

**HEARING ON THE SMALL BUSINESS  
ADMINISTRATION FISCAL YEAR 2012 BUDGET**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON SMALL BUSINESS**  
**UNITED STATES**  
**HOUSE OF REPRESENTATIVES**  
**ONE HUNDRED TWELFTH CONGRESS**

FIRST SESSION

HEARING HELD  
March 2, 2011



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## HEARING ON THE SMALL BUSINESS ADMINISTRATION FISCAL YEAR 2012 BUDGET

WEDNESDAY, MARCH 2, 2011

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, DC.*

The Committee met, pursuant to call, at 1:00 p.m., in room 2360, Rayburn House Office Building. Hon. Sam Graves (chairman of the Committee) presiding.

Present: Representatives Graves, Chabot, Coffman, Ellmers, Herrera Beutler, Fleischmann, Landry, West, Velázquez, Schrader, Critz, Altmire, Clarke, Chu, Cicilline, Richmond, Owens, and Keating.

Chairman GRAVES. I will call this hearing to order, and I want to welcome everybody today.

At today's hearing we're going to hear about the President's proposed fiscal year 2012 budget for the Small Business Administration. I would like to welcome Administrator Karen Mills back to the Committee.

The mission of the SBA is to promote the growth of small businesses throughout the United States and in doing so, the agency tries to be all things to all small businesses, from a start-up in the inner city to a mature business in remote areas of rural America.

Given the importance of the small business to the American economy, the breadth of the mission is laudable. In a different time, we might be able to afford funding for this broad mission but unfortunately we do not have that luxury. The government's fiscal situation is dire. Even agencies and programs that we view as valuable will need to do their part in reducing unsustainable federal expenditures.

The fiscal situation requires that the mission of the SBA be pared back to core objectives, enabling small businesses to obtain capital in credit so they can create jobs, assisting small businesses and penetrating the federal procurement arena, and counseling America's entrepreneurs. In assessing these core functions, we must focus on those programs that are most efficient in helping small businesses create jobs while reducing the financial risk to the federal taxpayers. Programs that do not meet these objectives are going to have to be cut, and programs that meet these standards should be strengthened.

I look forward to hearing the Administrator's testimony and explanation of the President's budget and how it meets these core missions of the SBA while recognizing the current fiscal constraints facing the Federal Government today. And again, I welcome you

and I will now turn to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Chairman Graves. And welcome Administrator Mills.

As we begin our consideration of SBA's budget request, it is critical that we do so with one eye on the small business economy. Due to the financial crisis beginning in 2007 and ensuing recession, small firms have faced challenges on several fronts. However, it now appears that small firms are poised to turn the corner. Importantly, credit conditions have eased and optimism concerning revenue growth and the general economy has improved. This result in increased business confidence suggests small firms will increase employment within the next year. Ten years ago, in fiscal year 2002, small businesses were facing extremely similar challenges during a period of fiscal restraint. As the country began to emerge from the recession that began in early 2001 the SBA stood by ready to help. At that time the agency spent \$973 million, only one percent less than its request of \$985 million for fiscal year 2012.

Today we find ourselves in a familiar position trying to make sure that small businesses have the tools they need to succeed and create jobs, but also doing so in a manner that is responsible to the taxpayer. With this in mind I am troubled by the agency's continued use of limited budget authority to fund unauthorized pilot programs. For fiscal year 2012, the SBA proposes to operate seven such initiatives. This includes the Small Loan Advantage Program, the Community Advantage Program, the Impact Investing Fund, the Early Stage Innovation Fund, Regional Clusters, the Distance Learning Program and the Emerging Leader Programs. The cost of the last three alone makes up nearly 10 percent of the SBA's non-credit programs' budget submission.

Most worrying is that these programs were launched without the public hearings and legislative record that accompanies statutorily authorized programs. Therefore, it is impossible to understand why these programs were created and whether or not they are a good investment for the taxpayer. In addition, several of these programs are clearly duplicative of other agency offerings.

The reality is that these are lean times. Everyone has to tighten their belt and this includes the SBA. Instead of using these resources for pet projects, the agency should instead be focusing on addressing the priorities raised by its own inspector general. The first two programs the IG raises in its own budget submission are especially critical and if addressed properly will save taxpayers' money by reducing waste, fraud, and abuse.

The first program the IG identifies is regarding the SBA loan programs. It finds that the agency faces a heightened risk of loss due to expedited loan processing initiatives and its considerable reliance on outside financial institutions. It further notes the majority of loans made under the 7(a) program are made with little or no review by the SBA prior to loan approval because SBA has delegated most of the credit decisions to lenders.

Numerous IG criminal investigations have identified fraud by borrowers, loan agents, lenders, and other participants in SBA's business loan programs. In addition, the IG raises concern about the award of contracts under the SBA programs. In 2009, \$97 bil-

lion in prime contracts were awarded through these programs. However, IG audits, as well as GAO investigations, have identified numerous instances where firms that do not meet this program's eligibility criteria were improperly given contracts anyway.

These two issues are of such significant magnitude that instead of being buried in the back of the budget submission they should be front and center. I intend to work with members of this committee to change this.

As part of the budget process, this committee is required to submit its views and estimates to the Budget Committee. Per tradition, the minority will be submitting its own letter, and in it we will be recommending that the funding requests for all pilot projects be either denied outright or made available to reduce fraud and waste in the SBA programs. Doing so is but a small step, but it is essential as we try to balance the objective of being fiscally responsible while ensuring that small businesses have the resources they need. This is a challenge but it is imperative that we overcome it. If we can, small firms will have the tools they need to succeed and create jobs, while taxpayers can be assured that their money is being managed responsibly.

In advance of her testimony, I want to thank Administrator Mills for appearing here today and providing her insight into the agency's funding for fiscal year 2012.

Thank you. And I yield back.

Chairman GRAVES. Thank you very much, Ms. Velázquez. And now I will turn it to Administrator Mills, who is here as—I talked to her about I guess it was a month ago or so about coming in and talking to us, the committee, about what is working, what is not working. And Administrator Mills, I will turn it over to you and you have all the time you need.

**STATEMENT OF KAREN MILLS, ADMINISTRATOR, UNITED STATES SMALL BUSINESS ADMINISTRATION**

Ms. MILLS. Well, Thank you very much. Chairman Graves, Ranking Member Velázquez, and members of the committee, I am very pleased to testify before you.

Small businesses are the backbone of our economy. They create nearly two out of three new jobs and more than half of working Americans either own or work for a small business. The SBA is a small agency but we have a big mission. We put the maximum possible resources directly into the hands of small businesses, focusing on the three Cs of capital, contracting, and counseling. Last year we helped over 50,000 small businesses get the capital to grow and hire. We helped put about 100 billion in federal contracts in the hands of small businesses, and we counseled more than a million small businesses across your districts and throughout the country.

We put these resources in their hands while providing taxpayers a big bang for their buck. For example, after credit froze in 2008, the Recovery Act and the Small Business Jobs Act supported more than 42 billion in SBA loans at a cost of just 1.2 billion in subsidy. Many small businesses suffered greatly during the recession. Our job is to support them as they grow and create jobs and that job is not done.

The President's proposed fiscal year 2012 budget for the SBA of \$985 million will support up to 27 billion in loan guarantees, as well as many other tools and resources to help them do just that. At the same time this budget reflects a commitment to tighten our belts, streamline our processes, and eliminate duplication. This includes some of your ideas. For example, we looked hard at our technical assistance programs and as a result we proposed eliminating the Prime Program. With the work of our micro lenders and new efforts to recruit community-based lenders, we can continue to provide this important technical assistance but in a more cost effective way.

In addition, due to process reengineering, our disaster loan operations are now much more efficient. We can preserve our level of preparedness with a steady stayed core staff level of 850 instead of 1,000 along with our 2,000 reservists. The largest increase in this budget reflects the fact that we have reached the statutory limit for fees that we can assess. We request additional subsidy because losses, including those from loans approved when collateral such as real estate was inflated, have pushed up subsidy costs. We also request a legislative fix to return to near zero subsidy. We also request incremental increases for the new women's contracting program and continued efforts to remove waste, fraud, and abuse in contracting.

Overall our priorities are twofold. Our focus is on SBA programs that put money and support directly into the hands of small business owners in the places they live, and we will continue to invest in oversight to preserve the integrity of these programs and to protect the interests of taxpayers.

I look forward to working with all of you to continue to ensure that small businesses are succeeding because as you know, when they succeed, America succeeds. Thank you very much.

[The statement of Ms. Mills follows:]





**U.S. SMALL BUSINESS ADMINISTRATION**  
WASHINGTON, D.C. 20416

**TESTIMONY OF KAREN G. MILLS**  
**ADMINISTRATOR**  
**U.S. SMALL BUSINESS ADMINISTRATION**  
**BEFORE THE**  
**U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS**  
**FY 2012 SBA BUDGET**  
**MARCH 2, 2011**

Chairman Graves, Ranking Member Velázquez, and members of the Committee. It's an honor to testify before you today. I look forward to working with each of you and this new Congress to ensure that America's small businesses can continue to grow and create jobs.

The SBA is a small agency but we have a big mission. We focus on providing access and opportunity through the three "Cs" of capital, contracts and counseling.

Last fiscal year, we helped over 50,000 small businesses get the capital they need to grow and hire.

We helped put about \$100 billion in federal contracts in the hands of small businesses. And we counseled more than a million entrepreneurs and small business owners across your districts and throughout the country.

Over the past two years, we provided taxpayers with a big bang for their buck. One example: Since credit markets froze in 2008, we supported more than \$42 billion in small business lending.<sup>1</sup> We still have work to do to help small businesses create the jobs we need, and the President's proposed FY12 budget for SBA is \$985 million.

Our top priority remains to support programs that put resources directly in the hands of small business owners.

At the same time, we will tighten our belts, streamline our processes, and eliminate duplication. This budget reflects some of your ideas to help us do just that. For example, we looked hard at our technical assistance programs.

As a result, we propose eliminating the PRIME program. With the work of our Microlenders and new efforts to recruit community-based lenders into our Community Advantage program, we can continue to provide technical assistance in a cost-effective way.

Also as part of our look at technical assistance programs, we reduced the request to support Small Business Development Centers by \$10 million. This was a tough choice, but we believe it is reasonable due to additional SBDC funding in the Small Business Jobs Act.

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<sup>1</sup> For more information about SBA's credit programs, see the 2012 Budget's Credit Supplement.

In addition, we request a reduction in the core staffing level for our disaster program from 1,000 to 850. We currently have an additional 2,000 reservists as well as a very efficient and effective disaster operation that will preserve our level of readiness.

The two largest increases requested in this budget focus on programs that deliver direct help to small businesses.

First, we have reached the statutory limit for fees we can assess to borrowers and lenders for our business loans. We request \$132 million in additional subsidy above our FY 2010 enacted levels and carryover balances because the estimated losses are higher than proposed fee collections.

Second, unlike previous years, carryover funds to support administrative costs of the disaster loan program no longer substantially exist. An additional \$91 million above our FY 2010 enacted level the necessary funding to sustain our core disaster operations.

In addition, we request support for important efforts such as implementing the women-owned business contracting rule and for continued oversight and enforcement efforts to reduce waste, fraud and abuse in contracting programs.

Overall, this Administration is making it a priority to strengthen and fund SBA programs that put these budget resources directly into the hands of small business so they can grow and create jobs. And, we will continue to invest in oversight to preserve the integrity of these programs and to protect the interest of taxpayers.

I look forward to working with all of you to continue to ensure that the strongest engine of our economy – small businesses – are succeeding. Because as the President has said, when they succeed, America succeeds.



## SMALL BUSINESS ADMINISTRATION

### Funding Highlights:

- Provides \$985 million, a 45 percent decline from 2010 enacted funding, which included \$962 million in supplemental appropriations. Excluding supplemental funding, the 2012 request is \$161 million higher primarily due to increased estimated credit subsidy costs. Funding for administrative costs and Small Business Development Centers will go down as a result of fiscal restraints.
- Supports \$27 billion in loan guarantees for small businesses to enable them to invest, expand, and create jobs.
- Promotes impact investment in economically distressed regions.
- Helps innovative small businesses obtain early-stage financing.
- Encourages business development and economic growth through funding for technical assistance, including competitive grants to develop business leaders in underserved markets and to help businesses benefit from regional economic strategies.
- Continues implementation of Small Business Jobs Act initiatives, promoting technical assistance and small business exporting.
- Provides long-term disaster recovery loans for homeowners, renters, and businesses of all sizes.
- Strengthens lender and procurement program oversight to protect taxpayer dollars.
- Upgrades the Agency's financial management systems to improve the financial integrity and efficiency of SBA credit programs.

Small businesses play a vital role in job creation, economic recovery, global competitiveness, and the long-term strength of the Nation. The Small Business Administration's (SBA) mission is to help Americans start, build, and grow businesses. To deliver on this promise, the Administration proposes \$985 million, a substantial decline from 2010 enacted funding, which included significant supplemental appropriations for fee reductions and credit programs. Small business loan guarantees are funded in 2012 at historical fee and guarantee levels, but reflect higher estimated loss rates. As part of the Government-wide effort to reduce spending, funding for administrative costs and Small Business Development Centers will decrease.

***Invests in America's Businesses to Foster Economic Growth and Competitiveness***

**Spurs Job Creation by Enhancing Small Business Access to Credit.** Small businesses are the engine of economic growth and job creation. That is why the Administration is taking a series of steps to improve the access to capital for small businesses. First, the Administration supports \$16.5 billion in 7(a) loan guarantees, which will help small businesses operate and expand. This includes an estimated \$14.5 billion in term loans and \$2 billion in revolving lines of credit; the latter are expected to support \$48 billion in total economic activity through draws and repayments over the life of the guarantee. The Administration also supports \$7.5 billion in guaranteed lending for commercial real estate development and heavy machinery purchases; \$3 billion in Small Business Investment Company (SBIC) debentures to support new businesses and new jobs through early-stage and mezzanine small business financing; and \$25 million in direct Microloans, for intermediaries to provide small loans to emerging entrepreneurs and other borrowers unable to receive credit elsewhere.

**Promotes Impact Investment in Economically Distressed Regions, for Disadvantaged Groups, and in Sections of National Significance.** Beginning in 2012, SBA will be leveraging the SBIC debenture program to support \$200 million annually over the next five years in impact investments that are "place-based" (located in or employing residents of economically distressed regions); "people-based" (owned or managed by women, veterans, or a member of a socially or economically disadvantaged group); or "sector-based" (sectors that have been identified as national priorities). Two other initiatives—the Small Loan Advantage and Community Advantage programs—will increase the number of SBA 7(a) loans going to small businesses and entrepreneurs in underserved communities.

**Helps Innovative Small Businesses Obtain Early-Stage Financing.** SBA will also create within the SBIC debenture program a new vehicle—the Innovation Fund—to address the capital

gap many start-ups face between "angel investor" financing and later-stage venture capital financing. Over each of the next five years, up to \$200 million in guarantees for matching funds will be available to investors aiming to support innovative companies seeking to ramp up their operations and create new jobs.

**Helps Small Businesses Grow Smarter.** Entrepreneurs can be found in every part of the Nation. However, some need assistance to develop their idea fully into a growing business and start hiring new employees. That is why the Administration includes \$15 million for competitive technical assistance grants to support SBA's Emerging Leaders initiative and to enhance small business participation in regional economic clusters. The Emerging Leaders initiative provides intensive technical assistance to companies that have high growth potential and are located in distressed economic areas, such as inner cities and Native American communities, and connects them to regional business networks to accelerate economic and job growth. SBA will also promote small business participation in regional economic clusters by awarding competitive grants to facilitate greater coordination of resources such as business counseling, training, and mentor-protégé partnerships.

**Fully Funds and Reforms Long-Term Disaster Recovery.** The Administration supports \$1.1 billion in direct loans, the normalized 10-year average, for homeowners and businesses whose property is damaged by natural disasters. The Administration also proposes \$167 million for disaster-loan administrative expenses. SBA will streamline staffing and operations to use administrative funds in the most effective and cost-efficient manner, which is expected to provide savings relative to operating levels in recent years.

***Improves Cost-Effectiveness***

**Prioritizes Resources by Reducing Overlapping Funding and Extending Tax Breaks.** In 2012, small businesses will continue to benefit

from technical assistance funded by the Small Business Jobs Act, which for the 2011 and 2012 period provided \$50 million to Small Business Development Centers (SBDCs) and \$60 million for grants to States and localities to help small businesses export. Given the availability of these funds and fiscal constraints, the Budget proposes modest reductions in the level of additional SBDC funding requested for 2012. The Act also provided a variety of other credit program expansions and tax changes that are significantly benefiting small businesses, and the Administration proposes to permanently extend the Act's provision eliminating all capital gains taxes on investments in small business stock in order to enhance the flow of capital to small businesses.

**Helps Make the Guaranteed Loan Program Self-Sufficient.** Due to the economic downturn and higher defaults on prior loans, SBA's guaranteed loan programs are recording in

2011 a \$3.7 billion increase in losses and subsidy costs on their outstanding loan portfolios, excluding interest, particularly on guarantees made between 2004 and 2008. To strengthen these programs' long-term economic foundation, the Administration will submit a legislative package to provide SBA the flexibility to adjust fees in these programs to enable them to be self-sustaining over time. These changes in the program's fee structure would become effective for loans originated in 2013.

**Strengthens Core Agency Capabilities.** The Administration provides the resources needed to upgrade the agency's financial management systems in order to improve the financial integrity and efficiency of its loan operations. SBA is also modifying its procurement strategy for the Loan Management and Accounting System to better ensure the system delivers results.

**Small Business Administration**  
(In millions of dollars)

	Actual 2010	Estimate	
		2011	2012
<b>Spending</b>			
Discretionary Budget Authority:			
Salaries and Expenses .....	434		427
Business Loans:			
Loan Subsidy .....	83		215
Loan Administration .....	153		148
Subtotal, Business Loans .....	236		363
Disaster Loans:			
Loan Subsidy .....	2		—
Loan Administration .....	76		167
Subtotal, Disaster Loans .....	78		167
Office of the Inspector General .....	16		18
Office of Advocacy .....	—		9
Surety Bond Revolving Fund .....	1		—
Unrequested Projects .....	59		—
Total, Discretionary budget authority .....	824	993	985

**Small Business Administration—Continued**  
(In millions of dollars)

	Actual 2010	Estimate	
		2011	2012
<i>Memorandum:</i>			
Budget authority from supplementals .....	962	—	—
Total, Discretionary outlays .....	1,453	1,504	1,212
<b>Mandatory Outlays:</b>			
Business Loan Subsidy Reestimates .....	4,472	4,530	—
Disaster Loan Subsidy Reestimates .....	211	192	—
Liquidating Credit Accounts .....	—8	—8	—7
Total, Mandatory outlays .....	4,675	4,714	—7
Total, Outlays .....	6,128	6,218	1,205
<b>Credit activity</b>			
Direct Loan Disbursements:			
Direct Disaster Loans .....	388	1,100	1,100
Direct Business Loans .....	32	37	33
Total, Direct loan disbursements .....	420	1,137	1,133
Guaranteed Loan Commitments:			
Guaranteed Business Loans .....	14,156	23,900	23,900
Guaranteed Disaster Loans .....	—	19	63
Total, Guaranteed loan commitments .....	14,156	23,919	23,963

Chairman GRAVES. We will now obviously move into questions, and in fact, I am going to go ahead and start with the ranking member and then move through the members because I know a lot of times they are trying to get out of here. I have budgeted the afternoon so I can ask my questions at the end. So ranking member.

Ms. VELÁZQUEZ. Ms. Mills, Administrator, the SBA budget proposes spending \$161 million more than it did in fiscal year 2010. However, while the overall budget is increasing, it proposes to reduce core SBDC funding and microloan technical assistance, while also eliminating the PRIME program. At the same time it is flat funding the Women's business center and veterans' business development programs. These cuts make it all the more strange that the agency has found millions of dollars to spend on seven programs that are unauthorized and untested. To me it sounds like this is capricious. Why cut programs that we know work and instead put the money in initiatives that are unproven and lack any performance measures to even know if they actually work?

Ms. MILLS. Thank you, Ranking Member Velázquez, for this question.

Let me start with our cutting the PRIME program. As you know, it is very hard for us right now in this fiscal era. Everyone has to tighten their belts. And so we are looking across all of our technical assistance programs and our counseling programs and looking for where we can identify programs that are duplicative.

Ms. VELÁZQUEZ. My question is not for you to come and justify these programs or not justify those programs. My question is why are you cutting programs that we have measured metrics and it tells us that they work. Every member of this committee can talk to us about the role that small business development centers, the women's business development centers play in their district, and yet, you are cutting those programs that are working and creating seven new programs that have not been authorized by this committee, by the Congress, that are untested. So what is your rationale to cut those that have a proven record versus those pilot projects that you are creating?

Ms. MILLS. Right. On an incremental cost basis we are looking at all the places where we can tighten our belts.

Ms. VELÁZQUEZ. Well, we, too. We are looking. And I will strongly recommend to the Chairman and I will do my part on my end that we recommend to cut all those new programs that are untested, that do not have any proven record since we have to act in a fiscally responsible way. My question to you—

Ms. MILLS. Can we just come back to—go ahead.

Ms. VELÁZQUEZ. In the grant announcement for the Jobs Act, SBDC grants, the SBA states that this funding has the primary objective of supporting job creation and retention. Based on your testimony, however, you suggest that the Jobs Act funding will be used to make up for the \$10 million reduction to the SBDC funding in fiscal year 2012. So my question is, is this now the position of the agency that SBDCs can use the Jobs Act funding to pay for core SBDC operations and in doing so satisfy the job creation requirements?

Ms. MILLS. As you point out, small business development centers are a critical and important and valued part of our activity at the SBA. And as you know, counseling is one of our critical activities. We have many other places that we do counseling, also as you point out, that are supported in this budget, including the women's business centers. It is a very hard decision where to tighten our belts. After much thought and analysis we have lots of great programs. We note that the \$50 million that was given to the SBDCs in the Jobs Act was for job creation.

Ms. VELÁZQUEZ. I just need a yes or no answer. My question to you is—

Ms. MILLS. It is not—

Ms. VELÁZQUEZ. Is it now the position of the agency that the SBDC can use the Jobs Act funding to pay for core SBDC operations?

Ms. MILLS. It is not the position of the agency to change anything in the Small Business Jobs Act direction for that \$50 million.

Ms. VELÁZQUEZ. In a release yesterday by GAO, they found that the SBA has not yet developed outcome measures that directly link to the mission of the HUBZone program. Nor has the agency implemented its plan to conduct an evaluation of the program based on variables tied to its goal. Furthermore, when GAO inquired about the effectiveness of the program, SBA provided a copy of an Office of Advocacy Report from May 2008 that stated that the program has had limited effect. So what outcome measures and data can you provide us that will show that this program is accomplishing its mission?

Ms. MILLS. As you know, we have focused very hard on the HUBZone program in a number of ways. The first focus, and I think it was something that this Committee raised with me from the beginning, was on eliminating fraud, waste, and abuse in that program. And that we have attacked with great vigor. We have re-engineered the upfront criteria for that program to make sure it goes to the intended recipients. We have increased our oversight of the program on an ongoing basis. We used to, the year before I came, do seven visits. This year we will do over 1,000 and we are implementing, as you know, enforcement. So we are cleaning up that program.

Ms. VELÁZQUEZ. And so what are the bases for the GAO report yesterday? So are you telling me that their conclusions are wrong?

Ms. MILLS. We are in ongoing evaluation of all programs. We track all kinds of metrics about the HUBZone program which we are pleased to share with you and GAO. But the priority when we came in, and I think this was shared by a number of members in this committee, was to get after the fraud, waste, and abuse. And that has been our first priority.

Ms. VELÁZQUEZ. When do you think you will be able to come before this committee—and you have been here before, specifically and particularly about the HUBZone program—when do you think you will be able to provide reliable information as to whether or not this program is effective?

Ms. MILLS. Happy to take that back and come back to you with a proposed timing for exactly that.



Ms. VELÁZQUEZ. Well, last year you were here before us and if we could go back to the congressional record of this committee we will find the same question with the same answers.

With that, Mr. Chairman, I yield back.

Chairman GRAVES. Mr. Fleischmann.

Mr. FLEISCHMANN. Thank you, Mr. Chairman. Ms. Mills, thank you. I am Chuck Fleischmann. I represent Chattanooga, Tennessee 3 and was privileged yesterday to speak on the House floor about our great job creation and small business in Chattanooga. And I thank you for being here today.

I just have one question. What additional resources, if any, does the SBA need to root out potential fraud in the SBIR program?

Ms. MILLS. The SBIR program, as you know, is something that we oversee with 11 agencies participating. We have just instituted what we call SBIR 2.0, where we have done a number of things to improve the technical information gathering on that program and also to improve the websites and the accessibility of information on that. And we are engaged in I think bringing the SBIR program forward in a more coordinated way across the 11 agencies because each one implements it slightly differently. And we believe that small businesses with ideas to commercialize have really had a very strong record from the SBIR program. About a quarter of R&D Magazine's top 100 innovations were actually funded by SBIR. So we are looking at and continuously right now on an improvement track for that entire program, particularly the data aspects of it.

Mr. FLEISCHMANN. Thank you. Mr. Chairman, I yield back.

Chairman GRAVES. Mr. Cicilline.

Mr. CICILLINE. Thank you, Mr. Chairman. And thank you, Administrator Mills. Welcome to the committee. It is great to see you.

I am a new member of this committee and very interested in doing everything that we can to work with you and the agency in supporting small businesses. As you know, I am from Rhode Island and we estimate there are 96,000 small businesses in Rhode Island and it really is the backbone of our economy. And I want to compliment your staff in Rhode Island. The SBA office has been a terrific partner in the work that I have done as mayor of the capital city. And I have worked very closely with Mark Hayward and others and I just want to compliment you on the staff in Rhode Island.

I am particularly interested to know about the Small Loan Advantage program and the New Markets Venture Capital program. I recognize there is some interest in continuing existing programs that our ranking member has discussed but I am also interested in the SBA's ability to respond to kind of the new economy and to particularly this venture capital approach. I think as we are trying to build the knowledge economy and be a state and a country of entrepreneurs and innovators, access to capital in those early stages is very difficult and not an area I think that government has traditionally been involved and certainly the SBA. So it sounds as if you are responding to that kind of new part of our knowledge economy. And I would like you to know that in Rhode Island there is a very active and thriving small business effort in a number of places that our office interacts with.

Ms. MILLS. We have announced, as part of a government-wide program called Start Up America, several initiatives around high growth, high impact, innovative companies. And we know that job creation is really centered in a relatively small number of very high growth companies. We also are serving Main Street companies. You know, when a restaurant opens and a restaurant closes on Main Street, we will be there for them. But these high growth companies, we have a capital gap and our SBIC program has traditionally been in that area. Now, this is a zero subsidy program so it does not increase taxpayer cost, but we have announced two funds focused on having an impact in this area. One in early stages where there is a capital gap. I think that this Committee has talked about this capital gap. And the other in areas that are regions in transformation or particular sectors in transformation. So there will be \$2 billion of SBIC funds, which is within the existing authority limits at zero cost to taxpayers going—available for public-private partnerships to address these small businesses.

Mr. CICILLINE. Thank you. In addition, I am particularly interested in whether or not there are any initiatives underway that are focused specifically on manufacturing. I think the issue of both tax and trade policies obviously have a huge impact, but we have a very robust manufacturing cluster in Rhode Island and I am really committed to figuring out how we help small businesses that are doing manufacturing. How do we strengthen the manufacturing sector in our economy? And I don't know if there is anything specific that the SBA is doing in the area of manufacturing, but if there is I would love to know more about that as well.

Ms. MILLS. Well, we would be happy to come and talk to you about an array of things that we do across our SBA programs. I come from a manufacturing background. Manufacturing in this country is not dead and we have many, many small businesses doing innovative manufacturing in every single state. I visited lots of them, you know, from metal steel slitting in Cleveland, which we still—we just supported with a machinery loan. So we are very actively engaged in supporting our manufacturers. In addition, many of them have export potential, so our export programs also give them the opportunity to get more sales and create more jobs here.

Mr. CICILLINE. Thank you so much. I yield back the balance of my time.

Chairman GRAVES. Ms. Ellmers.

Mrs. ELLMERS. Thank you, Mr. Chairman. And thank you, Ms. Mills, for being with us today. It was a pleasure seeing you in our office a couple of weeks back. And as a small business owner I know what a vitally important piece to the puzzle you are contributing to us here in this economy today and getting things back on track. So thank you.

And I have a kind of a specific question for you in the area along the fraud, waste, and abuse side, one that some of my constituents have brought to me who are in the business of getting government contracts. Basically, my understanding, and maybe you can help me with this, as far as reaching out to the certain percentage of Small Business Administration efforts, grants and whatnot to women, minorities, in helping them to gain some of the government contract positions, and then having another entity actually, almost

as a front and then another entity coming forward and actually taking over the work section of that, can you shed a little light on that and maybe what the Small Business Administration is able to do to alleviate this bit of fraud and abuse?

Ms. MILLS. Fraud, waste, and abuse has been a primary focus for the SBA since I took over because of exactly the reason that you mention. These programs are intended for the small businesses; they are not intended for the big business masquerading as small businesses or for some pass through. We have gone after that quite aggressively. We have a three-prong strategy. We look at every single program, and what we do is we try to strengthen the upfront criteria that they have to meet. Then we are looking after the ongoing evaluations, the audits, to make sure that they are small businesses performing the tasks that are supposed to be performed. And the third is we enforce against bad actors. And you have seen us act aggressively on all three of those activities.

In addition, the President's task force on procurement addressed this specific issue and it was further addressed in the Small Business Jobs Act. We have also clarified in the new 8(a) Regulations, the first redo of the regulations in 10 years, exactly what—and closed loopholes so that when a small business gets the contract they are performing the anticipated amount of the work.

Mrs. ELLMERS. Thank you so much, Ms. Mills. And Mr. Chairman, I yield back the rest of my time. Thank you.

Chairman GRAVES. Mr. Critz.

Mr. CRITZ. Thank you, Mr. Chairman. Ms. Mills, it is good to see you. Thanks for coming in.

I do have some concerns, and I think the ranking member brought up some of the concerns that I have. Being based in rural Pennsylvania, rural America, is that with reducing or leveling funding for programs like SBDCs, WBCs, Veterans Assistance, these are programs that have worked very well, I believe, in our part of the world. And I have three SBDCs that aren't actually in my district but they are just outside and I know scores of people that go to them. And as we are leveling or reducing funding for these, we are increasing funding for programs that are actually unauthorized programs or programs that are not authorized by this committee. So I am reading them to see, because I am a reasonable human being, what a regional innovation cluster is, which I see that is one of the programs that is receiving funding. And, you know, what is unfortunate for my area of the world is that when you talk about clusters, rural America is not usually a place where you are going to have a cluster. It is not someplace that unless something major happens like the discovery of a natural gas deposit, that you are going to see things like this. So it is hit or miss for us.

And then I also read another program which is called the Emerging Leaders program, which is a great program training executives in inner city urban areas, Native American, but let me tell you. In rural America we have poor people, too. And we have people that could use help and that are underserved. And you are pulling money out of programs that help folks in my neck of the woods to go to other programs. I am just curious what the rationale is for that.

Ms. MILLS. Well, let me clarify, number one, that clusters exist absolutely in rural America. My first involvement with clusters was in rural Maine, which is my home state. And the cluster was the Maine Boat Builders. And there is probably nobody less likely to cluster than Maine Boat Builders but in fact they did. And the Maine economy, which had been relying on textiles and shoes and pulp, is now——

Mr. CRITZ. If I may interrupt one second. So you had the Boat Builders already there. So there already was a cluster of companies that were trying to form together. See, in my area there is nothing like that. It is a very diverse group of people who are really just scraping by sometimes to get the work. So I am sorry to interrupt but I think there is, like I said, there is something there already that provided the impetus for the cluster.

Ms. MILLS. But once again, across rural America, and I just did a call yesterday with Secretary Vilsack and we are very strongly partnered with USDA in a number of areas. We just did a MOU with them on exactly the kind of activities you talk about, which is to engage in rural America with our joint programs and activities. But I will tell you that one of the clusters that we awarded with the funding that we just did a competition on is in the agriculture area. Do not make the mistake of thinking that these are urban cluster activities. They go everywhere from Akron, Ohio. They go from the Gulf Coast in Louisiana. They are in the smart grid. They are in upper Michigan. There is a Green Aviation Coalition. They are everywhere. They are everywhere, including rural America. The reason why they are important is that they use the assets on the ground of the small businesses and the small business development centers who are generally at the heart of these cluster activities. And they link, leverage, and align resources around collections of small businesses. Small businesses do not have the power to access research and development, community college curriculum in the way that big businesses do. They don't have the market power until they cluster together. That is what we learned in rural areas, as with the Boat Builders. And they may have existed but they were not part of the economy in an active way. When they cluster together we got research on composites from the university driven to that cluster. That is how you access resources in a region and develop a transforming economy. So these are critical programs.

We used to do our programs, our fabulous programs in silos. Now to get more bang for the buck you need to link, leverage, and align all the things that are happening on the ground. That is what happens in a cluster for very, very small investments.

Mr. CRITZ. And before I run out of time I want to bring up one item that is very near and dear to my heart is the veterans of our country. And President Obama authored or had the Military, Reservists and Veterans Small Business Reauthorization Opportunity Act, and I noticed in the budget that there is no request for funding to help our veterans who are experiencing, especially from Iraq and Afghanistan an inordinate amount of unemployment. And we have a lot of smart people in our military and I want to just get that out there. I am out of time. I yield back but it seems that we are missing an opportunity here.

Chairman GRAVES. Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

My question is what programs that you have right now do you think are most effective in terms of job creation that the SBA does? Give me a single program that you think is the most effective right now.

Ms. MILLS. We have a three-pronged approach we call our three Cs. Capital, contracts, and counseling. And they go together. Our most, largest program is actually making sure \$100 billion of government contracts go into the hands of small business. Our most known program I think is the 41 billion that we put in the hands of small business at a time when they could not get credit at a cost of only 1.2 billion. But in fact, counseling pulls it all together, and sometimes if you give a small business the money and you do not give them the advice and the counseling that they need it is not a complete formula.

Mr. COFFMAN. And let me just say, Madam Secretary, these people who do counseling, when I was in small business I noticed that some of them really did not have the kind of business background that were helpful to me. Are all the people that do this kind of work former small business entrepreneurs?

Ms. MILLS. We have a series of activities that help small business in all different kinds of counseling. They range from our small business development centers to our retired executives who are in our SCORE activity who generally have come out of entrepreneurship or business, to our microloan technical assistance intermediaries who help and counsel and advise and provide technical assistance to those in our women's business centers and our veterans centers. And in the large part they are day-to-day very well versed not only in how business operates but in what is available.

Mr. COFFMAN. What percentage would you say that, let us take the SBDC, what percentage of those folks would you say were former small business owners?

Ms. MILLS. I am happy to provide that to you.

Mr. COFFMAN. Could you? Thank you very much.

And then I have a question about the 8(a) program. And I think it was raised by Congresswoman Ellmers about the fraud issues in the program. And I think you said, and I am happy to hear it, that since you have been Administrator of the SBA, that in fact you have been very focused on these issues of fraud where you have these shell entities come in and engage in fraud. Can you give me, you might not be able to do it today; but I would like to know how many successful investigations there have been on fraud? Once these 8(a) designations are made, how many successful entities have been investigated? Because I think that this is rampant. And I know when I had competitors in small business going for government contracts, some of the things that they did. So I am wondering if you could get back to the committee on some specifics on that.

Ms. MILLS. I will be happy to get back to you, and I will be happy to tell you that the number of investigations is going up.

Mr. COFFMAN. Mr. Chairman, I yield back.

Chairman GRAVES. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman. Just appreciate all the work that Director Mills has done particularly in the fraud area. It has been a breath of fresh air compared to what had been going on, I guess, in previous administrations. So I appreciate all the heavy lifting in that area.

I would, however, also reiterate the ranking member's concern about the SBDC program being reduced and new programs coming on. And maybe there is an opportunity in the future for you to line out the comparative advantages and disadvantages that led the Department and you to that decision because they are a big source of advocacy and a good source of knowledge for a lot of people who have lost their jobs who are now out there creating their new businesses. And so we want to make sure the SBDCs are still out there able to do their good work.

A question I guess I have is one of the changes that we had made in the 7(a) program last time. We increased the loan subsidy amount available, go up to \$5 million. And a little concerned. We had talked about that at the time. There was concern from my part and others about, you know, these bigger loans squeezing out lots of loans for smaller small businesses. And my information would indicate almost two-thirds of the loans went to businesses, you know, wanting between a million and \$5 million worth of revenue or loan. And wondered, you know, if you had figured on that amount when you raised the loan ceilings for the program.

Ms. MILLS. Yes. We pay a lot of attention to the small loan size. And in fact, as we look at the numbers what we see is that small loans, prior to any raising of the loan limits, but small loans are the last to recover because they are more expensive to deliver from the banks. And that is why we introduced two programs under the 7(a) rubric so that they live and are authorized as 7(a) programs. But the first is called Small Loan Advantage and the second is called Community Advantage. Small Loan Advantage is designed to make sure that banks give small loans. And it streamlines our paperwork. And as you and I have discussed before, streamlining our paperwork is good for borrowers, it is good for processing, and it keeps the same underwriting standards so that we can deliver a more streamlined product but more cost effective in the small loan size. So we have taken Community Advantage, as well as the program for small loans. That is designed to make sure that institutions that are in underserved markets, community development financial institutions (CDFIs), CDCs, can have access to SBA's 7(a) program. And a limited number of experienced CDFIs will come into the program, providing more points of access for small loans. Those are critical programs to give access and opportunity on the small loan size while still preserving the ability for a large manufacturer to get a larger loan.

Mr. SCHRADER. All right. Is it possible at some point to get for the current budget that you are proposing subsidy breakouts, the fee portion versus the increased loan portion versus the defaulted loan portion? Is that possible at some point in the future?

Ms. MILLS. We would be happy to answer any of your questions.

Mr. SCHRADER. Good. We also passed a bill last session on performance-based budgeting and wondered what actions the SBA has

taken to implement performance-based budgeting along all its different program areas.

Ms. MILLS. As you know, we are very metrics-oriented and we track the outcomes of all of the budget areas. And you will see some of them in your budget book. But the focus is on a higher level to put as much money in places where it is delivering value into the hands of small business. So overall that is the first line of assessment.

Mr. SCHRADER. I just would encourage you to set targets, you know, for the various programs, whether it is the fraud, waste, and abuse or a certain amount of loans, not just counting loans out but jobs created and that sort of thing. I think that helps sell the programs to at least this group here and hopefully to the American public.

With that I yield back, Mr. Chairman.

Chairman GRAVES. Mr. West.

Mr. WEST. Thank you, Mr. Chairman and Madam Ranking Member. Ms. Mills, good to see you again.

In light of the GAO report, the 345 page report yesterday that came out with the duplicitous programs, on page 103 of the budget submission the SBA lists a variety of programs in which the agency is attempting to improve coordination of services. My question is has the SBA considered whether these programs are duplicative, and if so, are you seeking to eliminate any of them? Thank you.

Ms. MILLS. Overall, as I said earlier, this is a time where everybody has to tighten their belts, streamline as much as possible, and eliminate duplication. We are on continuous watch for that. And we have taken some programs that we like and we care about to a lower level because we find that we think we can find a more cost-effective way of delivering those services and we are working very, very closely across all our programs with everybody from the U.S. Department of Agriculture and their operations and Department of Commerce, the export operations, the import-export bank, to make sure if somebody else can do it better and we can pull back, that is what we are going to do.

Mr. WEST. Mr. Chairman, I yield back the balance of my time. Thank you.

Chairman GRAVES. Ms. Chu.

Ms. CHU. Ms. Mills, I am from Los Angeles. It is a port city and there are many who are interested in exports. And I am glad to see that according to a U.S. Commerce Department report, California's exports climbed 19.3 percent in 2010 to 143 billion. And these are levels that are close to pre-recession levels. But most of California's exporters are small and do not venture too far. They go to Mexico and Canada. These are the top two countries for the state's exports. So in order to grow these industries even more the businesses will have to start looking towards other markets beyond North America and they will have to find trusted overseas partners to handle distribution and sort out complicated shipping logistics and import duties. There are multiple agencies involved with the National Export Initiative, including the SBA, but of course, Commerce International Trade Administration, the Minority Business Development Agency. But which is the lead agency and what is the exact role

that SBA will play in this initiative? And how will you monitor and assess its progress?

Ms. MILLS. Thank you, Congresswoman.

We lead the small business working group for the Combined Trade Promotion Coordinating Committee of the federal government around exports. And that is an interagency effort to make sure small businesses' share of exports grow. Right now small businesses are about 30 percent of exports. There is only about 250,000 small businesses who export out of the six million that have employees and the two million who potentially could. So there is much room for growth. Small businesses are the fastest piece of growing piece of it, and we have a goal of doubling exports as you know over the next five years.

So we have initiated a series of activities around this coordinated small business approach which involve our major role in the front end which is we try to get more small businesses into the funnel and then we try to direct them to some of the resources that are available everywhere, including the commercial service and the import-export bank, our loan programs. We are counseling a very, very high number and increasing number of small businesses on just entry into export right now.

Ms. CHU. I notice that in SBA's budget your agency is, in fact, stating that it is committed to enhancing the ability of those small businesses to export. How does your new budget structure, how is it structured to help the business person? For instance, I have many business persons that come and ask for help and assistance in navigating export regulations. How exactly would your budget help them?

Ms. MILLS. Right. In addition to our budget, which funds the core operations, it is not visible here that the Small Business Jobs Act added significant resources around exports, including \$30 million annually for something called step grants which are state-based grants that we will give out, we just announced them, that will help support small business activity in state export organizations. Generally, they would also be coordinated with our export people and our small business development centers. So most of the activity in the funding for the incremental efforts actually is in the Small Business Jobs Act.

Ms. CHU. Some business groups have also voiced some fear that their intellectual property will be stolen if they sell a product overseas. Does the SBA's budget have some means of handling this or at least to strengthen relationships between the Department of Justice and the U.S. Trade Representatives' Office so that these businesses can feel more confident about exporting?

Ms. MILLS. This is a very big issue for small businesses who are exporting, and we have a coordinated effort with Commerce who runs the intellectual property and the patent issues to make sure that these things are very, very, very strongly addressed.

Ms. CHU. Okay. Thank you. I yield back the balance of my time.  
Chairman GRAVES. Mr. Landry.

Mr. LANDRY. Thank you, Mr. Chairman. Ma'am, in looking through your budget I noticed that some of the cost savings you are calculating is in a decrease of about 150 employees in a disaster program. And being that my district seems to be the epicenter of



disaster over the last five years I am concerned about the sacrifice the employees who are on the ground working with my constituents after a disaster will be limited while there may be too many bureaucrats here in Washington. The Department of Agriculture employs more than 90,000 people and its secretary has just 13 people in his office. Secretary Gates is running two wars in Afghanistan and has a mere 15 people in his office. The Department of Energy has both a deputy secretary and a chief operating officer serving in a dual capacity. You all employ about 3,400 people if I am correct, but you all have two separate people serving as a deputy secretary and a chief operating officer. Is that correct?

Ms. MILLS. No, sir. We eliminated the chief operating officer position.

Mr. LANDRY. Oh, good for you. I hadn't gotten that far. Thank you.

Do you know how many currently are in your personal staff?

Ms. MILLS. I don't have a particular number for you on that but I would be happy to follow up.

Mr. LANDRY. Okay. Well, my point is just I want to make sure that we are examining how heavy we are up here before we start sacrificing people on the ground.

Ms. MILLS. Well, I totally agree with the principle that the most important priority is to get people on the ground who are actually helping small businesses one by one by one. And that is one of the two critical priorities for the budget. Making sure the resources that are most effective that are on the ground are the number one priority. And the second priority is going after fraud, waste, and abuse and making sure our programs have integrity.

Mr. LANDRY. Are you going to go back and make sure that if we have some problems and disasters, it might not even be in my district but others, that do you have a way to increase those number of field agents in an emergency?

Ms. MILLS. Yes, we do. And I just want to assure you that the reduction that I described is in the steady state of readiness. We fluctuate up and down depending on how many disasters there are and how severe. And sometimes we are in as many as 40 areas of the country so we employ a ready reserve staff of 2,000 who are not on the payroll but they are ready to go on the payroll and get on a plane and get down to the area when necessary. So the reason we believe we can make a reduction in our average steady state and maintain the same level of preparedness is that we worked very hard to reengineer our disaster processing centers so that we were more efficient on average. But you should expect us to deliver and be ready to deliver what you need in those times of disaster and to maintain the new level of preparedness that we have come to post-2005.

Mr. LANDRY. Thank you, ma'am. Mr. Chairman, I yield the balance of my time.

Chairman GRAVES. Ms. Clarke. Sorry for the delay.

Ms. CLARKE. Thank you, Mr. Chairman. And thank you, Ranking Member. Administrator Mills, I would like to warmly welcome you back to the committee today and I would like to just let you know that I, too, share a lot of the concerns that were raised by Ranking Member Velázquez with respect to SBDCs and HUBZones.

I hope that you will revisit your thinking with regard to your support for the SBDCs. It appears to me that perhaps there are places where these SBDCs have been much more effective than maybe other places in the nation, and perhaps there needs to be some level of comparative analysis so that we can focus the resources where they, you know, you get the best bang for the buck. And I hope that you will also dedicate some of your staff time to the reform of the HUBZone program so that you can report back to the committee sooner rather than later.

But I would also like to take this opportunity to express my appreciation to you and the Small Business Administration for your willingness to work on issues relating to economic development in underserved communities, as well as minority, women, and veteran-owned businesses. In the 111th Congress, I introduced H.R. 3771, which would have established mentorship and assistance programs for minority, women, and veteran-owned businesses, and I appreciate President Obama's budget request for the SBA to promote investment in these people-based entrepreneurial initiatives. I have applauded your announcement of the implementation of Women-owned Small Business Federal Contract program, which increases access for women-owned businesses to federal contracts, and I was also encouraged by your announcement of the Community Advantage program, which provides community development financial institutions as an avenue to participate in 7(a) loan programs. As I understand it, the transition from the ineffective Community Express program to Community Advantage also saves \$10 million.

During my time in Congress I have been a champion for the CDFI program at the Treasury Department. And when the long-term CR revealed a \$200 million cut to that program, I, along with 16 of my colleagues, sent a letter to the majority leadership requesting that they restore that funding. As we all understand, our economy will not fully recover unless there is a robust recovery amongst all of our small businesses. So given the strides that we have made thus far, can you say that the, or make comments on whether the agency feels that it has taken the right steps in ensuring that the cuts to the budget will not come at the expense of the economic development of these disadvantaged areas that I have been so concerned about?

Ms. MILLS. We, too, are very focused. I want to thank you for your leadership in this area. We are very, very focused on underserved markets. And as you know from the data, these areas were very, very hard hit in the recession. Small businesses in these areas have not yet recovered and we felt it was very critical to get as many points of access into these communities to our main programs as possible. That is why we are opening up our program to selected CDFIs and CDCs who are operating in that community, who provide not just capital but often technical assistance and other support, and we are looking forward to I think some better penetration of these communities with these numbers because the small businesses in these communities create the jobs in these communities and we need to be there to support them.

Ms. CLARKE. Again, I would like to emphasize perhaps another glance at the SBDC infrastructure because certainly in a place like

New York City that has become almost a brand for small business. With the challenges that we are facing with the banks and the lending for small business, the access to capital, the lines of credit, those SBDCs help those business owners to really navigate this very choppy water that we find ourselves in financially. And it becomes very difficult for individuals to sort of reorient themselves once they become accustomed to a particular brand. I stick with Crest; I don't move to Colgate.

Thank you, Madam Chair, and I yield back the balance of my time.

Chairman GRAVES. Mr. Keating.

Mr. KEATING. Thank you, Mr. Chair. And thank you to the Ranking Member, Madam. And thank you, Administrator Mills for being here.

I have one question I would like to focus on. In Massachusetts, there are 400,000 veterans in the state. My district happens to have the largest number of those veterans, and according to the U.S. Department of Veterans Affairs, there are more than a million unemployed veterans in our country and as many as one-third of them want to start their own businesses. I would like to know, you know, your views on what SBA is doing, what success they are having, to assist these unemployed entrepreneurs.

Ms. MILLS. Well, veterans are a very big focus actually at the SBA because as you just mentioned, veterans over index in wanting to start their own business or in having their own business. So we have, from the beginning over the last two years, developed very strong relationships with the Veterans Administration so that we can cross-educate our people and our small businesses as to all the programs and the resources that are available to them. Our notion is that every single point of access, whether it is a district office or an SBDC or a SCORE representative, should be able to point a veteran to some of the particular counseling and contracting programs.

We also did incremental programs. One was the service disabled veteran and women veteran entrepreneurial boot camp through the Syracuse University. It is just a fabulous program. The stories are really strong. But we are focused on this day-to-day. We have a joint task force with General Shinseki that he and I run, which is focused on making sure that we keep these veterans' interests understood and a priority throughout both of our organizations and make all the changes that we can to provide access and opportunity.

Mr. KEATING. Do you happen to know, too, that among those other veterans organizations, whether vet centers, I know they're usually, you know, for counseling and other purposes, but are they included too as an access point? Are you aware of that?

Ms. MILLS. Yes. We have veteran centers, a limited number. And we also believe that we want to have that expertise in every center, our 900 small business development centers, our district offices as well.

Mr. KEATING. Great. Thank you, Administrator. And Mr. Chairman, I yield my time back.

Chairman GRAVES. Mr. Richmond.

Mr. RICHMOND. Thank you, Mr. Chairman and Ranking Member. Madam Administrator, I would just echo the concerns that my colleague, Congressman Landry, talked about in terms of making sure that as we cut personnel and we streamline our disaster department that we do not sacrifice timeliness in terms of the response to people who need that assistance when the time comes.

One thing I would like to do is in conversations with at least two of my local entities convey to you what they expressed to me in both instances. They were very positive and they wanted to thank you. One was Vaughn Fauria, who runs NewCorp CDFI business development center in Louisiana who bragged about how accessible your office is and the fact that they can give you ideas and that you all understand how important it is for them to get money to small businesses in a time of need, but also the technical assistance and those other things that you provide so that their customers and their client base can succeed.

And the other one would be Zena Tech, which is a Baton Rouge-based company who your export express loan allowed them to expand their business and trade, really to sell their product overseas which while the recession was hitting here and their clientele dropped in the United States, they were able to expand to a new market that kept them afloat. And both of those companies wanted to—wanted me to do that so I thought I would take this opportunity to do it.

One quick question. When you talk about, and a lot of the initiatives that I see including the New Market Tax Credit program and others in the state legislature, a lot of times we would get a detailed analysis back even on New Markets, although it was a federal program we had a state piggybank, the return on investment that we receive from each of those programs in terms of every dollar that we invest in it what we're getting back in terms of tax dollars created, jobs created and so forth. Do you have reports like that on different programs within your department?

Ms. MILLS. Yes. In fact, we have a number of metrics about jobs created, about activity created. And some of them are in the budget book and I would be happy to provide any others you might wish.

I appreciate your comments, and as you know, I have been to Louisiana a number of times in a number of circumstances. And it is good to see the small businesses flourishing there. We have a terrific cluster we funded in Geospatial, right in the area which I think will provide some interesting new job opportunities and create some innovation and small business success.

Mr. RICHMOND. The other thing I would like to talk about is just a better coordination between departments. And I will give you an example. Because you mentioned just as the President mentioned in the State of the Union, that he would like to double exports over the next five years. If you look at the mouth of the Mississippi, which exports in terms of agriculture and grain, 60 percent of all products in the country come through the mouth of the Mississippi when we export, when we are trading. However, if we do not dredge the mouth of the Mississippi it significantly impacts the ability to load ships to an economic level. So if we are not dredging and the Corp is not dredging the mouth of the Mississippi, then we are really tying our hands behind our backs in terms of trade. And

we have a trust fund, which is the Harbor Maintenance Trust Fund. So as you continue to help us create products so that we can trade overseas and trade around the world, we have to make sure that the Corp is dredging our waterways because that is our super-highway and how we are going to get our goods to market. So I don't know if you can help me there but I can tell you that we can create the product, but if we cannot be competitive in terms of shipping then we are still tying the hands of our American businesses.

And I will yield back. Thank you, Mr. Chair.

Chairman GRAVES. Thank you. I have a couple of questions. One of them deals with the Office of Advocacy, which falls under—and I am curious. I want you to explain to me how that relationship works. Because I was talking to them this morning and they said some of the number one things that they do is dealing with the Regulatory Flexibility Act which you all do not really have anything—any part of.

Now, explain to me why they are under your budget. And, I am just looking for places to find some savings. And talk to me, too, about the fact, you requested an additional \$10 million, I think, for overhead and costs for them and I think your overhead is \$56 million, which is 20 percent of your total overhead. Well, my question is how much of Office of Advocacy do you actually have a part of? And why are they under your budget if you do not have a part of them? And let us go through that for a little bit.

Ms. MILLS. So under the first there is no additional request for \$10 million of additional overhead.

Chairman GRAVES. I think it just suggested that. But regardless, talk to me about, because I am having trouble figuring out, exactly, who they answer to.

Ms. MILLS. The Office of Advocacy is independent and it operates under our umbrella. And this year, because of a provision in the Small Business Jobs Act, it has a separate budget line item. But the amounts are relatively the same. So they are just broken out as per the mandate in the Small Business Jobs Act. They do have a very strong role in regulatory fairness. We also are extremely active in making sure that the excess costs of regulations do not unduly affect small businesses. We have our ombudsman activity, which deals with that issue on a one-on-one basis as well.

Chairman GRAVES. Okay. Because it is frustrating to me. If one of their biggest focuses, and they like to talk about the Regulatory Flexibility Act, but it does not seem to me like they are doing it or doing a very good job at least of pointing those things out. But it is frustrating to me. And we can come back to that, too.

I also want to talk just a little bit about when we changed the amount of fees you all can recover, which I think is essentially zero now, is not it? Did not we zero out the fee structure for anyone, at least on some of the loan programs? Or at least we reduced them to almost nothing. How much is that costing you now? Because I don't think you can cover—are you covering your costs when it comes to administering these loans and stuff? I mean, that has got to be a big problem right now.

Ms. MILLS. The program that you refer to where we took the fees down to zero in many places has terminated. It was \$41 billion we

were able to do under that program. It was part of the Recovery Act, the extensions and the Small Business Jobs Act. A request to continue to do that is not included. Now we are back to charging fees. You know, it is a difficult fiscal time and we are determined to bring these programs as close to zero subsidy as we can so it will not be a cost to taxpayers.

Chairman GRAVES. Which is perfect. And that is what I asked you for. In fact, I am very happy that I asked you to bring us some suggestions on cuts, which you have, and I appreciate that very much.

I am concerned though about and this is another issue all together, and Mr. Keating brought up. I am just going to use the veterans' programs for a minute. I mean, how much duplication is there with that? I know they have got counseling programs and then you all have counseling programs. In fact, there is a lot of counseling programs out there with different agencies. And how much of that is duplicated? How much of that could we shrink down or transfer? Let them do it. If they are doing a better job of it, let them do it; if you guys are doing a better job of it then let us get them out of the business of doing it. I am not saying we take away these programs; I am saying why do we have two agencies doing counseling for the same thing? And that would be an area that has been brought to my attention that we should be looking at for instance. I mean, how much duplication is out there? We can just talk about the veterans' programs.

Ms. MILLS. We are in continuous look for duplication and what we have done in our coordination with the Veterans Administration is, you know, share back and forth where we can, you know, get more bang for the buck. And we are trying to take on the small business aspect of veterans because they really do when they come back have a very, very high interest in starting small businesses. So we provide a lot of the entrepreneurship training. It is just our core counseling program. So if we can bring them into our structures as they are and they feel comfortable and have access and opportunity under our core counseling programs, that is a very good effective use of money.

Chairman GRAVES. Well, I think that I would love—just have to figure out how to figure this out because there is no reason to have all this duplication. I just assumed you all were doing it as have it spread out over every other agency. I cannot believe that they would not be interested in transferring that out, which is one area that again I want to take a look at.

And I do worry a little bit, too. I know you talked a little bit about streamlining some of the programs and you specifically mentioned, somebody asked the question under some of the micro loan programs when you streamline. I am a little concerned because it seems like every time you streamline a program then the default rate tends to go up and we do not want to see that. I am just voicing that as a concern overall. What is your default rate, what is it running approximately overall? Just percentage-wise?

Ms. MILLS. The default rates, as you mentioned, in our credit programs are up, as they are in actually all. The cohorts that are defaulting you should know are the 2005, 2006, 2007, and some of the 2008 cohorts. And the issue there is that those loans were done

at a very frothy time with very high real estate collateral. High real estate values used as collateral, and that value does no longer exist in some of that real estate and that is causing losses.

Chairman GRAVES. What is the percentage? Do you know just overall?

Ms. MILLS. We have it by cohort and by activities and by program as you please.

Chairman GRAVES. Just overall by, I mean, you know, what is your percentage?

Ms. MILLS. We do not have one percentage so I can——

Chairman GRAVES. 7(a).

Ms. MILLS. 7(a)? I would really rather give you the correct number because there is——

Chairman GRAVES. Why don't you give me that because I would like to see it.

Ms. MILLS [continuing]. Because we have it by cohort. We have it by everything. I am happy to give it to you. We have more than——

Chairman GRAVES. Because that is obviously very important. And to be quite honest with you, I have seen some of those numbers and I was surprised that it was not higher, which is——

Ms. MILLS. Yes.

Chairman GRAVES. And I understand. You are working with these banks and the banks have to make the decision obviously but keeping that default rate down is obviously a big part of this. We have got to make good loans out there making bad loans. And I also understand, too, that the real estate value in a lot of cases is much lower now than it was before, which brings me to another question. When it comes to liquidation of these assets when there is a foreclosure, I know in some cases the banks handle that. In some cases the SBA handles that. Do you have any suggestions on that on what we could do different there? Is it better in the private sector or is it better through you all just out of curiosity from your point of view?

Ms. MILLS. Well, once again, this is something that we spend a lot of time on. And we are pushing very hard because, as I said, a lot of these collateral values that were higher, you know, in the high real estate times are not there. Are not there. So we are looking at ways that we can get the most back.

Chairman GRAVES. Well, that is, I mean, again, it comes back to we have got to figure out if we are better off just doing it all through the private sector or if unless I have a compelling argument to tell me that you all would do it better. But we obviously have to do the best we can recovering those.

Ms. MILLS. We have to do the best we can and I do not think that there has been one single answer to that question but we are working hard on it.

Chairman GRAVES. I hate to dominate the time. I have got more questions but I know we have got a vote and I will lose everybody once the vote is over.

So Ms. Herrera Beutler, if you have a question. Do not have one?

UNIDENTIFIED SPEAKER. Thank you, Mr. Chairman. As to the veterans' benefits assistance, Lieutenant Colonel Allen West, Retired United States Army just left the room but I know that he

would agree with me that members of the United States Army leaving need substantial help where members of the United States Marine Corps leaving are highly self-sufficient. And if you take that into account I would really appreciate it. Thank you.

Ms. MILLS. Thank you.

Chairman GRAVES. We need to work that out because we are showing an increased request for the Office of Advocacy. And again, I have a real problem with the Office of Advocacy and just exactly what they do and who they answer to. And I am frustrated by where they are falling underneath your budget because I would much rather see that money going to business startups and loan programs, things that work. And we are going to be pouring over that. I will be working with the Ranking Member and the rest of the Committee to go over the budget requests and all. And I do appreciate you coming in and giving us your suggestion with the PRIME program. I do not know what we are going to suggest when it comes to the Budget Committee yet but I am afraid that if we come back we are going to lose all the committee so I will probably adjourn at this point. But again, I do appreciate you coming. We will ask you back. I promise you that. We will ask you back and ranking member, I appreciate your questions.

So with that the hearing is adjourned and I ask that each of the members have five legislative days to correct the record if they so like. This hearing is adjourned.

[Whereupon, at 2:16 p.m., the committee was adjourned.]