It is vital that SBA microlending intermediaries continue to receive adequate technical assistance funding to provide intensive business assistance and support to their borrowers. It is also vital that SBA continue to support existing microlending intermediaries while expanding the Microloan Program to include new lending intermediaries in communities that are currently underserved.

I am concerned that insufficient funding of the microloan technical assistance puts the local lending intermediaries and ultimately the SBA at risk.

Can you tell me what portion of the country is currently served by the microloan program? Are there gaps in service and if so why?

The number of intermediary lenders fluctuates annually between 160 and 170, based on intermediaries that leave the program and new intermediaries that enter the program. The number of intermediaries from state-to-state varies. However, most states have more than one intermediary. Only two states currently have no intermediaries. They are Alaska and Utah. Historically, we have had microlenders in each of these states, but at this point in time, we are seeking new participants in those areas. Conversely, some states have statewide coverage, including North Carolina, Missouri, Wisconsin, Connecticut, Maine, Vermont, Massachusetts, Nevada, New Jersey, Louisiana, Rhode Island, Oklahoma, New Mexico, Wyoming, and North Dakota. In Arkansas, Alabama, Hawaii, Arizona, California, Washington, New York, New Hampshire, Mississippi, Pennsylvania, New York, Minnesota, Florida, Michigan, Texas, Ohio, Nebraska, and Oregon, roughly half of the state is able to access the Microloan Program. In other states, there are lenders available but in fewer than half the counties.

SBA has numerous resource partners (SBDCs, SCORE chapters, Women's Business Centers, etc) across the country that provide technical assistance.

Questions from Senator Snowe

1. At the hearing on June 4, 2003, you agreed that you would work with the staff of the Senate Committee on Small Business & Entrepreneurship to provide a report about the SBA's efforts to improve the agency's loan monitoring practices, including the SBA's contract with Dun & Bradstreet. In addition, you agreed to provide a report to the Committee's staff about the SBA's financial statements and the SBA's efforts to improve the accuracy and completeness of those statements. When will these reports be available? Are you able to coordinate with the Committee's staff to agree upon the elements that will be covered by these reports prior to the reports' completions?

We expect to be finished with our work on SBA's financial statements by the end of the summer, and we expect to have a clean audit opinion for FY 03.

SBA's contract with Dun & Bradstreet is attached. We expect the final product, scheduled for September 30, to be delivered on schedule

2. At the Committee's roundtable on April 30, 2003, we heard about a proposal that would involve the pooling of loans made to small businesses but lacking loan-specific SBA guarantees, and then the sale to private investors of securities based upon those pools. I understand from SBA participants in the roundtable and from the SBA's Budget Request and Performance Plan for Fiscal Year 2004 that the SBA has looked into this type of proposal. What does the SBA think would be the benefits of such a program?

SBA is still considering and reviewing the pooling concept.

3. At the hearing on June 4, 2003, we discussed the loan volume of the SBA's 7(a) Loan Guaranty Program. At the hearing, you expressed your opinion that the historical level of the 7(a) program over the last few years was an appropriate level at which to continue the program. What negative results do you perceive could occur from a decision by the SBA to seek a larger loan volume for the 7(a) program for Fiscal Year 2004? For instance, if the SBA sought and achieved a 7(a) loan program capacity of $11.0 billion for Fiscal Year 2004, what negative results could occur?

SBA does not expect negative results. This Administration is committed to reaching as many small businesses as possible, and we are confident we will achieve that goal with our budget request.

4. In addition to the negative results involved in Question No. 3, if a loan capacity of $11 billion for the 7(a) program were achieved for Fiscal Year 2004, is there a possibility that 7(a) loans could be made in Fiscal Year 2004 at a level that exceeds the level currently being requested by the SBA, $9.3 billion?

The Administration is confident that $9.3 billion is sufficient funding for FY 2004.

5. At the June 4, 2003, hearing you mentioned that the SBA is interested in increasing the number of 7(a) loans, and in increasing the number of lenders that make 7(a) loans. Are these goals in any way incompatible with also increasing the total volume of 7(a) loans, perhaps through an increase, not only of small 7(a) loans, but also of large 7(a) loans?

SBA does not believe that increasing the number of all 7(a) loans and increasing the number of lenders is incompatible.

6. At the June 4, 2003, hearing you mentioned that large loans can be made in the 504 Loan Program. However, the 7(a) loan program and the 504 loan program have different features, and can be used for different purposes. Might some small businesses that seek a large loan prefer the 7(a) program to the 504 program, because of the particular needs of those businesses?

The 7(a) and 504 programs do offer different types of loans. However, it is possible that many of the larger loans made under the 7(a) program could have been made under the 504 program. SBA compared the top borrowers by industry in both programs, and found that the top four categories were virtually interchangeable.

Questions from Senator Kerry

7(a) Loan Program

1. There are only four months left in fiscal year 2003. For the entire FY2003, what is SBA's estimate of 7(a) loan demand in dollars and numbers of loans, breaking it down by regular 7(a) loans and STAR 7(a) loans?

STAR – 3,380 loans for $1.6 billion
7(a) – we estimate 60,000 loans for approximately $8.5 billion.

2. What is your estimate of 7(a) loan demand for FY 2004?

SBA estimates that 7(a) loan demand will be $9.3 billion.

3. In testimony before the Committee, SBA refers to "historical" performance when justifying its estimates for program demand and budget requests. To estimate demand, does SBA use current gauges, such as surveys by the Federal Reserve on small business lending, economic indicators or number of lenders? Please describe the exact procedure (formula or process) SBA uses to estimate future 7(a) program demand.

SBA estimates demand for the 7(a) program by looking at its historical experience.

4. On what basis does SBA contend that overall 7(a) loan demands for FY2004 will be less than FY2003?

SBA estimates that loan demand for FY 2004 will be $9.3 billion, which is more than the $8.5 billion estimated demand for FY 2003.

5. Yes or no, does SBA expect small business credit demands to decrease next year, especially if the economy starts to finally grow again? Please explain the answer.

SBA is confident that our FY 2004 budget proposal meets the needs of small business.

6. What has been the daily 7(a) usage in April and May of this fiscal year? How does this compare to 7(a) usage in March, 2003?

FY 2003:
March - $39.4 million
April - $40.8 million
May - $40.7 million.

7. Please supply us with monthly 7(a) usage for fiscal years 2000-2003 to date. Please do this two ways: STAR loans and without STAR loans.

Please see attached Excel spread sheet

8. In the June 4, 2003 hearing you said that the 7(a) program would not run out of money because the large real estate loans could be made through the 504 program. How much does SBA estimate in loan dollars that could be made with 504 loans instead of 7(a) loans? Please explain the estimate and whether it would require program changes.

For the last several years, the 504 program has not used approximately $2 billion in loan authority. We do not have estimates for dollar amounts – but SBA is confident that some of the larger 7(a) loans could be made under the 504 program. SBA compared the top borrowers by industry in both programs, and found that the top four categories were virtually interchangeable

9. In the June 4, 2003 hearing, you said SBA's 7(a) loan program has never run out of money. Our records show that the program ran out of money in 1993 and 1995, and but for a cap in loan size the program would have run out of funding prior to the end of this fiscal year, FY2003. Yes or no, is that correct?

SBA instituted a $500,000 cap in FY 2003 due to Congress's failure to pass an appropriations measure.

In testimony before the Senate and House, SBA has repeatedly referenced a dy by the Bureau of Labor Statistics "that looked at [SBA's] portfolio," and ncluded that smaller loans are "more effective" for creating jobs than larger ıns. Please provide us with a copy of that study. Please include the ·thodology used in the study to predict job creation by loan size."

› BLS study is attached.

In the hearing, you said that defaults are higher on big 7(a) loans than on all 7(a) loans. Please provide an explanation and documentation to support ıt statement.

ıile it is true that small loans are more likely to have shorter maturities and ger loans tend to have longer term maturities, it is important to distinguish tween the actual impact of loan term versus loan size. When all other factors › held constant, shorter term loans do tend to default more often. When all ıer factors are held constant, smaller loans tend to default less. However, the ›st important point is that SBAExpress, the primary program through which SBA ıcreasing its small lending activity, has its own distinct characteristics which uence default behavior. These include the 50% guaranty as well as other ›gram criteria. All other things equal, SBAExpress loans tend to default less ın non-SBA Express loans.

4 Loan Guarantee Program

. What is the currency rate of the 504 program in FY 2003 to date?

of April 30, 2003, the currency rate is 94.05%.

. What was the 504 program's currency rate for FY2000, FY2001, and FY2002?

4 Portfolio by
ımber

StatusSummary	LoanCount 9-30-2001	Percentage	LoanCount 9-30-2002	Percentage	LoanCount 6-30-2003	Percen
ırrent	31,700	95.37%	31,158	94.79%	31,528	94.!
Month Past Due	116	0.35%	117	0.36%	106	0.:
Months Past Due	330	0.99%	295	0.90%	279	0.ı
· Months Past ıe	188	0.57%	207	0.62%	191	0.:
l other	716	2.15%	885	2.66%	1,061	3.
ıtal Loan Count	33,238	100.00%	32,869	100.00%	33,356	100.ı

?ortfolio by Dollar						
atus Summary	9-30-2001	Percentage	9-30-2002	Percentage	6-30-2003	Percen
nt	9,040,819,176	95.39%	9,729,966,908	94.67%	10,141,364,202	94
ıth Past Due	35,837,192	0.38%	41,703,614	0.41%	38,794,077	C
ıths Past Due	95,598,937	1.01%	93,800,151	0.91%	82,973,173	C
ıths + Past Due	59,771,457	0.63%	72,324,939	0.70%	65,418,717	C
ıer	245,251,019	2.59%	339,756,146	3.58%	422,894,614	4
Loan Count	9,477,277,781	100.00%	10,277,551,758	100.00%	10,751,444,783	10C

above charts show the number and dollar amounts and currency rates for 2001, 2002, 2003 YTD. This data is not available prior to 2001.

decrease in currency rate would not be unexpected, given the overall economic ine in these time periods. The larger drop was between 2001 and 2002, which would onsistent with overall economic patterns. The increase in the "All Other" category, ch consists of loans that are in a catch-up plan, deferment, or liquidation is a lagging cator, since those are the consequence of the earlier decrease in currency.

How many delinquent 504 loans are there?

ɔse see charts in #13

How many delinquent 504 loans were there in FY2000, FY2001, and FY2002?

ɔse see charts in #13

For the last 30 days, last 60 days, last 90 days, respectively, how many 504 ns were delinquent? In dollars?

ɔse see charts in #13

In those same three time periods of the two previous fiscal years, what was number of 504 loans delinquent? In dollars?

ɔse see charts in #13

Is there a correlation between CDCs with the highest delinquency rates and Cs with the highest default rates? Please submit a chart that includes the 15 Cs with highest delinquency rates, the 15 CDCs with the highest default rates, ir rates for the last five fiscal years, the percentage change of their rates from ır to year, and the total dollars of their loans in default.

: attached Excel spread sheet. CDCs with the highest default rates tend to small volume lenders. Most of those on the Default list are no longer in :tence.

19. For fiscal years 2001, 2002, and 2003 to date, please provide the average annual number of days between the date of default and repurchase of debentures (excluding those defaults that were or are the subject of a formal written deferral agreement).

This information is not readily available because it must be constructed from various sources and, therefore, it cannot be completed in.

20. Of loans liquidated in fiscal years 2002 and 2003 to date, broken down by fiscal year, in what year did they default.

Status Summary

In Liquidation as of
4/30/2003

Fiscal Year Defaulted (Purchased)	Count of Loan Number	Percentage
1991	3	0.6%
1992	4	0.7%
1993	2	0.4%
1996	2	0.4%
1997	2	0.4%
1998	6	1.1%
1999	16	3.0%
2000	28	5.2%
2001	50	9.3%
2002	183	34.0%
2003	242	45.0%
Grand Total	538	100.0%

21. In the current fiscal year, what specific steps has SBA taken at the District office level to improve the delinquency and default rate performance of those CDC's having the highest rates?

SBA field offices review the annual report submitted by the Certified Development Company. District offices that identify a negative trend in the CDC's performance contact the CDC and discuss these performance issues. In addition, SBA field offices get the late payment report from the Central Servicing Agent. After reviewing the report, the District Office contacts the CDC to insure that the CDC is following up with the borrowers whose payments were late in the previous month. This follow up process includes development of a catch up plan if the CDC and SBA determine that the business can be salvaged.

22. In the current fiscal year, what specific steps has SBA taken at the national level to improve the delinquency and default rate performance of those CDC's having the highest rates?

With the exception of Preferred Lenders Program (PLP) and Premier Certified Lenders Program (PCLP) designations, the oversight of lenders is handled at the District Office level. Headquarters staff in the Office of Financial Assistance works to provide the tools necessary for the field to perform that duty. As such, each month headquarters creates the 504 Lender Analysis & Management Program Report (LAMP). This report shows the performance of each CDC on a monthly basis. This information is reviewed by the field office to determine which CDCs are performing successfully. There are several tools available to the District Offices for review of CDC activity. First, the At-a-Glance contains a Management Report, which will highlight any outstanding issues, such as delinquent loans, loans over 90 days old without action, delinquent Annual Reports, Risk Management Benchmarks, etc. The "Management Report" is updated each month when the At-a-Glance is updated. Secondly, SOP 50-10(4) contains a format for the CDC Annual report and Operational Review. Districts use this format at least annually for each CDC. Additionally, whenever there is an action involving a CDC (e.g. renewal of PCLP status), the CDC must resolve any outstanding problems or demonstrate that they are actively working to resolve these problems.

23. In the current fiscal year, what concrete steps has SBA taken to improve the 504 recovery rate? What have been the results of these SBA actions?

The liquidation streamlining efforts underway through our Transformation initiative will enable us to develop more efficient procedures to improve recovery. The pilot transformation project also centralizes the processing of 504 loan applications, initially into a single center. This allows for greater standardization of the loan application and of the drafting of the loan authorization. As a result of this centralization process, credit analysis will be consistent. All this will enhance SBA and its partners' liquidation capabilities in the long term. However, in the 504 program, SBA is liquidating from a second lien position on real property, which is far less advantageous than under 7(a).

24. Why has the 504 net recovery rate become worse year after year for the last six years?

The recovery rate is derived from all of the collection procedures, which include asset sales and the liquidation pilot. However, there are loans that were not in the liquidation pilot or the sales programs. The recovery rate is a function of collections less expenses, as a percentage of defaults from all sources. As long as collections (net of expenses) fall as a percentage of defaults, the recovery rate will decline.

25. What has been the impact of the six asset sales on net 504 recoveries?

SBA is currently reviewing all aspects of the asset sale program and has not yet reached any conclusions.

26. Public Law 106-554 (December 21, 2000) authorizes SBA to delegate foreclosure and liquidation authority to qualified CDCs. Section 307(b) of this law directed SBA to issue implementing regulations within 150 days. No regulations have been issued. What is the reason for the delay and when will SBA begin complying with this law?

SBA has drafted proposed regulations which are now in the process of final review and clearance. We anticipate that these regulations will be published for comment prior to the end of FY 2003.

27. What ongoing analysis has SBA undertaken to examine the performance of the 504 portfolio? How often is this analysis undertaken and who does it?

SBA's Office of Financial Assistance continually examines portfolio performance benchmark reports on CDC performance.

28. The National Association of Development Companies, representing the Certified Development Company industry, several months ago sent Congress and the SBA its suggestions for improving the 504 program. What comments does SBA have on the industry's suggestions?

SBA supports its own legislative proposals concerning the 504 program.

New Markets Venture Capital program

29. I understand that five of the seven designated New Markets Venture Capital companies have completed their funding arrangements with the SBA and have begun making investments in small businesses. It is also my understanding that the two remaining funds have raised the required capital in order to complete their funding and to begin investing. Can you tell me what steps the SBA is taking to ensure that the two remaining funds close by the July 9th deadline?

SBA is working closely with the remaining two firms so that they meet the requirements by the July 9th deadline.

30. I am very concerned about the recently rescinded money for the second round of New Markets Venture Capital firms. This Committee had a commitment from the SBA that it would offer a second round of funding in the fall of 2002. Five companies had been preparing to compete for that round of funding, including Ironwood Capital, which would have provided investment in Massachusetts and Connecticut. A significant percentage of community development venture capital is invested in manufacturing, and both of these states have been severely impacted by loss in manufacturing and badly need these investments. Please

explain to this Committee why SBA did not offer a second round as it promised?

SBA did not offer a second round because the funding was rescinded in the FY 2003 Omnibus Appropriations bill.

31. Is the Committee sending up a request to have the second round money restored in the FY2004 CJS appropriations? If not, what is SBA doing to try to get this funding restored?

We do not know if the Committee is sending a request to have money restored.

32. The SBA made 89 grants through the PRIME program to support training and technical assistance to low-income entrepreneurs in September of 2001. Today, 21 months later, this Committee has not seen any data on the work accomplished through that program. I understand that the Administration has proposed eliminating this program, but given the Committee's important oversight responsibilities, when will we have that data?

We anticipate issuing a preliminary report later this year.

The 7(a) Loan Program

33. SBA has hired a contractor to evaluate the Master Reserve Fund.

a. **Who is the contractor?**
SBA is doing some of the work internally and has also hired the small business Nineteen, Inc. to help.

b. **How much is the contractor being paid for this project?**
The contractor is being paid on an hourly basis.

c. **When was this project put out for bid?**
Within the last 6 months.

d. **Yes or no, is it true that SBA only received one proposal in response to the RFP and that proposal did not win the contract?**
SBA has issued multiple procurements for support with its credit reform related modeling work in the past six months. For this particular procurement, SBA hired Nineteen Inc. through was a general solicitation to all small businesses and there were multiple bidders.

e. **What is the contractor's expertise in evaluating securitized pools of loans?**
The contractor has over 15 years experience developing analytical and financial models, primarily while working for the Office of Management and Budget. In that capacity, the contractor developed several large-scale micro- simulation models and used them to analyze the cash flows from portfolios of financial securities. Also, the contractor is the author of OMB's credit subsidy calculator (used by all Federal credit agencies).

f. **Has the contractor ever performed this type of work? If yes, please describe.**

See above.

g. What is the contract's scope of work?

The contractor is helping SBA build a subsidy model to measure the residual value of the pools of loans guaranteed through SBA's secondary market guarantee program.

h. When is the contractor going to complete its work?

SBA plans to have the model completed for use in preparing the FY 03 financial statements.

i. What is the contractor's proposed methodology for performing this work, including underlying assumptions?

SBA's methodology is based on standard financial model development – data collection and analysis, cash flow modeling and development, followed by testing and sensitivity analysis. SBA's assumption is that the MRF program was created by Congress to be a no-cost program to the government. SBA plans to operate the program so as to maintain a no-cost program.

j. How will the contractor and SBA verify the accuracy of the work?

SBA will have an outside, independent firm validate the model prior to implementation

k. Why isn't SBA using a rating agency to perform this work since such an agency's expertise is in this type of work?

There are many firms (and individuals) that have expertise in developing financial models of this type. In this case, SBA was also particularly interested in hiring a contractor with experience building models under the requirements of the Federal Credit Reform Act, which is not experience the rating agencies generally have. SBA was also interested in working with one of the many small businesses who could do this type of work – the rating agencies are not small businesses.

34. The MRF was developed to about 18 years ago to ensure timely payment of principal and interest.

Yes or no, has it ever failed to do so? If so, please describe.
Yes or no, has it ever been deficient? If so, please describe in detail.

SBA has never failed to meet its obligation to make timely payments to investors. Last year SBA completed an analysis of 50 closed pools (where all of the loans had been paid off). In 23 of the cases, the pools closed with excess funds remaining in the MRF. However, in 27 of the pools, there was a shortfall when all of the earnings and expenses of the pools were accounted for. Overall, the shortfall exceeded the gain amount. SBA needs to assess whether this small sample is representative of the entire universe of approximately 6,000 pools that make up the MRF.

Yes or no, has the Treasury ever been called on to make up for any shortfall in the MRF? If so, please describe in detail.

No, but that partly reflects the fact that the program works by taking funds from pools that have overall gains to cover pools that have shortfalls. SBA does not anticipate that the MRF would have an overall shortfall in the foreseeable future, but needs to be certain that the program is running on a genuine cost neutral basis.

Yes or no, are not the principal and interest payments, plus interest accrued on that sum, in the MRF received from borrowers to be passed through to investors? Please explain your answer.

Yes, the money in the MRF is principal and interest payments, plus interest accrued on those funds that is generally payable over time to the investors who own the pools. However, because of the maturity mismatches between the securities and the underlying loans, in some cases (pools) excess interest is generated beyond what is owed to the investors. In other cases (pools), more interest is owed to the investors than has been collected for and/or generated by the pools. In its MRF modeling project, SBA is attempting to determine the net value of these excess funds and shortfalls.

35. Mr. Administrator, in April 2002, I wrote to you asking for information regarding the Agency's plans to develop a new program to guarantee pools of conventional business loans. You responded that you had no information to give the Committee. In the April 30, 2003, roundtable, one of the participants proposed having SBA offer a guarantee for pooling small business loans. When asked whether SBA had ever considered this, Mr. Bew said "We have explored it. We do not have anything definite." And then finished by saying "....we are looking at it."

a. What exactly is SBA looking at?
SBA is still considering and reviewing the pooling concept.
b. What does SBA intend to do?
SBA is still considering and reviewing the pooling concept.
c. What is SBA's timetable?
We have not developed a timetable.
d. Name the private sector people and companies SBA has met with to discuss this idea.
Representatives from the Office of Capital Access and the Office of General Counsel met with representatives of the financial industry.
e. On what dates did you meet or have calls?
Meetings between SBA and the financial industry occur regularly
f. Please provide the Committee with all communications exchanged in the Agency on this issue.

36. SBA has recently contracted with Dun and Bradstreet (D&B).

a. What is the purpose of the contract?

Consistent with our Congressional mandate, the purpose is to provide the SBA with objective, quantifiable, early warning, and industry accepted, loan and lender monitoring services. The Loan Monitoring System (LMS) will allow SBA to analyze and quantify the risk of our guaranteed loan (7(a) & 504) portfolios using best practices utilized in the commercial lending industry for small business loans. The contract was awarded on April 2, 2003 to D&B, which is partnering with Fair Isaac, the acknowledged industry expert on credit scoring models.

b. **What is the monetary value of this contract?**
The contract has two major components. The first component is a firm fixed price for the purpose of delivering an operational solution to SBA. The cost for this component of the contract is, $1,609,663. Once the solution is fully delivered to SBA on September 30, 2003, the contract has 4 option years which SBA may choose to exercise in order for D&B to support and maintain the solution they have provided. The potential total cost of the contract for the original solution plus all four options years, is $9,787,933.

c. **Please submit a copy of the contract.**
The contract is attached.

d. **Yes or no, will the contract credit score the portfolio?**
Yes, the contract includes credit scoring both the 7(a) and 504 loan portfolios. The portfolio has been scored and will be rescored quarterly if the option years are exercised.

e. **If yes, for what purpose?**
The purpose of the credit scores will be for portfolio management and lender oversight purposes. They will provide an objective, industry understood measure of the credit quality of the 7(a) and 504 loans and will be used to project anticipated purchase rates for individual lenders and by SBA program. This projection of purchase rates will be used to rank and, along with other factors, evaluate the risk individual lenders represent to SBA.

f. **If yes, how is D&B going to get accurate and complete income data on SBA small business borrowers to credit score the portfolio?**
The Fair Isaac credit scoring model for small business portfolio management purposes takes certain business information from D&B and certain consumer credit information from the principal of the small business and uses that combined data to calculate a credit score for a small business loan guaranteed by SBA. The factors included in the scoring do not include income data for the business. This specific credit scoring model was developed by Fair Isaac for portfolio management purposes, not for credit decision purposes.

g. **If yes, what will SBA do with the information gleaned from credit scoring these loans?**
SBA will aggregate the scores by lender or portfolio segment. Once aggregated, SBA will use the information on lenders to assess

the level of risk in a given lender's portfolio and/or a portfolio (or portfolio segment). An average portfolio score of a lender combined with performance trend information will allow SBA to monitor and oversee, on an exception basis, the 3,500 lenders that hold less than $1.0 million each in SBA guaranteed loans. For those lenders with large dollar volumes outstanding, we can focus our review efforts on lenders with higher risk profiles. With regard to portfolio analysis, the portfolio scores of various 7(a) programs can be aggregated to quantify and assess the risk of the portfolio. SBA can then analyze and evaluate the programs to determine if program policy decisions would potentially reduce the overall risk of a program.

f. **If yes, what management actions will SBA take based on the credit scoring?**
SBA does not anticipate taking any management actions based solely on a credit score either of individual loans or aggregated scores of lenders or portfolio segments. The information provided by D&B, including but not limited to credit scores, will enable SBA to identify for follow-up and evaluation, those lenders or portfolio segments with the highest projected risk exposure to SBA. Those lenders with riskier portfolios will be evaluated through additional off-site analysis and/or on-site lender reviews to confirm the level of risk and assess how well a lender is managing the risk. Credit scoring is just one loan risk management tool that will be utilized to manage lenders and review loan-making policies and procedures.

37. SBA claims that the three pilot offices are processing 504 loans in three days or less. However, at the recent 504 lending conference in Phoenix, Arizona, a lender said that it wasn't three days or less because they had gotten questions about their environmental study three weeks later. How does SBA define a loan that has been "processed"?

A loan is processed after the application has been reviewed and a loan decision has been made (i.e., either approved, declined, screened out, or withdrawn). At the NADCO conference in Phoenix, a CDC complained that the Center introduced new questions about an environmental study several weeks after the authorization had been issued. The questions came from staff at the center Center, who realized that some CDCs accepted environmental reports covering an area ½ mile from the subject real estate, instead of 1 mile as required by current SBA policy.

38. Smaller CDCs with lower volumes of 504 lending need help from district offices in putting together complete 504 loan packages. How will these loans be handled with centralized processing?

Center staff is available to discuss with CDCs ways to structure applications, eligibility requirements and credit standards. We hold regular conference calls to resolve questions. If the CDC sends an incomplete loan application, the Center will screen it out and inform the CDC what items must be included or what clarifications are necessary. Because there is a single center doing the processing under this pilot, CDCs will receive consistent instructions on submitting applications. This should be particularly useful for smaller CDCs.

39. As part of that discussion, please explain what Mr. Bew meant when he told the Committee at the credit program roundtable on May 1, 2003: "Our overall theme has been to push more and more of the decision making, use of forms, processing out into the private sector...?"

Mr. Bew meant that SBA is starting to rely more heavily on the expertise of our lending resource partners.

Asset Sales Program

40. I received the following complaint from a man whose disaster loans were sold as part of the asset sales program, even though he has never missed a payment in eight years.

> *"After the 1994 Northridge Earthquake the SBA granted me 4 loans to repair my residence, 3 single family rental properties, and my businesses. These loans were all cross collateralized and we were told by the SBA representatives that there would be no problem in the event that we chose to refinance, that the SBA as a rule will subordinate to allow a refinance. Now the SBA has sold these four loans to Aurora Loan Systems and Capital Crossings Bank. In trying to refinance one of the rental properties, Aurora Loan Systems refuses to return our calls and Capital Crossing Bank had me submit full tax statements, appraisals on properties, full financial, and refused to even consider subordination even with me making a $44,000 payoff to clear the property in consideration. They did offer to renegotiate my loan however at higher rates. I do not believe that this is in the spirit of the SBA disaster loan program. The SBA told me that they were instructed by Congress to sell of these loans and there is nothing they can do. Do I have a right to purchase these loans? Please let me know what I can do, everybody else has told me there is nothing they can do."*

a. **Can he buy his loans?**

After the borrower receives notice that the loan is going to be sold, there is a period of time where he or she can make arrangements with SBA to pay off the loan.

b. **Why did SBA sell his loans to two different companies when the loans were crossed collateralized?**

With regard to the specific concerns of your constituent, SBA is happy to look into the matter, but will need specific information (borrower name, loan number, etc) in order to do so. In general, however, a borrower cannot purchase its own loan. Also, while SBA made every attempt to sell in the same pool all loans relating to single borrower, this was not always possible for disaster borrower with both business and home loans.

c. **SBA is *not* instructed by Congress to sell of these loans. The Committee has had discussions with the Office of Disaster Assistance and instructed them to quit blaming Congress for the Administration's policies. I request that SBA issue a statement to all SBA employees informing them that this is not law, and they are not to repeat this fallacy. Please send a copy of the statement to the Committee and proof of distribution.**

A government agency or department cannot act without Congressional authorization. While it is true that no statute directly requires the Agency to sell disaster loans, legislation passed both chambers of Congress and signed by President Clinton – the Debt Collection Improvement Act of 1996 – authorizes loan sales as a means of collecting debts owed the taxpayers. Pursuant to that statute, the Administration at that time was mandated by OMB to sell its disaster loan portfolio. Since that time, Administrator Barreto, working with OMB, has stayed any further loan sale for a number of reasons of which you have been made aware through testimony and reports by GAO. In any event, SBA previously has instructed its employees who were involved in asset sales to refrain from saying that Congress "mandated" the sale of the loans.

41. In the hearing, you said "integrity of information is so important." I agree.

a. Has SBA given to GAO all the information it needs to verify the 7(a) econometric model?

Yes, GAO has been provided with all the information it needs to replicate and verify the 7(a) econometric model.

b. The subsidy rate for the microloan program does not reflect its success. Is SBA developing a better, fairer model? When can we expect its implementation?

The subsidy rate for the Microloan program has gone down recently – and we don't see a problem with the current model. The most significant cost item in the subsidy is the interest rate buy down.

Kerry SBA Restructuring Questions.

1. In the June 4, 2003 hearing, you said that the pilot was so successful that Miami had loans in the double digits and that lending in the Phoenix office was up, too. For each office in the pilot, for fiscal years 2000-2003 to date, broken down by fiscal year, give the total number and total dollar volume of loans made of 7(a) loans, 504 loans, microloans, and disaster loans.

   See Attached Spreadsheet. Disaster loans are not made in the district offices and therefore are not included.

2. As you mentioned in your testimony, district employees at the SBA would rather be meeting with small-business owners than filing reports. What additional funding, resources and personnel is the SBA planning to commit to its district offices so that more small-business owners can be served by the agency?

   See response to question #3.

   Please provide employee increases and funding increases, as well as any other relative data, for the next five fiscal years, starting with FY 2004.

   SBA does not maintain or make 5 year budget or staffing projections. SBA's FY 2004 request maintains its staffing level at current levels, and requests $362,734,000 for its operating budget, an increase of $3,049,000 from the FY 2003 request.

3. It is still not clear what the cost of SBA's proposed restructuring is projected to be. Please provide a list delineating the various parts of the restructuring plan including the purpose of each part and its cost.

   In its FY 2003 budget request to Congress, SBA identified $15 million in funding needed to start its Transformation. These funds were not provided in the appropriation this year. As a result, SBA has used some limited funding from FY 2002 and allocated $96,250 from its FY 2003 operating budget thus far for Transformation, principally ensuring that employees in the 3 pilot offices received proper training in their new duties and responsibilities, and that SBA clearly defined the core competencies required of the field employees.

   In the FY 2004 budget request, SBA has specifically identified $1,325,000 required for employee training and development; $2,750,000 for restructuring of space; $600,000 to support an expansion of the current pilot project; $500,000 to study commercial activities and facilitate competitions between Federal employees and private sector firms; $2,300,000 to reengineer business processes; $1,470,000 for four specific modernization/technology projects; and $1,720,000 to upgrade our information technology infrastructure. The full cost of transformation has not been developed, as these costs are being refined through the implementation of our pilot project, which will be assessed at the end of FY 2003.

4. In the June 4, 2003 hearing you said that you traveled to 30 states last year and visited 40 of the 70 offices. Please list the states you visited, the dates, and the offices you visited.

See attached spreadsheets.

5. Following that statement, you said every place you travel you are told "we have too much work." How is SBA's restructuring plan going to alleviate the excessive workload?

SBA's transformation efforts are a result of SBA's implementation of the President's Management Agenda (PMA) and the Government Performance and Results Act. The five goals in the PMA: Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government and Budget and Performance Integration.

SBA is doing what corporations, including our lending partners, have been doing for years. A significant aspect of SBA's Transformation initiative is the restructuring of district offices and moving certain "backroom" functions from districts to centralized sites. This movement of work will reduce specific types of workload in districts and create efficiencies and benefits not possible in a decentralized structure. It will also enable district employees to ensure our resource partners are working efficiently and effectively to serve the small business community in their area. The functions currently being moved out of participating districts and centralized on a test/pilot basis are: regular 504 loan processing, new guaranty purchases and liquidations, and inventoried purchases and liquidations. Currently in district offices, 266 people are involved in liquidation. Once centralization is complete, the number of people needed in this function will be reduced to less than 50.

The benefits of moving processing and servicing production work to centralized facilities include: operational focus, economies of scale, streamlining of processes and procedures (including cutting both time and cost), improved monitoring and performance measurement, and faster and more consistent service to SBA clients. This shifting of workload allows the district offices to focus on a narrower range of activities that are a best use of district locations, including outreach and training. Transformation will allow SBA to better serve the small business community by better allocating its workload and resources.

As part of the Transformation effort OCIO, OFO and GC/BD are collaborating on a pilot project to automate and centralize the 8(a) annual review process. The present annual review is a very labor intensive manual process. Annual reviews consume a significant portion of the Business Opportunity Specialist's (BOS) time.

The pilot project will involve a total of 432 firms serviced by three different district offices; North Carolina District Office - 79 firms, South Florida District Office - 266 firms and Arizona District Office - 87 firms. The goal of the Annual Review Pilot Project is to automate and centralize the annual review process. This will be accomplished by:

- Automating the notification process to allow system generation and tracking of notices.
- Making the annual review forms electronic, so that participants can electronically submit information.
- Using business rules, the system will perform basic analysis of that information.

The benefits that will result from this initiative are:

- Current manual processes will be automated.
  - Notification and tracking
  - Electronic forms for data submission
  - Submitted data will be used to populate the annual review
  - Business rules will be applied to this data to accomplish basic review and to guide BOS directly to relevant issues.
- The annual review process will be applied fairly and equally to all participants.
  - All participants requiring a review will be notified approximately 45 days prior to end of program years one through eight.
  - Participants not complying will not be eligible for program benefits.
- The annual review process will be more economical:
  - The use of automated processes and electronic documents and data transfer will allow resources to be reallocated. BOS time, postage and other resources and supplies.
  - Approximately 50% of the annual reviews will be accomplished by the application of business rules and require only issuance of the final action letter by servicing district office.
  - Participants not complying with annual review requirements will be automatically referred to Division of Program Certification and Eligibility for processing, this eliminates additional work for the district office.

6. In the June 4, 2003 hearing you said that other district offices not in the pilot were "begging" to be a part of the pilot. Which offices are those?

   See question 7.

7. In the June 4, 2003 hearing you said that the three-office pilot would be expanded. How much evaluation time is built into the implementation plan prior to expansion? Which district offices will be in the second pilot phase and when does SBA plan to start that phase?

   The SBA was doing constant evaluation of the district pilot and making adjustments as necessary. Results include the processing time for 504 loans dropped from 14 days to less than 2 days, 7(a) guarantee purchases process time was reduced from 129 days to 32 days, and by the end of September 2003, 1400 loan liquidation cases in backlog from the pilot offices will be closed out or will have current action plans. At the same time the pilot district offices increased assistance to small business and their economic impact by increasing the number of loans made by an average of 38% for 7(a) loans and 24% for 504 loans over the same period last year.

Based on the results, SBA will centralize the processing and servicing operations of 24 offices starting in August and phase in the remaining offices beginning in the spring of 2004. Those offices are: Boise, Columbus, Dallas, Des Moines, El Paso, Illinois, Indiana, Kansas City, Los Angeles, Michigan, New Hampshire, New Mexico, New York City, North Florida, Philadelphia, Pittsburgh, Portland, Rhode Island, Sacramento, San Francisco, Seattle, South Dakota, Syracuse, and Wisconsin.

We anticipate taking the following implementation steps to bring them into the program:

- Perform DO Transformation Benchmark Reviews
- Perform OPM Skills Gap Analysis
- Provide Marketing/Outreach Training
- Union Notification
- Transfer affected employees to new Job Series and Position Description
- Institute new PMAS
- Prepare DO Transformation Budgets
- Update DO Electronic Office Profiles, including new marketing/outreach strategy
- Prepare DO "Transformation Success Projections"
- Schedule notifications to affected Lenders, Certified Development Companies, and 8(a) firms; and
- Schedule 504, Guaranty Purchase and Liquidation, 8(a) annual review file transfer.

The Regional Administrator, the District Offices, the Office of Capital Access, the Office of Human Capital Management, and the Office of Government Contracting/Business Development will be working together to develop a specific timeline to accomplish these tasks.

8. Please provide a chart for fiscal years 2000 - 2003 to date, listing the 70 state offices, and for each, the operating budget, the travel budget, the training budget, the number of FTEs, the rent, the square footage of the office, number of parking spaces, number of government cars, and the percentage change from year to year for each category, and the rankings of each office in market size.

   See Attached charts.

9. How does the Agency define "outreach and marketing"? For example, does it include traveling, brochures, or advertising?

Marketing and outreach activities include:

- Cosponsorships;
- SBA sponsored events - training small businesses, training lenders, and recognition activities;
- Providing SBA speakers for events sponsored by other groups;
- District employees traveling within their area to meet with SBA resource partners, small business forums, community groups, etc;
- Distributing brochures and pamphlets on SBA programs;
- Use of technology (web portals, internet services and programs, videoconferencing, etc.) to reach a wider audience;
- Strategic "partnerships" with local business and community groups; and
- Promotion of SBA's programs and services to media outlets.

What percentage of each District office's budget is available for this now and how much will be given to each in the future?

Every District office receives a budget for fixed and discretionary costs. Our district directors manage their budget and their discretionary funds so it is not possible to give a percentage. The 3 district pilot offices received an additional $5,000 for travel. The 2004 funding levels of the district offices is unknown at this time.

10. For fiscal years 2000 - 2003 to date, please provide the budget request and amount spent for relocations and the percentage change for each year.

(Dollars in thousands)

	FY 2000	FY 2001	FY 2002	FY 2003	
Request	2,550	2,627	1,400	5,151	
Spent	1,600	1,332	490	235	1/

1/ This is as of 5/31/2003.

11. How many staff have been transferred from one job to another in headquarters over the past two years? Please list the number and job grade.

Our HR data system does not track the data in the form you are requesting. The raw data for HQ employees (defined as employees, other than those in the Washington Metro District Office, duty stationed in Washington, DC) identified 166 reassignments over the past two years.

12. How many does the Agency plan to transfer in the next six months in headquarters? Please list the number and job grade.

The needs of small business and the demands on the Agency are constantly changing. To the extent it is necessary for the Agency to better serve small businesses and more efficiently use taxpayer resources, employees will be moved to different roles in headquarters. As this is constantly in flux, SBA does not have a specific number or listing of employee moves available.

13. How many have retired in headquarters? Please list the number and job grade.

	FY00	FY01	FY02	FY03	TOTAL
AD-00		2			2
GS-06		1			1
GS-07	1		1	2	4
GS-08	1	1	2		4
GS-09	2	1	1		4
GS-11				1	1
GS-12	5	1	3	3	12
GS-13	6	5	3	5	19
GS-14	2	4	6	4	16
GS-15	7	2	9		18
SES	2	5	1	2	10
TOTAL	26	22	26	17	91

14. SBA claims that the three pilot offices are processing 504 loans in three days or less. However, at the recent 504 lending conference in Phoenix, Arizona, a lender said that it wasn't three days or less because they had gotten questions about their environmental study three weeks later. How does SBA define a loan that has been "processed"?

A loan is processed after the application has been reviewed and a loan decision has been made (i.e. it has either been approved, declined, screened out or withdrawn).

15. Smaller CDCs with lower volumes of 504 lending need help from district offices in putting together complete 504 loan packages. How will these loans be handled with centralized processing?

Center staff is available to discuss with CDCs ways to structure applications, eligibility requirements and credit standards. We hold regular conference calls to resolve questions. If the CDC sends an incomplete loan application, the Center will screen it out and inform the CDC what items must be included or what clarifications are necessary. Because there is a single center doing the processing under this pilot, CDCs will receive consistent instructions on submitting applications. This should be particularly useful for smaller CDCs.

16. As part of that discussion, please explain what Mr. Bew meant when he told the Committee at the credit program roundtable on May 1, 2003: "Our overall theme has been to push more and more of the decision making, use of forms, processing out into the private sector...?"

Mr. Bew meant that SBA is relying on the expertise of our lending resource partners more.

Recorded financings to small businesses by SBIC Licensees
To Businesses located in Low Income Areas
And Low and Moderate Income (LMI) Areas
For Fiscal Year 2002 and the first 6 months of Fiscal Year 2003
Page 1 of 2

SBIC Program financing to businesses located in Low Income Areas

	Number of Financings	% of #	Amount of Financing	% of $
10/1/2002 to 3/31/2003				
Low Income Area	1,086	44.8	$418,543,165	35.7
All SBIC Financing	2,423		$1,171,454,046	
Fiscal Year 2002				
Low Income Area	1,989	49.7	$1,228,935,261	46.2
All SBIC Financing	4,004		$2,659,584,859	

This Low Income calculation is based on SBA's Regulatory Definition of a Low-Income Geographic Area. The Low Income Area definition is set forth below.

(a) any population census tract (or in the case of an area that is not tracted for population census tracts, the equivalent county division, as defined by the Bureau of the Census of the United States Department of Commerce for purposes of defining poverty areas), if--

(i) the poverty rate for that census tract is not less than 20 percent;

(ii) in the case of a tract--

(I) that is located within a metropolitan area, 50 percent or more of the households in that census tract have an income equal to less than 60 percent of the area median gross income; or

(II) that is not located within a metropolitan area, the median household income for such tract does not exceed 80 percent of the statewide median household income; or

(b) any area located within--

(i) a Historically Underutilized Business Zone ("HUBZone") as defined in section 3(p) of the Small Business Act and 13 CFR 126.103;

(ii) an Urban Empowerment Zone or Urban Enterprise Community (as designated by the Secretary of the United States Department of Housing and Urban Development);

(iii) a Rural Empowerment Zone or Rural Enterprise Community (as designated by the Secretary of the United States Department of Agriculture)

Recorded financings to small businesses by SBIC Licensees
To Businesses located in Low Income Areas
And Low and Moderate Income (LMI) Areas
For Fiscal Year 2002 and the first 6 months of Fiscal Year 2003
Page 2 of 2

SBIC Program Financing to businesses located in Low and Moderate Income Areas

	Number of Financings	% of #	Amount of Financing	% of $
October 1, 2002 to March 31, 2003				
Low and Moderate Income Area	581	24.0	$236,384,466	20.2
All SBIC Financing	2,423		$1,171,454,046	
Fiscal Year 2002				
Low and Moderate Income Area	1,024	25.6	$725,069,177	27.3
All SBIC Financing	4,004		$2,659,584,859	

This calculation is based on SBA's regulatory definition of a Low and Moderate Income (LMI) Area. The LMI definition is set forth below.

LMI areas are census tracts where at least 20 percent of the population is beneath the poverty level, or where median family income is less than 80 percent of median family income for the surrounding area.

The amount of SBIC Program financing in Low Income Areas is greater than the amount of SBIC Program financing in Low and Moderate Income (LMI) Areas because of the different regulatory definitions of the Low Income and LMI areas. Because the definitions are independent and do not relate to each other, a Low Income Area is not a subset of a Low and Moderate Income Area.

The Investment Division tracks financings by SBIC Licensees to small businesses using the Portfolio Financing Report (SBA Form 1031), which SBIC Licensees are required to submit an electronically within 30 days of making a financing to a small business. The Low Income Area and Low and Moderate (LMI) Area calculations were performed by matching the Investment Division's Form 1031 database against external databases. The Low Income Area external database was created by Caliper Corporation. The LMI external database was created by CSI Corporation.

Snowe Transformation Questions.

1. How has the SBA strategically assessed, evaluated and planned (as recommended by the GAO):

    a. The number of staff needed to meet its responsibilities?
    b. The impact of assigning multiple roles to current employees?
    c. Training needs?
    d. The effectiveness of current compliance monitoring methods?

    SBA is currently conducting a workforce skills analysis of mission critical occupations (GS-1101 (General Business – 2 titles: Business Opportunity Specialist and Economic Development Specialist) and GS-1165 (Loan Specialist)) and a new position within the pilot offices (Phase 1). We will conduct a gap analysis of these occupations within the pilot offices. We developed an online survey instrument to complete the data gathering for the gap analysis which in the long term will significantly decrease our time when doing future occupations. OPM will begin an analysis of remaining SBA occupations (Phase 2) after phase 1 is completed.

    Initial competencies identified to support SBA mission.
    * Marketing & Outreach
    * Customer Relationship Mgmt
    * Partner Relationship Mgmt
    * Lender Liaison
    * Management for Results
    * Oversight of Resource Partners

    Phase 1 results of the workforce analysis were received by the end of June 2003 and provide a summary of current skills gaps for the pilot offices. We completed the initial competency assessments of the three mission critical occupations as well as the newly defined marketing and outreach specialist in January 2003.

    Phase 2 of the workforce analysis will begin once we complete Phase 1. We are targeting completion of the entire workforce analysis by December, 2003. This will include:

    - Develop a skills inventory for all employees;
    - Provide professional development and retraining utilizing a blended approach of classroom and computer-based learning;
    - Develop a professional development database, with plans to expand into a knowledge management system;
    - Focus on leadership succession planning;
    - Implement an HR evaluation/accountability component to document completion of training, and serve as a control mechanism; and
    - Use pre-course, post-course and 6-month post-assessments to gauge the degree to which training is translated into on-the-job practice.

2. What is the Agency doing to streamline and improve Headquarters staff – as well as make certain that Headquarters operations are included in the transformation?

   All SBA offices are being impacted by the Transformation plan. Included in the initial pilot are three centers that are part of the Headquarters operations. All business processes are being considered for improvement, and all commercial activities are being reviewed. For example, we are reviewing the 8(a), Small Disadvantaged Business, and HUBZones programs' application processes, which are primarily Headquarters activities. The result of the Transformation will be a greatly improved Agency, including a more efficient and effective Headquarters operation.

3. Does Headquarters have "back-office" functions? How many staff in Headquarters directly serve small business customers?

   In addition to the SBA's field offices, there are many "back room" activities that are part of our Headquarters organization, and which are overhead costs borne by every Federal agency. These include activities such as accounting, personnel support, legal support, facilities management, and information resources management. As part of our Transformation plan, our commercial activities and business processes are being reviewed and several areas will be studied and improved over the next few years. For example, we requested funds in the FY 2004 budget to implement an automated grants management system and to further automate our Surety Bond application and claims processes.

   All SBA employees directly serve small businesses.

4. What are the results thus far of the Transformation Pilot Programs underway in the District Offices?

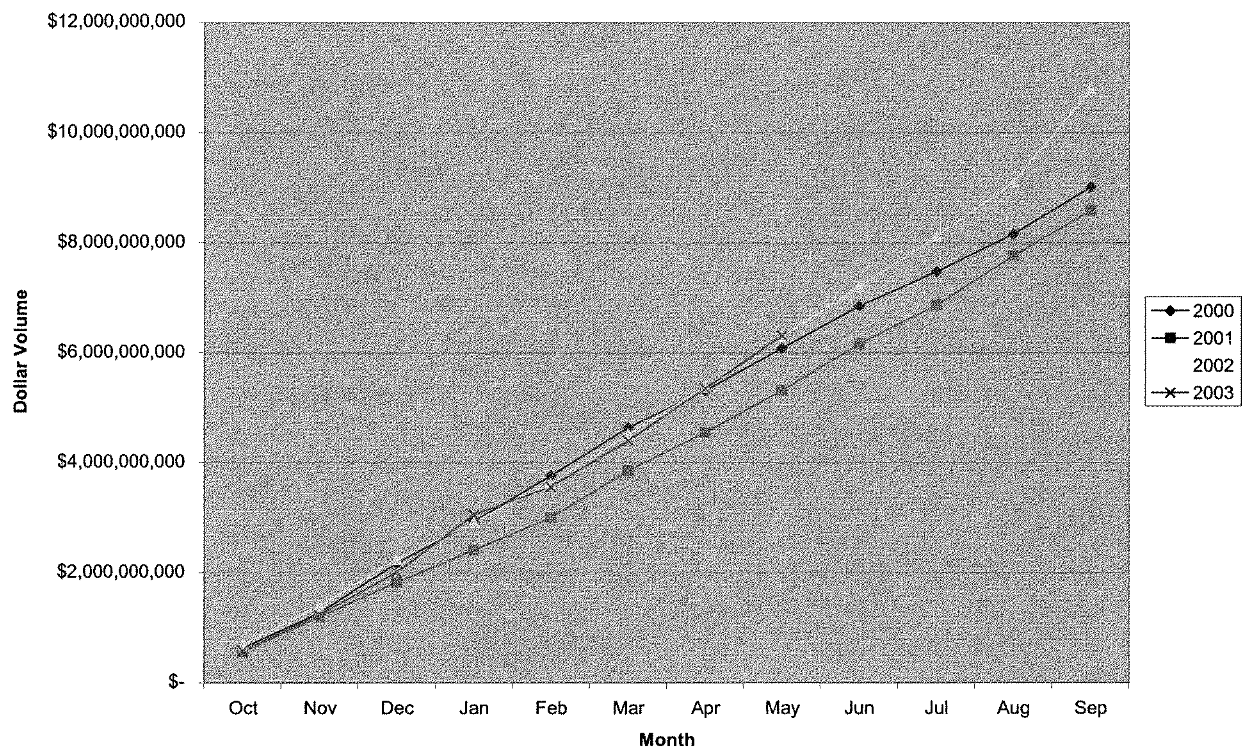
   The SBA was doing constant evaluation of the district pilot and making adjustments as necessary. Results include the processing time for 504 loans dropped from 14 days to less than 2 days, 7(a) guarantee purchases process time was reduced from 129 days to 32 days, and by the end of September 2003, 1400 loan liquidation cases in backlog from the pilot offices will be closed out or will have current action plans. At the same time the pilot district offices increased assistance to small business and their economic impact by increasing the number of loans made by an average of 38% for 7(a) loans and 24% for 504 loans over the same period last year.

   SBA has also completed full benchmarking reviews in each of the pilot district offices. We are further evaluating these results, and will be performing follow on visits within the next 30 days.

5. How much has the Agency allocated to the costs of Transformation efforts thus far?

   The agency allocated $96,250 to Transformation in FY 2003.

Cumulative Gross Approvals, Net of Cancelations



15 CDCs with Highest Delinquency Rate as of 4/30/2003

CDC Names	Delinq. Amt. as of 4/2003	Delinquency% as of 4/2003	Delinq. Amt. as of 1/2002	delinquent% as of 1/2002
Nine County Development, Inc.	26,523	100.00%	33,296	100.00%
Kenosha Area Development Corporation	298,202	90.41%	317,870	27.59%
Railbelt Community Development Corporation	387,103	48.20%	169,836	16.74%
Androscoggin Valley Council of Governments	1,037,175	45.96%	815,848	27.31%
Mid-East Certified Development Corporation, Inc.	206,214	40.63%		
Advancer Local Development Corporation	550,382	33.78%	867,755	41.39%
SWODA Development Corporation	1,112,174	27.24%	359,884	6.90%
Tennessee Business Development Corporation	1,317,022	22.88%		
Community First, Inc.	1,810,222	22.38%		
El Paso Certified Development Corporation	84,320	20.97%		
West Virginia Certified Development Corporation	2,028,747	20.76%	457,577	3.54%
Economic Development Corporation of Fulton County	148,811	19.61%		
Greater Mobile Development Corporation	1,553,619	18.76%	185,665	2.39%
Puerto Rico Business Development Corporation	498,663	16.46%	149,774	9.74%
La Marketing Development Corporation	5,781,096	13.70%	8,596,341	18.40%
Total Delinquent Amount	16,840,274		11,953,846	
Total Number of Loans in above CDCs portfolio	179		225	
Total Dolar amount of Loans in above CDCs portfolio	61,106,761.00		75,151,229.00	
Total 504 portfolio (number of loans) - ALL CDCs	33,178		31,671	
Total 504 portfolio (dollar amount of loans) - ALL CDCs	10,699,663,885		9,771,207,770	

15 CDCs with Highest Default Rate as of 4/30/2003

NOTE - "Default %" may exceed 100% due to accrued interest, accured fees, care and preservation expenses, and/or purchase of first mortgages.

CDC Names	Default Amount as of 4/2003	Default% as of 4/2003	Default Amount as of 1/2002	Default% as of 1/2002
Northern Oklahoma Small Business Development Corporation	162,476	114.4%	162,476	114.4%
Gulf-Certco, Inc.	330,042	113.8%	330,042	113.8%
Pee Dee Regional Development Corporation	91,332	107.4%	91,332	107.4%
Certified Community Development Corporation	332,271	99.8%	332,271	99.8%
Southwest Arkansas Regional Development Corporation	201,190	94.9%	201,190	94.9%
Buffalo Enterprise Development Corporation	750,761	89.9%	750,761	89.9%
Caciques Development Corporation	614,739	88.8%	614,739	88.8%
Northeast Missouri Certified Development Company	901,768	86.1%	901,768	86.1%
Region D Certified Development Corporation, Inc.	1,003,115	85.3%	1,003,115	85.3%
Fulton County Certified Development Corporation	391,073	80.8%	391,073	80.8%
First Tennessee Economic Development Corporation	671,687	75.0%	671,687	75.0%
Economic and Business Development Corporation of Montgomery County	909,045	74.7%	909,045	74.7%
Riverside Development Corporation	345,871	73.1%	345,871	73.1%
Oconee Area Development Corporation	385,661	71.2%	385,661	71.2%
Total Default Amount	7,091,031		7,091,031	

SBA Regional & District Offices - Number of Employees

	9/30/2000	9/30/2001	9/30/2002	5/30/2003
REGION 1				
BOSTON REGIONAL OFFICE	2	1	2	3
DO-MAINE	17	17	15	15
DO-MASSACHUSETTS	37	35	33	32
BO-SPRINGFIELD, MA	1	1	1	1
DO-NEW HAMPSHIRE	16	14	14	13
DO-CONNECTICUT	28	26	24	24
DO-VERMONT	17	15	16	15
DO-RHODE ISLAND	15	15	15	15
REGION 1 Total	133	124	120	118
REGION 2				
NEW YORK REGIONAL OFFICE	3	2	3	3
DO-NEW JERSEY	31	26	25	30
DO-NEW YORK, NY	38	33	32	39
BO-MELVILLE, NY	10	9	9	9
DO-PUERTO RICO/VIRGIN ISLANDS	34	31	29	29
DLS Funded	*14*	*13*	*9*	*8*
DO-SYRACUSE, NY	20	15	15	15
BO-ELMIRA, NY	11	8	6	6
DO-BUFFALO, NY	17	17	17	17
BO-ROCHESTER, NY	6	6	5	4
REGION 2 (excl Disaster Funded)	170	147	141	152
REGION 2 Total	184	160	150	160
REGION 3				
PHILADELPHIA REGIONAL OFFICE	2	1	1	2
DO-BALTIMORE, MD	30	28	27	27
DO-WEST VIRGINIA	18	18	17	17
BO-CHARLESTOWN, WV	2	2	2	2
DO-PHILADELPHIA	34	33	32	32
BO-HARRISBURG, PA	2	2	2	2
BO-WILKES BARRE, PA	1	1	--	--
DO-DELAWARE	6	5	5	5
DO-PITTSBURGH, PA	25	22	22	21
DO-RICHMOND, VA	29	31	29	27
DO-WASHINGTON, DC	60	56	49	48
REGION 3 Total	209	199	186	183

	9/30/2000	9/30/2001	9/30/2002	5/30/2003
REGION 4				
ATLANTA REGIONAL OFFICE	3	1	3	3
DO - GEORGIA	41	42	36	36
DO-ALABAMA	26	24	24	24
DO-NORTH CAROLINA	40	34	32	30
DO-SOUTH CAROLINA	26	25	24	21
DO-MISSISSIPPI	18	17	14	13
BO-GULF PORT, MS	5	4	3	3
DO-NORTH FLORIDA	28	23	23	27
DO-KENTUCKY	23	22	20	18
DO-SOUTH FLORIDA	44	39	40	36
DO-TENNESSEE	25	23	23	23
REGION 4 Total	279	254	242	234
REGION 5				
CHICAGO REGIONAL OFFICE	2	2	2	2
DO-ILLINOIS	40	38	39	39
BO-SPRINGFIELD, IL	11	11	9	9
DO-CLEVELAND, OH	29	29	28	27
DO-COLUMBUS, OH	25	22	20	18
BO-CINCINNATI, OH	4	4	4	4
DO-MICHIGAN	36	35	32	31
BO-MARQUETTE, MI	1	1	1	1
DO-INDIANA	27	25	24	23
DO-MINNESOTA	31	29	25	26
DO-WISCONSIN - Madison	32	30	30	30
REGION 5 Total	238	226	214	210

	09/30/00	09/30/01	09/30/02	05/30/03
REGION 6				
DALLAS REGIONAL OFFICE	3	1	2	2
DO-NEW MEXICO	19	19	17	16
DO-DALLAS/FT. WORTH, TX	34	36	35	38
DO-HOUSTON, TX	32	31	32	32
DLS Funded	*1*	*1*	*1*	--
DO-ARKANSAS	20	20	20	19
DO-L RIO GRND VAL, TX	15	15	15	14
BO-CORPUS CHRISTI, TX	4	5	5	4
DO-LUBBOCK, TX	16	14	14	14
DO-EL PASO, TX	14	13	11	12
DO-LOUISIANA	26	25	25	23
DLS Funded	*1*	--	--	--
DO-OKLAHOMA	19	24	23	20
DO-SAN ANTONIO, TX	26	26	26	26
REGION 6 (excluding Disaster Funded)	228	229	225	220
REGION 6 Total	230	230	226	220
REGION 7				
KANSAS CITY REGIONAL OFFICE	3	3	4	4
DO-DES MOINES, IA	19	17	17	14
BO-CEDAR RAPIDS, IA	13	13	12	12
DO-KANSAS CITY, MO	26	26	25	24
BO-SPRINGFIELD, MO	8	8	8	8
DO-NEBRASKA	18	17	18	15
DO-ST. LOUIS, MO	26	26	25	23
DO-WICHITA, KS	22	19	19	19
REGION 7 Total	135	129	128	119
REGION 8				
DENVER REGIONAL OFFICE	3	2	2	2
DO-WYOMING	14	15	13	13
DO-COLORADO	30	31	26	27
DO-NORTH DAKOTA	19	19	19	18
DO-MONTANA	16	15	15	15
DO-UTAH	22	21	20	20
DO-SOUTH DAKOTA	15	14	13	13
REGION 8 Total	119	117	108	108

SBA FIELD OFFICES	09/30/00	09/30/01	09/30/02	05/30/03
REGION 9				
SAN FRANCISCO REGIONAL OFFICE	3	1	2	2
DO-FRESNO, CA	22	22	18	16
DO-HAWAII	19	19	20	21
DLS Funded	5	3	2	1
BO-AGANA, GUAM	6	6	5	5
DLS Funded	9	8	6	3
DO-NEVADA	19	18	18	18
DO-LOS ANGELES, CA	46	47	47	46
DO-SANTA ANA, CA	27	30	30	28
DO-ARIZONA	25	26	24	22
DO-SAN DIEGO, CA	24	22	20	20
DO-SAN FRANCISCO, CA	44	40	40	38
DO-SACRAMENTO, CA	16	16	14	14
REGION 9 (excluding Disaster Funded)	251	247	238	230
REGION 9 Total	265	258	246	234
REGION 10				
SEATTLE REGIONAL OFFICE	2	0	2	3
DO-ALASKA	20	18	17	15
DO-BOISE, ID	15	13	13	13
DO-PORTLAND, OR	26	26	23	23
DO-SEATTLE, WA	32	26	26	24
BO-SPOKANE, WA	14	14	14	14
REGION 10 Total	109	97	95	92
SBA District & Regional Office Total	**1,871**	**1,769**	**1,697**	**1,666**
District and Regions, including Disaster Funded	**1,901**	**1,794**	**1,715**	**1,678**

LEASE EXPIRATIONS

REGION	CITY	ST	ZIP	ADDRESS	SQUARE FEET
DAO 1	NIAGARA FALLS	NY	14303-	360 RAINBOW BLVD SOUTH	41,594
DAO 2	ATLANTA	GA	30308-	ONE BALTIMORE PLACE	60,000
DAO 3	FT. WORTH	TX	76155-	4400 AMON CARTER BOULEVARD	39,468
DAO 4	SACRAMENTO	CA	95825-	1825 BELL STREET	62,315
Region 01	AUGUSTA (DO)	ME	04330-	40 WESTERN AVENUE	9,265
Region 01	BOSTON (RO/DO)	MA	02222-	FEDERAL BULDING	18,909
Region 01	CONCORD (DO)	NH	03301-	143 NORTH MAIN STREET	6,478
Region 01	HARTFORD (DO)	CT	06106-	330 MAIN STREET	8,895
Region 01	MONTPELIER (DO)	VT	05602-	87 STATE STREET	7,122
Region 01	PROVIDENCE (DO)	RI	02903-	380 WESTMINISTER MALL	7,469
Region 01	SPRINGFIELD (BO)	MA	01103-	1441 MAIN STREET	431
Region 02	BUFFALO (DO)	NY	14202-	111 WEST HURON ST (FED)	7,801
Region 02	ELMIRA (BO)	NY	14901-	333 EAST WATER STREET	4,749
Region 02	HATO REY (DO)	PR	00918-	252 PONCE DE LEON AVE	16,100
Region 02	MELVILLE (BO)	NY	11747-	35 PINELAWN ROAD	5,324
Region 02	NEW YORK (RO/DO)	NY	10278-	26 FEDERAL PLAZA	29,554
Region 02	NEWARK (DO)	NJ	07102-	TWO GATEWAY CENTER	13,828
Region 02	ROCHESTER (BO)	NY	14614-	100 STATE STREET (FED)	3,772
Region 02	ST. CROIX (POD)	VI	00820-	SUNNY ISLE SHOPPING CTR	2,932
Region 02	ST. THOMAS (POD)	VI	00802-	3800 CROWN BAY	3,458
Region 02	SYRACUSE (DO)	NY	13260-	401 S SALINA ST	7,722
Region 03	BALTIMORE (DO)	MD	21201-	10 S. HOWARD STREET	10,064
Region 03	CHARLESTON (BO)	WV	25301-	405 CAPITAL STREET (ATRIUM)	727
Region 03	CLARKSBURG (DO)	WV	26301-	3RD W PIKE ST	4,808
Region 03	HARRISBURG (BO)	PA	17101-	100 CHESTNUT STREET	973
Region 03	PHILADELPHIA (RO/DO)	PA	19406-	9TH & MARKET ST	33,320
Region 03	PITTSBURGH (DO)	PA	15222-	1000 LIBERTY AVE	7,939
Region 03	RICHMOND (DO)	VA	23240-	400 N. EIGHTH ST	13,591
Region 03	WASHINGTON (DO)	DC	20036-	1110 VERMONT AVENUE NW	23,773
Region 03	WASHINGTON (HQ)	DC	20416-	409 THIRD STREET SW	255,939
Region 03	WILKES-BARRE (BO)	PA	18701-	7 N WILKES-BARRE BLVD	927
Region 03	WILMINGTON (BO)	DE	19801-	824 NORTH MARKET STREET	2,567
Region 04	ATLANTA (RO/DO)	GA	30309-	233 PEACHTREE STREET	32,082
Region 04	BIRMINGHAM (DO)	AL	35203-	801 TOM MARTIN DRIVE	19,900
Region 04	CHARLOTTE (DO)	NC	28202-	6302 FAIRVIEW ROAD	12,824
Region 04	COLUMBIA (DO)	SC	29201-	1835 ASSEMBLY STREET	11,164

LEASE EXPIRATIONS

REGION	CITY	ST	ZIP	ADDRESS	SQUARE FEET
Region 04	GULFPORT (BO)	MS	39501-	2909 - 13th STREET	1,610
Region 04	JACKSON (DO)	MS	39201-	210 EAST CAPITOL STREET	10,004
Region 04	JACKSONVILLE (DO)	FL	32256-	7825 BAYMEADOWS WAY	10,475
Region 04	LOUISVILLE (DO)	KY	40202-	600 DR. M.L. KING JR. PL	10,536
Region 04	MIAMI (DO)	FL	33146-	100 BISCAYNE BLVD	12,906
Region 04	NASHVILLE (DO)	TN	37228-	50 VANTAGE WAY	10,114
Region 05	CHICAGO (DO/RO)	IL	60661-	500 WEST MADISON STREET	23,507
Region 05	CINCINNATI (BO)	OH	45202-	550 MAIN STREET	3,895
Region 05	CLEVELAND (DO)	OH	44114-	1111 SUPERIOR AVENUE	14,910
Region 05	COLUMBUS (DO)	OH	43215-	2 NATIONWIDE PLAZA	10,918
Region 05	DETROIT (DO)	MI	48226-	477 MICHIGAN AVENUE	18,658
Region 05	INDIANAPOLIS (DO)	IN	46204-	429 NORTH PENNSYLVANIA	12,750
Region 05	MADISON (DO)	WI	53703-	740 REGENT STREET	6,967
Region 05	MILWAUKEE (BO)	WI	53203-	310 WEST WISCONSIN AVE	6,984
Region 05	MINNEAPOLIS (DO)	MN	55403-	100 NORTH 6TH STREET	9,984
Region 05	SPRINGFIELD (BO)	IL	62704-	511 WEST CAPITOL AVENUE	5,886
Region 06	ALBUQUERQUE (DO)	NM	87102-	625 SILVER AVENUE, SW	8,683
Region 06	CORPUS CHRISTI (B0)	TX	78476-	3469 LEAPOLD STREET	2,269
Region 06	EL PASO (DO)	TX	79935-	10737 GATEWAY WEST	13,176
Region 06	FT. WORTH (DO/RO)	TX	76155-	4300 AMON CARTER BLVD	22,484
Region 06	HARLINGEN (DO)	TX	78550-	222 EAST VAN BUREN STREET	6,132
Region 06	HOUSTON (DO)	TX	77074-	8701 S. GESSNER	11,392
Region 06	LITTLE ROCK (DO)	AR	72202-	2120 RIVERFRONT DRIVE	20,789
Region 06	LUBBOCK (DO)	TX	79401-	1205 TEXAS AVENUE	8,912
Region 06	NEW ORLEANS (DO)	LA	70130-	365 CANAL STREET	8,806
Region 06	OKLAHOMA CITY (DO)	OK	73102-	210 PARK AVENUE	10,482
Region 06	HOLLYWOOD PARK	TX	78206-	17319 SAN PEDRO	9,515
Region 07	CEDAR RAPIDS (DO)	IA	52401-	215 4TH AVENUE, SE	5,721
Region 07	DES MOINES (DO)	IA	50309-	210 WALNUT STREET	9,643
Region 07	KANSAS CITY (RO/DO)	MO	64105-	323 WEST 8TH STREET	19,383
Region 07	OMAHA (DO)	NE	68154-	11145 MILL VALLEY ROAD	9,563
Region 07	SPRINGFIELD (BO)	MO	65802-	620 SOUTH GLENSTONE STREET	3,200
Region 07	ST. LOUIS (DO)	MO	63101-	200 NORTH BROADWAY	9,093
Region 07	WICHITA (DO)	KS	67202-	100 EAST ENGLISH STREET	11,511
Region 08	CASPER (DO)	WY	82602-	100 EAST B STREET	6,243
Region 08	DENVER (RO/DO)	CO	80202-	721 19TH STREET	27,663

LEASE EXPIRATIONS

REGION	CITY	ST	ZIP	ADDRESS	SQUARE FEET
Region 08	FARGO (DO)	ND	58108-	657 2ND AVENUE, NORTH	10,588
Region 08	HELENA (DO)	MT	59626-	10 WEST 15TH STREET	5,787
Region 08	SALT LAKE CITY (DO)	UT	84138-	125 SOUTH STATE STREET	9,135
Region 08	SIOUX FALLS (DO)	SD	57102-	110 SOUTH PHILLIPS AVENUE	5,908
Region 09	AGANA (BO)	GU	96910-	400 RT 8, SUITE 302	4,985
Region 09	FRESNO (DO)	CA	93727-	2719 NORTH AIR FRESNO DRIVE	42,848
Region 09	HONOLULU (DO)	HI	96850-	300 ALA MOANA BLVD	7,434
Region 09	LAS VEGAS (DO)	NV	89125-	400 South 4TH STREET	7,976
Region 09	LOS ANGELES (GLENDALE)	CA	91203-	330 NORTH BRAND BOULEVARD	25,098
Region 09	PHOENIX (DO)	AZ	85004-	2828 NORTH CENTRAL AVENUE	8,346
Region 09	SACRAMENTO (DO)	CA	95814-	650 CAPITOL STREET	27,663
Region 09	SAN DIEGO (DO)	CA	92188-	550 WEST "C" STREET	10,228
Region 09	SAN FRANCISCO (RO/DO)	CA	94105-	455 MARKET STREET	29,681
Region 09	SANTA ANA (DO)	CA	92701-	200 WEST SANTA ANA BLVD	28,775
Region 10	ANCHORAGE (DO)	AK	99513-	510 L STREET, SUITE 408	6,163
Region 10	BOISE (DO)	ID	83702-	1020 MAIN STREET	7,383
Region 10	PORTLAND (DO)	OR	97201-	1515 FIFTH AVENUE, SW	10,664
Region 10	SEATTLE (RO/DO)	WA	98101-	1200 SIXTH AVENUE	20,217
Region 10	SPOKANE (DO)	WA	99204-	801 WEST RIVERSIDE AVENUE	5,041

LEASE EXPIRATIONS

COST PER SQ. FT.	ANNUAL COST	LEASE EXP	SPECIALIST
$18.68	$776,976	30-Nov-04	JOHN
$25.55	$1,533,000	30-Jun-12	JOHN
$12.42	$490,193	20-Jul-04	JOHN
$32.03	$1,995,949	30-Dec-03	JOHN
$15.64	$144,905	FED	JOHN
$44.66	$844,476	FED	JOHN
$26.12	$169,205	30-Jun-04	JOHN
$17.63	$156,819	30-Mar-07	JOHN
$12.94	$92,159	FED	JOHN
$24.03	$179,480	1-Apr-08	JOHN
$18.29	$7,883	30-Aug-07	JOHN
$23.29	$181,685	10-Apr-05	MICHELLE
$19.86	$94,315	21-Jun-03	MICHELLE
$23.24	$374,164	20-Nov-03	MICHELLE
$26.43	$140,713	2-Nov-03	MICHELLE
$32.57	$962,574	FED	MICHELLE
$27.41	$379,025	23-Jun-05	MICHELLE
$23.43	$88,378	30-Jun-05	MICHELLE
$31.19	$91,449	30-Sep-09	MICHELLE
$31.84	$110,103	28-Feb-03	MICHELLE
$12.64	$97,606	5-Oct-07	MICHELLE
$27.78	$279,578	30-May-03	TERRI
$16.14	$11,734	13-Jan-02	TERRI
$24.59	$118,229	FED	TERRI
$12.19	$11,861	30-Apr-04	TERRI
$13.57	$452,152	FED	TERRI
$16.68	$132,423	FED	TERRI
$13.61	$184,974	FED	TERRI
$28.05	$666,833	31-Dec-04	TERRI
$37.99	$9,723,123	30-Nov-11	TERRI
$28.43	$26,355	30-Sep-17	TERRI
$16.28	$41,791	30-May-05	TERRI
$23.92	$767,401	31-Mar-09	MICHELLE
$24.64	$490,336	31-Oct-15	RANDY
$30.01	$384,848	2-Mar-12	MICHELLE
$15.27	$170,474	FED	MICHELLE

LEASE EXPIRATIONS

COST PER SQ. FT.	ANNUAL COST	LEASE EXP	SPECIALIST
$14.11	$22,717	14-Nov-10	MICHELLE
$19.37	$193,777	31-Mar-10	RANDY
$19.68	$206,148	FED	ANDREA
$12.55	$132,227	FED	MICHELLE
$26.06	$336,330	30-Apr-08	ANDREA
$17.31	$175,073	20-Apr-10	RANDY
$45.63	$1,072,624	30-Apr-06	MICHELLE
$20.19	$78,640	FED	MICHELLE
$27.43	$408,981	20-Nov-04	MICHELLE
$19.62	$214,211	30-Jun-02	MICHELLE
$19.59	$365,510	FED	MICHELLE
$18.62	$237,405	28-Feb-01	MICHELLE
$23.17	$161,425	30-May-09	MICHELLE
$24.54	$171,387	7-Mar-09	MICHELLE
$31.23	$311,800	1-Oct-09	MICHELLE
$15.04	$88,525	1-May-03	MICHELLE
$21.48	$186,511	3-Feb-08	MICHELLE
$9.78	$22,191	17-Nov-12	MICHELLE
$16.35	$215,428	2-Dec-05	MICHELLE
$16.95	$381,104	10-Sep-02	MICHELLE
$10.52	$64,509	1-Jan-04	MICHELLE
$33.52	$381,860	1-May-11	MICHELLE
$19.29	$401,020	1-Feb-04	MICHELLE
$12.82	$114,252	FED	MICHELLE
$16.77	$147,677	1-Nov-11	MICHELLE
$17.52	$183,645	4-Feb-04	MICHELLE
$22.92	$218,084	1-Jul-12	MICHELLE
$13.38	$76,547	29-Oct-03	RANDY
$15.34	$147,924	FED	RANDY
$16.06	$311,291	SEE NOTE	ANDREA
$10.09	$96,491	30-Nov-06	ANDREA
$27.46	$87,872	30-Sep-06	ANDREA
$32.72	$297,523	1-Nov-11	MICHELLE
$22.54	$259,458	FED	RANDY
$9.63	$60,120	FED	RANDY
$16.13	$446,204	FED	RANDY

LEASE EXPIRATIONS

COST PER SQ. FT.	ANNUAL COST	LEASE EXP	SPECIALIST
$11.93	$126,315	FED	RANDY
$22.91	$132,580	18-Jan-22	RANDY
$14.85	$135,655	FED	RANDY
$13.15	$77,690	14-Sep-03	RANDY
$50.28	$250,646	7-Feb-05	ANDREA
$15.22	$652,147	3-Jan-16	ANDREA
$24.76	$184,066	FED	ANDREA
$34.13	$272,221	3-Jul-12	ANDREA
$39.26	$985,347	SEE NOTE	ANDREA
$18.70	$156,070	1-Nov-01	ANDREA
$16.13	$446,204	1-Sep-06	ANDREA
$36.57	$374,038	30-Oct-02	ANDREA
$27.18	$806,730	2-Jul-06	ANDREA
$24.45	$703,549	15-Jan-02	ANDREA
$21.25	$130,964	FED	JOHN
$14.71	$108,604	30-Jun-04	JOHN
$18.91	$201,656	22-Nov-04	JOHN
$24.03	$485,815	30-May-05	JOHN
$18.28	$92,149	1-Feb-09	JOHN

LEASE EXPIRATIONS

ID	REGION	CITY	ST	DD	GOV VEHICLES	OTHER
45	DAO 1	NIAGARA FALLS	NY			
31	DAO 2	ATLANTA	GA			
42	DAO 3	FT. WORTH	TX			
32	DAO 4	SACRAMENTO	CA			
2	Region 01	AUGUSTA (DO)	ME			
1	Region 01	BOSTON (RO/DO)	MA			
89	Region 01	CONCORD (DO)	NH			
58	Region 01	HARTFORD (DO)	CT			
5	Region 01	MONTPELIER (DO)	VT			
12	Region 01	PROVIDENCE (DO)	RI			
54	Region 01	SPRINGFIELD (BO)	MA			
24	Region 02	BUFFALO (DO)	NY			
61	Region 02	ELMIRA (BO)	NY	0	0	0
65	Region 02	HATO REY (DO)	PR	1	1	0
3	Region 02	MELVILLE (BO)	NY	0	0	0
9	Region 02	NEW YORK (RO/DO)	NY			
18	Region 02	NEWARK (DO)	NJ	2	2	
81	Region 02	ROCHESTER (BO)	NY	1	1	1
11	Region 02	ST. CROIX (POD)	VI	0	0	0
26	Region 02	ST. THOMAS (POD)	VI	0	0	0
20	Region 02	SYRACUSE (DO)	NY			
78	Region 03	BALTIMORE (DO)	MD			
63	Region 03	CHARLESTON (BO)	WV			
21	Region 03	CLARKSBURG (DO)	WV			
90	Region 03	HARRISBURG (BO)	PA			
19	Region 03	PHILADELPHIA (RO/DO)	PA			
22	Region 03	PITTSBURGH (DO)	PA			
23	Region 03	RICHMOND (DO)	VA			
8	Region 03	WASHINGTON (DO)	DC			
52	Region 03	WASHINGTON (HQ)	DC			
40	Region 03	WILKES-BARRE (BO)	PA			
69	Region 03	WILMINGTON (BO)	DE			
60	Region 04	ATLANTA (RO/DO)	GA	2	1	1
74	Region 04	BIRMINGHAM (DO)	AL			
70	Region 04	CHARLOTTE (DO)	NC	0	0	0
33	Region 04	COLUMBIA (DO)	SC	1	0	0

LEASE EXPIRATIONS

ID	REGION	CITY	ST.	DD	GOV VEHICLES	OTHER
94	Region 04	GULFPORT (BO)	MS			
43	Region 04	JACKSON (DO)	MS			
35	Region 04	JACKSONVILLE (DO)	FL			
36	Region 04	LOUISVILLE (DO)	KY			
29	Region 04	MIAMI (DO)	FL			
77	Region 04	NASHVILLE (DO)	TN	1	2	0
49	Region 05	CHICAGO (DO)	IL	1	0	0
41	Region 05	CHICAGO (RO)	IL	1	0	0
16	Region 05	CINCINNATI (BO)	OH	1	0	0
39	Region 05	CLEVELAND (DO)	OH	1	2	2
10	Region 05	COLUMBUS (DO)	OH	1	2	2
44	Region 05	DETROIT (DO)	MI			
93	Region 05	INDIANAPOLIS (DO)	IN	1	0	11
14	Region 05	MADISON (DO)	WI	1	1	
76	Region 05	MARQUETTE (BO)	MI	0	0	0
56	Region 05	MILWAUKEE (BO)	WI	1		1
15	Region 05	MINNEAPOLIS (DO)	MN	1		0
85	Region 05	SPRINGFIELD (BO)	IL			
87	Region 06	ALBUQUERQUE (DO)	NM			
38	Region 06	CORPUS CHRISTI (B0)	TX			
37	Region 06	DALLAS (FORT WORTH)(RO)	TX			
6	Region 06	EL PASO (DO)	TX	1	0	2
30	Region 06	FT. WORTH (DO)	TX			
84	Region 06	HARLINGEN (DO)	TX	1	1	2
17	Region 06	HOUSTON (DO)	TX	1	3	1
13	Region 06	LITTLE ROCK (DO)	AR	0	0	0
59	Region 06	LUBBOCK (DO)	TX	1	2	0
67	Region 06	NEW ORLEANS (DO)	LA	1	2	0
83	Region 06	OKLAHOMA CITY (DO)	OK			
62	Region 06	SAN ANTONIO (DO)	TX	1	1	2
57	Region 07	CEDAR RAPIDS (DO)	IA			
66	Region 07	DES MOINES (DO)	IA			
64	Region 07	KANSAS CITY (RO/DO)	MO			
7	Region 07	OMAHA (DO)	NE			
47	Region 07	SPRINGFIELD (BO)	MO			
68	Region 07	ST. LOUIS (DO)	MO			

LEASE EXPIRATIONS

ID	REGION	CITY	ST	DD	GOV VEHICLES	OTHER
50	Region 07	WICHITA (DO)	KS			
72	Region 08	CASPER (DO)	WY			
71	Region 08	DENVER (RO/DO)	CO			
73	Region 08	FARGO (DO)	ND			
95	Region 08	HELENA (DO)	MT			
75	Region 08	SALT LAKE CITY (DO)	UT			
86	Region 08	SIOUX FALLS (DO)	SD			
55	Region 09	AGANA (BO)	GU			
48	Region 09	FRESNO (DO)	CA			
79	Region 09	HONOLULU (DO)	HI	1	1	1
80	Region 09	LAS VEGAS (DO)	NV			
82	Region 09	LOS ANGELES (GLENDALE)	CA			
4	Region 09	PHOENIX (DO)	AZ			
92	Region 09	SACRAMENTO *	CA			
34	Region 09	SAN DIEGO (DO)	CA			
27	Region 09	SAN FRANCISCO (RO/DO)	CA			
51	Region 09	SANTA ANA (DO)	CA			
88	Region 10	ANCHORAGE (DO)	AK			
25	Region 10	BOISE (DO)	ID			
28	Region 10	PORTLAND (DO)	OR			
91	Region 10	SEATTLE (RO/DO)	WA			
46	Region 10	SPOKANE (DO)	WA			
		TOTALS		24	22	26

District Office Ranking by Market Size

(Total Number of Firms)

CODE	DISTRICT OFFICE	FIRMS	EMP FIRMS	NON-EMP FIRMS
0202	NEW YORK DISTRICT	1,129,353	307,523	821,830
0455	SOUTH FLORIDA DISTRICT	941,797	251,912	689,885
0507	ILLINOIS DISTRICT	897,414	255,385	642,029
0914	LOS ANGELES DISTRICT	875,431	208,601	666,830
0515	MICHIGAN DISTRICT	692,565	199,941	492,624
0299	NEW JERSEY DISTRICT	663,728	203,619	460,109
0912	SAN FRANCISCO DISTRICT	646,088	171,093	474,995
0610	DALLAS/FT WORTH DISTRICT	591,480	143,763	447,717
0460	NORTH CAROLINA DISTRICT	587,379	166,081	421,298
0405	GEORGIA DISTRICT	585,645	163,934	421,711
0303	PHILADELPHIA DISTRICT	579,924	160,443	419,481
0101	MASSACHUSETTS DISTRICT	543,594	141,753	401,841
0920	SANTA ANA DISTRICT	437,427	104,738	332,689
0671	HOUSTON DISTRICT	433,996	103,135	330,861
0593	COLUMBUS DISTRICT	427,711	113,168	314,543
0474	TENNESSEE DISTRICT	426,541	108,670	317,871
0562	INDIANA DISTRICT	425,984	122,379	303,605
0508	MINNESOTA DISTRICT	419,033	113,201	305,832
0811	COLORADO DISTRICT	417,255	111,995	305,260
0491	NORTH FLORIDA DISTRICT	383,412	106,770	276,642
0563	WISCONSIN DISTRICT- MADISON	376,268	119,241	257,027
0549	CLEVELAND DISTRICT	374,056	109,843	264,213
0304	RICHMOND DISTRICT	363,523	112,373	251,150
1013	SEATTLE DISTRICT	337,659	100,216	237,443
0988	ARIZONA DISTRICT	332,240	89,511	242,729
0353	WASHINGTON DC DISTRICT	319,026	79,544	239,482
1086	PORTLAND DISTRICT	318,509	92,350	226,159
0709	KANSAS CITY DISTRICT	307,697	85,855	221,842
0679	LOUISIANA DISTRICT	303,599	86,398	217,201
0459	ALABAMA DISTRICT	293,499	84,280	209,219
0457	KENTUCKY DISTRICT	289,501	76,278	213,223
0156	CONNECTICUT DISTRICT	286,964	79,481	207,483
0680	OKLAHOMA DISTRICT	286,297	71,848	214,449
0681	SAN ANTONIO DISTRICT	285,705	70,849	214,856
0358	PITTSBURGH DISTRICT	276,922	81,097	195,825
0464	SOUTH CAROLINA DISTRICT	268,116	79,321	188,795
0373	BALTIMORE DISTRICT	266,625	74,746	191,879
0248	SYRACUSE DISTRICT	231,238	63,612	167,626
0931	SACRAMENTO DISTRICT	223,517	59,488	164,029
0768	ST. LOUIS DISTRICT	221,529	66,841	154,688
0954	SAN DIEGO DISTRICT	219,941	54,466	165,475
0942	FRESNO DISTRICT	199,170	55,686	143,484
0669	ARKANSAS DISTRICT	198,274	54,191	144,083
0470	MISSISSIPPI DISTRICT	173,734	51,442	122,292
0883	UTAH DISTRICT	171,444	44,356	127,088
0296	BUFFALO DISTRICT	166,749	48,642	118,107
0766	NEBRASKA DISTRICT	142,142	41,974	100,168
0761	DES MOINES DISTRICT	142,063	40,958	101,105
0682	NEW MEXICO DISTRICT	134,162	36,647	97,515
0944	NEVADA DISTRICT	131,037	36,411	94,626
0172	MAINE DISTRICT	129,181	33,253	95,928

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(Total Number of Firms)

CODE	DISTRICT OFFICE	FIRMS	EMP FIRMS	NON-EMP FIRMS
0678	LUBBOCK DISTRICT	117,789	31,667	86,122
0189	NEW HAMPSHIRE DISTRICT	117,417	32,122	85,295
0390	WEST VIRGINIA DISTRICT	115,334	35,386	79,948
1094	SPOKANE DISTRICT	113,364	36,454	76,910
0767	WICHITA DISTRICT	111,270	32,398	78,872
0885	MONTANA DISTRICT	95,547	27,844	67,703
0951	HAWAII DISTRICT	94,905	24,339	70,566
1087	BOISE DISTRICT	94,896	26,764	68,132
0736	CEDAR RAPIDS DISTRICT	92,855	28,031	64,824
0639	LOWER RIO GRANDE VALLEY DISTRICT	89,579	21,652	67,927
0165	RHODE ISLAND DISTRICT	81,558	24,997	56,561
0150	VERMONT DISTRICT	68,439	19,132	49,307
0876	SOUTH DAKOTA DISTRICT	67,411	20,713	46,698
1084	ALASKA DISTRICT	65,003	15,817	49,186
0341	DELAWARE DISTRICT	57,106	18,905	38,201
0875	NORTH DAKOTA DISTRICT	56,782	17,873	38,909
0897	WYOMING DISTRICT	50,429	15,973	34,456
0677	EL PASO DISTRICT	41,263	10,941	30,322
		21,407,091	5,880,310	15,526,781

Totals by District Office

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0101	MASSACHUSETTS DISTRICT	543,594	141,753	401,841
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1086	PORTLAND DISTRICT	318,509	92,350	226,159
1087	BOISE DISTRICT	94,896	26,764	68,132
1094	SPOKANE DISTRICT	113,364	36,454	76,910
		21,407,091	5,880,310	15,526,781

District Office Loans FY 00-03

Pilot District Offices

	7(A) ##	7(A) $$	504 ##	504 $$	MICRO ##	MICRO $$
SOUTH FLORIDA (0455)						
2000	1,219	$407,151,950	144	$53,092,100	294	$908,944
2001	1,264	$375,105,887	185	$73,092,000	227	$821,015
2002	1,631	$482,767,969	223	$87,839,000	245	$1,297,396
2003 (*)	1,661	$232,763,898	212	$79,692,000	201	$284,086
NORTH CAROLINA (0460)						
2000	535	$132,931,911	106	$42,454,000	71	$557,969
2001	615	$170,331,494	108	$48,982,000	97	$1,052,359
2002	650	$162,302,264	91	$42,538,000	93	$1,393,828
2003 (*)	507	$89,473,836	62	$28,971,000	55	$802,625
ARIZONA (0988)						
2000	833	$268,809,050	123	$55,270,000	99	$635,110
2001	842	$251,649,691	116	$55,229,000	105	$801,097
2002	1,072	$380,023,238	137	$68,051,295	110	$955,408
2003 (*)	845	$207,258,582	95	$53,162,000	69	$359,959

* - YTD 05/31/03

SBA 50th Anniversary Co-sponsorship Report
As of July 1, 2003

Date	City, State	Event	Cost Estimate (to be paid out of cosponsorship funds and registration fees)	Cosponsor(s)	Cosponsor(s) Cash Commitment	Purpose	Estimated Attendance
8/01/03	Abilene, KS	50th Anniversary Kick-Off	Estimated at $5,000, Based on number of SBA employees and local costs	Eisenhower Library and Museum Center	N/A	50th Anniversary of Legislation enacting SBA	1,000
8/ 4-5/03	New York City, NY	NASDAQ	Estimated at $3,000, Based on number of SBA employees and local costs	None	None	Ringing of NASDAQ Bell for 50th Ann. of SBA	25-50
9/15-20/03	Washington, DC	National Entrepreneurial Conference and Expo - NECE (formally Small Business Week)	Estimated at $600, 000 - $900,000 (to be paid out of cosponsorship funds and registration fees)	Hewlett-Packard (H-P) National Contract Management Association (NCMA)	H-P $150,000 NCMA N/A	Training and information for small businesses, and SBA events honoring SBA Hall of Fame inductees, women entrepreneurs, other awardees, Town Hall and trade show	2,000-5,000
10/03/03	Bangor, ME	Regional Event	Estimated at $15,000 - $25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500

SBA 50th Anniversary Co-sponsorship Report
As of July 1, 2003

10/20/03	Syracuse, NY	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500
11/10/03	Bend, OR	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500
11/17/03	Davenport, IA	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500
01/19/04	Jacksonville, FL	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500

SBA 50th Anniversary Co-sponsorship Report
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02/02/04	Albuquerque, NM	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500
02/16/04	Reno, NV	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500
03/08/04	Clarksburg, WV	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500
03/22/04	Green Bay, WI	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500

SBA 50th Anniversary Co-sponsorship Report
As of July 1, 2003

04/05/04	Denver, CO	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500
04/12/04	Springfield or Kansas City, MO	Regional Event	Estimated at $15,000-$25,000, Based on number of SBA employees and local costs	NCMA	None to date	Training and information for small business, and outreach to SBA resource partners	100-500

APPENDIX MATERIAL SUBMITTED

STATEMENT OF SENATOR JOHN F. KERRY THE SMALL BUSINESS ADMINISTRATION'S REAUTHORIZATION HEARING BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

I would like to thank Senator Snowe for calling this hearing on the reauthorization of the U.S. Small Business Administration. I would also like to thank Mr. Barreto, Administrator of the Small Business Administration, for taking the time to be with us this afternoon.

The Administration's budget proposal for fiscal year '04 would seriously undermine essential programs aimed at allowing small businesses to thrive. Small businesses are the engine of economic growth for this nation and should be bolstered by our government, especially in this slumping economy. The Administration has proposed to reauthorize the Small Business Administration for six years, freezing funding for virtually all SBA programs for the entire period. The proposal includes no adjustment for inflation or demand, despite SBA's own statistics that show demand is up for its programs. Departments within the SBA, such as the Office of Advocacy, are severely under-funded and understaffed when you compare their current staffing and spending levels to the growing expectations placed on the office by Congress and the small business community.

Mr. Administrator, over the past couple of weeks, the Committee has heard from a diverse but unified group of small business advocates, representatives and practitioners about the value of the Small Business Administration's credit and investment programs. As you know from traveling around the country, most industry sectors have still not fully recovered almost two years after the terrorist attacks on our financial centers, air transportation and government. And the economy was already slumping then. With so little confidence in the economy, banks continue to ration credit, annual venture capital raised has dwindled from $106 billion to $6 billion, and small businesses have turned with increasing number to the SBA for financing. 504 Certified Development Company lending is up by 21 percent and SBA's own FY2004 budget submission to Congress notes the increased demand for microloans because of the poor economy. What this information tells us is that times have changed and the need for SBA's credit and investment programs is more important than ever before. Level funding and no review for six years is unwise. The Agency needs more funding and more oversight, not less.

For example, as noted loud and clear in the Committee's credit roundtable on May 1st, SBA still has not put in place some of the improvements we enacted in the last reauthorization – *three* years ago. On a practical level, this has prevented more of SBA's 504 lending partners from becoming more active in the program and prevented growing small businesses from having more access to affordable credit to buy equipment or expand their companies.

Also of great concern is the deficiency in funding for the 7(a) loan program. Lender after lender – from California to Kansas -- told us that this year's $9.3 billion is not going to be enough to meet the demand of small businesses seeking SBA loans for working capital -- capital which is very hard to obtain in the private sector even in good times. Not only did the Agency once again request an insufficient amount, but it has dragged its feet in deciding to help correct the situation by applying the new accounting method for the 7(a) loan program to the 7(a) loans made to victims of 9/11, the so-called STAR loans. I am pleased that, as of yesterday, SBA has decided to follow Congressional intent with respect to the STAR loan subsidy rate and make an estimated $1.4 billion immediately available to small businesses in loans. This despite its insistence at the April 30th roundtable before this Committee that it has sufficient money to meet ITS 7(a) demand projections.

This issue raises another continuing and troublesome problem at the SBA - lack of cooperation with and responsiveness to its Congressional oversight committees. In March, Chair Snowe and I sent a letter to the SBA requesting justification of its initial decision not to apply the new 7(a) accounting method to the 7(a) STAR loans. Although I am pleased with the SBA's decision, it should not take two months to respond to a request for information from this Committee. The Committee has also submitted a list of other outstanding and incomplete requests for information from the SBA, but no response has been forthcoming. The Committee requests information that is necessary for its oversight and reauthorization work and these delays are simply unacceptable. The House Committee on Small Business has expressed similar problems, as the General Accounting Office. This Committee would appreciate your future efforts to answer our requests for information in a timely fashion.

Another area of concern is SBA's microloan program, that chronically suffers from underfunding and lack of administration support. I will continue to question the Administration's priorities when its request for SBA's travel budget is more than the funding for microloans. What we know about the microloan program is that the Agency reduced its funding by 36 percent, that the Agency is undermining the success of the program by holding back funds from intermediaries, and that the Agency thinks the 7(a) Community Express and SBAExpress programs are a substitute for the SBA's microloan program. Fortunately, the Committee has an impressive record from the April 30th roundtable in which expert microlenders demonstrated that SBA cannot serve the same borrower through the 7(a) loan program. There are no merits to the Administration's plans to substitute the microloan program with the 7(a) program, and I strongly urge you to reverse course on them.

On a positive note, I am glad that the Agency has labeled this the "Year of the 504 Program." The Congress has spoken with one voice about the need to improve the program's subsidy rate, improve lender oversight, establish uniform guidelines to restore fairness in treatment of all CDCs, and put a stop to reports of unreasonable pressure and retaliation from district offices with inadequate oversight.

I am very pleased that the SBA has started addressing some of the findings of the GAO regarding its Assets Sales Program, specifically with respect to the sale of its disaster loans. In addition to working towards getting the financial records straightened out, I am pleased there is a moratorium on selling the loans and that the SBA is trying to improve its process of tracking complaints from victims whose loans have been sold. One concern I have is that the Agency continues to represent the level of complaints as trivial based on the ratio of loans sold to complaints. One abuse should be too many. Take for example the letter I received in April from a man who was a victim of the 1994 Northridge Earthquake. He is trying to refinance properties which carry sold SBA disaster loans – loans on which he has never missed a payment in eight years. The loan servicing company will permit the refinancing, but only at a higher interest rate. SBA staff has been unwilling to intervene on the borrower's behalf, telling him incorrectly that "they were instructed by Congress to sell these loans and that there is nothing they can do." Just so the record is clear, SBA loan sales are not a Congressionally mandated policy. SBA's role should be to assist small businesses, not to make excuses for failing to do so.

Mr. Administrator, there is a serious problem with the basic policy of selling loans made to disaster victims that needs to be reviewed. Sometimes the private sector cannot perform certain functions as effectively as the government, and this appears to be one of those times. SBA itself seems to concur, at least in part, as endorsed by its statement at the recent roundtable that it has no plans to sell disaster loans of 9/11 victims. We all recognize that the public simply would not stand for those victims, making their payments in a timely way, to be taken advantage of by inflexible bill collectors. I couldn't agree with Senator Dorgan more when he said in his statement to the Committee:

> "I urge you to consider the purpose of this program. The government may not make a lot of money on these loans, but the purpose of the program is to help people. The private sector is in business to make money. This should be a public service for those who suffer disasters in our country....Those who have been hit with disaster in this country don't deserve to be handcuffed later by a private company that is able to buy deeply discounted SBA disaster loans."

At the very least, there needs to be an effective grievance system established at the SBA to remedy problems that occur after loans are sold. In addition to the credit programs, I would like to raise some concerns I have about the direction of SBA's procurement and entrepreneurial development programs.

The Committee has conducted a hearing on Federal contract bundling and three roundtables, which brought a number of issues to light regarding programmatic and regulatory challenges at the SBA and currently affecting the ability of small business to grow and compete in the federal procurement arena. One significant shortfall in SBA's procurement programs is in the number of Procurement Center Representatives (PCRs). These representatives advocate on behalf of small businesses in cases directly affecting contracting, such as the bundling or consolidation of contracts. There are currently only 47 PCRs to review contracts from hundreds of agency buying divisions nationwide. Meanwhile, the bundling of contracts by federal agencies continues to grow to epidemic levels, robbing small businesses of hundreds of millions dollars worth of federal contracts they deserve. Bundled contracts, while seemingly an efficient and cost-saving means for federal agencies to conduct business, are anti-competitive and anti-small business. The inability for the 47 PCRs to review and un-bundle the necessary number of consolidated contracts is clearly a symptom of why contract bundling has grown to such a degree that it has significantly hamstrung small businesses. According to the SBA's own numbers, approximately 40% of federal contracts (nearly $90 billion) are not reviewed by PCRs. Unfortunately, the SBA continues to treat the problem with "Band-Aids", relying solely on the expansion of electronic monitoring systems and online services to correct the problem. While this is a step in the right direction, it does not give the small business community what it needs: a more reasonable number of PCRs to review the large number of federal contracts.

The Administration's reauthorization proposal eliminates the BusinessLINC program, which has been showing promise in creating real teaming opportunities for small businesses in the private sector. Since the first roundtable held by this Committee earlier this year, I have received numerous letters from supporters of the BusinessLINC program, from Massachusetts and across the nation, who have ongoing, successful BusinessLINC teaming programs. I ask that these letters be included in the record for today's hearing. The program was originally authorized to run until 2006, but the SBA proposes to eliminate it in 2003. The SBA argues that the work done by the BusinessLINC program overlaps with existing programs. This is not the case. The BusinessLINC program is unique in its approach to teaming small businesses with non-governmental organizations that can have a direct impact on the businesses' bottom-lines through contracting or mentoring. While other programs focus on mentoring and training for small businesses seeking to gain contracts from Federal agencies, BusinessLINC focuses on private sector business-to-business links.

I am also concerned about SBA's proposal to consolidate and eliminate various reporting requirements in government contracting and to change the deadlines from a static date of April 30 of each year to a fluid goal of "no less than 90 days" after the release of Federal procurement data. This could be problematic for the work of this Committee and our House counterpart because it will delay the availability of such data to Congress. Without timely reporting by the SBA, it becomes more difficult for Congress to oversee agency procurement programs in order to increase their effectiveness.

The need for congressional oversight of the programs and data systems managed by the SBA was made even more evident by GAO's May 7, 2003 study of the PRO-Net system. In their investigation of the use of PRO-NET by firms that are not small businesses, the GAO reviewed five large companies and found that they received $460 million worth of contracts that were intended for small businesses. The GAO recommended a number of changes to the way SBA administers Multiple Award contracts, including annual certification as small business entities. The SBA's solution, simply removing the large firm from PRO-NET, did not go far enough. Any effective remedy needs to include a strategy of dealing with a company that has intentionally misrepresented its size in order to attain a small business contract.

On a larger scale, the Administration has failed to meet its goal for Federal contracting to Veterans, Women-Owned Businesses and HUBZone firms for FY 2000 and FY 2001. Through the third quarter of 2002, the Federal government was far from reaching its goals for last year. Without sufficient reporting and the resulting oversight, small businesses would see a continued erosion of their portion of federal contracting dollars, and contracting agencies and the economy overall will suffer.

Also of great concern to me, and troubling to much of the small-business community, are many of the changes offered in the SBA's reauthorization proposal to non-credit programs. Of particular importance are those changes that could cripple the Small Business Development Centers nationwide and severely undercut the 15-year infrastructure of the Women's Business Centers network.

First, it is important to point out the impact that SBDCs have on our nation's small businesses. In 2001, SBDCs helped small businesses create or retain over 80,000 jobs, generate $3.9 billion in sales and obtain $2.7 billion in financing. For every dollar spent on an SBDC, $2.09 in tax revenue was returned to the Federal government. Numbers aside, the nationwide network of SBDCs provides important counseling services to small-business owners that are unable to afford private consulting, many of whom are women and minority clients.

Second, it should be noted that SBDCs have grown to serve 1.25 million small-business owners and entrepreneurs each year, nine million since its inception over 20 years ago, and there are nearly 1,000 centers serving small businesses in every state in nation.

The SBA has put forth a handful of changes that would greatly damage this unique program. Of most concern are the Administration's proposals to open up the SBDC program to non-profit organizations, to require SBDC grants to be re-competed every 5 years, and to eliminate the requirement of the Governor's endorsement of the SBDC.

These changes would undercut the program's ability to deliver high-quality counseling and training services to small-business owners by potentially removing state governments and institutions of higher learning from the picture. I am also disappointed that the SBA has level-funded the program for six years, leaving no room for growth or improvement.

It is unfortunate that the Administration does not value the SBDC program as much as the small-business owners it serves, but it is far more disconcerting that the SBA would attempt to dismantle the very foundation of one of its most successful programs.

For 15 years the Women's Business Centers have played an important role in both our economy and in promoting economic independence for women. They help women take an honest look at their strengths and interests to find out whether they should venture into the world of American business. They teach women how to turn their talents into a business. They train women in the fundamentals of starting and running a successful business, and they help improve their financial literacy. The centers are located in rural, urban and suburban areas, and direct much of their training and counseling assistance toward socially and economically disadvantaged women.

Today, America's 9.1 million women-owned businesses employ 27.5 million people and contribute $3.6 trillion to the national economy. Between 1997 and 2002, women-owned businesses increased 14 percent -- twice the rate of all U.S. firms. At this time of unparalleled growth for women-owned businesses, when demand for assistance is increasing, the Administration is proposing to cut a major portion of the Women's Business Center program by eliminating the Women's Business Centers Sustainability grants. These matching grants are crucial to maintaining the existing nationwide network of effective Women's Business Centers, which has been established with Federal and local funds since 1988.

Again, the Administration proposes that, after 5 years, even a very successful and well-funded Women's Business Center would no longer be eligible for Federal funds. At that point, the Federal investment and that infrastructure will be in jeopardy or lost. I agree with the members of the Association of Women's Business Centers that the SBA should focus on maintaining the existing centers and infrastructure, while at the same time addressing the need for additional centers in certain underserved parts of the country.

As a longtime staunch supported of women's programs at the SBA, I am also pleased that in her recently introduced legislation, Chair Snowe recognizes the success of the Sustainability grants and proposes making the program permanent. I want to commend Senator Snowe for taking this first step toward improving the Women's Business Center program, and I look forward to working with her and all of the women's business groups in crafting legislation that protects and strengthens the current infrastructure of this successful and important program.

I would be remiss if I did not mention the SBA's outreach to the Native American small-business community. As many of us know, the Native American population is one of the most secluded, disadvantaged, and underserved in our nation. The daunting challenges Native American entrepreneurs face are enough to discourage even the most spirited small-business owner.

According to a report released by the U.S. Census Bureau, the "three year average poverty rate for American Indians and Alaska Natives [from 1998-2000] was 25.9 percent. Higher than for any other race groups." With an unemployment rate well above the national average and household income at just three-quarters of the national average, Native American communities need a commitment from the Federal government that we will help them, particularly during these difficult economic times.

It is surprising, that during this great time of need that the Administration has turned its back on Native American outreach. In its FY '04 Budget, not only did the SBA fail to request more funding for Native American outreach, they have requested none at all. This after the agency cut funding last year for the Tribal Business Information Centers.

To address SBA's apparent lack of commitment, Senators Johnson, Smith and I reintroduced the Native American Small Business Development Act, S.1126, to provide Native Americans the resources they need to take advantage of the opportunities of entrepreneurship and overcome the hurdles that hinder small-business success.

The Native American Small Business Development Act will ensure that the SBA's programs to assist Native American communities cannot be dissolved by making the SBA's Office of Native American Affairs (ONAA) and its Assistant Administrator permanent. Our legislation would also create a statutory grant program, known as the Native American Development grant program, to assist Native Americans. It would also establish two pilot programs to try new means of assisting Native American communities and require SBA to consult with Native American communities regarding the future of Agency programs designed to assist them. In short, this legislation will ensure that our Native American communities receive the adequate assistance they need to help start and grow small businesses.

I look forward to hearing, today, from Administrator Barreto. I am sure that if we work together, we will be able to ensure the SBA has the necessary tools to aid, counsel, assist and protect this nation's small businesses. However, if we do not address the SBA program problems raised during the Committee's prior hearing and roundtables as well as the clear shortfalls created by the current reauthorization proposal, SBA's essential programs will be compromised and the nation's small businesses and local economies will continue to feel the bite of our current economic downturn.

Again, I thank the Chair, Senator Snowe, for holding this hearing, which allows us an opportunity to hear directly from the SBA and learn how they plan to address the shortfalls in their programs discussed at the Committee's three roundtables and how we can enhance Federal small business advocacy, financial assistance, contracting and entrepreneurship development through the SBA's programs.

STATEMENT OF SENATOR LANDRIEU
SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP HEARING ON THE REAUTHORIZATION AND THE BUDGET OF THE SMALL BUSINESS ADMINISTRATION
June 4, 2003

Madam Chair, small businesses are the backbone of Louisiana's economy. There are more than 95,000 small businesses in my state, employing about 850,000 people – more than half of my state's workforce. These businesses need the Small Business Administration and its programs. They have been extremely valuable to my state.

The key to the SBA's success has been the fact that entrepreneurs can turn to the SBA for virtually all of their business needs from before they open their doors for the first time, all the way through until their businesses can no longer be called "small." Entrepreneurs can get loans from the SBA to start a business; through the SBA they can obtain financing to acquire plant and equipment as their businesses grow. All along the way SBA programs provide small businesses with technical expertise.

I thank the Chair for calling this hearing. The Bush Administration has sent us a reauthorization proposal that would make a number of important changes to the SBA and its programs. Earlier in the year the Committee held Roundtable meetings with representatives of the small business community to discuss the reauthorization of the SBA and its programs. While at the time I felt that the Roundtables were a terrific format for hearing the small business community's opinion of the proposal, I thought it was very important that the Committee hear directly from Administrator Baretto before we marked up a bill. I am pleased that Mr. Barreto is here to today and I look forward to his testimony.

I have several concerns with the Administration's reauthorization proposal. First, the six-year authorization period in the proposal will drastically limit congressional oversight of the SBA. The Administration also seeks to hold the SBA to level funding for the six years with no adjustment for inflation. To me that's unrealistic. As our economy grows and more small businesses get started, the SBA will face increased demand for its programs without having the capacity to help those businesses. Funding for the SBA is an investment in our economy. The more we invest, the greater growth we will experience. Limiting the SBA to no growth over six years does not make sense. I am also concerned that the SBA has decided to eliminate the Women's Business Sustainability grants program to help Women's Business Centers to continue to operate.

One of my biggest concerns has to do with the proposed changes to the Small Business Development Centers Program (SBDC). The Administration would eliminate the requirement that these Centers be located at colleges, universities, or other institutions of higher learning, and would also require these Centers to re-compete for their funding every five years. I can certainly understand the benefits of open competition in the government funding process for activities and services that can be readily performed by a new entity with relative ease. But the SBDC

Program, particularly in Louisiana, re-competition could ruin the effectiveness of this program.

There are 14 SBDCs in Louisiana at institutions of higher learning across the state. These are educational programs that are suitably housed at universities or colleges. The Centers have a proven record of success. In just the past 2 ½ years, Louisiana's SBDCs have helped create more than 3,500 new jobs and have helped the state's small businesses retain 500 jobs. They have also have made it possible for small businesses to secure $30 million in equity financing and $21 million in debt financing.

The SBDCs have this record of success because the Federal government, the State government, and the universities housing the centers have made a sustained investment in this economic infrastructure going back 20 years. Small businesses working with the Louisiana Business and Technology Center at Louisiana State University have access to professors and other experts in accounting, business development and other business areas for free. That is the advantage of placing the SBDCs at universities and colleges.

Starting up new Centers and getting them performing at a comparable level to an existing Center will take time, possibly two or three years. Under the Administration's plan, a new Center would spend half the grant cycle getting up to speed only to have to turn around and re-compete again. That is a step backward from the sustained success we currently have.

The SBA also have a number of loan programs for small businesses. They are an important source of capital to help small businesses grow and prosper. We need to take a look at the funding for these programs. Again, level funding is tantamount to a cut and will not allow these programs to meet demand. That is true whether we are talking about the 7(a) program, the 504 Loan Guaranty program, or the New Markets Venture Capital program.

Madam Chair, thank you again for calling this hearing and I want to express my appreciate to Mr. Baretto for coming today. I look forward to working with you as the reauthorization moves forward. I thank the Chair.

Statement of Senator Carl Levin
Hearing on SBA Reauthorization: Programing for Success
June 4, 2003

Mr. Barreto, thank you for appearing before the Committee today. I have many questions and concerns regarding the Administration's proposal for SBA reauthorization, many of which were raised during the Committee's roundtable events in the Spring. One great problem with the Administration's proposal are the authorization levels proposed and the duration proposed for the authorization: a six-year reauthorization with program levels frozen at FY 03 levels. Congress has traditionally reauthorized SBA for three years at a time, not six. The shorter three year time frame allows this Committee and the Congress to exercise closer oversight and provides the ability to make the necessary adjustments if subsidy rates for a specific program should rise, or if loan volumes exceed authorized levels. For example, if an SBA loan program continues to see increased demand, such as the 7(a) program has seen, we want to be able to respond quickly by finding ways to expand the program.

Based on past trends, keeping funding level for 6 years, regardless of demand, would mean turning away small entrepreneurs, exactly the group we are trying to help. It would also mean forgoing the job creation and business expansion that go along with these small business loans.

In recent years we have seen tremendous growth in both the 7(a) and the 504 credit programs. To accommodate this growth in the use of SBA's largest lending programs, Congress either made funds available to meet demand or increased the program level. This Committee needs the ability to continue to be responsive to our nation's small businesses and entrepreneurs, many of whom have no alternative credit sources, in the name of job retention and creation. We cannot be adequately responsive under a six year reauthorization. I'm pleased our Chairman and Ranking Member have expressed their intent to draft a three year bill.

For several years now, we have been hearing from small businesses that are concerned about the "bundling" of federal contracts. The consolidation of many smaller contracts into a huge mega-contract may be more efficient in some cases, but it can also have the effect of making it impossible for small businesses to compete for federal government work. We tried to address this problem several years ago by requiring federal agencies to conduct a cost-benefit analysis before bundling contracts, but the system that we put into place still has some huge holes in it. Earlier this year, Senators Collins and Talent offered an amendment to the Defense Authorization bill that would go a long way toward plugging those holes. Unfortunately, the Collins-Talent provision only applies to Department of Defense contracts. I believe that we need to address this issue on a government-wide basis. I look forward to working with other Members of the Committee toward that end.

I also hope the reauthorization bill will include two Committee bills that I have cosponsored, the Small Business Drought Relief Act and the Child Care Lending Pilot Act. Both bills will get needed resources to small businesses, the first to small businesses hurt by drought or low water levels on the Great Lakes and elsewhere, and the second to not-for profit day care centers.

I look forward to working with the SBA, members of this Committee and the small business community in developing an effective and responsive reauthorization bill.

COMMENTS FOR THE RECORD

Statement of

Donald Wilson

President, Association of Small Business Development Centers

Submitted to the

United States Senate Committee on Small Business and Entrepreneurship

Hearing on SBA Reauthorization

June 4, 2003

Chairman Snowe, Members of the Committee, I am Donald Wilson, President of the Association of Small Business Development Centers (ASBDC). The association is grateful for the opportunity to submit this statement for the record of the Committee's hearing. ASBDC is the association specifically provided for in Section 21(a) (3) (A) of the Small Business Act. Every SBDC grantee located in all fifty states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa is a member of the ASBDC.

In 1980 Congress authorized the establishment of the Small Business Development Center Program. For nearly a quarter of a century, this unique program has been providing quality management and technical assistance to America's small business owners as Congress envisioned at the program's inception. Since 1980, America's Small Business Development Center Network has provided in depth counseling of an hour or more and training of two hours or more to roughly ten million small business owners and aspiring entrepreneurs. In addition, millions more entrepreneurs have used the network as an informational resource for answers to questions as simple as how to get a business license or where to get an employer identification number.

With the bipartisan support of Congress, state and local governments, institutions of higher learning, Chambers of Commerce, small business trade associations, foundations, and private sector companies, a remarkable national educational infrastructure has been developed. That infrastructure currently includes nearly 1,000 SBDC service centers employing over 5,000 counselors, trainers, researchers and administrative personnel. Many of these counselors have records of service exceeding ten years. They are uniquely qualified to help their clients because of the relationships they have built in their states and their knowledge of additional resources that will be helpful to their clients. Many of the network's current counselors have owned or managed businesses and many have MBA's or graduate degrees in finance. As a group they represent an irreplaceable national resource.

We are extremely proud of what the SBDC network has accomplished during its first quarter of a century. We believe this network has exceeded the aspirations of those who had the original vision of a federally supported, broad based system of management and technical assistance for small businesses "linking the resources of Federal, State and local governments with the resources of the educational community and private sector." We are committed to working with this committee to assure the continued effectiveness of the SBDC program in order to strengthen our nation's economy in the years ahead.

Reauthorization of the SBDC program comes at a critical time for our nation's economy. Small businesses generate 52% of Gross Domestic Product, represent 99% of all employers and employ 51% of all private sector employees. During the past decade small businesses created roughly 70% of net new jobs in our economy. But all is not well with the small business sector. The latest data available from SBA's Office of Advocacy confirms that in 2001 small business bankruptcies nationwide increased nearly 13% over the previous year. No doubt, newer national figures will show those numbers further increasing. The majority of small business owners have never received any formal entrepreneurial training. A majority has never managed a business during an economic downturn. The need for management and technical assistance within the small business sector is greater today than ever before. The Department of Labor confirms that when unemployment rises, self-employment rises.

Small businesses are truly the engine of our nation's economy. And yet in recent decades, programs designed to assist small businesses have been marginalized. In 1978, the SBA budget represented six-tenths of one percent of total federal spending. If that ratio had been sustained, the SBA would be a $13 billion agency. Unfortunately, SBA's current budget of less than $800,000,000 represents barely four-one hundredths of one percent of federal spending. During the past decade, spending on SBA non-credit programs, including the SBDC program, has declined in real dollar terms. It is not surprising therefore that during the past two calendar years, job creation in this country fell to the lowest twenty-four month level since the Eisenhower Administration. Unemployment is now at 6.1% -- the highest level in nine years.

In light of the growing need among small business owners for management and technical assistance, we would respectfully ask this committee to encourage appropriators to reverse the decade long decline in funding for SBA non credit programs. We would ask that you increase the currently authorized SBDC program funding level of $125 million to $135 million in FY 2004, $155 million in FY 2005 and $175 million in FY 2006. This is not unreasonable when you consider that the SBDC program, unlike most federal programs, has demonstrated a positive return on investment. There are 23 million small business owners in the U.S. and the Kauffman Foundation estimates that one in ten adult Americans is seeking to start his or her own business. Forty-two percent of SBDC clients are women (SBDC's served over a quarter million female clients last year) and twenty-two percent are minorities. Demand for entrepreneurial services among these constituencies is exploding. If we are to have any chance of growing this economy at the level needed to provide jobs and enhance federal revenues, there must be a clear determination by Congress to provide the resource to increase the service capacity of SBA non-credit assistance programs.

The SBA has presented proposals to this committee that would radically restructure the SBDC program. ASBDC strongly opposes these recommendations and urges the committee to do so as well. The SBDC program is the most successful small business assistance program in history. The SBDC program annually serves more entrepreneurs than all other SBA credit and non-credit programs combined and serves them well. There is neither need nor other justification for this committee to adopt the radical SBDC restructuring proposals submitted by SBA. If adopted, these proposals would cripple the ability of the SBDC network to effectively provide quality service to its clients and to work cooperatively and effectively with its many program partners.

The SBDC program, as currently structured, is literally the envy of much of the world. Government representatives from nearly every continent visit SBA and SBDCs regularly to try and learn how to replicate the SBDC program in their own country. One of the key components of President Bush's Partnership for Prosperity with Mexico is a commitment to assist in the establishment of SBDCs in Mexico. Interestingly, before the Partnership for Prosperity was ever initiated, ASBDC members, working with universities in Merida, Guadalajara and Vera Cruz, had already helped to establish SBDC type programs in Mexico. We are told that one of the key requests of Central American representatives negotiating with the U.S. Government on the establishment of a Central American Free Trade Agreement is for assistance establishing the equivalent of SBDCs in their native countries. It is inexplicable why SBA would now propose to Congress a radical restructuring of the SBDC program.

Specifically, SBA has proposed that Congress authorize the agency to re-compete SBDC grants every five years. For what purpose? Has any documentation been provided to indicate that current grant recipients are not performing well? On the contrary, SBA's own data confirms that the number of counseling and training clients served by the SBDC program increased in 2002 to over 650,000, an increase of nearly 5.7% from 2001 with essentially no increase in federal program funding. The OMB in its budget presentation to Congress acknowledged that independent studies showed that the SBDC program returned $2.7 dollars to the federal treasury for every federal dollar invested. SBDC clients receiving long term counseling in 2000 created an estimated 47,000 new jobs and attributed the saving of an additional 34,000 jobs to SBDC assistance. SBDC counseling helped long-term counseling clients grow sales by almost four times the rate of the average U.S. business. SBDC counseling helped long term counseling clients create new jobs at more than ten times the rate of the average U.S. business. With a superlative performance record like this, there appears to be no justification for SBA's proposal that Congress radically restructure the SBDC program.

Limiting SBDC grants to five years duration may sound reasonable enough at first blush. And who could be against competition? The fact is, the success of the SBDC program is integrally tied to its structure, which was carefully thought out by Congress at the program's inception. The SBDC program was created as a federal, state, and local partnership to ensure accountability and effectiveness. With its matching funds component, the SBDC program was wisely and carefully designed to leverage federal resources to the maximum extent possible. The program's existing grantees, whether institutions of higher learning or state agencies, understood when they sought to host SBDC programs in their states that they would be expected to contribute resources at least to the same extent as the federal government. In fact, institutional hosts have contributed or raised matching funds far in excess of the federal government's financial contribution. In well over 90% of SBDC programs, the federal government contributes less than 50% of operating resources. This extraordinary investment by the institutional hosts has been made with the understanding that they could and would continue to host the program as long as their performance was satisfactory. It would be inherently unfair now to take the program away from those program hosts who, assuming good faith on the part of the Federal Government and SBA, have invested so much in this program.

The SBDC program was modeled in many ways after the highly successful agriculture extension program. The Smith-Lever Act sought to establish a strong partnership between Federal, state and local governments and land grant colleges and universities across the nation to insure the dissemination of knowledge, developed at our nation's land grant colleges of agriculture, to our nation's farmers. Similarly, the SBDC program was designed to create a lasting partnership between Federal, state and local government and institutions of higher learning to disseminate the very best practical business management and technical knowledge to our nation's small business owners and aspiring entrepreneurs. And the plan has worked remarkably well.

Outstanding higher educational institutions such as the University of Missouri, the University of North Carolina, the University of Wisconsin, Howard University, Washington State University, the University of Houston, the University of Wyoming, the University of Southern Maine, the University of Georgia, the University of Pennsylvania, the University of Arkansas, the University of Massachusetts, the University of Delaware, the State University of New York, George Mason University, the University of Kentucky, Rutgers University, Boise State University, Iowa State University, and the University of Maryland, to name a few, are hosts grantees of the SBDC program. These are not the community store front non-profit groups to whom the SBA proposes to have Congress open the SBDC grant process. These are institutions that bring unique stability to the SBDC program. They are institutions built on solid financial and community foundations. Many of these institutions house the great business schools and entrepreneurial programs in our nation, such as the Wharton School, the Kenan-Flagler School of Business, the Robert H. Smith School of Business, the Isenberg School of Management and the Terry College of Business. These are institutions with worldwide reputations. These are institutions with our nation's finest business school faculties and MBA and entrepreneurial programs. The talent and knowledge of these world class faculty and students are a resource readily available to the SBSDC program only as long as the SBDC program is an integral part of these renowned institutions. The broad class of grant applicants to which SBA would have Congress open the SBDC program overall has very little if any background or expertise in providing entrepreneurial training or management and technical assistance to small businesses.

The outstanding institutions that are the SBDC program's current hosts also help to ensure the financial integrity of the SBDC network. Great institutions of higher learning are generally recipients of a broad range of grants from numerous state and federal agencies. The programs educational institution hosts have full time professional grants management departments. These departments enforce the highest levels of financial accountability because if one grant program should fail to meet OMB financial standards, it could threaten all federal grant programs at the institution.

And our hosts also include distinguished state agencies such as the Minnesota Department of Trade and Commerce, the Ohio Department of Development, the Illinois Department of Commerce, and the Montana Department of Commerce. These institutions, like the institutions of higher learning, bring to the SBDC program resources, relationships, and unparalleled leadership within their respective states that simply cannot be replicated by others. Why would Congress want to authorize the SBA to alienate these state government institutions that are critical components of the economic development infrastructure within each of their respective states by terminating the existing partnerships? Why would Congress want to authorize SBA to breach and abrogate the partnership relationships with great educational institutions, partnerships on which the SBDC program was predicated and which has served the nation's small business sector and taxpayers so very well for a quarter century.

The SBDC program is not some federal contract issued to purchase a product. It is a unique infrastructure in which federal, state and local governments and institutions of higher learning have invested hundreds of millions of dollars. You do not dismantle that infrastructure and start over again for the sake of ribbon cuttings and photo opportunities. The SBDC program was structured by Congress so as to provide the highest quality management and technical assistance possible to the men and women who are responsible for growing this economy.

Let's examine the likely real life results if Congress approves SBA's core proposals. Two years after the signing of reauthorization, SBA will begin to re-compete SBDC grants. Requests for proposals will be issued and a hodgepodge of non-profit entities, most with little or no background in providing business management and technical assistance will apply. Few applicants, if any, will have the matching resources or will be able to attract the matching resources of the program's existing hosts. The existing hosts will have already begun to reduce their financial commitment to the program. They will have quickly realized that the SBDC program is no longer a meaningful partnership with a long-term commitment by all partners. They will realize the program has become a politicized, short-term grant program. Hundreds of dedicated, highly trained, experienced SBDC business counselors will depart the program realizing their SBDC careers are now short lived. Existing programs will find it virtually impossible to attract new counselors because qualified potential applicants for counseling positions will recognize that they face the prospect of only short-term employment with the new hosts.

New grant recipients will face the daunting challenge of trying to rebuild a statewide service delivery network from scratch with limited resources, and limited ability to attract partners or qualified staff. One year of quality service delivery to the state host's small business community will be lost.

It will take a new host probably a minimum of two years to put a semi-effective statewide service delivery system together. Why? Because critical relationships built over decades will have been torn down and will not be rebuilt easily. The new host will be reluctant to share research and resources with program partners for fear the partners may compete against the host in the next round of competition. Two more years of effective service delivery will likely be lost. If the new host is lucky, it will then have two reasonably productive years of service delivery and program management before the grant expiration year will begin. Early in that fifth year, SBA will issue a new Request for Proposal and counselors, many of whom have been on the job three years or less, will depart the program, recognizing their days of employment by the host are numbered. And then the horrible cycle of low productivity and compromised service delivery will begin all over again. In fact over a six-year period, we will likely see only two years of moderately productive service delivery. Does this committee want to be a party to such a nihilistic, destructive process? I cannot believe you do. What I have just described is not fantasy. It will likely be reality. The scenario I have painted is stark testimony to how little thought has gone into the agency's unfortunately shortsighted recommendations. We would submit that change for the sake of change is mindless. The better prescription would be "first do not harm". And second, "if it ain't broke, don't fix it. And clearly the SBDC program is not "broke."

Some will say that re-competition is necessary to encourage existing hosts to perform adequately. Our current SBDC programs are more productive, with greater economic impact than ever before. A private firm, Economic Policy Resources Inc. found that, in 2001, Vermont SBDC business assistance resulted in approximately $3.2 million in new state tax revenues. Economics professors at Ohio University using the nationally recognized Economic Development Modeling Program, IMPLAN, created by MIC, Inc of Massachusetts, found that the Ohio SBDC helped create and save 7,097 jobs and $302 million in payroll in 2001 with a total economic impact of $1.1 billion. A 2002 study funded by the Oregon Economic and Community Development Department and conducted by Campbell –DeLong Resources found that clients of the Oregon SBDC generated $44 million in new payroll, increased productivity by 23% and increased sales by $66.6 million.

The SBDC program is unique among federal programs in that it has a Congressionally mandated accreditation program. An SBDC program must undergo a comprehensive accreditation review every four years. If an SBDC program fails to be accredited, the SBA cannot continue to fund the program. The program's accreditation standards are based on the Malcolm Baldrige management principles and are designed to serve as the foundation of a world class organization. And the SBDC accreditation program works very well.

One needs only to look at the accolades bestowed on members of the SBDC network to know this is true. For example, the Maine SBDC program was one of four organizations honored last fall with the Margaret Chase Smith State Quality Award. The award is administered by the Maine Quality Awards Committee on behalf of the American Society for Quality. The National Association of Management and Technical Assistance Centers presented its 2002 Outstanding Project of the Year Award to the New York State SBDC for its efforts to help small businesses recover from the September 11, 2001 attack by terrorists on the World Trade Center. The Bill J. Priest Institute for Economic Development, a division of the Dallas County Community College District, was the only recipient of the Texas Award for Performance Excellence in 2002. The award is patterned after the Malcolm Baldrige National Quality Award and recognizes Texas organizations that excel in world-class management, achievement, and performance excellence in applying quality and customer satisfaction principles. An integral and vital component of the Bill J. Priest Institute is the Dallas Regional SBDC. In June of last year, Secretary of Commerce Evans presented the Black Hawk College Export Trade Center, a special component of the Black Haw College SBDC, with the President's "E" Award for Exporting Excellence. This prestigious award was created by President John F. Kennedy to recognize U.S. businesses or organizations that have demonstrated outstanding growth and innovation in exports or export service. Clearly, the SBDC accreditation process is working as Congress intended to insure quality and continuing improvement within the SBDC network. Re-competing grants every five years cannot possibly achieve what the SBDC Accreditation program is achieving. Moreover, SBA, under existing law, is fully empowered to pull a grant at any time from an SBDC program that is not performing effectively. And SBA personnel perform a financial and program review of every SBDC program, every two years.

SBA also recommends that Congress repeal the current law's requirement that the awarding of grants to applicants not be inconsistent with State Government plans where such plans exist. This proposal for statutory change is likely to be patently offensive to state officials. Cooperation with and support of state governments was a fundamental principle on which the SBDC program was founded. It is absolutely essential that the SBDC program in any given state enjoy the support of the state government. State government support is usually critical to an SBDC program being able to secure adequate match. Essentially what SBA proposes is for state government to be an absolutely silent but financially generous partner. It would seem illogical that state governments would willingly accept such a subservient role. There is less incentive for states to support the SBDC program financially if a state's views are ignored by SBA. And we believe state government officials are likely to have a better grasp of how an SBDC program fits into the state's overall economic development plan than SBA officials in Washington. For example, in California the Governor indicated to the SBA the state government's preference for one statewide SBDC host. However, the SBA decided to create six SBDC hosts in California. ASBDC believes this decision is an unfortunate one. Clearly, six SBDC hosts in California will necessitate replication of lead center overhead expenses thereby reducing the resources available for direct services to small businesses. Six hosts will also prevent the SBDC program in California from being able to address the state's needs on a "coordinated" and "comprehensive" basis as the statute envisions. None if the six hosts will be able to compete for state or federal grants from agencies that seek a statewide service delivery system.

SBA also proposes that Congress authorize the agency to take additional SBDC program funds intended for direct program delivery from the program and divert the funds to SBA for agency operating expenses. The agency is requesting that the $ 500,000 currently taken from the program by SBA be increased to one percent of the total program funding. At current program funding levels, SBA would take an additional $400,000 for their own use. This would mean a further reduction in program funds for service delivery to small businesses. Nationwide the program has suffered cuts in state and local funding. The needs of small businesses are acute. In the past two years, SBA has proposed dramatic increases in its salaries and expenses budget amounting to tens of millions of dollars. At the same time the agency has proposed sharp reductions in funding for the agency's non-credit small business programs. ASBDC, in light of the current dire economic conditions facing our nation's small business owners, believes it would be unconscionable for Congress to take SBDC program funds intended for direct small business assistance, and divert them to administrative overhead at SBA central. What is really needed is for Congress to redirect some of the budget increases proposed for salaries and expenses at SBA central to the pressing management assistance needs of our nation's small business owners.

We would also request that this committee address the serious issue of SBDC client confidentiality. The full House of Representatives has twice passed language protecting the confidentiality of SBDC clients. This committee approved similar language when it adopted S. 2483 last fall. Client confidentiality is critical to the relationship between this program and its clients. The OMB approved "request for counseling" form leaves clients with the clear impression that their confidentiality is protected and assured. Regretfully, various marketing groups, and others have sought to breach or have successfully breached the veil of confidentiality. Statutory protection is clearly needed. ASBDC supports the confidentiality language approved by this committee in S. 2483 last year and encourages you to incorporate that language in the SBA reauthorization bill.

In closing, let me again thank you Chairman Snowe and members of the committee for holding this hearing on the reauthorization of the SBA. ASBDC appreciates your consideration of the association's views.